

# The Influence of Internal Audit on the Quality of Financial Reports (Case Study at Mitra Guna Prima Company)

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## Keywords

Internal Audit, Report  
Quality, Financial Report,  
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**Abstract.** Internal audit is an evaluation process carried out systematically and independently to assess the effectiveness and efficiency of the management process and compliance with applicable policies and procedures. Good report quality is very important for managerial and stakeholder decision making. This study aims to analyze the effect of internal audit on report quality at Mitra Guna Prima Company. The method used in this study is a quantitative approach with data collection through questionnaires distributed to 96 respondents who are employees at Mitra Guna Prima Company. The collected data were analyzed using simple linear regression analysis to determine the relationship between internal audit variables and report quality. The results of the study indicate that there is a positive and significant effect between internal audit on report quality at Mitra Guna Prima Company, where increasing the effectiveness of internal audit is followed by an increase in the quality of the reports produced. These findings are expected to provide insight for Mitra Guna Prima Company management in improving the internal audit system to support transparency and accountability of company reports.

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## 1. INTRODUCTION

Current developments have seen very rapid changes, which have made business competition increasingly competitive and complex. Rapid economic growth, driven by technological advances and globalization, creates new challenges for companies to adapt and innovate (Wulandari et al., 2024). In this situation, company management is expected not only to run day-to-day operations efficiently, but also to design effective long-term strategies to achieve the set goals. Companies need to optimize existing resources, improve the quality of products and services, and understand the changing needs and expectations of consumers (Sunarto, 2020). In addition, the implementation of good management practices is very important to ensure that existing processes and procedures can support appropriate and accurate decision making (Putra, 2024).

In making accurate business decisions, management requires good and quality financial reports. Properly prepared financial reports must be able to provide relevant and comprehensive information about the company's financial situation during the reporting period (Sanjaya et al., 2023). This information includes analysis of revenues, expenses, assets, and liabilities, all of which are important aspects in assessing a company's financial performance. Thus, financial statements not only serve as historical records, but also as tools that can help management understand financial trends and identify potential risks that the company may face in the future (Sukamulja, 2024).

Furthermore, high-quality financial reporting enables top management to make better and faster strategic decisions. With accurate and reliable information, management can evaluate various options, such as new investments, cost savings, or market expansion (Ikhsan & Bustamam, 2016). In addition, transparent financial reports can also increase the trust of stakeholders, including investors, creditors, and employees. In an increasingly competitive business environment, the ability to make the right decisions based on solid financial data is very important (Pratiwi, 2019).

Given the importance of the quality of financial reports in accordance with Financial Accounting Standards (SAK) in making company business decisions, the role of internal audit becomes very crucial (Sari et al., 2024). Internal audit functions as an independent assessment carried out by the organization to examine and evaluate various activities objectively. By conducting an audit, the company can ensure that the financial statements are prepared accurately and meet the established standards, and are free from errors or deviations that can be detrimental (Salipadang et al., 2017). The internal audit process also helps in identifying potential problems or risks that may not be visible, allowing management to take appropriate action before the problem develops further (Aji et al., 2023).

Furthermore, the results of internal audit examinations, such as suggestions, recommendations, analysis, and information, provide added value to management in efforts to achieve company goals (Wulandari & Fidiana, 2017). With a better understanding of operational efficiency and compliance with existing policies, management can make more appropriate and strategic decisions. In addition, an effective internal audit function can also increase stakeholder trust, including investors and creditors, in the integrity and transparency of the company's financial statements (Pratama et al., 2023). Thus, the existence of a well-functioning internal audit not only supports the quality of financial reports, but also contributes to the company's overall performance in achieving its vision and mission (Zamzami & Faiz, 2018).

This study aims to develop previous studies by proving the influence between the internal audit function and the quality of financial reporting. The main focus of this study is to investigate in depth how the effectiveness of internal audit in Mitra Guna Prima Company contributes to improving the quality of financial reporting produced by the company. Through this approach, it is expected that this study can not only provide new insights into the importance of the internal audit function in the context of financial reporting, but also produce practical recommendations to improve audit performance in Mitra Guna Prima Company in order to achieve better quality financial reports.

### **Literature review**

#### **1. Internal Audit**

Internal audit is an examination carried out by the company's internal audit department, both of the company's financial reports and accounting records, as well as compliance with predetermined top management policies and compliance with government regulations and the provisions of applicable professional associations (Kaunang, 2015). Internal audit is an assessment function that is developed freely within an organization to test and evaluate activities as a form of service to the company organization (Mahendra et al., 2021). Internal audits carry out independent assessment activities within an organization to review activities in the fields of accounting, finance and other operational areas as a basis for providing services to management (Fatimah & Pramudyastuti, 2022).

#### **2. Financial statements**

Prihadi (2019) is of the opinion that financial reports are reports that provide an overview of the company's financial condition in a certain period. Then Sari & Hidayat (2022) argued that financial reports are the main tool used to communicate the company's financial condition to parties external to the company. The types of financial reports that are generally presented by companies are profit and loss reports, financial position reports, cash flow reports and capital change reports. According to Subramanyam (2010), financial reports are the result of a financial reporting process that is in accordance with accounting rules and standards, managerial and based on the company's implementation and supervision processes.

#### **3. Quality of Financial Reports**

In order to provide useful and beneficial information for interested parties, the information presented in financial reporting must meet qualitative characteristics so that it can be used in decision making (Obaidat, 2007). Saidin (2007) mentioned the criteria that must be possessed by financial reporting in order to meet the needs of users, including relevant, reliable, comparable, understandable, timely and cost/benefit. It is emphasized that the relevance and reliability of financial reporting can help in producing useful information, but if the financial report cannot be compared, cannot be understood and is not timely, the cost is greater than the benefit then it will reduce its benefits.

## **2. METHOD**

This research uses a quantitative method with a descriptive research type. Descriptive research means a type of research that is clearly structured where the type of data needed and who (and how many samples) are needed have been arranged before data collection is carried out (Suhartanto, 2014). This study also uses a Quantitative method, which means that the quantitative method is a research method based on the philosophy of positivism, used to research a certain population or sample, sampling techniques are generally carried out randomly, data collection uses research instruments, data analysis is quantitative / statistical in nature with the aim of testing the hypothesis that has been

set (Sugiyono, 2010). The Population Used in This Activity is the company's Internal Supervision employees totaling 96 people who were all used as samples. The research instrument used in collecting data was a questionnaire using a Likert scale. The data analysis technique used in this study is a quantitative analysis technique. In analyzing the problems obtained to prove the existing hypothesis, this study uses software Microsoft Excel and SPSS for Windows version 25.

### 3. RESULT AND DISCUSSION

#### Validity Test

To test the validity in this study, an analysis was conducted based on the indicators contained in each variable, namely the financial report quality variable and the internal audit factor. This validity test uses the correlation method, where the test results show that the calculated correlation value ( $r$  count) for all indicators is greater than the probability value  $r$  table, which in this study is determined at 0.300. Thus, all tested indicators can be declared valid, indicating that each variable is able to describe the intended concept accurately. This validity is very important because it ensures that the data obtained is reliable and relevant for further analysis, so that the results of the study can provide a clear picture of the influence of internal audit on the quality of financial reporting at Mitra Guna Prima Company.

#### Reliability Test

This test is carried out to determine whether an item in the research data is reliable or not. It is said to be reliable if the Cronbach's alpha value is  $> 0.60$ , as follows in full.

**Table 1** Reliability Test Results

Variables	Cronbach's alpha	Std Reliability	Information
Internal audit (X)	0.861	0.60	Reliable
Quality of financial reports (Y)	0.916	0.60	Reliable

Based on the data analysis shown in Table 1, it was obtained that the Cronbach Alpha value for each variable in this study was greater than 0.60 . This indicates that all variables studied have a good level of reliability. High reliability indicates consistency and stability in measurement, so it can be relied upon to explain the phenomenon being studied. In other words , each variable in this study can be relied upon to provide accurate and valid information regarding the influence of internal audit on the quality of financial reporting. Therefore, this finding strengthens the credibility of the research results, because it shows that the instruments used in data collection have met the quality standards required for further analysis.

#### Simple Linear Regression Analysis

**Table 2** Simple Linear Regression Results

Model	Coefficients <sup>a</sup>				
	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	b	Std. error	Beta		
1. Constant	2,083	4,358		0.474	0.632
Internal audit	0.811	0.071	0.766	10.858	0.000

a. Dependent Variable: Quality of financial reports

From the analysis results displayed in Table 3 of SPSS output, a simple linear regression equation is obtained in the form of  $Y = 2.083 + 0.811X$ . In this equation, the number 2.083 indicates that if there is no influence from internal audit (X), the basic value of the quality of financial reporting (Y) is 2.083. Furthermore, the coefficient of 0.811 indicates that every 1% increase in the effectiveness of internal audit will cause an increase in the quality of financial reporting by 0.811. This finding emphasizes the importance of internal audit in improving the quality of financial reporting, where the role of internal audit is not only as a controller, but also as a significant factor in improving the transparency and accuracy of financial reporting.

## Coefficient of Determination (R<sup>2</sup>)

**Table 3** Coefficient of Determination (R<sup>2</sup>)

Model Summary <sup>b</sup>				
Model	R	R Square	Adj E Square	Std Error of Estimate
1	0.554	0.307	0.302	3.391

From the analysis shown in Table 3, the output of SPSS version 25 shows that the R Square value is 0.307. This indicates that internal audit contributes 30.7 % to the quality of financial reports. In other words, the influence of internal audit on the quality of financial reports is significant, but not completely determinative, because there are 69.3 % other variables that also affect the quality of financial reports that are not identified in this study. The inadequacy of the variables studied indicates that there are other external or internal factors that may play an important role in determining the quality of financial reports.

## t-test

**Table 4** t-Test Results

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	b	Std. error	Beta		
2. Constant	2,083	4,358		0.474	0.632
Internal audit	0.811	0.071	0.766	10.858	0.000

b. Dependent Variable: Quality of financial reports

Based on the analysis shown in Table 4, the output of SPSS version 25 shows a significance value of 0.000, which is smaller than 0.05, and a calculated t value of 10.858, which is greater than the t table of 1.985. These results indicate that the hypothesis is accepted, which means that there is a positive and significant influence of internal audit (X) on the quality of financial reporting (Y). This finding indicates that increasing the effectiveness of internal audit directly contributes to improving the quality of financial reporting, which is important for proper decision making by management .

## Discussion

Based on the analysis presented in Table 4, the output results from SPSS version 25 show a significance value of 0.000, which is below the limit of 0.05, and the calculated t value reaches 10.858, which is higher than the t table of 1.985. This finding indicates that the research hypothesis is accepted, confirming the positive and significant influence between internal audit (X) on the quality of financial reports (Y) at Mitra Guna Prima Company. This shows that the implementation of effective internal audits not only functions as a control and monitoring tool, but also contributes directly to improving the accuracy, transparency, and integrity of financial reports...

Internal audit is an important tool in improving the quality of a company's financial reports. Good quality financial reports are essential to provide accurate and reliable information to stakeholders, including management, investors, creditors, and regulators. With internal audits, companies can ensure that all financial transactions are recorded correctly and in accordance with applicable accounting principles, thereby reducing the risk of errors or irregularities that can harm the company. One of the main functions of internal audit is to supervise and evaluate the processes and systems in the company. Internal auditors conduct regular checks on various operational and financial aspects, including internal control. With good internal control, companies can prevent fraud and abuse that can damage the integrity of financial reports. This will certainly have a positive impact on the accuracy of the information presented in the financial reports. In addition, internal audits also play a role in providing recommendations for improvements to existing financial processes. Internal audit results that indicate weaknesses or discrepancies in accounting practices will provide an opportunity for the company to make improvements. These recommendations may include improving recording procedures, improving internal control systems, and training employees on good accounting practices. By making improvements based on audit results, companies can improve the quality of their financial reports.

Furthermore, internal audits also help improve transparency and accountability in financial reporting. Transparent financial reporting will provide stakeholders with confidence that the information presented is not only accurate but also reflects the company's true financial condition. This trust is very important in building a company's reputation in the eyes of investors and the market, which in turn can affect the company's financial performance and value. Overall, internal audit has a very important role in improving the quality of the company's financial reports. By conducting supervision, evaluation, and providing recommendations for improvement, internal audit not only ensures compliance with regulations, but also improves the integrity and reliability of the financial information presented. Thus, the results achieved from internal audits will support management and stakeholder decisions in better planning and decision making.

#### 4. CONCLUSION

Based on the analysis presented in Table 4, the output results from SPSS version 25 show a significance value of 0.000, which is below the limit of 0.05, and the calculated t value reaches 10.858, which is higher than the t table of 1.985. This finding indicates that the research hypothesis is accepted, confirming the positive and significant influence between internal audit (X) on the quality of financial reports (Y) at Mitra Guna Prima Company. This shows that the implementation of effective internal audits not only functions as a control and monitoring tool, but also contributes directly to improving the accuracy, transparency, and integrity of financial reports. The magnitude of the influence of internal audit on the quality of financial reports is 30.7 % . The results of the study explain that the involvement of the internal auditor function in overseeing the reliability of financial reporting improves the quality of financial reporting. This means that the better the role of internal audit in the company, the higher the quality of financial reports that will be produced by the company.

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