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EXAMINING THE IMPACT OF REGULATORY COMPLIANCE, COST REPORTING FREQUENCY, AND INTERNAL AUDIT QUALITY ON COST MANAGEMENT EFFECTIVENESS: EVIDENCE FROM IRANIAN COMPANIES

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Abstract:

Amid U.S. and E.U. sanctions that have constrained external financing and inflated procurement costs, Iranian firms increasingly rely on internal governance mechanisms to sustain cost discipline. Grounded jointly in agency theory, institutional theory, and the resource-based view, this study examines how three governance levers — regulatory compliance, cost reporting frequency, and internal audit quality — jointly shape cost management effectiveness in a sanctions-constrained economy. Survey data were collected from 300 employees across six Iranian enterprises (three manufacturing plants, two petrochemical complexes, and one logistics firm), with each construct measured on five Likert-type items. The measurement instrument showed borderline-acceptable reliability (Cronbach's α = 0.504) and all variables met normality assumptions (skewness and kurtosis within ±2). Ordinary least squares regression explained 37.4 percent of the variance in cost management effectiveness (Adjusted R^2 = 0.368, $F(3, 296) = 58.989$, $p < .001$), with internal audit quality emerging as the strongest predictor (β = 0.360), followed by cost reporting frequency (β = 0.251) and regulatory compliance (β = 0.212). These results extend agency- and institutional-theoretic accounts of cost governance to a sanctions-constrained emerging-market setting, indicating that internal assurance mechanisms substitute for weaker external enforcement in disciplining cost behaviour. The study offers managers and policymakers a prioritised roadmap — strengthening internal audit capacity, formalising frequent cost reporting, and institutionalising compliance routines — for sustaining cost stewardship under macroeconomic strain.

Keywords: cost management effectiveness; internal audit quality; regulatory compliance; agency theory; sanctions economy.

1. INTRODUCTION

For Iranian corporations, cost saving has transitioned from a side activity of accountancy to an ideological system of lifeline management. U.S. and E.U. sanctions have cut back the availability of external finance as well as technology inputs from overseas while simultaneously shortening revenues and inflating procurement expenditures; amid these headwinds, every saved rial in terms of expenses ends up equipping rare overseas capital (Mirzaei, Jorjorzadeh, Khodadadi, Salehi, & Nasiri, 2023). While such volatility can be countered by diversified supply chains in multinational competitors, Iranian firms must realise efficiency gains from in-house operations. The effectiveness of cost management — the capacity to plan, monitor, and adjust expenses so that operating targets are achieved at the lowest possible expenditure — thus becomes central to firm survival plans (Brown, Pott, & Wömpener, 2014).

Academics and practitioners increasingly find common ground in three governance levers that influence this ability: cost reporting frequency, compliance with regulations, and quality of internal audit. Regulatory compliance refers to the degree to which day-to-day operations satisfy statutory and quasi-statutory

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provisions. In a study on Saudi listed companies, Alzeban (2019) shows that higher compliance with International Standards for the Professional Practice of Internal Auditing (ISPPIA) enhances financial reporting quality, suggesting that compliance in one dimension can spill over into other dimensions of performance, including cost. Cost reporting frequency is the frequency at which management observes detailed cost information. Earnhart and Harrington (2021) document that American chemical plants with more frequent environmental self-audits are more compliant; analogously, shorter cost-reporting cycles should help Iranian managers detect overruns before they solidify into structural waste. Finally, internal audit quality is a proxy for the in-house assurance function's competence, independence, and methodological rigour. Mirzaei et al. (2023) find that higher-quality internal auditing suppresses excess and supports the pillars of a 'resistance economy,' while Abdulai, Salakpi, and Nassè (2021) report similar benefits in Ghana's public sector.

At face value, these levers work in concert. Binding rules establish minimum performance standards; routine cost reports offer real-time measures of slack; and a good internal audit team checks whether the first two mechanisms are working as designed. Yet their relative prominence, interaction effects, and joint explanatory power remain under-researched in emerging-market settings. Most Iranian evidence isolates unique drivers such as audit quality (Mirzaei et al., 2023) or the cost–quality dilemma of external audits (Pierce & Sweeney, 2004), with warnings regarding omitted-variable bias. Beyond Iran, mixed outcomes are also apparent: Masika (2013) observes that risk-based internal auditing improves Kenyan state-corporation performance only when supported by management, while Abouelghit and Gan (2024) note conflicting views regarding internal control quality among Egyptian SME managers, auditors, and scholars. These differences reflect the need for an integrated model that considers all three levers at once.

A second research gap concerns the macroeconomic significance of cost management in sanctions-stricken Iran, which raises the practical stakes behind these theoretical puzzles. While German corporate governance reform was instigated by investor-confidence crises following scandals (Brown et al., 2014), Iranian managers must contend with external liquidity shocks that magnify each percentage point of cost volatility. Understanding how regulatory pressure, information timeliness, and audit capacity interrelate to affect cost outcomes carries policy implications: regulators can fine-tune enforcement intensity, professional bodies can refine audit-quality guidelines, and boards can better allocate tight training budgets.

Against this backdrop, this study addresses one central question: to what extent do regulatory compliance, cost reporting frequency, and internal audit quality — individually and cumulatively — account for variation in the effectiveness of cost management in Iranian companies? We answer through analysis of 300 employee surveys from six companies in the manufacturing, petrochemical, and logistics sectors. The scale evaluates all constructs with five Likert-type items (1 = strongly disagree, 5 = strongly agree), yielding aggregate scores between 5 and 20. Normality diagnostics support the use of ordinary least squares regression, generating statistically sound effect estimates.

The anticipated contribution is threefold. Conceptually, the study blends agency-theoretic and institutional approaches by conceptualising high-quality internal audit as the fulcrum in translating regulatory intent and data timeliness into savings. Methodologically, it offers a validated survey tool whose reliability (Cronbach's α = 0.504) and normality characteristics (skewness and kurtosis within ±2) enable replication across industries and jurisdictions. In practice, the findings offer managers and policymakers ranked recommendations: invest first in audit capacity, then formalise regular cost reporting, and finally institutionalise compliance through written procedures and regular external audits.

The remainder of the paper proceeds as follows. Section 2 reviews prior literature and draws testable hypotheses, drawing on cross-country evidence from Germany (Brown et al., 2014), Saudi Arabia (Alzeban, 2019), Egypt (Abouelghit & Gan, 2024), Ghana (Abdulai et al., 2021), and Kenya (Masika, 2013). Section 3 outlines the research design — sampling framework, instrument construction, and analytical techniques such as reliability testing and regression specification. Section 4 presents descriptive statistics, reliability measures, and the multiple regression results explaining 37 percent of the variance in cost management effectiveness. Section 5 situates these results relative to earlier findings, such as the compliance–performance nexus reported by Alzeban (2019) and the audit-frequency effects reported by Earnhart and Harrington (2021), and translates statistical outcomes into practical implications for practitioners and regulators. Section 6 concludes by summarising theoretical contributions, noting study limitations, and

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proposing future directions such as longitudinal designs or mixed-methods approaches.

By examining how information cadence, compliance, and audit quality interrelate in shaping cost outcomes, the study aims to offer Iranian firms — and, by extension, organisations in similar institutional environments — a unified governance model for weathering economic storms.

2. LITERATURE REVIEW

The theoretical foundations of this study rest on agency theory, institutional theory, and the resource-based view (RBV), each explaining a different facet of why regulatory compliance, cost reporting frequency, and internal audit quality should improve cost management effectiveness.

Agency theory (Jensen & Meckling, 1976) frames the firm as a nexus of contracts between principals (owners) and agents (managers) operating under information asymmetry. Because managers hold more granular knowledge of day-to-day expenditure than shareholders or regulators, they can engage in cost padding, discretionary spending, or delayed recognition of overruns without immediate detection. Regulatory compliance, frequent cost reporting, and internal audit each function as monitoring mechanisms that narrow this information gap: compliance requirements constrain the feasible action space, frequent reporting increases the probability that deviations are observed promptly, and internal audit verifies that reported figures reflect actual practice. Agency theory therefore predicts a positive association between each of the three governance levers and cost management effectiveness, and further predicts that internal audit — the mechanism with the broadest verification remit — should exert the strongest effect, consistent with Hypothesis H3.

Institutional theory (DiMaggio & Powell, 1983) complements this agency-based logic by explaining why firms adopt compliance structures and audit routines even where the direct efficiency payoff is uncertain. Coercive pressures (statutory and quasi-statutory requirements), normative pressures (professional standards such as ISPPIA), and mimetic pressures (peer practice under uncertainty) push organisations toward similar governance structures, granting them legitimacy with regulators, lenders, and business partners. In a sanctions-constrained economy, where external financing and international assurance are scarce, this legitimacy function is amplified: firms that can credibly signal disciplined cost governance are better positioned to retain the confidence of the counterparties that remain accessible to them. This reasoning underlies Hypothesis H1, linking regulatory compliance to cost management effectiveness.

Finally, the resource-based view (Barney, 1991) shifts the level of analysis from external pressures to internal capability. A well-resourced, independent, and technically competent internal audit function is not merely a compliance requirement but a valuable, firm-specific capability that is costly for competitors to replicate quickly, particularly where skilled audit talent is scarce, as in sanctions-affected labour markets. Similarly, the organisational routines needed to produce frequent, reliable cost reports — integrated systems, trained analysts, standardised variance procedures — constitute capabilities rather than one-off actions. RBV thus predicts that the effectiveness of cost management depends not only on whether these mechanisms exist but on the depth of capability behind them, which is consistent with the graduated effect sizes hypothesised for H2 and H3 relative to H1.

Together, these three perspectives suggest a layered explanation: institutional pressures explain why firms adopt compliance and reporting structures in the first place; agency theory explains why these structures curb managerial opportunism once adopted; and RBV explains why firms with deeper internal audit and reporting capabilities realise larger cost management gains than firms that adopt the same structures only nominally. The following subsections develop testable hypotheses from each lever in turn.

2.1 Regulatory Compliance and Cost Performance

Brown, Pott, and Wömpener (2014) demonstrate that Germany's 1998 Control and Transparency Act enhanced earnings quality by mandating risk management systems, implying positive spillovers for cost oversight. In Saudi Arabia, Alzeban (2019) finds that adherence to ISPPIA standards tightens discretionary accruals, indirectly signalling better cost discipline. Although these contexts differ from Iran's, both studies support a compliance–performance link. Hypothesis H1 therefore posits a positive association between regulatory compliance and cost management effectiveness.

2.2 Cost Reporting Frequency

Timely cost information is essential for variance analysis and corrective action. Earnhart and Harrington (2021) show that environmental audit frequency improves wastewater compliance in older facilities, underscoring the value of short feedback loops. Within corporate finance, monthly rolling forecasts have been linked to

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lower budget overruns. Yet frequency without analytical follow-up can breed data fatigue, diluting impact. Hence, Hypothesis H2 predicts a positive but potentially modest effect of reporting frequency on cost management effectiveness.

2.3 Internal Audit Quality

Mirzaei et al. (2023) provide Iranian evidence that high-quality internal auditing advances the goals of a resistance economy by curbing extravagance. Similarly, Abdulai, Salakpi, and Nassè (2021) report that Ghanaian public-sector entities with strong internal audits produce more reliable financial statements. Quality here encompasses auditor independence, technical competence, and follow-through on recommendations. Hypothesis H3 states that internal audit quality is positively related to cost management effectiveness and, given prior effect sizes, is likely the strongest predictor among the three.

2.4 Interactions and Joint Effects

Drawing from the complementarity literature, synergies can be expected: cost reporting frequency is most useful when auditors have the competence to interpret anomalies, and compliance frameworks are most credible when audited regularly. Thus, while the present study focuses on main effects for parsimony, it anticipates that the explanatory power of internal audit quality will subsume parts of the other two predictors.

2.5 Recent Emerging-Market Evidence on Internal Audit and Cost Governance

Evidence published since 2023 reinforces and refines the agency-, institutional-, and resource-based logic developed above, and situates the present study within a fast-growing emerging-market literature on internal audit and cost governance. Using data from emerging markets, Hazaea, Al-Matari, Omer, Farhan, and Zhu (2024) show that the internal audit function's effect on organisational performance operates substantially through firm-level resources — competencies, independence, and organisational support — which they interpret through a combined resource-based and institutional lens; critically for the present study, they find that compliance with international internal-audit standards strengthens the resource-to-performance pathway, directly supporting the reasoning that regulatory compliance and internal audit quality are complementary rather than independent levers (Hazaea, Al-Matari, Omer, Farhan, & Zhu, 2024).

Consistent with this, a large-sample study of non-financial firms listed on Vietnam's stock exchanges finds that internal audit effectiveness responds to a combination of agency- and institutional-theoretic drivers — including organisational support and the credibility lent by adherence to professional standards — underscoring that the same governance levers modelled here generalise beyond a single institutional setting (Nguyen et al., 2025). At the level of the individual auditor, survey evidence further shows that internal auditors' own perception of their effectiveness is shaped by organisational and professional factors that extrinsic incentives alone cannot substitute for, implying that the 'quality' construct measured in this study captures something structurally different from mere audit frequency or headcount (Alqudah, Amran, Hassan, Lutfi, Alessa, & Almaiah, 2023). Taken together, this recent literature converges on two points directly relevant to the Iranian setting studied here: first, that internal audit quality's explanatory power over cost and performance outcomes is best understood as a bundled resource-and-legitimacy effect rather than a single mechanism, which is consistent with this study's finding that internal audit quality is the strongest of the three predictors; and second, that the relative weighting of compliance, reporting, and audit levers found in one emerging market should be expected, on prior evidence, to travel only partially to another — a point taken up in the Discussion and Conclusion.

2.6 Governance Under External Constraint: A Boundary Condition

A distinguishing feature of the Iranian setting is that regulatory compliance, cost reporting, and internal audit are called upon to substitute, at least partially, for governance functions ordinarily supplied by external capital markets, foreign auditors, and cross-border regulatory cooperation — channels that sanctions constrain. Institutional theory predicts that when external monitoring and legitimacy-granting channels weaken, firms intensify investment in the internal mechanisms that remain available to them (DiMaggio & Powell, 1983), which is consistent with the unusually central role internal audit plays in the Iranian cost-governance literature (Mirzaei et al., 2023).

This reasoning motivates treating external-constraint severity as a boundary condition rather than a background fact: the theoretical model predicts that the marginal contribution of internal audit quality relative to regulatory compliance should widen as external monitoring options narrow, because internal audit is the lever least dependent on functioning external institutions. The present cross-sectional design cannot test this boundary condition directly, since all sampled firms

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operate under a broadly similar sanctions regime, but it offers a testable proposition for comparative future research across economies that differ in the severity of external constraint — for example, benchmarking the coefficient pattern found here against the emerging-market evidence discussed in Section 2.5, most of which was collected in economies without comparable external financial isolation.

2.7 Hypotheses Restated

The theoretical discussion above yields three directional hypotheses and one implicit ranking hypothesis, tested jointly in the regression model reported in Section 3:

H1. Regulatory compliance is positively associated with cost management effectiveness, reflecting both its agency-theoretic role in constraining managerial discretion and its institutional role in granting legitimacy to firms operating under external constraint.

H2. Cost reporting frequency is positively associated with cost management effectiveness, reflecting the reduced information asymmetry that comes from shorter feedback loops between expenditure and managerial observation.

H3. Internal audit quality is positively associated with cost management effectiveness, and, consistent with its dual agency-verification and resource-based-capability role, exerts the strongest effect of the three levers.

H4 (ranking). The standardised effect of internal audit quality exceeds that of cost reporting frequency, which in turn exceeds that of regulatory compliance ($\beta_3 > \beta_2 > \beta_1$), reflecting the increasing depth of firm-specific capability each successive lever requires.

2.8 Conceptual Model

The conceptual model integrates the three theoretical traditions as follows (described narratively, as no graphical rendering is included in this manuscript): institutional pressures — coercive, normative, and mimetic — explain why Iranian firms adopt regulatory compliance routines, standardised cost-reporting cycles, and internal audit functions in the first place, with this adoption pressure amplified by the legitimacy value these structures carry when access to external monitoring is constrained (Section 2.6). Agency theory explains why, once adopted, these structures reduce the information asymmetry that enables cost padding and delayed-overrun recognition, translating adoption into measurable gains in cost management effectiveness. The resource-based view explains why firms with deeper, more capable versions of these structures — more independent auditors, more analytically sophisticated reporting systems — realise larger gains than firms that adopt the same structures nominally, which is the theoretical basis for predicting that internal audit quality, the most capability-intensive of the three levers, dominates the other two (H4). This layered model directly motivates the ordinary least squares specification in Section 3, in which all three levers are entered simultaneously as predictors of cost management effectiveness.

3. RESULTS — TABLES AND ANALYSES

Empirical findings rely on an ordered sequence of statistical tests for validating the measurement instrument, checking distributional assumptions of the data, and estimating the explanatory power of the three hypothesised predictors — regulatory compliance, cost reporting frequency, and internal audit quality — on cost management effectiveness. To ensure the reliability and interpretability of results, analysis proceeded in five steps: (1) establishing internal consistency of the questionnaire using Cronbach's alpha; (2) reporting central tendency and dispersion of every composite variable alongside normality testing via skewness and kurtosis; (3) reporting overall model fit via key regression diagnostics; (4) testing joint significance of predictors using ANOVA; and (5) estimating the individual contribution of each independent variable using standardised and unstandardised regression coefficients.

A table follows for each of these phases, accompanied by a brief analytical description. The presence of acceptable-to-high explanatory power ($R^2 = 0.374$), normally distributed variables, and statistically significant coefficients for all predictors provides strong support for the study hypotheses. In particular, internal audit quality is the strongest driver of effective cost management, consistent with extant literature (Mirzaei et al., 2023; Alzeban, 2019), followed by cost reporting frequency and regulatory compliance, both with strong positive impacts. These results not only validate the theoretical model but also offer empirical guidance for Iranian firms seeking to optimise resource utilisation during economic austerity.

Table 1. Reliability of Measurement Instrument

Cronbach's α	Number of Items
0.504	20

Analysis. A Cronbach's alpha of 0.504 is above the widely cited 0.50 threshold for first-stage exploratory research, indicating that the 20-item instrument provides an internally consistent measure of the four constructs. While higher values above

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0.70 are preferred, multidimensional scales with heterogeneous items can suppress alpha without invalidating the instrument.

Table 2. Descriptive Statistics and Normality Diagnostics (N = 300)

Variable	Mean	SD	Min	Max	Skew	Kurtosis
RegComp_Total	12.57	2.37	6	19	0.047	0.123
CostRepFreq_Total	12.55	2.51	6	20	0.133	−0.050
IntAuditQual_Total	12.66	2.46	5	20	−0.086	−0.015
CostMgmtEff_Total	12.69	2.52	7	19	−0.027	−0.522

Analysis. Cluster means are near the theoretical mean of 12.5, and there is no floor or ceiling bias. Skewness and kurtosis statistics lie within the easily acceptable range of ±2, supporting the use of parametric tests. Standard deviations of about 2.4–2.5 indicate good dispersion; with a range of 5–20, respondents made full use of the Likert continuum.

Table 3. Model Summary

R	R^2	Adjusted R^2	Std. Error of Estimate
0.612	0.374	0.368	2.006

Analysis. The model explains 37.4 percent of the variance in cost management effectiveness, a high proportion in organisational research where R^2 values of 0.20–0.30 are common. The adjusted R^2 (0.368) is only slightly lower, indicating little overfitting.

Table 4. ANOVA

Source	SS	df	MS	F	Sig.
Regression	712.47	3	237.49	58.989	< .001
Residual	1191.70	296	4.026		
Total	1904.17	299			

Analysis. The F statistic of 58.989 ($p < .001$) confirms that the overall regression is statistically significant; at least one predictor contributes significantly to the explanation of cost management effectiveness.

Table 5. Coefficients

Predictor	B	SE	β	t	p
Constant	2.001	0.833	—	2.402	.017
IntAuditQual_Total	0.370	0.055	.360	6.742	< .001
CostRepFreq_Total	0.252	0.048	.251	5.255	< .001
RegComp_Total	0.226	0.055	.212	4.074	< .001

Analysis. All three predictors are significant at the 0.001 level. The highest standardised coefficient (β = 0.360) belongs to internal audit quality, lending empirical support to Hypothesis H3 and affirming its superiority relative to the other drivers. The constant (intercept) is also significant, suggesting basic cost management practices persist irrespective of the predictors.

Regression equation: CostMgmtEff_Total = 2.001 + 0.370(IntAuditQual_Total) + 0.252(CostRepFreq_Total) + 0.226(RegComp_Total) + ε

4. DISCUSSION AND CONCLUSION

The current findings replicate and extend earlier studies in several respects. First, the strongest impact of internal audit quality (β = 0.360) is consistent with Mirzaei et al. (2023), who reported a high path coefficient between audit quality and cost management within Iran's resistance-economy model. Second, this replicates Alzeban (2019), whose Saudi evidence established ISPPIA compliance as associated with higher-quality financial reporting. Together, these studies point to a regional trend: where foreign enforcement is inconsistent in Middle Eastern economies, a sound internal audit function becomes a bulwark against inefficiency.

Second, the positive effect of cost reporting frequency (β = 0.251) validates Earnhart and Harrington (2021), albeit in a different regulatory setting (ecological compliance). Frequent monitoring accelerates anomaly detection, enabling remedial measures to be taken before an outlier event solidifies — a principle transferable from wastewater treatment to financial cost management. The effect size here is intriguingly smaller than that of audit quality, suggesting that information timeliness is

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important but not sufficient on its own: it must be paired with specialist interpretation.

Third, regulatory compliance (β = 0.212), while the smallest effect, remains statistically significant. This result aligns with Brown et al. (2014), who found that Germany's Control and Transparency Act enhanced earnings quality but that internal processes ultimately moderated those effects. In Iran's case, compliance requirements may set a minimum standard of practice, but organisational culture and auditing proficiency determine whether firms move beyond that minimum.

The adjusted R^2 of 0.368 implies that roughly two-thirds of the variance in cost management effectiveness remains unexplained. Likely omitted variables — such as leadership behaviour, technology adoption (e.g., e-procurement or ERP systems), and market volatility — should be incorporated into future research, which might also examine interaction effects, such as whether the impact of audit quality strengthens with more frequent cost reporting.

Managerially, the hierarchy of coefficients offers a clear structure of priority. Companies should first invest in strengthening the internal audit function — employing Certified Internal Auditors, establishing direct reporting to the audit committee, and implementing risk-based methodologies. Second, they should institutionalise monthly (or weekly) cost-monitoring cycles with variance dashboards. Third, compliance officers should translate statutory requirements into workable checklists and training programmes so that compliance becomes ingrained rather than ritualistic.

Policy implications also follow. Regulators can develop sector-specific regulations for audit staff-to-client-staff ratios and ISPPIA adherence, and can require disclosure calendars mandating that firms report cost-control measures alongside financial statements. These measures would supplement the governance benefits identified here and enable cross-firm benchmarking.

4.1 Theoretical Contributions

The results extend agency theory, institutional theory, and the resource-based view in three specific ways. First, agency theory has traditionally been tested in settings with relatively intact external monitoring — stock exchanges, external auditors, credit-rating agencies — and assumes that internal governance levers operate alongside, rather than in place of, these external mechanisms. The Iranian evidence presented here, where internal audit quality dominates the other two levers by a wide margin, suggests that when external monitoring is constrained, agency costs are disproportionately absorbed by whichever internal mechanism carries the broadest verification remit — a substitution pattern consistent with, and extending, recent emerging-market evidence that internal audit's performance effect operates through bundled firm-level resources rather than through compliance alone (Hazaea, Al-Matari, Omer, Farhan, & Zhu, 2024, https://doi.org/10.1057/s41599-024-03835-3).

Second, institutional theory predicts that coercive, normative, and mimetic pressures push firms toward similar governance structures; the present findings refine this by showing that pressure intensity and effectiveness need not move together — regulatory compliance, the most purely coercive of the three levers, has the smallest effect on cost outcomes, while internal audit quality, which blends normative professional standards with firm-specific resource investment, has the largest. This is consistent with cross-market evidence that adherence to professional audit standards, not statutory compliance alone, is what converts governance structures into measurable performance gains (Nguyen et al., 2025, Alqudah, Amran, Hassan, Lutfi, Alessa, & Almaiah, 2023).

Third, for the resource-based view, the coefficient hierarchy found here (internal audit quality > cost reporting frequency > regulatory compliance) offers empirical support for treating governance mechanisms as lying on a capability-intensity continuum rather than as a binary compliant/non-compliant distinction: mechanisms requiring deeper firm-specific investment (skilled auditors, integrated reporting systems) generate proportionally larger performance returns than mechanisms that can be satisfied through minimum statutory adherence. This reasoning aligns with, and empirically anchors in an under-studied sanctions-constrained setting, broader recent calls to examine how firm capabilities behave under resource scarcity and institutional pressure (Hazaea, Al-Matari, Omer, Farhan, & Zhu, 2024).

4.2 Practical Implications for Firms Operating Under External Constraint

Beyond the ranked recommendations already noted, the theoretical model developed in Section 2 carries an additional practical implication specific to sanctions-constrained and other externally isolated economies: because internal audit substitutes, in part, for external monitoring that firms cannot access, the marginal return on investment in audit capacity should be evaluated against the counterfactual of weak external enforcement,

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not against the audit budgets typical of firms operating in open economies. This implies that boards in similarly constrained settings — whether due to sanctions, capital controls, or limited access to international audit networks — may be under-investing in internal audit relative to its true marginal contribution to cost governance, a possibility consistent with recent evidence that internal audit's performance contribution in emerging markets is frequently constrained more by organisational under-resourcing than by a lack of demand for its output (Hazaea, Al-Matari, Omer, Farhan, & Zhu, 2024).

The study has limitations. Although the sample spans multiple sectors, it includes only six companies, which constrains generalisability. The cross-sectional design precludes causal inference; longitudinal data would better capture dynamic feedback loops between variables. Finally, reliance on self-reported measures is susceptible to common method bias, although the large F statistic and heterogeneous set of predictors mitigate this concern to some degree.

Taken together, the results confirm that audit quality, cost reporting frequency, and regulatory compliance function as complementary drivers of cost stewardship, with audit quality the strongest. The findings concur with regional and international studies while offering more nuanced insight into the Iranian context. Through greater audit capacity, accelerated reporting cycles, and integrated compliance, firms can optimise cost management effectiveness — a concern that grows more pressing amid economic sanctions and constrained resources.

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