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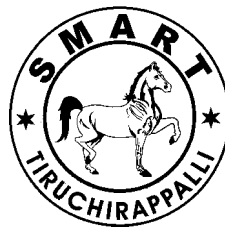
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ENHANCING PROFITABILITY THROUGH INTERNAL AUDIT QUALITY: A SURVEY-BASED STUDY OF THE RETAIL SECTOR IN SAUDI ARABIA

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Abstract

This study explores the impact of internal audit quality on enhancing corporate profitability and examines the applicability of this principle within the retail area in the Kingdom of Saudi Arabia, amidst increasing challenges and hasty deviations in the business location. A ground study was conducted on 252 internal auditors, working in retail area companies, in the Kingdom of Saudi Arabia. Data were collected through a purpose-based questionnaire and analyzed by using a descriptive-analytical approach. The study revealed positive and statistically significant relationship between the application of high-quality internal auditing and the increased profitability of retail sector companies in Saudi Arabia. The study was limited to a sample of internal auditors within the retail sector and the findings may not be generalizable to other sectors. Further, reliance on questionnaires introduces the potential for response bias. The findings revealed the vital role of internal audit quality in achieving financial success. The study recommends that retail companies in Saudi Arabia should provide necessary administrative, professional, and financial support to auditors, and enhance the quality of audit processes and their ability to contribute to increased corporate profits.

Keywords: internal audit, corporate earnings, retail sector.

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1. Introduction

Internal auditing is one of the most important functions that corporations perform to derive their strategic objects and stay competitive in a world, that is becoming more dynamic and complex (Sawyer et al., 2015; Stewart & Subramaniam, 2020; Sarens,

Mitchell, & Sikka, 2023). The Saudi market has witnessed a lot of progress in accounting and auditing recently because of economic reforms and the government's focus on governance and transparency. This was especially true after the launch of Saudi Vision 2030, which put a lot of emphasis on improving the business environment and making more

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financial information available (**Saudi Vision 2030, 2016; Zaman, Khlif, & Shafique, 2022**).

The Saudi Organization for Chartered and Professional Accountants and the Saudi Association of Internal Auditors have both stated that most companies listed on the Saudi Stock Exchange (Tadawul) now primarily rely on maintaining effective internal audit units (**SOCPA, 2022; Cai, Li, & Wang, 2022**). The Capital Market Authority has also told joint-stock companies that they need to have an independent audit committee. This improves governance and the quality of financial reports, which has helped many companies in the retail and services sectors (**CMA, 2021; Erasmus & Coetzee, 2023**).

Field studies in Saudi Arabia show that organizations, with effective internal audit management, make more money and are less likely to lose money or be the victims of fraud (**Alzeban & Sawan, 2013; Al-Amri & Al-Harbi, 2022; Mansour & Elbeltagi, 2020**). For example, recent reports from Jarir Marketing Co. and Al Othaim Markets Co. show that investing in the development of internal audit systems was a key factor in reducing operational risks and achieving annual growth in operating profits despite economic challenges and market fluctuations (**Jarir Marketing Co., 2022; Al Othaim Markets Co., 2022; Puri, Lim, & Nguyen, 2021**).

According to a report from SOCPA in 2022, 92% of the major retail companies have their own internal audit units. These companies witnessed their profits to grow by more than 8% a year, on an average, from 2018 to 2022. In contrast, companies, without an audit unit or with a limited role, reported their profits grow by only 4% a year (**SOCPA, 2022; Nguyen, 2022**). In other words, better internal auditing can help the Saudi market's financial

performance and profitability [Stewart & Subramaniam, 2020].

In spite of the increasing amount of local and international studies on internal audit quality and its influence on financial performance and governance, previous studies in general have concentrated on financial or industrial sectors or have examined internal auditing as portion of the broader governance framework, without any exhaustive study of the relationship between internal audit quality and profitability indicators in the Saudi retail. (**Abdelghany et al., 2021; Tran, Le, & Nguyen, 2021**).

Therefore, it is important to do a new study on this important area and present new real-world indication on how the quality of internal audits could help retail corporations in the Saudi market to make additional money (**Cai, Li, & Wang, 2022; Sarens, Mitchell, & Sikka, 2023**). Additionally, some big Saudi businesses, like Al Othaim Markets and Panda Retail Company, have organised regular governance reforms to cut down on financial and operational mistakes. These companies have seen satisfactory financial results in the last few years (**Al Othaim Markets Co., 2022; Panda Retail Company, 2021; Stewart & Subramaniam, 2020**). Internal auditing has some advantages, like enhancing profits and building trust with investors and the financial market. According to the Saudi Capital Market Authority, firms, with excellent internal auditing, tend to have higher credit ratings and bring in more international and domestic investments (**CMA, 2021; Erasmus & Coetzee, 2023; Zaman, Khlif, & Shafique, 2022**). Saudi market shows how significant it is to look into the connect between the quality of internal audits and the profits of retail businesses. This is specifically true now that financial and business rules are always changing, and Saudi Vision 2030 aims for the highest levels of transparency and

operational efficiency (Puri, Lim, & Nguyen, 2021; Cai, Li, & Wang, 2022).

2. Review of Literature

There has been more and more research on the quality of internal audits, especially about how they may help institutions to work better and improve financial results (Stewart & Subramaniam, 2020; Cai, Li, & Wang, 2022; Sarens, Mitchell, & Sikka, 2023). A high-quality internal audit function, that is independent, professional, and follows standards, is one of the most important ways to lower risk and increase the value of an organization (Arena & Azzone, 2009; Erasmus & Coetzee, 2023; Zaman, Khlif, & Shafique, 2022).

Alzeban and Sawan (2013) found that better financial reporting in listed companies is linked to better internal audit departments. Such an outcome is good for the whole organization since it means more profits (Al-Amri & Al-Harbi, 2022; Puri, Lim, & Nguyen, 2021). It has also been said that the internal audit function is an important part of making corporate governance stronger and making sure that businesses are transparent in developing countries. Lenz & Hahn (2015) maintained that internal audit quality has positive influence on organizational performance, specifically when auditors are highly experienced and work independently from senior management (Nguyen, 2022; Mansour & Elbeltagi, 2020).

Prawitt, Smith, and Wood (2009) found that companies, with efficient internal audit systems, can better control earnings management, which helps them to stay profitable over the long term (Tran, Le, & Nguyen, 2021). Internal auditing is extremely important in the retail industry and other industries where there are many transactions and complex business practices. Tušek et al. (2015) demonstrated that operating better internal audit methods helps

retail businesses to spend less money and make more money. Abdelghany et al., 2021, Jarir Marketing Co., 2022; Al Othaim Markets Co., 2022; Sarens, Mitchell, & Sikka, 2023 assert that putting money into building up internal audit departments in the Saudi market has helped them to cut losses, manage risks better, and improve profits. Independence is the key factor in how well internal auditing works.

Independence ensured objectivity and reliability as well as the ability to detect weaknesses and indicate avenues to remedy them. Erasmus & Coetzee, 2023 Arena & Azzone, 2009; CMA, 2021; Stewart & Subramaniam, 2020 have confirmed this finding. Such independence is specifically significant for Saudi retail businesses, which stress the requirement for independent audit committees (SOCPA, 2022; Zaman, Khlif, & Shafique, 2022). The academic and professional credentials of internal audit professionals are also significant. Reding et al. (2023) and Al-Amri & Al-Harbi (2022) have demonstrated that highly qualified auditors are better at risk management (Puri, Lim, & Nguyen, 2021).

Saudi retail enterprises invest more money in training and developing their internal audit team. As a result, these companies are achieving more profit (Cai, Li, & Wang, 2022). Though prior studies have established the importance of internal audit quality, there is dearth of empirical study that examines how internal audit would affect the effectiveness of Saudi retail companies, especially given recent changes in the economy and rules (Abdelghany et al., 2021; Sarens, Mitchell, & Sikka, 2023).

3. Statement of the Problem

Hard data from real-world settings are still wanting when it comes to showing how better internal audits could boost profits in this industry. Hence the present research aims to close that

gap by examining actual links between audit quality and profit levels among retail firms in Saudi Arabia. Through there is more research on the quality of internal audits, very few have looked at how it affects profitability in the Saudi retail industry. This study proposes to address that gap by examining the effect of audit quality on earnings inside a sector, undergoing transition in accordance with the Vision 2030.

4. Need of the Study

The report addresses the heightened spotlight on financial transparency and audit efficacy in Saudi Arabia. This research intends to offer current insights for policymakers and practitioners in the retail industry, considering the pivotal role of internal audit in augmenting business profitability and investor trust.

5. Objectives of the Study

- To examine the impact of internal audit quality on corporate profitability.
- To evaluate the role of audit independence in enhancing profitability.
- To assess the influence of academic and professional qualifications of auditors on financial outcomes.

6. Hypotheses of the Study

- **H1:** There is statistically significant link between the quality of internal audits and the increase in profitability for retail enterprises in Saudi Arabia.
- **H2:** Independence in internal audits helps retail businesses in Saudi Arabia to make more profit.
- **H3:** There is statistically significant and positive link between the academic and professional credentials of internal audit professionals and the increase in profitability for retail businesses in Saudi Arabia.

7. Research Methodology

This research examined how the quality of internal audits influenced the profitability of businesses in the Saudi retail production (Erasmus & Coetzee, 2023; Stewart & Subramaniam, 2020). This study employed both descriptive-analytical and quantitative research methods. Through different ways, the survey reached a wide mix of respondents. Handouts went straight to auditors, working at chosen retail firms. Emails carrying the digital form arrived through corporate accounts. Connections in groups like the Saudi Association of Internal Auditors helped find skilled participants. Folks joined by choice, with privacy promised throughout. Thanks to several different ways of reaching people, the information gathered turned out to be more dependable - also better reflected the bigger picture.

7.1 Sample Selection

Internal audit team members, employed by retail establishments in Riyadh and Jeddah, made up the target demographic. To guarantee representativeness and reduce selection bias, a random sample of 252 internal auditors was chosen, by using Morgan's sampling table, from a comprehensive list of internal auditors provided by the Saudi Association of Internal Auditors (Cai, Li, & Wang, 2022).

7.2 Period of Study

Data collection for this research was conducted, over a three-month period, between May 2025 and July 2025.

7.3 Source of Data

The study collected data, using a structured questionnaire, based on a lot of relevant literature and prior validated instruments (Reding et al., 2023; Puri, Lim, & Nguyen, 2021). The questionnaire had two main parts: (1)

demographic information (age, gender, academic qualifications, certifications, and years of experience) and (2) three main ranges of focus: internal audit quality practices, audit independence, and the academic and professional qualifications of audit work (Mansour & Elbeltagi, 2020; Tran, Le, & Nguyen, 2021). The study made sure the instrument was valid by having experts look at it and testing it out with a small group of people. The construct validity was validated by looking at item-total correlations.

7.4 Tools Used for the Study

Cronbach's alpha ensured that the scales were reliable, and all of them reported excellent internal reliability (overall $\alpha = 0.95$) (Nguyen, 2022; Zaman, Khelif, & Shafique, 2022). The study used SPSS to code and look at the answers to the survey. To summarize the sample and main variables, the study used descriptive statistics like frequencies, means, and standard deviations.

To test the study's hypotheses regarding the relation between internal audit quality and corporate profitability, the study utilized inferential statistics like Pearson correlation and linear regression analysis (Cai, Li, & Wang, 2022; Abdelghany et al., 2021). This severe methodological approach ensured that the outcomes were valid and reliable, (Stewart & Subramaniam, 2020; Sarens, Mitchell, & Sikka, 2023).

8. Analysis and Interpretation

Before analyzing the study's findings, the collected data were examined to understand how the responses varied across the key research areas (Stewart & Subramaniam, 2020; Cai, Li, & Wang, 2022). The findings provide us a first look at how Saudi retail enterprises see the experience, independence, and credentials of their internal auditors. This

portion gives a short summary of the main results, and then it proceeds to discuss in depth about each hypothesis. Both descriptive statistics and inferential approaches, the connections between the research variables were well understood (Nguyen, 2022; Mansour & Elbeltagi, 2020).

The findings further indicated how internal audit techniques are important for making companies in the Saudi retail industry to be more profitable (Sarens, Mitchell, & Sikka, 2023). Morgan's Table was used to randomly choose 252 internal auditors from Saudi retail enterprises to be part of the survey sample. This sample size helped the results to be applied to other situations and make the statistics more reliable (Nguyen, 2022; Cai, Li, & Wang, 2022).

8.1 Effect of Internal Audit Quality on Profitability

Descriptive analysis showed that the quality of internal audits in Saudi retail enterprises was good (overall mean = 4.04, SD = 0.83). **Table 1** demonstrates the internal audit unit's capacity to fulfill users' information demands (mean = 4.33) and give correct management information (mean = 4.33) to be the most highly rated items. On the other hand, regular training for internal auditors (mean = 3.57) was the least highly rated item. The broad use of governance standards and best practices in the industry, in accordance with Vision 2030 goals (Saudi Vision 2030, 2016; Puri, Lim, & Nguyen, 2021), is shown by this robust application of audit quality. Table-1 shows the internal audit quality, as per the descriptive statistics.

Table 2 shows that there was substantial and important link between the quality of internal audits and profits (Pearson's $r = 0.805$, $p < 0.001$; $R^2 = 0.645$; $F = 230.292$, $p < 0.001$). In other words, better audits are responsible for 64.5%

of the changes in corporate earnings. These results are in line with what **Abu Nassar (2016)**, **Riyadh (2014)**, and **Baajaja (2012)** found, which was that strong audit processes have good effect on financial performance. But several prior research studies (**Ghuneim, 2019**; **Al-Wakeel, 2019**) noted that it is still hard to make sure that all businesses have the same level of audit quality. Recent studies from throughout the world (**Erasmus & Coetzee, 2023**; **Sarens, Mitchell, & Sikka, 2023**) also show that the quality of audits has a big effect on how profitable businesses are in different markets. Hence Hypothesis 1 was accepted. Better internal audits are highly linked to greater profits in Saudi retail enterprises (**Stewart & Subramaniam, 2020**; **Cai, Li, & Wang, 2022**).

8.2: Effect of Internal Audit Independence on Profitability

Internal audit independence had reported big effect (overall mean = 4.20, SD = 0.75), with the most important features being how well it helped them make profit (mean = 4.40) and how it made it harder to manipulate finances (mean = 4.29), as shown in **Table-3**. These findings show that retail companies know how important it is for audits to be independent so that they can be open, preserve assets, and help profits increase (**Erasmus & Coetzee, 2023**; **Zaman, Khlif, & Shafique, 2022**).

Table-4 demonstrates that correlation and regression analyses showed a forceful and statistically significant effect (Pearson's $r = 0.850$, $p < 0.001$; $R^2 = 0.720$; $F = 325.681$, $p < 0.001$). Independence alone could explain 72% of the variance in profit enhancements, demonstrating the value of audit independence for financial success. These findings confirm the declarations of **Ghuneim (2012)**, **Khursha (2019)**, and **Hamdan (2020)**, all of whom

emphasized the significance of independence in establishing trust and safeguarding organizations from financial risks. Recent studies (**Stewart & Subramaniam, 2020**; **Cai, Li, & Wang, 2022**) revealed substantial relationship between audit independence and profitability. Hence Hypothesis 2 was accepted. In short, independence in internal audits was related to more profitability (**Nguyen, 2022**; **Sarens, Mitchell, & Sikka, 2023**).

8.3: Effect of Academic and Professional Qualifications on Profitability

The audit employees' academic and professional credentials obtained the greatest evaluations of its three aspects (overall mean = 4.31, SD = 0.65). "Enhancing information accuracy" (mean = 4.48) and "developing audit unit performance" (mean = 4.41) scored very well (see **Table 5**). In short, competent people are important for audit to work well and make profit (**Reding et al., 2023**; **Puri, Lim, & Nguyen, 2021**).

Table 6 shows that correlation analysis indicated strong, substantial connection between employees' qualifications and profitability (Pearson's $r = 0.805$, $p < 0.001$). **Sepasi et al. (2018)**, **Fouad (2015)**, and **Riyadh (2014)** reported that professional competence did have big effect on audit outcomes and financial success. Recent studies (**Tran, Le, & Nguyen, 2021**; **Stewart & Subramaniam, 2020**) also show that this connection is true all over the world. Hence Hypothesis 3 was accepted. Audit employees with better academic and professional credentials, enhanced profits in Saudi retail enterprises (**Mansour & Elbeltagi, 2020**; **Cai, Li, & Wang, 2022**).

9. Findings of the Study

The study found that excellent internal audits regularly go hand in hand with higher firm profits. When audit teams work well, numbers

tend to be sharper, safeguards the company to tighten up and risks get handled smarter. Trained professionals augment review quality and guidance given to leaders. Strong audits are not just routine checks but they also shape how companies perform financially.

The research observed strong, statistically significant relations between internal audit quality, audit independence, and the academic and professional qualifications of audit employees and corporate profitability in the Saudi retail sector. The analysis further revealed that these three influences collectively explain a substantial variance in financial outcomes, indicating that investment in audit infrastructure and personnel yields measurable financial benefits.

10. Suggestions

Saudi retail companies should:

- Give regular and advanced training programs for internal auditors.
- Improve the independence of internal audit departments by confirming their report to the audit committee.
- Provide for the academic and professional development of their internal audit teams.
- Apply healthy governance methods, aligned with Vision 2030, to support audit effectiveness.

11. Conclusion

This research found that the quality of internal audits, their independence, and the academic and professional credentials of audit professionals are all important factors that influence the profitability of retail businesses in Saudi Arabia. The findings proved that excellent financial performance is strongly connected to high levels of audit quality and independence, as well as excellent professional qualifications of auditors. These findings revealed how important it is for the Saudi retail industry to set up strict internal

audit procedures and allow audit functions to grow and be independent.

The research focused on retail and used self-reported survey data, but its conclusions are still useful for practitioners and policymakers, who want to upgrade internal audits to produce more profit. Future research could discover similar connections in other areas or to employ different methods to confirm and expand upon the results.

12. Limitations of the Study

The research was limited to a sample of internal auditors in the retail sector in Saudi Arabia, which may restrict applicability to other sectors. It also relied on self-reported survey data, which could introduce response bias.

13. Scope for Further Research

Future research may discover similar relationships in different industries, such as manufacturing and services. Longitudinal studies may elucidate the enduring effects of internal audit quality on profitability.

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Table-1: Internal Audit Quality Descriptive Statistics

| Statement | Mean | SD | Rank |
|---|------|------|------|
| The internal audit unit meets the needs of financial information users | 4.33 | 0.95 | 1 |
| The internal audit unit provides management with accurate information | 4.33 | 0.94 | 1 |
| Auditors' qualifications are appropriate for the profession | 4.21 | 0.91 | 2 |
| The internal audit unit is independent | 4.12 | 0.99 | 3 |
| Clear policies and procedures exist for internal audit | 4.12 | 1.01 | 3 |
| Collaboration with other units in the company | 4.12 | 0.99 | 3 |
| The internal audit unit continuously develops its procedures | 4.11 | 1.02 | 6 |
| The internal audit unit cares about risk assessment and recommendations | 4.07 | 0.97 | 7 |
| Periodic evaluation of audit staff performance | 4.07 | 0.99 | 7 |
| Internal auditors possess necessary skills | 4.01 | 1.02 | 9 |
| Regular training is provided for internal auditors | 3.57 | 1.15 | 11 |
| Total Mean / SD | 4.04 | 0.83 | |

Source: Primary Data computed using SPSS

Table-2: Inferential Analysis for Audit Quality and Profitability

| Statistic | Value | Sig. |
|-------------------------|---------|--------|
| Pearson Correlation (r) | 0.805 | <0.001 |
| R ² | 0.645 | |
| F-value | 230.292 | <0.001 |

Source: Primary Data computed using SPSS

Table-3: Audit Independence Descriptive Statistics

| Statement | Mean | SD | Rank |
|---|------|------|------|
| Efficient performance to achieve profits | 4.40 | 0.88 | 1 |
| Reducing opportunities for manipulation of indicators | 4.29 | 0.84 | 2 |
| Efficient management of company assets | 4.25 | 0.85 | 3 |
| Correct guidance of investment decisions | 4.20 | 0.88 | 4 |
| Comparing profits for improvement | 4.18 | 0.89 | 5 |
| Improving mechanisms for collecting receivables | 4.15 | 0.91 | 6 |
| Modern cost management | 4.12 | 0.93 | 7 |
| Forecasting and preparing for financial risks | 4.11 | 0.99 | 8 |
| Total Mean / SD | 4.20 | 0.75 | |

Source: Primary Data computed using SPSS

Table-4: Inferential Analysis for Audit Independence and Profitability

| Statistic | Value | Sig. |
|-------------------------|---------|--------|
| Pearson Correlation (r) | 0.850 | <0.001 |
| R ² | 0.720 | |
| F-value | 325.681 | <0.001 |

Source: Primary Data computed using SPSS

Table-5: Audit Staff Qualifications Descriptive Statistics

| Statement | Mean | SD | Rank |
|---|------|------|------|
| Enhancing accuracy of information to management | 4.48 | 0.81 | 1 |
| Developing internal audit unit performance | 4.41 | 0.82 | 2 |
| Detecting financial deviations | 4.38 | 0.82 | 3 |
| Directing strategic objectives | 4.34 | 0.85 | 4 |
| Protecting against legal risks | 4.32 | 0.86 | 5 |
| Optimal resource utilization | 4.29 | 0.83 | 6 |
| Employing modern techniques for weaknesses | 4.24 | 0.88 | 7 |
| Developing accounting systems | 4.22 | 0.87 | 8 |
| Assisting in risk management methods | 4.17 | 0.94 | 9 |
| Total Mean / SD | 4.31 | 0.65 | |

Source: Primary Data computed using SPSS

Table 6: Inferential Analysis for Staff Qualifications and Profitability

| Statistic | Value | Sig. |
|-------------------------|-------|--------|
| Pearson Correlation (r) | 0.805 | <0.001 |

Source: Primary Data computed using SPSS