

Navigating financial clarity: the impact of internal audit outsourcing and auditor experience, moderated by self-efficacy in understandability of financial reporting

Mithkal Hmoud Alqaraleh

*Administrative Sciences Department, Applied College,
University of Tabuk, Tabuk, Saudi Arabia*

Abdulnaser Ibrahim Nour

*Department of Accounting, Faculty of Business and Communication,
An-Najah National University, Nablus, Palestinian Authority*

Feras Izzat Kasasbeh

*Administrative Sciences Department, Applied College,
University of Tabuk, Tabuk, Saudi Arabia, and*

Jamal Zaid Kielani

*Sharia Department, Faculty of Shariah, An-Najah National University,
Nablus, Palestinian Authority*

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Abstract

Purpose – This study aims to examine the effect of internal audit outsourcing and experience of internal auditor on the understandability of financial reporting. It also investigates the moderating effect of self-efficacy on the relationship between internal audit outsourcing and experience of internal auditor with understandability of the financial reporting.

Design/methodology/approach – This study has collected primary data through a survey from 211 chief internal auditors and chief financial officers of Jordanian companies listed on the Amman Stock Exchange. The study model was validated and assessed using partial least squares structural equation modeling.

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Informed consent: Informed consent was obtained from all the participants.



Findings – The findings showed the significant positive effect of internal audit outsourcing and experience of internal auditors on the understandability of financial reporting. Self-efficacy moderated between internal audit outsourcing and financial reporting understandability, but not between experience of internal auditors and financial reporting understandability.

Research limitations/implications – The implications of this study entail the need for enhancing investor protection, strengthening control measures, increasing transparency and fostering the overall growth of the financial system to facilitate enterprises, particularly in Jordanian companies. This study noted that the selection of top management as sample of study may result in low response rate additionally, due to the small sample size and time period.

Originality/value – The findings may be of interest to various stakeholders interested in improving the financial reporting process and quality, including external and internal auditors, human resource departments and chief internal audit officers. This study contributes to the literature on internal and external auditing, corporate governance and outsourcing in general by synthesizing existing studies and constructing a framework for understanding the origins, evolution, current state and impact of internal audit outsourcing.

Keywords Internal audit outsourcing, Experience of internal auditor, Self-efficacy, Understandability of the financial reporting

Paper type Research paper

1. Introduction

The notion of understandability has been described in the standard setters (IASB and FASB) relates to imparting knowledge to users of the accounting information during decision making. As described [Chalu \(2020\)](#), the notion relates to the ability of users in forming the correct meaning from financial reports. To facilitate the understanding of user of the accounting information for their crucial economic decision-making, [Bulut \(2019\)](#) emphasized the need for representing data an easy way. [Chalu \(2020\)](#) accordingly stated that in quality dimensions, understandability is classed in the group of quality of presentation alongside the constructs of interpretability, conciseness and consistency ([Becerra et al., 2021](#); [Alqaraleh and Nour, 2020](#); [Basalat et al., 2023](#)). Omission of information should be prevented as such omission could increase the complicatedness of decision making and also could impair the understanding of stakeholders ([IASB, 2008](#)). Equally, the notion of understandability takes into account the organization of the information in the financial report, specially, whether the information is well-organized and whether the information is easily understandable by potential users – users in this context are those who possess realistic business knowledge and are willing to study and understand ([IASB, 2010](#); [Thuneibat et al., 2022](#); [Alqaraleh et al., 2022](#)).

The AASB Framework, para 25 states understandability as a vital quality of the information presented in financial reports, in order that the information can be immediately understood by users. Here, the presumption is that users are sufficiently knowledgeable about business, economic activities and accounting, and they are also willing to study the information fairly diligently ([ICAA, 2008](#)). Initially, the notion of understandability was referred in [Lont and Wong \(2010\)](#) as possessing adequate wording in a “narrative” or “vertical” form of financial statements to make the statements explanatory. In the description of the notion of understandability, there has been a constant inclusion of communication, addressing two key questions as follows:

- Q1. Who or what was the focus in attaining understandability?
- Q2. Should financial information be reported in technical or non-technical accounting terms?

From the viewpoint of agency theory, the use of internal auditing in addition to other internal control mechanisms by management could mean success of management in appropriately accomplishing the goal of shareholders in maximizing (Saleem *et al.*, 2023). Relevantly, various factors have been found to impact judgment audit and these factors can be technical and nontechnical (Alqaraleh *et al.*, 2020). In this regard, nontechnical factors are those individual behavior and psychological aspects including task complexity, knowledge, audit experience, self-efficacy and obedience pressure (Abualhassan *et al.*, 2024; Afifah *et al.*, 2015; Alqaraleh *et al.*, 2022; Nour *et al.* (2022). As audit judgment can be impacted by individual behavior, it has become a great concern among both accounting practitioners and academics (Ahmad *et al.* (2023) and Thuneibat *et al.* (2022) mentioned that in behavioral accounting studies, the subject of audit judgment has not been addressed as it should have been.

Past studies on the subject have shown varying conclusions, resulting in the interest toward the scrutiny of the knowledge, experience, task complexity and obedience pressure on the audit judgment, moderated by the variable of self-efficacy (Pawitra and Suhartini, 2019). The present study will thus examine the effect of self-efficacy as moderator to internal audit outsourcing and experience of internal auditor toward understandability of the financial reporting in Jordan. Notably, this study pioneers the use of Self-efficacy as moderator to the link between internal audit outsourcing and experience of internal auditor and understandability of the financial reporting.

The remainder of the paper is as follows. Section 2 describes the problem statement. Section 3 reviews current literature related to the examined variables. Section 4 formulates the hypotheses, and the methodology is shown in Section 5. Analysis method and model structure are described in Section 6. Section 7 presents the results. Section 8 describes discussion and conclusion.

2. Problem statement

Accounting information has been regarded as the main language between companies and users and Nazal and Al-Fasfus (2018) in their study have highlighted accounting information as the primary tool of communication between companies and all stakeholders as users (Sharabati *et al.*, 2016). As such, Robinson (2020) mentioned the need for financial statement to have clarity, comprehensiveness, legibility, understandability and fairness. Financial statement should be presentable as well. Accounting disclosure is primarily for informing both internal and external users, including the present and potential ones on the position of the company. As such, according to Kanakriyah (2013) and Thuneibat *et al.* (2022), the principle of full disclosure will allow all operations or/and information which may affect financial statements to be disclosed, and so, all information that may affect decision-making should be disclosed. Somehow in Jordan (Alqaraleh and Nour, 2020; Mohammad *et al.*, 2024), certain financial statement users were unaware of definition of accounting and international financial reporting standards principles and their usage methods (Lay, 2019; Nour *et al.*, 2023).

3. Literature review

This section contains a review of the empirical literature on the topic under study. Accordingly, understandability of financial reporting, internal audit outsourcing, experience of internal auditor and Self-efficacy are the major constructs discussed in this study, as follows.

3.1 Understandability of the financial reporting

As highlighted in Ahmad *et al.* (2023), understandability is dictated by how transactions are characterized, accumulated and classed, as well as how information is displayed, and yet, to

display information in a manner understood by all users are rather impossible. In this regard, the International Federation of Accountants (IFAC) [Martucheli and Pereira Filho \(2021\)](#) mentioned the potential increase in financial statements' reliability, but with no significant improvement in their understandability level. [Sinclair and Bolt \(2013\)](#) attributed this issue to the language of accounting standards being rather foreign to nonaccountants.

[Chalu \(2020\)](#) relevantly mentioned the challenges in understanding financial statement as it can be rather unreadable, impairing understandability. Also, as a construct, readability has not been clearly defined, whereas its measures are usually determined its usage context ([Al-Khaddash et al., 2013](#); [Boritz et al., 2016](#)).

3.2 Internal audit outsourcing

The concept of outsourcing, as mentioned by several authors [Saavedra and Bardalis \(2020\)](#), encompasses the arrangement of an external entity to execute a given task, which is otherwise the accountability of the staff of the company. Some companies outsource the work of the internal audit function, and in this situation, the service provider would usually be the accountancy firm that makes available to the company the services of the external audit ([Khan et al., 2020](#); [Makhlouf et al., 2022](#)).

The lack of manpower of the organization's in-house audit teams to perform the audit-related activity has led the organization to hire a firm for the task ([Ahmad et al., 2023](#); [Al Momani et al., 2021a, 2021b, 2021c](#)). The firm provides the organization with the needed manpower, whereas the in-house team oversees the audit's planning, methodology and conduct ([Tazilah et al., 2019](#)). This is one mode of outsourcing. As the audit quality is the full accountability of the in-house team, the outsourced services should be maximally used ([Ahmad et al. \(2023\)](#)). In addition, upon the conduct of the audit, it is the responsibility of the in-house team to check availability of the in house personnel for the audit execution. The in-house team will determine whether the audit assignment has low risk and if it is executable by a mid-sized firm ([Khan et al., 2020](#); [Al Momani et al., 2021a, 2021b, 2021c](#)).

The mission of the Sharia audit is also consistent with the internal and external financial audit, which is represented in examining contracts, agreements, procedures, policies, products and articles of incorporation to ensure their conformity with the provisions of Islamic Sharia. This is done by conducting periodic audit rounds ([Alqaraleh et al., 2020](#)).

3.3 Experience of internal auditor

The importance of professional qualification and prior experience among auditors has been mentioned in the literature, as this has been linked to the production of a good quality audit ([Shahimi and Mahzan, 2018](#)) In their study, [Iqbal Khan and Siddiqui \(2021\)](#) mentioned the link between audit team quality and attributes and their capability improving the efficiency of operation, the internal control systems, risk management, as well as financial matters. In view of this, past experiences are of value to internal auditors. This owes to the subjective nature of oversight judgments. In addition, the impacts of managerial action may spread through. In this regard, without sufficient prior experience, in addition to the lack of objective criteria, internal audit staff may fail to comprehend to expansive gamut of problems, both present and future ones, and they may also fail in dealing with them due to lack of skills ([Dzikrullah et al., 2020](#); [Tanbour and Nour, 2024](#)).

In their study, [Salehi et al. \(2019\)](#) classed the audit experience into two types, namely, general audit experience and client specific audit experience, whereby the former relates to the audit knowledge, trainings, skills, expertise associated with the audit of any client. [Chang et al. \(2019\)](#) relevantly stated experience as the average number of years of internal auditing experience possessed by the internal auditors in internal audit function. Somehow, it was

mentioned by [Alqaraleh et al. \(2022\)](#), experience is more related to the right training received in the right environment with feedback, as opposed to the number of years the auditors have served in the field.

3.4 Self-efficacy

Self-efficacy encompasses a solid conviction concerning the performance of a certain task, and it involves one's confidence that he has the competency in executing some actions in a given situation, and this makes the accomplishment of organizational goals easier. In their study, [Burnett et al. \(2010\)](#) found that those possessing high self-efficacy are more likely to show good performance of their tasks well. In a related study, [Widasari \(2018\)](#) reported that people that have low self-efficacy are more inclined. People with high self-efficacy appear expect success expectation and are goal-oriented and for this reason, these people consistently attempt to assess previous events, manage stress and emotions and gain something from the success of others ([Bandura, 1978](#); [Widasari, 2018](#); [Asa'd et al., 2023](#)). Contrariwise, those with low self-efficacy are inclined to feel worried, and they frequently expect failure to occur or feel that the tasks at hand are beyond their capabilities. This situation is relatable to auditors as well.

3.5 Study theories

This study is underpinned by agency theory and self-efficacy theory. In view of that, agency theory suggests the presence of asymmetric information caused by difference in information possessed by the principal and the agent [Nour and Momani \(2021\)](#). [Hawashe and Ruddock \(2014\)](#) accordingly reported the common occurrence of information asymmetry between the principal and the agent, and this is especially true when the agent is in possession of information that only he, the agent, understands.

In comparison to the external owners and other investors, [Akhtaruddin and Hossain \(2008\)](#) stated that managers appear to have more knowledge regarding the current performance and future potentials of the company. [Hill and Jones \(1992\)](#) and [Fares and Nour \(2024\)](#) relevantly mentioned in their study of the ability of company managers in filtering or comprehending the information disclosed to stakeholders. However, the information may also be misrepresented. In view of that, problems that arise may be made worse by the control that managers have over it. As such, it is difficult for stakeholders to be sure that managers are indeed serving their (the stakeholder) interests ([Al Momani et al., 2021a, 2021b, 2021c](#); [Abdelhaq et al., 2024b](#)).

For internal auditing, its demand stems from the relationship of contractual principal agent present between firm owners and firm management. The parties involved want to protect their interests. At the same time, these parties want to demonstrate that the interests of other party are promoted [Alqaraleh et al. \(2022\)](#), in their study, mentioned that agency theory facilitates the formation of a theoretical framework of internal audit effectiveness. In the framework, the role of internal auditing is explainable through accountability and today's capitalist organizations operate based on this concept. In [Sinclair \(1995\)](#), accountability encompasses a relationship, whereby the involved parties are indebted to expound and are accountable for their actions. In explaining accountability, [Roberts and Scapens \(1985\)](#) stated that it entails the imparting and the necessity for a given conduct.

4. Hypothesis development

Two primary research hypotheses are presented in this study. The details of their construction are as follows.

4.1 Internal audit outsourcing impacts understandability of financial reporting

Various parties have expressed wariness over the practice of outsourcing the internal audit function to the external audit firm. SEC for instance, has mentioned that the practice may impair independence of firm. The provision of additional services from the external audit firm to an audit client may increase the economic bond between both parties. Also, the internal auditing has been regarded as a function of management. Relevantly, [Kamita and Oluoch \(2018\)](#) reported a significant link between outsourced accounting services and quality of financial reporting, whereby outsourcing accounting services increase the quality of financial reporting, increasing its reliability and understandability. Equally, a link between outsourcing of internal audit and financial reporting quality was deduced in [Höglund and Sundvik \(2016\)](#). In general, IAF is an important mechanism for reducing the agency problem ([Ghaleb et al., 2020](#)), and its quality significantly contributes to the quality of financial reporting ([Abbott et al., 2016](#)). Thus, the audit committee may pressurize the IAF provider to monitor and report such activities, as IAF is under its monitoring, and assists it to perform financial reporting and oversights of internal control systems ([Bajra and Cadez, 2018](#)). The following hypothesis was thus established:

- H1. There is a significant relationship between internal audit outsourcing and understandability of financial reporting.

4.2 Experience of internal audit impacts the understandability of financial reporting

[Prawitt et al. \(2012\)](#) found that superior training and knowledge on accounting standards allows the internal auditors to provide superior supervision to the accounting process. Consequently, deficiencies or errors in the financial information would be decreased. In looking at the link between internal audit quality and the assessment made by the internal auditors to identify the contribution of these auditors to the audited financial statements, [Zain et al. \(2006\)](#) indicated that the internal audit quality is established based on two variables, namely, the experience of the internal auditors and the size of the internal audit department. The authors found that larger internal audit department and more experienced internal auditors could cause the viewpoint of the internal auditors on their input to the external audit to increase. Size and experience are thus the two characteristics of internal audit that significantly affect the evaluation of internal auditors on their input in the audited financial statements. [Rachman \(2014\)](#) further reported the positive impact of the internal Auditor gives on the quality of financial reporting. It also ([Barr-Pulliam, 2021](#)) found that as the experience of internal auditors increased, their sensitivity to fraud increased, thus suggesting that IAF has an important role in financial reporting. The following hypothesis was thus established in this study:

- H2. There is a significant relationship between the experience of internal auditor and understandability of the financial reporting.

4.3 Self-efficacy as a moderating variable

Self-efficacy refers to the belief embraced by a given person concerning his or her competencies in completing certain tasks to allow them to deal with obstacles and accomplish the set goals through the achievement of satisfactory grades ([Novalia, 2016](#); [Dewi and Widhiyani, 2021](#); [Shahwan et al., 2024](#)). In their study, [Pawitra and Suhartini \(2019\)](#) found that individual behavior is an outcome from the interaction between the environment and personal factors. As noted, self-efficacy is a perception of a given

individual concerning his or her ability. This perception, which is subjective, impacts the person's actions, motivations, perseverance and basic behavior (Widasari, 2018). Relevantly, self-efficacy was indicated as a crucial motivational construct in Blondé and Falomir-Pichastor (2020), and this construct impacts choices, goals, emotional reactions, effort, coping and persistence of a person. Essentially, self-efficacy is linked to the execution of individual tasks. Downes *et al.* (2021) reported the positive effect of self-efficacy on performance because people with high self-efficacy have the ability to manage effective behavior via cognitive, motivational and affective decision processes. The hypotheses below were thus presented:

- H3. Self-efficacy moderates the relationship between internal audit outsourcing and understandability of the financial reporting.
- H4. Self-efficacy moderates the relationship between experience of internal auditor and understandability of financial reporting.
- H5. There is a significant relationship between self-efficacy and understandability of the financial reporting.

4.3.1 Theoretical framework. This study tests the moderating effect of self-efficacy on internal audit outsourcing and experience of internal auditor toward understandability of financial reporting through the use of a theoretical framework displayed in Figure 1.

5. Methods

The research design contains the master plan, which shows the specifics of the methods and procedures that are to be used in the information collection and analysis of the information (Zikmund *et al.*, 2003; Alqaraleh *et al.*, 2020). A framework is included in the research design to facilitate the planning of actions for the research project. The data will be gathered using a questionnaire survey. A number of tools of statistical analysis including Statistical Package for the Social Sciences (PLS-smart) will be used in gathering the key information.

The motivation behind such a study typically involves exploring how various factors such as internal audit outsourcing, auditor experience and self-efficacy influence the understandability of financial reporting in the context of Jordan. This is significant because financial transparency and the clarity of financial reporting are crucial for businesses, investors and regulatory authorities in maintaining trust and making informed decisions.

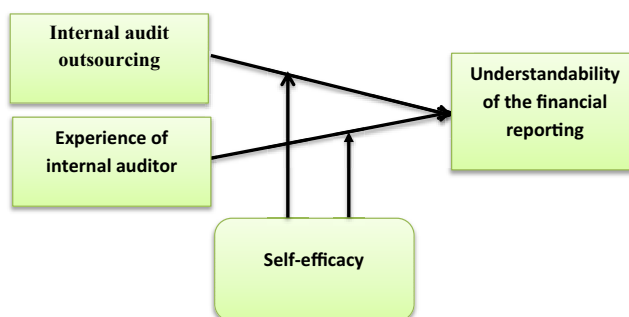


Figure 1. Theoretical framework

Source: Authors' own work



Companies listed on the Amman Stock Exchange have been chosen as the study samples, comprising 211 companies as in year 2020. Meanwhile, the use of distinct private law has caused banks to be excluded from this study. Purposive sampling was applied in this study, and thus, only one specific subgroup with identical characteristics (e.g. similar profession or level in the organization) was chosen (Saunders and Lewis, 2012; Saleem *et al.*, 2023). This study chose Chief of internal auditor and CFOs of Jordanian companies as samples owing to the amount of experience that they possess. Also, CFOs are generally expert in terms of work procedures, in addition to being aware of what is happening in the company (Almasarwah, 2015). Questionnaires were dispersed to these CFOs. Nonetheless, this study noted that the selection of top management as sample of study may result in low response rate. In fact, it was reported in Alqaraleh (2019) that top management response rate would generally be smaller than 25%. Meanwhile, some researchers (Alqaraleh, 2019; Azlina, 2013) proposed 10% as the minimum requirement. The questionnaire was distributed to a sample of 211 respondents. A total of 202 questionnaires were retrieved, of which five questionnaires were not suitable for analysis. Thus, 197 questionnaires suitable for analysis were analyzed, which were divided between 102 heads of internal audit and 95 financial managers.

The questionnaire used in this study comprises four sections with 25 items in total. Specifically, Section 1 comprises items covering the independent variable of internal audit outsourcing; Section 2 comprises items covering the independent variable of the experience of internal auditor; Section 3 comprises items covering the construct of self-efficacy as the moderating variable and items that cover the dependent variable of understandability of the financial reporting; and Section 4 comprises items on the sociodemographic characteristics of the study respondents. Items in Sections 1 through 3 are supplemented with five-point Likert scales to help researcher to achieve accurate study results. This questionnaire was developed according to previous studies shown in Table 1.

To assure that the questionnaire has the appropriate level of validity and reliability, the researcher had the questionnaire survey checked by academic experts. In this case, the experts were professors at universities. Feedbacks and recommendations were obtained from them and changes were accordingly made based on these feedbacks and recommendations. Next, the researcher tested the internal consistency of the questionnaire survey. For the purpose, Cronbach’s alpha was applied, and the outcomes were as follows: the internal audit outsourcing scored 0.89; internal audit outsourcing scored 0.88; self-efficacy scored 0.75; and understandability of the financial reporting scored 0.82. Based on these, the data gathering instrument was declared as valid and reliable. The questionnaire items were adapted from past studies as shown below.

6. Analysis method and model structure

The current study analyzed the data using partial least squares structural equation modeling (PLS-SEM). The PLS-SEM approach does a two-phase analysis of the data. To begin, it

Table 1. Scales used in research

No.	Variable	No.	Reference
1	Internal audit outsourcing	8	Prawitt <i>et al.</i> (2012)
2	Experience of internal auditor	8	Shahimi and Mahzan (2018), Nour and Tanbour (2023)
3	Self-efficacy	7	Dewi and Widhiyani (2021), Hirzallah <i>et al.</i> (2024)
4	Understandability of the financial reporting	10	Chalu (2020), Martucheli and Pereira Filho (2021), Bouqalieh and Nour (2019), Abdelhaq <i>et al.</i> (2024a)

Source(s): Authors’ own work

evaluates the measurement model for reliability and validity. Second, it examines the structural model (testing hypotheses) (Hair *et al.*, 2017). The study model's measurement and structural characteristics are depicted in Figure 2. Multiple items representing the measuring model are used to assess all constructs. By contrast, the structural model is defined by the routes that represent the study hypotheses (Figure 2). As previously stated, the study hypotheses anticipate the following: there is a significant relationship between internal audit outsourcing and financial reporting understandability; there is a significant relationship between internal audit experience and financial reporting understandability; self-efficacy moderates the relationship between internal audit outsourcing and financial reporting understandability; and self-efficacy moderates the relationship between internal audit experience and financial reporting understandability.

7. Results

7.1 Measurement model reliability and validity

Cronbach's alpha and the composite reliability (CR) test are frequently employed to determine the internal consistency and reliability of constructs (Albawwat and Al Frijat, 2021). As shown in Figure 3, the CR and Cronbach's alpha values for all constructs in this study are greater than the acceptable level (i.e. 0.70) (Hair *et al.*, 2017). These findings imply that the study model's internal consistency and dependability are guaranteed. On the other side, validity is determined using convergent validity criteria. Convergent validity is established when all of a construct's measurement items accurately represent the construct. Purwanto and Sudargini (2021) recommend that the AVE value of each construct be greater than 0.5. As shown in Table 2, all of the current study's constructs can account for more than 0.5 of the variance in their assessment items. In addition, the loadings of measurement items

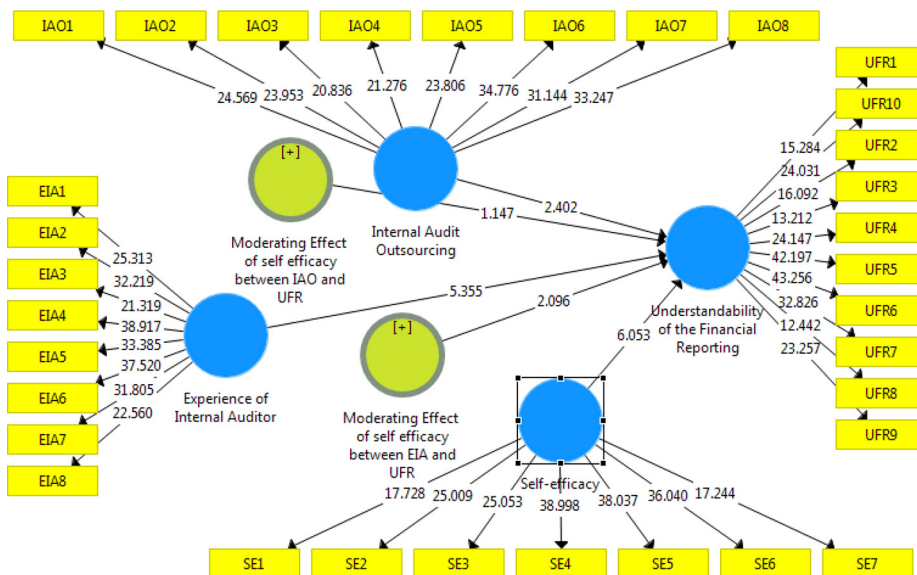


Figure 2. Model's measurement and structural characteristics

Source: Authors' own work

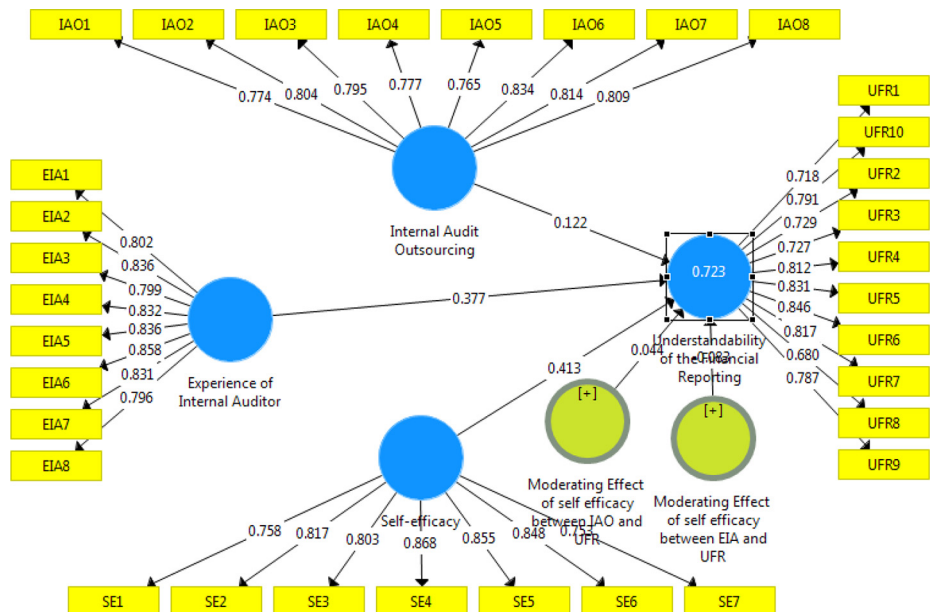


Figure 3. Reliability for all structures

Source: Authors' own work

Table 2. Testing of *H1*

Testing of hypotheses no.		Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	t-statistics (O/STDEV)	p-values
<i>H1</i>	EIA → UFR	0.377	0.377	0.070	5.355	0.000
<i>H2</i>	IAO → UFR	0.122	0.125	0.051	2.402	0.017
<i>H3</i>	EIA → SE → UFR	-0.083	-0.084	0.040	2.096	0.037
<i>H4</i>	IAO → SE → UFR	0.044	0.045	0.038	1.147	0.252
<i>H5</i>	SE → UFR	0.413	0.410	0.068	6.053	0.000

Note(s): EIA = Experience of Internal Auditor; IAO = Internal Audit Outsourcing; UFR = Understandability of the Financial Reporting, SE = Self-efficacy

Source(s): Authors' own work

on their structures were evaluated to verify item-level reliability. The loading of an item on its latent variable (construct) should be greater than or equal to 0.7 (Hair *et al.*, 2017).

As shown in Figure 3, item reliability has been met for all structures, as their item loadings are more than 0.7. In addition, the discriminant validity criterion (cross-loadings) was used to ensure that each latent variable captures only signals not reflected by other latent variables in the model (Purwanto and Sudargini, 2021). The loading on an item's latent variable should be greater than the loading on all other latent variables, and the loading on unrelated latent variables should be less than 0.4 (Hair *et al.*, 2017). Cross-loadings for each measurement item are less than 0.4 in the current study, satisfying the discriminant validity criteria. In addition, the variance inflation factor (VIF) criterion was used to determine

whether predictor latent variables were collinear. VIF should be within the range of 0.2–5.00 (Hair *et al.*, 2017). The analysis results indicate that VIF values are within an acceptable range and that collinearity is not an issue in this investigation.

7.2 Hypotheses testing

The research relationships are classified according to their nature and strength using path coefficients ranging from -1 to $+1$ (a route coefficient of zero indicates a negative link, whereas a path coefficient greater than zero indicates a positive association). Each path coefficient's relevance is determined by its t -value. T -values greater than 1.65, 1.96 and 2.57, respectively, show route significance at $p = 0.10$, 0.05 and 0.010 (Hair *et al.*, 2017; Purwanto and Sudargini, 2021). The findings of the structural model test in Table 2 indicate that $H1$ is supported by a t -values of 5.355 that is statistically significant at $p = 0.000$. This finding implies that EIA has a beneficial effect on UFR. Similarly, the analytical results support their original sample of 0.122 with t -values of 2.402 (which are statistically significant at $p = 0.017$).

Given the significance of the path representing $H1$ and $H2$, the current study's data do support this notion. These findings indicate that EIA and IAO have a beneficial effect on UFR. PLS-SEM-generated indirect effect values are used to evaluate each EIA effect on financial reporting quality via SE. As seen in Table 2, the unique indirect effects of EIA are significant. More precisely, $H3$ (EIA \rightarrow SE \rightarrow UFR) is supported, indicating that EIA has a favorable effect on financial reporting quality via SE. The EIA had the greatest effect on financial reporting quality, with a t -values of 2.096 that was statistically significant at $p = 0.037$.

Table 2 demonstrates that IAO's distinct indirect impacts are significant. More precisely, $H4$ (IAO \rightarrow SE \rightarrow UFR) is not supported, indicating that favorable but insignificant effects of EIA through SE on financial reporting quality exist. Through a t -values of 1.147 that was significant at $p = 0.252$, the EIA had no effect on the financial reporting quality.

Table 3 shows the reliability and validity of the measurement model for the study questionnaire items. As shown below, all items have reliability and validity.

7.3 Model predictive power

R -squared values are used to determine the in-sample predictive power of the study model. In addition, it indicates the entire variance in endogenous factors that can be explained by exogenous variables. The value of R -squared is between 0.00 and 1.00, with a number closer to 1 indicating more predictive power (Purwanto and Sudargini (2021). Hair *et al.* (2017) proposed that R -squared values greater than 0.75, equal to or less than 0.25 represent strong, moderate and weak predictive strength, respectively. R -squared has the greatest value in the current study for Financial Reporting Understandability (0.603). These findings show that the study model has a modest predictive power within the sample.

8. Discussion and conclusion

The purpose of this study was to determine the relationship between internal audit outsourcing and financial reporting understandability, the relationship between internal auditor experience and financial reporting understandability and the effect of self-efficacy on the relationship between internal audit outsourcing, internal auditor experience and financial reporting understandability. The results indicate that all of the EIAs investigated have a significant effect on UFR, which is consistent with Zain *et al.* (2006) and Pawitra and Suhartini (2019). The IAO had the greatest effect on the UFR; these findings are consistent with Kamita and Oluoch (2018). The EIA had the biggest indirect influence on the UFR when compared to the SE, whereas the IAO had no indirect effect on the UFR when compared to the SE. However, that SE is the primary cause of UFR. The current study's

Table 3. Measurement model reliability and validity

Measurement model reliability and validity	EIA	IAO	SE	UFR	Questionnaire items
EIA1	0.145				1. The audit unit or department is staffed with adequately competent personnel
EIA2	0.145				2. Internal audit staff members are knowledgeable and skilled in a wide range of sectors
EIA3	0.131				3. Do you like how proactive the internal audit team was?
EIA4	0.169				4. The internal auditor's importance grows as a result of his or her professional expertise and understanding of the institution's operations and procedures
EIA5	0.158				5. The presence of a well-educated internal auditor improves the financial reporting's readability
EIA6	0.153				6. Auditors can verify that management corrects any serious mistakes or misstatements uncovered during an audit before the financial statements are disclosed to the public
EIA7	0.162				7. Do you think it is important that the internal audit team has demonstrated that they have the appropriate competence in the examined area?
EIA8	0.149				8. Do you believe internal auditors to be experts in their field?
IAO1		0.182			1. The outsourced firm provides timely feedback on my company's financial position
IAO2		0.131			2. The outsourced accountants visited my firm in sufficient time to provide an accurate report
IAO3		0.142			3. The outsourced tasks were completed satisfactorily
IAO4		0.172			4. Outsourcing bookkeeping tasks assists my organization in preserving accurate financial records
IAO5		0.131			5. Outsourcing internal audit tasks improves business performance
IAO6		0.170			6. Our company conducts an audit of its accounting systems and internal controls
IAO7		0.161			7. A review of the effectiveness and efficiency of operations, as well as their expenses, was conducted
IAO8		0.165			8. A suggestion to improve operating efficiency is made
SE1			0.164		1. Confidence enables you to do tough activities
SE2			0.168		2. Confidence in acquiring information and experience via the performance of audit duties
SE3			0.152		3. The conviction that effort and hard work combined with knowledge and expertise will result in success
SE4			0.175		4. Confidence enables you to overcome the audit task's obstacles despite pressure from supervisors and clients
SE5			0.191		5. Confidence enables the completion of complicated activities
SE6			0.194		6. Confidence enables you to successfully do a variety of jobs
SE7			0.181		7. Confidence enables effective control of the audit task's requirements

(continued)

Table 3. Continued

Measurement model reliability and validity	EIA	IAO	SE	UFR	Questionnaire items
UFR1				0.122	1. The amount to which the clarity of financial statements, in terms of table of contents, headers, component order, and summary, contributes to financial reporting's understandability
UFR2				0.121	2. The amount to which the disclosure of information in the notes to the financial statements improves the financial reporting's understandability
UFR3				0.126	3. The extent to which the use of graphs and tables in financial reports improves the financial reporting's readability
UFR4				0.144	4. The amount to which the lack of jargon and technical terminology improves the readability of financial reporting, and hence its readability
UFR5				0.138	5. The extent to which the inclusion of a complete glossary of uncommon terminology and abbreviations in the financial statements improves the financial reporting's understandability
UFR6				0.143	6. The yearly report contained a full glossary and an overall score for Understandability
UFR7				0.133	7. To what degree do the notes to accounting policy changes adequately describe the ramifications of the change?
UFR8				0.093	8. To what degree do revision notes to accounting estimates and judgements clarify the revision's implications?
UFR9				0.130	9. To what degree did the firm revise prior accounting period's statistics to account for the effect of changing accounting policies or revising accounting estimates?
UFR10				0.133	10. To what degree does the business give a comparison of the current accounting period's results to those of past accounting periods?

Source(s): Authors' own work

findings can be extremely beneficial to auditees, recruiters, human resource departments and Chief Internal Audit Executives when it comes to employing new internal auditors to contribute to the effectiveness of the internal audit function. The findings of this study may also be beneficial for the development of existing internal auditors. Despite the current study's contribution, it has certain drawbacks that could serve as paths for future research. The study model was validated using 211 observations acquired from Jordanian companies listed on the Amman Stock Exchange's chief internal auditors and chief financial officers. As a result, future research may test the model further using data from countries with varying regulatory regimes. In addition, the research model emphasizes internal audit outsourcing, internal auditor experience and financial reporting quality. Future studies can extend the current model by integrating more variables that may affect the model's current variables.

Also, the interplay between internal audit outsourcing, auditor experience and self-efficacy in financial reporting understandability can significantly influence public attitudes,

affect the quality of life by impacting economic stability and trust and contribute to the overall functioning of financial markets and corporate governance frameworks.

In addition, this study offers policymakers actionable insights to strengthen regulatory frameworks, enhance corporate governance practices, bolster investor confidence and promote market integrity. By leveraging these implications, policymakers can foster an environment where businesses operate transparently, responsibly and effectively meet the needs of diverse stakeholders.

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Corresponding author

Abdulnaser Ibrahim Nour can be contacted at: a.nour@najah.edu