

Internal Control Quality and Financial Statement Quality: The Mediating Role of Reporting Reliability in Thai Listed Firms

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ABSTRACT

This study examines how internal control quality influences financial statement quality, emphasizing the mediating role of reporting reliability. Using the COSO (2013) framework, internal control was disaggregated into five dimensions—control environment, risk assessment, control activities, information and communication, and monitoring—to capture nuanced effects. Data were collected via a cross-sectional survey of 168 financial professionals from Thai listed firms and analyzed through multiple regression and mediation analysis. Findings indicate that all five internal control dimensions significantly enhance both reporting reliability and financial statement quality. Moreover, reporting reliability serves as a strong mediator, explaining a substantial portion of the variance in financial statement quality. Information and communication, and risk assessment were the most impactful predictors. The study offers empirical evidence from an emerging market and contributes to theoretical understanding by validating reporting reliability as a key mechanism. Practical implications are highlighted for improving governance and financial transparency.

Keywords: Internal Control Quality, COSO Framework, Financial Statement Quality, Reporting Reliability

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บทคัดย่อ

การวิจัยนี้มุ่งศึกษาผลของคุณภาพการควบคุมภายในต่อคุณภาพงบการเงิน โดยให้ความสำคัญกับบทบาทเชิงส่งผ่านของความเชื่อถือได้ในการรายงานข้อมูลทางการเงิน โดยอ้างอิงกรอบแนวคิด COSO (2013) ซึ่งแบ่งองค์ประกอบของการควบคุมภายในออกเป็นห้ามิติ ได้แก่ บรรยากาศการควบคุม การประเมินความเสี่ยง กิจกรรมการควบคุมสารสนเทศและการสื่อสาร และการติดตามประเมินผล เพื่อสะท้อนความซับซ้อนของอิทธิพลเชิงโครงสร้าง ข้อมูลเชิงประจักษ์ถูกรวบรวมด้วยการสำรวจแบบภาคตัดขวางจากผู้เชี่ยวชาญด้านการเงินจำนวน 168 คนในบริษัทจดทะเบียนไทย และวิเคราะห์ด้วยการถดถอยพหุคูณและการวิเคราะห์ตัวแปรส่งผ่าน ผลการวิจัยพบว่า องค์ประกอบของการควบคุมภายในทั้งห้ามิตินิอิทธิพลเชิงบวกอย่างมีนัยสำคัญต่อทั้งความเชื่อถือได้ของการรายงานและคุณภาพงบการเงิน นอกจากนี้ ความเชื่อถือได้ของการรายงานยังทำหน้าที่เป็นตัวแปรส่งผ่านที่มีอิทธิพลสูง สามารถอธิบายความแปรปรวนของคุณภาพงบการเงินได้ถึงร้อยละ 59 โดยเฉพาะมิติสารสนเทศและการสื่อสาร รวมถึงการประเมินความเสี่ยงซึ่งเป็นตัวทำนายที่มีผลกระทบสูงที่สุด งานวิจัยนี้จึงเป็นหลักฐานเชิงประจักษ์จากบริบทตลาดเกิดใหม่ที่ช่วยสนับสนุนมุมมองทางทฤษฎีว่าความเชื่อถือได้ของการรายงานคือ กลไกสำคัญที่เชื่อมโยงระหว่างคุณภาพการควบคุมภายในและคุณภาพงบการเงิน พร้อมทั้งเสนอข้อเสนองเชิงปฏิบัติสำหรับการยกระดับธรรมาภิบาลและความโปร่งใสทางการเงินในองค์กร

คำสำคัญ: คุณภาพการควบคุมภายใน กรอบแนวคิด COSO คุณภาพงบการเงิน ความเชื่อถือได้ของการรายงาน

1. INTRODUCTION

The quality of financial statements plays a critical role in fostering transparency, enhancing investor confidence, and promoting efficient capital markets. Particularly in emerging economies such as Thailand, concerns over the reliability of financial reporting continue to surface, largely due to recurring incidents of accounting irregularities and financial misstatements. These issues often reflect not merely technical accounting failures, but more fundamentally, the breakdown of internal control systems intended to detect and prevent such discrepancies. The Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) provides a widely accepted framework for evaluating internal control systems, comprising five interrelated dimensions: control environment, risk assessment, control activities, information and communication, and monitoring activities. A strong internal control system, as defined by COSO, is presumed to enhance the integrity of financial reporting. However, a substantial body of prior research tends to assess internal control quality using aggregate measures, without disaggregating the unique contributions of each COSO component. This limits practical insights for managerial and regulatory interventions that could target specific areas of weakness.

In Thailand, issues related to accounting fraud and weak internal controls have repeatedly drawn attention from regulators such as the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET). High-profile financial misreporting cases among listed firms have raised public concern about the effectiveness of corporate governance and the reliability of financial information disclosed to investors. As Thailand continues to develop toward stronger financial governance, understanding how the quality of internal control affects financial reporting outcomes becomes critical. The Thai setting thus offers a relevant and timely context for exploring how internal control mechanisms can foster more reliable and transparent financial statements in emerging economies.

While Nguyen, Vu, and Bui (2023) evaluated the impact of each COSO dimension on accounting information quality in Vietnam, their study did not explore downstream outcomes such as the quality of financial statements, particularly within the International Accounting Standards Board (IASB) conceptual framework—comprising relevance, faithful representation, comparability, and understandability. In the Thai context, research by Ditkaew (2018) and Ngamtampong (2013) has established links between internal control effectiveness and decision-making reliability or stakeholder perceptions. However, these studies employed aggregate-level internal control constructs and did not explicitly assess dimension-specific effects or trace the influence on financial statement quality.

Therefore, there remains a significant research gap regarding how each dimension of internal control contributes differently to financial statement quality and through what mechanisms these effects occur—particularly in the context of Thai listed firms where the strength of internal control systems varies widely. Moreover, an important theoretical gap persists concerning the mediating role of reporting reliability, which represents the consistency, accuracy, and completeness of financial information. Although several studies have acknowledged the importance of reliable information in financial reporting,

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few have empirically tested whether reporting reliability acts as the causal pathway linking internal control quality to financial statement quality. In other words, internal controls may not directly improve financial statements but rather do so through enhancing the reliability of reporting processes. Understanding this mediating mechanism is crucial because it provides deeper insight into how and why internal control systems influence reporting outcomes. For example, Ditkaew (2018) suggested that reporting reliability enhances decision-making, but did not adopt a mediation framework. Similarly, Chen et al. (2018) and Azzali and Mazza (2013) confirmed the importance of internal control systems in improving financial transparency, yet did not investigate the structural pathway involving reporting reliability as a mediator.

This study therefore aims to address these theoretical and contextual gaps by empirically examining the direct and indirect effects of internal control quality on financial statement quality through the mediating role of reporting reliability, using evidence from Thai listed firms. Specifically, this study pursues three main objectives: (1) to investigate how each of the five COSO dimensions of internal control quality influences reporting reliability; (2) to assess how these dimensions affect financial statement quality; and (3) to examine whether reporting reliability mediates the relationship between internal control quality and financial statement quality. This research makes four distinct contributions: (1) It advances the literature by conducting a dimension-level analysis of the COSO framework to identify which internal control components most strongly influence financial statement quality, thereby providing granular insights beyond aggregate assessments; (2) It incorporates reporting reliability as a mediating variable, operationalized through constructs adapted from Dechow and Dichev (2002), to explicate the causal pathway from internal control to financial reporting outcomes; (3) It employs a rigorous methodological design, including a cross-sectional survey of financial professionals in Thai listed firms, combined with multiple regression and mediation analysis consistent with Baron and Kenny (1986); and (4) It contributes to contextual understanding in emerging markets, offering rare empirical evidence from Thailand—a country where research on internal control systems and financial reporting remains underdeveloped relative to developed economies.

Collectively, these contributions aim to strengthen both theoretical and practical understanding of how specific elements of internal control systems affect the quality of financial statements, and through which mechanisms such influence occurs.

2. LITERATURE REVIEW

2.1 The COSO Framework and Its Five Dimensions

The COSO Internal Control – Integrated Framework (COSO, 2013) is the most widely adopted conceptual model for evaluating organizational control systems. It comprises five interrelated dimensions—control environment, risk assessment, control activities, information and communication, and monitoring—that collectively ensure operational effectiveness, compliance, and reliable financial reporting (Moeller, 2013; Kaplan et al., 2007). Each dimension performs a unique function: Control environment establishes ethical tone and managerial accountability. Risk assessment identifies and evaluates potential reporting risks. Control activities enforce policies and prevent misstatements. Information and communication ensure timely, accurate, and relevant data flow and Monitoring assesses system performance and corrective actions (Jokipii, 2010; Moeller, 2015).

Recent studies highlight that disaggregating these five dimensions provides richer insight into how specific control mechanisms affect reporting quality (Nguyen et al., 2023; Ditkaew, 2018). This study therefore adopts a dimension-level COSO framework to identify which internal control components most significantly influence reporting reliability and financial statement quality—an approach particularly relevant for emerging markets like Thailand, where regulatory enforcement and governance maturity vary across firms.

2.2 Internal Control Quality and Financial Reporting Outcomes

The quality of internal control systems is a key determinant of financial reporting reliability. Empirical evidence demonstrates that effective controls mitigate risks of misstatement and fraud while improving the credibility of disclosures (Kaplan et al., 2007; Hoitash et al., 2008; Chen et al., 2018). Strong audit committees, ethical leadership, and transparent communication channels enhance control effectiveness and reporting outcomes (Azzali & Mazza, 2013). From a theoretical perspective, Agency Theory (Jensen & Meckling, 1976) suggests that internal control mechanisms reduce information asymmetry between managers and shareholders. Moreover, Signaling Theory (Spence, 1973) posits that transparent and reliable reporting signals sound governance to external stakeholders, thereby enhancing investor confidence. These perspectives jointly explain why high internal control quality promotes trustworthy financial reporting and corporate accountability. Internal control effectiveness remains a cornerstone of financial reporting reliability (Ghazali et al., 2024). Recent evidence from emerging markets (Ahmad & Muslim, 2024; Senan, 2024) indicates that strong internal control systems, complemented by effective audit committees and internal audit functions, substantially enhance both reporting reliability and financial statement quality. The relationship between internal control quality and financial reporting outcomes has been extensively examined across various studies, highlighting the critical role of internal controls in ensuring accurate and reliable financial disclosures (Hoitash et al., 2008; Kaplan et al., 2007;

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Ghazali et al., 2024) Effective governance, technological tools, skilled personnel, and regulatory compliance are key factors that enhance internal control systems and, consequently, improve financial reporting outcomes (Ahmad & Muslim, 2024; Senan, 2024; Ebaid, 2022). In emerging markets, internal control mechanisms not only serve as assurance systems but also signal managerial integrity and accountability under evolving regulatory regimes such as IFRS (Garrouch & Omri, 2024; Kateb, 2023).

2.3 Defining and Measuring Financial Statement Quality

Financial statement quality (FSQ) reflects the degree to which financial information is relevant, faithfully represented, comparable, and understandable (IASB, 2018). Prior research operationalizes FSQ using several approaches: Earnings quality models, emphasizing accrual quality and persistence (Dechow & Dichev, 2002; Francis et al., 2004). Market-based measures, linking disclosure quality to stock pricing accuracy (Barth et al., 2008). Survey-based constructs, assessing perceptions of reporting reliability and decision usefulness (Mohammady, 2010). Overall, financial statement quality integrates both accounting-based and perceptual attributes, providing a comprehensive indicator of transparency and reporting credibility (Barua, 2005; Ditkaew, 2018). Recent studies highlight that post-IFRS adoption and the rise of digital reporting environments have significantly reshaped the determinants of financial statement quality. For instance, Garrouch and Omri (2024) demonstrated that IFRS adoption enhances information transparency and reduces asymmetry, particularly in markets with robust governance structures. Similarly, Kateb (2023) found that audit committee expertise mediates the effect of IFRS on earnings management, underscoring the governance–reporting quality nexus in emerging economies. The concept of financial statement quality has been approached from multiple perspectives, encompassing both qualitative and quantitative dimensions (Dechow et al., 2010; Barua, 2005; Mohammady, 2010). A foundational reference is the Statement of Financial Accounting Concepts (SFAC) No. 2 (FASB, 1980), which outlines relevance and reliability as key qualitative characteristics of useful financial information. Recent research expands this conceptualization in the post-IFRS environment, emphasizing transparency, comparability, and faithful representation as central to financial statement quality (Garrouch & Omri, 2024; Ebaid, 2022). In digital reporting contexts, financial statement quality is further influenced by information accessibility and real-time accuracy (Bosi et al., 2020; Mbir et al., 2020).

In this study, financial statement quality (FSQ) refers to the extent to which financial information provides a faithful representation of a firm’s financial position and performance, consistent with the IASB Conceptual Framework (2018). FSQ is characterized by relevance, faithful representation, understandability, and comparability, reflecting users’ confidence in the usefulness and reliability of reported financial information [(Dechow & Dichev, 2002; Barua, 2005; Ebaid, 2022)]. In the empirical analysis, FSQ is measured through survey items capturing these four qualitative attributes to ensure alignment between conceptual and operational definitions.

2.4 Reporting Reliability as a Concept and Measurement Construct

Reporting reliability represents the accuracy, completeness, consistency, and timeliness of information generated and disclosed by an organization. It reflects the extent to which reported data faithfully represent underlying transactions (Dechow & Dichev, 2002; Francis et al., 2004). In empirical studies, reliability has been assessed through both quantitative indicators (e.g., accrual quality, error variance) and qualitative evaluations (e.g., perceived reporting consistency and audit assurance) (Wesson et al., 2016; Ditkaew, 2018). Reliable reporting processes serve as a critical mechanism linking internal control quality to financial statement quality—ensuring that internal information integrity translates into external reporting credibility.

2.5 Theoretical Foundation

This study is grounded in Agency Theory, which posits that effective internal control systems help mitigate information asymmetry and agency conflicts between managers and shareholders (Jensen & Meckling, 1976). Strong internal controls enhance monitoring and reduce opportunities for earnings manipulation, thereby improving the reliability of financial reports. Additionally, Corporate Governance Theory supports the notion that transparent reporting mechanisms and ethical leadership strengthen investor confidence. The concept of Financial Reporting Quality further underlines that reliable, relevant, and faithfully represented information is essential for sound decision-making. Together, these theories provide a robust foundation for hypothesizing the causal links among internal control quality, reporting reliability, and financial statement quality. Signaling Theory (Spence, 1973) further supports the idea that transparent and reliable financial reporting serves as a positive signal to external stakeholders, reflecting sound internal control structures and good governance practices. Firms with strong internal control systems and reliable reporting signal integrity, reducing perceived risk among investors. Institutional Theory offers a complementary perspective explaining how organizational behavior in financial reporting is shaped by environmental pressures rather than purely technical efficiency. According to DiMaggio and Powell (1983), organizations conform to external expectations through coercive, normative, and mimetic pressures. In emerging markets like Thailand, coercive pressures arise from regulators enforcing compliance with IFRS and internal control standards; normative pressures stem from professional and auditing norms promoting transparency; and mimetic pressures drive firms to emulate best practices of leading organizations to enhance legitimacy. Integrating Institutional Theory with the COSO framework and the Conceptual Framework for Financial Reporting provides both a structural and contextual explanation—while COSO clarifies how internal control improves reporting reliability, Institutional Theory explains why firms adopt such practices to achieve legitimacy and trust in dynamic regulatory environments [(Scott, 2014; DiMaggio & Powell, 1983)].

2.6 The Link among Internal Control Quality, Reporting Reliability Financial Statement Quality and Hypothesis Development

Internal Control Quality and Reporting Reliability

Internal control systems represent the fundamental mechanism through which firms safeguard the accuracy, consistency, and completeness of financial reporting. According to the COSO (2013) framework, internal control quality (ICQ) is a multidimensional construct comprising five interrelated components: control environment, risk assessment, control activities, information and communication, and monitoring. Each dimension contributes uniquely to ensuring that financial information faithfully represents underlying transactions and conforms to regulatory and accounting standards (Moeller, 2013; Jokipii, 2010).

A robust control environment establishes an ethical culture and managerial accountability, reinforcing integrity in financial processes. Effective risk assessment mechanisms enable organizations to identify, evaluate, and mitigate potential reporting risks before they materialize. Control activities provide procedural safeguards—such as segregation of duties and authorization checks—that prevent or detect errors and irregularities. Information and communication systems ensure that relevant and timely data flow efficiently across organizational hierarchies, supporting informed financial decision-making. Meanwhile, monitoring activities continuously evaluate the performance of internal controls and facilitate corrective actions when deficiencies arise.

Empirical evidence consistently highlights the positive relationship between internal control quality and reporting reliability. Prior studies (Ditkaew, 2018; Nguyen et al., 2023) demonstrate that firms with well-structured internal controls tend to exhibit higher reporting reliability, as control mechanisms minimize reporting errors, enhance data consistency, and improve audit assurance. Theoretically, strong internal control structures reduce information asymmetry (Jensen & Meckling, 1976) and signal managerial integrity (Spence, 1973), both of which underpin reliable reporting processes. Therefore, each COSO dimension is expected to contribute positively to reporting reliability.

Hypotheses:

H1a: The control environment positively influences reporting reliability.

H1b: Risk assessment positively influences reporting reliability.

H1c: Control activities positively influence reporting reliability.

H1d: Information and communication positively influence reporting reliability.

H1e: Monitoring activities positively influence reporting reliability.

Internal Control Quality and Financial Statement Quality

Financial statement quality (FSQ) reflects the degree to which financial reports achieve the fundamental qualitative characteristics defined by the IASB (2018)—relevance, faithful representation, understandability, and comparability. High-quality financial statements enhance transparency, bolster investor confidence, and support efficient capital allocation. Prior literature consistently underscores that effective internal control mechanisms serve as a cornerstone for achieving such quality (Hoitash et al., 2008; Azzali & Mazza, 2013; Chen et al., 2018).

Internal control systems directly influence the credibility and decision usefulness of financial statements by ensuring that accounting processes are executed with integrity and adherence to standards. A strong control environment promotes ethical behavior and accountability among managers, thereby improving the reliability of reported outcomes. Risk assessment enables firms to anticipate potential misstatements, while control activities operationalize preventive measures that mitigate those risks. Likewise, effective information and communication systems facilitate the dissemination of accurate and relevant information, and continuous monitoring reinforces the corrective feedback loop essential for sustaining reporting accuracy.

Empirical findings from emerging markets suggest that internal control quality enhances financial statement quality not only by preventing misstatements but also by reinforcing compliance and transparency (Nguyen et al., 2023; Ghazali et al., 2024). Consequently, it is postulated that each dimension of internal control quality exerts a positive influence on financial statement quality.

Hypotheses:

H2a: The control environment positively influences financial statement quality.

H2b: Risk assessment positively influences financial statement quality.

H2c: Control activities positively influence financial statement quality.

H2d: Information and communication positively influence financial statement quality.

H2e: Monitoring activities positively influence financial statement quality.

The Mediating Role of Reporting Reliability

Reporting reliability (RR) captures the extent to which financial information is accurate, complete, consistent, and timely (Dechow & Dichev, 2002; Francis et al., 2004). It represents the dependability of the internal processes used to record and communicate financial data, serving as the critical conduit through which internal control mechanisms affect financial statement quality. When internal controls function effectively—particularly in the domains of risk assessment, communication, and monitoring—they promote higher reporting reliability, which in turn yields superior-quality financial statements (IASB, 2018).

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From a theoretical standpoint, reporting reliability acts as a mediating variable linking internal control quality and financial statement quality. Agency Theory posits that reliable reporting mitigates information asymmetry between managers and investors (Jensen & Meckling, 1976), while Signaling Theory suggests that reliable disclosure signals strong governance and ethical conduct to stakeholders (Spence, 1973). Empirically, studies by Nguyen et al. (2023) and Barth et al. (2008) demonstrate that the reliability of internal reporting processes enhances transparency and indirectly improves financial statement quality.

This mediating mechanism is particularly salient in emerging markets such as Thailand, where variations in governance maturity and regulatory enforcement create disparities in control effectiveness. Understanding how reporting reliability channels the influence of internal control quality onto financial statement outcomes provides both theoretical depth and practical insight for improving financial transparency.

Hypothesis:

H3: Reporting reliability mediates the relationship between internal control quality (across all five COSO dimensions) and financial statement quality.

To consolidate these theoretical linkages, the conceptual model (Figure 1) illustrates the hypothesized relationships among internal control quality (five dimensions), reporting reliability, and financial statement quality. This framework forms the foundation for the empirical testing of the proposed hypotheses.

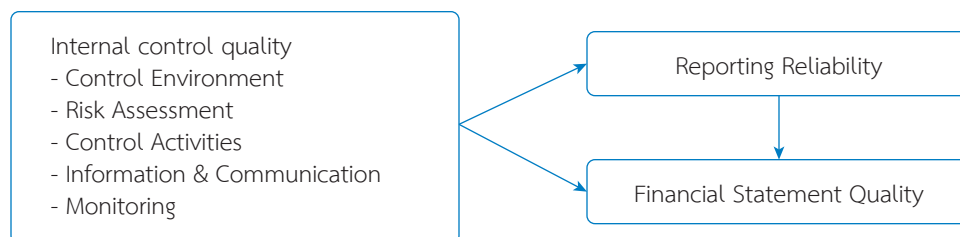


Figure 1: The Research Model Displays the Hypothesized Relationships of the Study.

The research model illustrates the hypothesized relationships among three core constructs: Internal Control Quality (ICQ) — measured through five COSO dimensions: control environment, risk assessment, control activities, information and communication, and monitoring. Reporting Reliability (RR) — reflecting the accuracy, completeness, and consistency of financial reporting processes. Financial Statement Quality (FSQ) — representing the qualitative attributes of relevance, faithful representation, understandability, and comparability.

3. METHODOLOGY

3.1 Overview

This study employed a cross-sectional survey design to examine the relationships among internal control quality, reporting reliability, and financial statement quality in the context of Thai listed firms. The research further aimed to investigate whether reporting reliability mediates the relationship between internal control quality and financial statement quality. Hypotheses were tested using multiple regression analyses and mediation procedures. Prior to the main analysis, the reliability and validity of the measures were assessed. Thailand provides a particularly relevant empirical context due to the heightened attention on corporate governance, accounting transparency, and internal control compliance among listed companies regulated by the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET). Investigating Thai firms allows for deeper understanding of how internal control mechanisms operate within an emerging market characterized by developing regulatory enforcement and varying internal audit maturity levels. Although this study employed a cross-sectional survey design, which enables efficient examination of the associations among variables, it inherently limits the ability to infer causality. Accordingly, the empirical findings should be interpreted as associational evidence with mediation logic, rather than as proof of causal mechanisms. Future studies employing longitudinal or experimental designs could further validate the directional relationships proposed in this model.

3.2 Samples

The target population comprised Thai listed companies registered on the Stock Exchange of Thailand (SET) and the Market for Alternative Investment (mai). A purposive sampling method was adopted to collect data from financial professionals who have direct involvement with financial reporting and internal controls, such as Chief Financial Officers, accounting managers, internal auditors, and financial controllers.

A purposive sampling strategy was employed to ensure that respondents possessed direct expertise in financial reporting and internal control systems. This expert-based approach aligns with the study's objective of obtaining informed judgments from individuals who are professionally responsible for the quality and reliability of financial information, such as CFOs, accounting managers, and internal auditors. Such key informants are most capable of providing valid and contextually relevant assessments of the constructs under investigation.

The inclusion of firms from both SET and mai was intended to provide a more comprehensive representation of Thailand's listed firms. Although these two markets differ in size, ownership structure, and level of internal control sophistication, both are governed under the same Securities and Exchange Commission (SEC) and Stock Exchange of Thailand (SET) regulatory framework, which prescribes consistent standards for internal control and financial reporting practices. Including both groups thus offers a

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holistic view of how internal control quality and reporting reliability operate across diverse organizational contexts within the Thai capital market. To assess potential non-response bias, early and late respondents were compared on key demographic variables (e.g., firm size, industry type, and respondent position). No statistically significant differences were observed, suggesting that non-response bias was minimal. Furthermore, the demographic characteristics of the respondents were generally consistent with those of the broader population of Thai listed firms, supporting the representativeness of the sample.

Data were collected during the period from July to October 2023 through both online and email-based surveys. Respondents were contacted using the corporate directories published by SET and through professional accounting associations in Thailand. A total of 220 companies were contacted via email and phone, with 168 completed and usable responses obtained, yielding a response rate of 76.36%. This sample size exceeded the minimum threshold recommended for multiple regression analysis with multiple predictors (Tabachnick & Fidell, 2007).

3.3 Measures

Internal Control Quality was measured using five dimensions adapted from the COSO (2013) framework: Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring.

Each dimension comprised a specific number of measurement items to ensure comprehensive coverage of its conceptual scope: Control Environment (5 items) – e.g., management integrity, ethical leadership, and organizational culture. Risk Assessment (5 items) – e.g., identification and evaluation of internal and external risks affecting financial reporting. Control Activities (4 items) – e.g., segregation of duties, authorization controls, and procedural compliance. Information & Communication (5 items) – e.g., timeliness, accuracy, and adequacy of internal reporting. Monitoring (4 items) – e.g., frequency and quality of internal control reviews and follow-up actions. All items were measured using a 7-point Likert scale (1 = strongly disagree to 7 = strongly agree).

Reporting Reliability was measured using a 7-item scale adapted from Dechow and Dichev (2002), assessing consistency, completeness, and accuracy of financial data. Financial Statement Quality was measured using 7 items based on the IASB (2018) qualitative characteristics, including relevance, faithful representation, understandability, and comparability.

Content validity was established through expert review, in which three academic experts in accounting and two practitioners evaluated the questionnaire for clarity, relevance, and coverage of each construct. Construct validity was further supported by adopting and adapting measurement items from prior validated studies [(Dechow & Dichev, 2002; Ditkaew, 2018; COSO, 2013)]. Minor revisions were made to ensure contextual fit for Thai listed firms.

3.4 Data Analysis

Descriptive statistics, reliability coefficients, and Pearson correlation coefficients were computed initially. Cronbach's alpha values above 0.70 indicated acceptable internal consistency (Nunnally, 1978). Cronbach's alpha coefficients for all constructs exceeded 0.70, indicating satisfactory reliability. However, for certain variables (e.g., internal control quality), alpha values above 0.90 were observed, which may suggest item redundancy. This potential overlap was reviewed, and the retained items were deemed theoretically distinct yet conceptually related. The awareness of this issue underscores the methodological rigor and ensures that measurement reliability does not compromise construct breadth.

To test the mediating effect of reporting reliability, this study followed the classical procedure proposed by Baron and Kenny (1986), which involves three analytical steps: Establish that the independent variable (internal control quality) significantly affects the dependent variable (financial statement quality). Demonstrate that the independent variable significantly affects the mediator (reporting reliability). Show that the mediator significantly affects the dependent variable while controlling for the independent variable. If the effect of internal control quality on financial statement quality decreases when reporting reliability is included, partial mediation is indicated. The significance of the indirect effect was further examined using the mediating test to confirm the mediating role statistically.

In addition to multiple regression analyses, Path Analysis was employed to examine the structural relationships among internal control quality, reporting reliability, and financial statement quality. This technique enables estimation of total, direct, and indirect effects within the proposed conceptual framework. The analysis was conducted following the two-step approach of Anderson and Gerbing (1988), which involves (1) assessment of the measurement model to confirm reliability and validity, and (2) estimation of the structural model to test hypothesized paths. The significance of indirect effects was further verified through Bootstrapping to provide confidence intervals for the mediating relationships. Path coefficients and standardized regression weights were interpreted to determine the magnitude and direction of effects among constructs.

Structural Equation Modeling (SEM) was considered but not selected due to the moderate sample size ($n = 168$) and the study's emphasis on examining direct and mediating relationships in a parsimonious manner. Following the classic approach of Baron and Kenny (1986) and the regression-based mediation procedure, multiple regression analysis provides sufficient analytical power and interpretability for this dataset. Moreover, the research model does not involve latent constructs with multiple indicators requiring full measurement modeling, thus making regression-based mediation appropriate.

4. RESULTS

Table 1: Descriptive Statistics, Reliabilities and Bivariate Correlations

	CE	RA	CA	IC	M	RR	FSQ
Correlation							
Control Environment (CE)	1						
Risk Assessment (RA)	0.61*	1					
Control Activities (CA)	0.58*	0.64*	1				
Information Communication (IC)	0.56*	0.59*	0.62*	1			
Monitoring (M)	0.60*	0.63*	0.65*	0.66*	1		
Reporting Reliability (RR)	0.51*	0.54*	0.57*	0.60*	0.58*	1	
F/S Quality (FSQ)	0.49*	0.53*	0.55*	0.59*	0.57*	0.73*	1
Cronbach's Alpha	0.86	0.88	0.89	0.87	0.9	0.91	0.92
Mean	5.84	5.76	5.88	5.91	5.86	5.79	5.82
Standard Deviation	0.71	0.69	0.74	0.68	0.7	0.66	0.72
Min	3.60	3.40	3.50	3.60	3.70	3.80	3.60
Max	7.00	6.90	7.00	7.00	7.00	7.00	7.00

Note: * $p < .01$ (two-tailed).

Table 1 presents the descriptive statistics, reliability coefficients, and bivariate Pearson correlations for all study variables, including the five COSO internal control dimensions, reporting reliability, and financial statement quality. The table also reports minimum and maximum values for each construct to illustrate the distributional spread of responses.

The mean scores of all constructs ranged between 5.76 and 5.91, suggesting that respondents generally perceived a high level of internal control quality, reporting reliability, and financial statement quality among Thai listed firms. The standard deviations, ranging from 0.66 to 0.74, indicate moderate dispersion of responses, implying that while perceptions were generally positive, some variation exists across firms. The minimum values (ranging approximately from 3.4 to 3.8) and maximum values (around 7.0) further confirm that the data captured the full possible range of the measurement scales. Among the five COSO dimensions, Information & Communication (IC) and Control Activities (CA) displayed the highest mean values, indicating that firms tend to emphasize effective communication processes and procedural controls. Conversely, Risk Assessment (RA) had the slightly lowest mean, suggesting that this dimension may represent an area for improvement within the internal control systems of Thai firms.

All measurement constructs demonstrated strong internal consistency, with Cronbach’s alpha coefficients ranging from 0.86 to 0.92, well above the recommended threshold of 0.70 (Nunnally, 1978). This indicates that the scale items reliably captured the intended conceptual dimensions for each construct.

The Pearson correlation matrix reveals that all relationships among the variables are positive and statistically significant at the 0.01 level, as indicated by the double asterisks (*) in Table 1. Correlation coefficients ranged from $r = 0.49$ to $r = 0.73$, reflecting moderate to strong positive associations. These findings imply that firms with stronger internal control systems tend to exhibit higher reporting reliability and superior financial statement quality. More specifically, Information & Communication (IC) and Control Environment (CE) exhibited the strongest correlations with both Reporting Reliability (RR) ($r = 0.60$ and 0.58 , respectively) and Financial Statement Quality (FSQ) ($r = 0.59$ and 0.49 , respectively). This pattern highlights the importance of ethical tone, management commitment, and transparent communication in fostering reliable and high-quality financial reporting. In contrast, other internal control dimensions such as Risk Assessment (RA) and Monitoring (M) also showed significant positive relationships with RR and FSQ but at slightly lower magnitudes, suggesting that these components play complementary rather than dominant roles in enhancing reporting outcomes.

Collectively, these correlations lend preliminary empirical support for hypotheses H1 and H2, which posit that each COSO internal control dimension positively influences both reporting reliability and financial statement quality. Furthermore, the consistently high and significant correlations among the COSO dimensions indicate that while they are interrelated, each dimension captures a distinct aspect of the internal control framework. This provides a strong justification for disaggregating internal control quality into its five individual components, as conceptualized by COSO (2013), and examining their unique contributions to financial reporting effectiveness in subsequent analyses.

Table 2: Multicollinearity Statistics for Independent Variables

Variable	Tolerance	VIF	Interpretation
Control Environment (CE)	0.42	2.37	Acceptable
Risk Assessment (RA)	0.39	2.56	Acceptable
Control Activities (CA)	0.44	2.29	Acceptable
Information & Communication (IC)	0.36	2.78	Acceptable
Monitoring (M)	0.40	2.51	Acceptable
Reporting Reliability (RR)*	–	–	–

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Prior to conducting multiple regression analysis, multicollinearity among the independent variables was examined using Tolerance and Variance Inflation Factor (VIF) values. As shown in Table 2, the tolerance values ranged between 0.36 and 0.44, and the corresponding VIF values ranged between 2.29 and 2.78, which are well below the recommended threshold of 5.0. These results indicate that there was no serious multicollinearity problem among the five COSO internal control dimensions (Control Environment, Risk Assessment, Control Activities, Information & Communication, and Monitoring). Therefore, the data are suitable for subsequent multiple regression and mediation analyses.

Table 3: Multiple Regression Results

Independent Variable	B	SE	β	t-value	p-value
Panel (1): DV = Reporting Reliability					
Control Environment	0.28	0.09	0.21	3.01	0.003**
Risk Assessment	0.31	0.09	0.24	3.47	0.001**
Control Activities	0.22	0.09	0.17	2.44	0.016*
Information & Communication	0.34	0.09	0.26	3.65	0.000**
Monitoring	0.25	0.11	0.19	2.21	0.028*
R ² = 0.48, Adjusted R ² = 0.47, F(5,731) = 62.31, p < .001					
Panel (2): DV = Financial Statement Quality (without mediator)					
Control Environment	0.23	0.11	0.18	2.12	0.035*
Risk Assessment	0.26	0.11	0.20	2.39	0.018*
Control Activities	0.21	0.10	0.16	2.08	0.039*
Information & Communication	0.29	0.10	0.23	2.89	0.004**
Monitoring	0.24	0.09	0.21	2.56	0.011*
R ² = 0.46, Adjusted R ² = 0.44, F(5,547) = 51.72, p < .001					
Panel (3): DV = Financial Statement Quality (with mediator)					
Reporting Reliability	0.63	0.06	0.65	11.23	0.000**
R ² = 0.59, Adjusted R ² = 0.58, F(6,312) = 73.16, p < .001					

Note: * $p < .05$, ** $p < .01$ (two-tailed).

B = Unstandardized Coefficient; β = Standardized Coefficient; SE = Standard Error.

Table 3 presents the results of multiple regression analyses examining the effects of the five COSO internal control dimensions on reporting reliability and financial statement quality.

Model 1 (DV = Reporting Reliability) showed that all five internal control dimensions significantly influenced reporting reliability ($p < .05$). The Information & Communication ($B = 0.34, p < .001$) dimension had the strongest effect, indicating that for every one-unit increase in information and communication effectiveness, reporting reliability increases by 0.34 units, holding other factors constant. The model explained 47% of the variance in reporting reliability (Adjusted $R^2 = 0.47$).

Model 2 (DV = Financial Statement Quality, without mediator) revealed that all internal control dimensions remained significant predictors, with Information & Communication ($B = 0.29, p = .004$) again showing the largest unstandardized coefficient. The model accounted for 44% of the variance in financial statement quality (Adjusted $R^2 = 0.44$).

Model 3 (DV = Financial Statement Quality, with mediator) demonstrated that Reporting Reliability ($B = 0.63, p < .001$) had a strong positive and statistically significant impact on financial statement quality, explaining 58% of the adjusted variance (Adjusted $R^2 = 0.58$). This substantial increase in explanatory power from Model 2 (Δ Adjusted $R^2 = +0.14$) supports the mediating role of reporting reliability, consistent with hypothesis H3.

In testing H3, the regression analysis showed that reporting reliability significantly mediates the relationship between internal control quality and financial statement quality. Specifically, when reporting reliability was entered into the model, the direct effects of the five internal control dimensions on financial statement quality decreased in magnitude, indicating that part of their influence operates through reporting reliability. This demonstrates that reliable financial reporting serves as the mechanism translating effective internal controls into improved financial statement outcomes. The mediating test confirmed the statistical significance of the indirect effect ($z = 4.12, p < 0.001$), thereby validating the mediating role proposed in H3. These findings reinforce that the reliability of reporting is not merely an outcome of strong internal controls but a crucial channel through which control systems contribute to higher-quality financial statements.

Table 4: Path Analysis

Path	Standardized β	Effect Type	p-value
ICQ → RR	0.62	Direct	<0.001
RR → FSQ	0.39	Direct	<0.001
ICQ → FSQ	0.32	Direct	<0.01
ICQ → RR → FSQ	0.24	Indirect	<0.001
Total Effect (ICQ → FSQ)	0.56	–	< 0.001

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The proposed model was tested using Path Analysis to examine both direct and indirect effects among the variables. The model demonstrated a good fit to the data ($\chi^2/df = 1.84$, GFI = 0.94, CFI = 0.96, RMSEA = 0.045), indicating satisfactory model adequacy. The results are summarized in Table X. Internal control quality exerted a significant direct effect on financial statement quality ($\beta = 0.32$, $p < 0.01$) and an even stronger indirect effect through reporting reliability ($\beta = 0.24$, $p < 0.001$). The total effect of internal control quality on financial statement quality was $\beta = 0.56$ ($p < 0.001$), confirming that reporting reliability partially mediates the relationship between the two constructs. These findings clarify the causal pathway proposed in the conceptual model, highlighting reporting reliability as the mechanism through which internal control systems enhance the overall quality of financial statements.

5. DISCUSSION

This study examined the direct and indirect effects of internal control quality on financial statement quality, emphasizing the mediating role of reporting reliability in Thai listed firms. By disaggregating internal control into the five COSO (2013) dimensions—control environment, risk assessment, control activities, information and communication, and monitoring—this research provides refined empirical evidence on how specific control mechanisms shape financial reporting outcomes. The findings demonstrate robust support for all proposed hypotheses, confirming that internal control quality enhances financial statement quality both directly and indirectly through reporting reliability.

Consistent with prior literature, the results affirm that effective internal control systems strengthen the integrity and reliability of financial reporting processes. All five COSO dimensions were found to have significant positive effects on reporting reliability (supporting H1a-H1e) and financial statement quality (supporting H2a-H2e), while reporting reliability significantly mediated these relationships (supporting H3). These findings substantiate the conceptual proposition that robust internal control structures not only prevent material misstatements and fraud but also improve the dependability of financial information disseminated to external stakeholders. This aligns with recent evidence showing that the strength of internal control mechanisms directly enhances financial report quality across diverse organizational contexts (Sem & Hastuti, 2024).

Moreover, the results reveal differential effects among the COSO dimensions, with information and communication and risk assessment emerging as the strongest predictors of both reporting reliability and financial statement quality. This suggests that timely, transparent, and well-structured communication channels, combined with proactive risk identification and mitigation, are the most crucial determinants of reporting reliability. Such findings are consistent with recent research indicating that control environment and monitoring contribute positively to financial reporting dependability in emerging market contexts (Wongjantip et al., 2025). Conversely, while control activities and monitoring remain significant, their effects are weaker when accounting for the mediating role of reporting reliability—implying that

procedural controls alone are insufficient without a strong communication infrastructure and an effective risk management framework.

From a theoretical standpoint, these results extend the application of Agency Theory and Corporate Governance Theory by empirically validating the mediating function of reporting reliability. Effective internal control systems mitigate information asymmetry between managers and investors by ensuring consistent and accurate disclosure, thereby enhancing transparency and investor confidence. The findings also reinforce the Signaling Theory perspective that reliable financial reporting signals managerial integrity and sound governance, improving perceptions of organizational accountability. Empirical evidence from recent studies demonstrates that firms with competent internal auditors and structured risk-mapping systems exhibit superior control performance and financial reporting reliability (Novatiani, 2024). Furthermore, research on mandatory internal control audits has shown that strengthening formalized internal control evaluations enhances financial reporting accuracy and forecast quality (Xia, 2024), supporting the causal chain observed in this study.

By integrating these theoretical lenses, the present findings bridge an important gap in the literature. While previous studies emphasized the importance of internal control effectiveness for financial reporting quality, few have explicitly modeled the mediating process through which such controls affect financial outcomes. This study empirically validates reporting reliability as the key mechanism linking internal control quality to financial statement quality—advancing both the conceptual precision and empirical depth of internal control research in emerging markets.

5.1 Practical Implications and Theoretical Implications

The results also provide several practical implications for corporate executives, auditors, and regulators. For managers, the evidence suggests that investing in strong information and communication systems and risk assessment processes yields the greatest improvements in financial reporting reliability and financial statement quality. Organizations should prioritize training programs and internal audits that focus on these dimensions to enhance overall governance. For regulators, the findings indicate that assessment and disclosure of internal control effectiveness should not be treated as a single construct but rather evaluated by dimension. This approach would allow the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) to design more targeted compliance policies that address specific weaknesses. For auditors and consultants, the mediating role of reporting reliability highlights the importance of testing not only the design but also the reliability of reporting processes during audit engagements. Encouraging firms to strengthen the accuracy and timeliness of internal reports could indirectly improve their financial statement quality. Collectively, these insights offer a practical roadmap for strengthening financial transparency in emerging economies like Thailand.

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The findings of this study provide several theoretical implications. First, they empirically validate the COSO (2013) internal control framework at the dimension level, demonstrating that each component exerts differential effects on both reporting reliability and financial statement quality. This contributes to the refinement of internal control theory by showing that information and communication, as well as risk assessment, play more dominant roles than other dimensions. Second, by confirming the mediating role of reporting reliability, this study extends the application of Agency Theory and Corporate Governance Theory by highlighting how effective control systems reduce information asymmetry through reliable reporting mechanisms. Third, the study contributes to the literature on financial reporting quality by empirically linking internal control effectiveness with the qualitative attributes of financial statements (relevance, faithful representation, understandability, and comparability).

The findings provide actionable guidance for organizations seeking to strengthen internal control and reporting processes. For example, in the dimension of Information and Communication, firms can enhance reporting reliability by implementing centralized digital reporting platforms that facilitate timely dissemination of accounting data and audit findings across departments. Establishing a two-way communication channel between internal auditors and top management also promotes transparency and early detection of reporting anomalies. Similarly, within the Risk Assessment dimension, firms should adopt structured risk-mapping procedures—such as periodic risk workshops or control self-assessment checklists—to systematically identify financial reporting risks. Incorporating predictive analytics or early-warning indicators can further help management anticipate control failures before they affect financial statements. The results also align closely with Thailand’s current corporate governance and reporting framework. In particular, the Securities and Exchange Commission (SEC) and the Stock Exchange of Thailand (SET) emphasize the role of the Audit Committee in overseeing internal control and ensuring the reliability of financial disclosures under the “Principles of Good Corporate Governance for Listed Companies (2017).” This study reinforces that the audit committee’s oversight should extend beyond compliance monitoring to active involvement in improving reporting reliability mechanisms, such as regular internal control evaluations and cross-functional communication reviews. By integrating the study’s findings with regulatory expectations, firms can not only strengthen compliance but also enhance stakeholder trust and market credibility.

6. CONCLUSION

In summary, this study contributes to a deeper understanding of the mechanisms through which internal control quality enhances financial reporting outcomes. By demonstrating that reporting reliability mediates the relationship between dimension-level internal controls and financial statement quality, the research fills important theoretical gaps and provides actionable insights for practitioners and policymakers. These findings underscore the importance of a granular, systems-based approach to internal control design and evaluation, particularly in the context of emerging economies striving to improve financial transparency and investor confidence. This research contributes both theoretically and practically. From a theoretical standpoint, it advances understanding of how internal control systems—particularly through reporting reliability—affect financial statement quality, thereby integrating the COSO framework with the IASB conceptual model. From a practical perspective, the results highlight specific control areas that firms should strengthen to achieve more reliable and transparent reporting.

6.1 Limitations

This study has several limitations that should be acknowledged. First, the use of self-reported data from financial professionals may introduce common method bias, despite efforts to ensure confidentiality and item clarity. Second, the cross-sectional design restricts the ability to infer causality; longitudinal or experimental designs could provide more robust insights into temporal relationships. Third, the sample is limited to Thai listed firms, which may constrain the generalizability of the findings to other emerging markets or different regulatory contexts.

6.2 Strengths and Contributions

Despite these limitations, the study possesses notable strengths. It is among the few to conduct a dimension-level analysis of COSO internal controls in an emerging market setting. Furthermore, by adopting the IASB conceptual framework for financial statement quality and integrating reporting reliability as a mediating construct, the research delivers theoretical innovation and empirical clarity. The use of validated scales and rigorous statistical methods further enhances the study's internal validity.

6.3 Future Research Directions

Future research could build on these findings by exploring industry-specific differences in internal control implementation and effectiveness. Longitudinal studies could better capture the dynamic nature of control systems and their influence over time. Additionally, incorporating qualitative approaches could enrich understanding of contextual factors that influence control and reporting practices, such as organizational culture, leadership behavior, or regulatory interactions. Future studies might also examine moderating variables, such as firm size, auditor quality, or governance structure, to further unpack the conditions under which internal controls are most effective.

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Recommendations for Practice Include:

- (1) Firms should implement systematic communication channels between finance and internal audit departments to ensure timely and accurate information flow;
- (2) Management should conduct regular risk assessments focused on reporting accuracy; and
- (3) Regulators should encourage firms to disclose dimension-level evaluations of internal controls to enhance investor confidence.

These findings underscore the importance of designing internal control systems not only for compliance but also for improving the reliability and quality of financial information used by stakeholders.

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