The Role of Internal Audit and Internal Control on the Quality of Financial Reports at PT. ABC

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**ABSTRACT**  
The quality of financial reports is a measure of the extent to which a company's financial reports meet various characteristics and attributes that are considered important. In this research, the author uses a quantitative research approach. It has the systematic nature of field research. The types of data for this research are primary data and secondary data. The main data in this research was taken directly from distributing questionnaires to PT. ABC. The population in this observation is all employees at PT. ABC as many as 125 people. The sample selection technique used in this research was a saturated sample or the entire population was sampled, namely 125 people. However, when distributing the questionnaire to 125 samples, only 120 people received answers, so only 120 samples were used in this research. The research results state that internal audit and internal control have a partial and simultaneous effect on the quality of financial reports.  

**Keywords:** Internal audit, Internal control, Quality of financial reports

**INTRODUCTION**  
Every company, regardless of its size, requires financial reports. Financial reports are written documents that reflect the financial activities of a company over a specific period, usually a year (Amalia & Laksito, 2014). These reports depict the financial condition, operational performance, and changes in the financial position of the company during that period. Financial reports are a crucial tool in communicating financial information to various stakeholders, including shareholders, potential investors, creditors, regulators, and internal management (Erliza, 2019). These reports constitute the core of the company
Quality of Financial Reports

Therefore, companies must ensure that the quality of their financial reports is in a good position or in accordance with applicable regulations (Rahutami & Amalia, 2014).

The quality of financial reports is a measure of how well a company's financial reports meet various characteristics and attributes considered essential (Rahmawati et al., 2018). The quality of financial reports is crucial because they provide the basis for financial and investment decision-making (Pramudityo, 2017; Roychowdhury et al., 2019). Accurate, clear, and transparent reports assist shareholders and investors in assessing the company's performance and measuring investment risks. On the other hand, inaccurate or manipulative reports can lead to distrust and have a negative impact on the company's reputation. Financial regulators and supervisory bodies often play a role in regulating the preparation and disclosure of company financial reports (Park & Kim, 2020; Sarmento Giam & Budiarso, 2021). Internationally recognized accounting standards, such as the International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP) in the United States, serve as guidelines for preparing globally comparable financial reports. In an increasingly complex and dynamic business environment, company financial reports have become an increasingly important tool to maintain transparency, accountability, and stakeholder trust (Di Vaio et al., 2022; Windiastuti, 2013).

Based on the interview conducted by the researcher with one of the employees working at PT. ABC, he stated that the issues occurring in the office are usually related to human resources, such as employees being less focused on their work. Additionally, some employees may not fully understand the Standard Operating Procedures (SOP), and this is a concern as it could potentially affect the quality of financial reports, especially in the finance department. The quality of financial reports can be influenced by factors such as the role of internal audit in the company to examine financial reports before publication and the internal controls implemented by the company's managers.

Internal audit is an independent function within an organization or company responsible for evaluating and auditing the company's activities, procedures, and internal controls (Abiodun, 2020; Rahmawati et al., 2018). The main purpose of internal audit is to ensure that the company operates efficiently, effectively, and in accordance with established policies and standards, minimizing potential risks and violations (Lestari & Dewi, 2020; Salih & Flayyih, 2020). Internal audit also checks the company's compliance with established policies and procedures, including applicable accounting standards, ensuring that financial reports are prepared in accordance with the regulations (Kaawaase et al., 2021; Munggaran & Yusuf, 2020). Furthermore, internal audit helps identify potential risks and issues in the accounting and reporting processes, providing improvement recommendations to management (Manita et al., 2020). Through careful and independent internal auditing, the company can enhance transparency in financial report preparation, improve its credibility in the eyes of external stakeholders, and support more informed decision-making.

Internal control aims at managing and securing assets, preventing or detecting unauthorized acquisition, use, and placement, managing detailed records to protect accurate and fair asset reporting, providing accurate information and preparing financial reports in accordance with established standards, promoting and improving operational efficiency, promoting compliance with established management policies, and compliance with applicable laws and regulations (Romney and Paul, 2019). Internal control plays a crucial role in enhancing the quality of a company's financial reports (Erfiansyah & Kurnia, 2018). These control functions are designed to ensure that all financial transactions are accurately and appropriately recorded and to avoid the risk of errors or fraud (Diani, 2014).

This research aims to determine whether internal audit and internal control play a role in creating good-quality financial reports for PT. ABC. PT. ABC is a bank that operates based on Sharia principles, not providing services in payment transactions, and is located in Aceh. Previous studies, such as (Pramudityo, 2017), state that internal audit does not affect the quality of financial reports, but internal control plays a significant role in
improving the quality of financial reports. Research conducted by (Akhmad & Syarifudin, 2014) also states the same, where internal audit cannot improve the quality of financial reports, and internal control plays a crucial role in enhancing internal control.

LITERATURE REVIEW
Quality of Financial Reports
According to Samryn (2012:30), in general, financial statements encompass summaries describing the financial position, business results, cash flows, and equity changes of an organization over a specific period. Each summary is presented in its own format separately. The summary of the financial position is reflected in the financial statement called the balance sheet. This report summarizes the status or position of resources at a specific point in time. The business results are reflected in the income statement, and the summary of cash flows indicates the sources and uses of cash.

The quality of financial statements is the end result of a series of accounting activities that occur during a financial reporting period (Ali et al., 2019; Fuadi et al., 2022). Financial statements are expected to present information that meets several important criteria (Vitolla et al., 2020). First, the information must be understandable, meaning it is presented in a form and technical language suitable for the user's level of understanding. Second, the information must be relevant to its utilization objectives; if irrelevant, the information becomes meaningless. Third, the information must be reliable, free from misleading interpretations and material errors, making it dependable in decision-making. Fourth, the information must be comparable, both with previous information within the same company and with similar companies over the same period. Fifth, the information must be neutral, intended for the general purpose of users without bias toward specific parties. Sixth, financial statements must be presented in a timely manner to be used as a basis for the company's decision-making needs. Seventh, the information must be complete, presenting all essential financial facts without misleading the reader. By meeting these criteria, financial statements can be considered of high quality and positively contribute to the company's decision-making process.

Internal Audit
According to Sawyer (2005:10), internal audit is a systematic and objective assessment conducted by internal auditors on various operations and controls within an organization to determine whether (1) financial and operational information is accurate and reliable; (2) the risks faced by the company have been identified and minimized; (3) external regulations as well as acceptable internal policies and procedures have been followed; (4) satisfactory operational criteria have been met; (5) resources have been used efficiently and economically; and (6) organizational objectives have been achieved effectively – all done with the purpose of consulting with managers and assisting members of the organization in fulfilling their responsibilities effectively.

Internal audit, in general, aims to assist all members of management in fulfilling their responsibilities effectively by providing them with objective analysis, assessment, advice, and comments on the examined activities or matters (Raji et al., 2020). To achieve the overall audit objectives, auditors need to carry out several specific activities (Christ et al., 2021; Eulerich & Eulerich, 2020; Salijeni et al., 2021). First, they need to examine and assess the effectiveness of controls applied to the financial accounting and operations of the company. Furthermore, auditors must investigate the extent to which the implementers follow established policies, plans, and procedures. Additionally, auditors need to examine the extent to which the company's assets are accounted for and safeguarded from potential losses. The audit process also involves a careful examination of the company's bookkeeping and other generated data. Finally, auditors are responsible for evaluating the performance of officials or implementers in fulfilling their assigned responsibilities. All of these steps help ensure the integrity and reliability of the company's financial information and compliance with applicable standards and procedures.
**Internal control**

Internal control is a process aimed at achieving organizational efficiency and effectiveness in presenting reliable financial statements in accordance with applicable rules and laws (Chang et al., 2019; Hardiningsih et al., 2020; Lestari & Dewi, 2020). This process is influenced by management, the board of directors, and employees to provide assurance to the organization (Azhar Susanto, 2013). Internal control is a procedure that ensures and provides accurate information for the company, aiming to protect the wealth or assets of the company from any misuse of information (Rashedi & Dargahi, 2019; Windiastuti, 2013). Procedures are ensured to comply with legal regulations and laws according to applicable provisions carried out by all employees as they should (Hery, 2013). Therefore, it can be concluded from these explanations that internal control is crucial to achieving the company's goals. Internal control is a procedure designed to safeguard the wealth or assets from various forms of misuse, provide tested and reliable information, and ensure that management policies and all legal regulations or laws are executed and complied with properly by the company (Azhar Susanto 2013, Hery 2013).

The measurement of Internal Control according to COSO (2004) is based on eight main components integrated into the COSO Enterprise Risk Management (ERM). These components involve the Internal Environment, Objective Setting, Event Identification, Risk Assessment, Risk Response, Control Activities, Information and Communication, and Monitoring. This system provides a holistic framework to help organizations design, implement, and evaluate their internal controls, enabling them to achieve strategic goals while managing risks effectively.

Based on the theoretical review explained above, the research framework is as in Figure 1.

![Figure 1. Research Framework](chart)

**METHODS**

In this research, the author uses a quantitative research approach. It has the systematic nature of field research. The types of data for this research are primary data and secondary data. The main data in this research was taken directly from distributing questionnaires to PT office employees. A B C. The population in this observation is all employees at PT. ABC as many as 125 people. The sample selection technique used in this research was a saturated sample or the entire population was sampled, namely 125 people. However, when distributing the questionnaire to 125 samples, only 120 people received answers, so only 120 samples were used in this research. Data analysis techniques in this research include multiple linear regression, hypothesis testing (partial and simultaneous) and determinant testing.

**RESULTS**

**Hypothesis Test T**

The t test aims to determine the influence of the independent variable partially on the dependent variable. With the significance level in this study using alpha 5% or 0.05, the t-test results can be calculated with the help of the SPSS program which can be seen in the t count table (coefficient table) (Table 1). The calculated t value can be seen from the p value (in the sig column) for each independent variable. If the p value is smaller than the specified significance level or the calculated t (in the t column) is greater than t, then the value of the independent variable is partially influential. significant to the dependent variable.
It can be seen that the $t_{count}$ for the internal control coefficient is 4.075, while the critical t-value can be obtained from the t-test table, with $\alpha = 0.05$ and df = 120. This result is obtained from the formula df = n-2, where n is the sample size (120) – 2, so the $t_{table}$ value is 2.228. The internal audit variable has a p-value of 0.003 < 0.05, meaning it is significant, while $t_{count} > t_{table}$ (4.075 > 2.228), so H2 is accepted. Thus, it can be concluded that the internal control variable has an influence on improving the quality of financial reports at ABC.

### Table 1. T Test

<table>
<thead>
<tr>
<th>Variable</th>
<th>B</th>
<th>$t_{count}$</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>3,467</td>
<td>3,122</td>
<td>0.002</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>0.543</td>
<td>5.653</td>
<td>0.000</td>
</tr>
<tr>
<td>Internal Control</td>
<td>0.491</td>
<td>4.075</td>
<td>0.000</td>
</tr>
</tbody>
</table>

*a. Dependent Variable: Quality of Financial Reports*

### Hypothesis Test F

The f test aims to determine the combined effect of the independent variables on the dependent variable. With a significance level in this study using alpha 5% or 0.05, the F test results can be calculated with the help of SPSS in the ANOVA table. The results of the f test show that the independent variables jointly influence the dependent variable. If the p value (in the sig column) is smaller than the specified significance level (5%), or the $F_{count}$ (in the F column) is greater than the $F_{table}$ (Table 2).

### Table 2. F Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>257.945</td>
<td>2</td>
<td>85.982</td>
<td>23.344</td>
<td>.000*</td>
</tr>
<tr>
<td>1 Residual</td>
<td>323.102</td>
<td>101</td>
<td>3.199</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>581.048</td>
<td>104</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The above ANOVA table explains that the F-test results produce an $F_{count}$ of 23.344. Meanwhile, the $F_{table}$ value is obtained from the probability distribution table df (2), which is 4.459, and the significance is 0.00 < the significance level of 0.05. Because the $F_{count}$ (23.344) > the $F_{table}$ value (4.459), it can be concluded that H3 is accepted, meaning that both independent variables, internal audit and internal control, have an influence on the dependent variable, namely the improvement of the quality of financial reports at PT. ABC.

### Determination Test

<table>
<thead>
<tr>
<th>Model Summary*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Internal Audit, Internal Control*

*b. Dependent Variable: Quality of Financial Reports*

Based on the table above, it is obtained that the value of $R = 0.581$ indicates that the influence between internal audit and internal control on the quality of financial reports at PT. ABC is 58.1%, meaning it has a fairly strong influence. The adjusted R Square value is 0.338 or (33.8%). This indicates that the percentage of the influence between internal audit and internal control on the quality of financial reports at PT. ABC is 33.8%, while the remaining 66.2% is influenced by other variables not examined by the researcher.
DISCUSSION
The Influence of Internal Audit on the Quality of Financial Reports at PT. ABC
Based on the results of the conducted research, it is evident that internal audit at PT. ABC has a significant positive influence on improving the quality of financial reports. Internal audit provides recommendations for improvements that help ensure that accounting and financial reporting processes comply with established standards. Additionally, internal audit assists the company in identifying risks related to financial reports and strengthens internal controls to reduce the potential for errors or fraud. The investigative actions of internal audit can also uncover potential fraud earlier, preserving the integrity of financial reports. By monitoring the company's compliance with applicable regulations and policies, internal audit enhances the reliability of financial reports. A better understanding of these risks can also motivate management to prioritize improvements in accounting and reporting processes, increasing transparency and accuracy. The findings of this research are consistent with the results of previous studies (Nugroho & Setyowati, 2019) that internal audit significantly influences the quality of financial reports in a positive direction.

The Influence of Internal Control on the Quality of Financial Reports at PT. ABC
Based on the research results, it is known that internal control at PT. ABC has a significant influence on improving the quality of financial reports. Strong internal control has a substantial positive impact on the quality of a company's financial reports. First, good internal control ensures the accuracy of financial reports by ensuring that each financial transaction is recorded correctly and precisely. Thus, financial reports can accurately reflect the company's financial position and operating results. Furthermore, effective internal control helps reduce the risk of errors or fraud in financial reports, making them more reliable for external stakeholders such as investors, creditors, and regulators. Finally, good internal control also ensures that the company complies with applicable regulations and policies, which can prevent potential legal and reputational issues that may affect the quality of financial reports. Therefore, strong internal control is a crucial factor in ensuring high-quality financial reports. The results of this research are consistent with the findings of a study conducted by (Lestari & Dewi, 2020) that the internal control system affects the quality of financial reports.

The Influence of Internal Audit and Internal Control on the Quality of Financial Reports at PT. ABC
Internal audit and internal control collectively influence the quality of PT. ABC's financial reports. Internal audit helps identify weaknesses in the company's internal control system, while internal control plays a role in preventing errors and fraud. The results of internal audit provide improvement recommendations that strengthen internal control, ensure accurate recording of financial transactions, and enhance the accuracy of financial reports. The collaboration between these two components contributes to more accurate, reliable, and transparent financial reports.

CONCLUSION
Based on the analysis presented, the researcher concludes that internal audit, in partial terms, has a positive influence on improving the quality of the financial reports of PT. ABC. Similarly, internal control, in partial terms, also has a significant positive influence on enhancing the quality of the company's financial reports. Furthermore, when both variables, internal audit and internal control, were tested simultaneously, the results indicated that both have a significant positive impact on improving the quality of the financial reports of PT. ABC. Therefore, it can be concluded that both internal audit and internal control play crucial roles in supporting the overall improvement of the quality of PT. ABC's financial reports.
REFERENCES


