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Internal Audit Quality, Audit Committee, and Its Influence on Financial Reporting Quality

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ABSTRACT

This research aims to determine the extent to which internal audit quality and the audit committee influence the quality of financial reporting. The type of research conducted in this study is explanatory research. The study population consists of staff working in manufacturing, finance, education, and service companies in Indonesia. Non-probability sampling using snowball sampling was employed to select a sample of 57 respondents. The data used are primary data, processed through Smart-PLS Version 4. The research employs partial least squares (PLS) structural model analysis. The stages of testing the structural model include forming the structural model, assessing its feasibility, and evaluating the significance of variable effects. The findings show that the quality of internal audits and the audit committee influence the quality of financial reporting.

Keywords: *Internal Audit Quality, Audit Committee, Financial Reporting Quality.*

ABSTRAK

Penelitian ini bertujuan untuk mengetahui sejauh mana pengaruh kualitas audit internal dan komite audit terhadap kualitas pelaporan keuangan. Jenis penelitian yang dilakukan dalam penelitian ini adalah penelitian eksplanatori. Populasi penelitian terdiri dari staf yang bekerja di perusahaan manufaktur, keuangan, pendidikan, dan jasa di Indonesia. Pengambilan sampel non-probabilitas dengan menggunakan snowball sampling digunakan untuk memilih sampel sebanyak 57 responden. Data yang digunakan adalah data primer yang diolah melalui Smart-PLS Versi 4. Penelitian ini menggunakan analisis model struktural Partial Least Square (PLS). Tahapan pengujian model struktural meliputi pembentukan model struktural, penilaian kelayakannya, dan evaluasi signifikansi pengaruh variabel. Temuan penelitian menunjukkan bahwa kualitas audit internal dan komite audit berpengaruh terhadap kualitas pelaporan keuangan.

Katakunci: *Internal Audit Quality, Audit Committee, Financial Reporting Quality*

1. INTRODUCTION

High-quality financial reporting is crucial for investors and relevant stakeholders. It impacts investment decisions and aids in assessing resources and

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overall market efficiency. However, inaccuracies in financial reporting can negatively affect investor confidence and perceptions of company management (Wahyuddin, 2023). The quality of financial reporting in line with two main factors: relevance and honest representation. To enhance it, ensuring that the presented information is easily understandable, comparable, verifiable, and timely is essential (Aluwi et al, 2023).

Financial reporting deviations are still prevalent, and one notable example is PT Bukalapak.com Tbk (BUKA), which encountered errors in its third-quarter 2021 financial statements. The mistake was evident in the acquisition value of PT Belajar Tumbuh Berbagi, which should have been USD 1 million or IDR 14.36 billion. Still, it was recorded as USD 1 billion or approximately IDR 14.3 trillion (Iqbal, 2022). Similarly, the Financial Services Authority (OJK) rescinded the business license of PT Asuransi Jiwa Adisarana Wanaartha Life (Wanaartha Life/PT WAL) due to its inability to meet solvency ratios and the presence of fraudulent financial reporting, resulting in losses for policyholders (Prastomiyono, 2022). Deputy Minister of State-Owned Enterprises (BUMN) II, Kartika Wirjoatmodjo (2023), also revealed that in some cases, companies like Waskita and WIKA misrepresented their financial reports. Although they appeared profitable for years, their actual cash flow was never positive.

High-quality financial reporting is essential for investors and stakeholders as it influences investment decisions and market efficiency; however, inaccuracies can erode investors' confidence and trust in management. In Indonesia, financial reporting issues are common, with notable cases such as PT Bukalapak.com Tbk's significant error in reporting acquisition values and the OJK's revocation of PT Asuransi Jiwa Adisarana Wanaartha Life's license due to fraudulent reporting. According to the OJK's 2022 report, about 20% of companies on the Indonesia Stock Exchange have faced financial reporting issues, supported by the Indonesian Institute of Certified Public Accountants (IAPI) finding that 15% of audited companies encounter such problems annually. These instances highlight the need for robust internal audits and effective audit committees to improve transparency, accountability, and investor confidence in Indonesia's financial markets.

Internal audit quality has a significant impact on the quality of internal control systems (Kuntadi, 2023). High-quality internal audits are also a crucial element for organizational continuity, as they assist companies in maintaining effective controls and preventing fraud (Boskou et al., 2019). Previous research by Kaawaase et al. (2021) confirms that improving internal audit quality is significantly related to enhanced financial reporting quality. Effective internal audits provide a detailed framework for companies to achieve their financial reporting objectives. Additionally, Phornlaphatrachakorn's (2020) The study demonstrates a positive correlation between the quality of internal audits and the quality of financial reporting. Therefore, high-quality internal audits enhance trust, consistency, and integrity in financial reporting, ultimately contributing to overall company performance and success.

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The Audit Committee is a body formed by the Board of Commissioners. It must operate independently from company management, exhibit independence, and be accountable to the Board of Commissioners in enhancing oversight of the performance of the company's directors (Siahaan et al, 2019). Previous research by Sulbahri et al. (2021) revealed that the audit committee harms the financial reporting quality of property and real estate companies listed on the Indonesia Stock Exchange. Qader et al. (2023) further confirmed that audit committee characteristics, such as size, independence, and expertise, significantly influence the quality of financial reporting in Iraqi companies. Additionally, Ojuwa & Mwangi (2023) found that the independence and expertise of audit committee members affect financial reporting quality in state-owned companies in Kenya. Independence and expertise are crucial factors that significantly contribute to improving financial reporting quality (Alzeban, 2019). Despite extensive research on internal audit quality and audit committees, gaps remain, particularly regarding the unique regulatory and market environment in Indonesia. Previous studies have shown positive relationships between internal audit quality and financial reporting quality, but often in different national contexts or specific industries. Additionally, inconsistencies exist in findings about audit committee characteristics and their impact on financial reporting quality. This study aims to address these gaps by investigating the influence of internal audit quality and audit committees on financial reporting quality within Indonesian companies, analyzing specific elements such as auditor competence, independence, and technology use, as well as audit committee size, independence, and expertise. By exploring the interaction between audit committees and internal audit functions, the study seeks to enhance understanding and provide practical insights for improving transparency and accountability in Indonesia's financial reporting.

Based on the background previously explained, the researcher utilizes the variables of internal audit quality and the audit committee as factors that influence the quality of financial reporting. Consequently, the researcher will conduct a study titled "Internal Audit Quality, Audit Committee, and Their Influence on Financial Reporting Quality."

The problem formulation is based on the background explained in this research is how much influence does the quality of internal audit have on the quality of financial reporting? and how much influence does the audit committee have on the quality of financial reporting?. And research purposes is to find out how much the quality of internal audit influences the quality of financial reporting and to find out how much the audit committee influences the quality of financial reporting.

2. LITERATURE REVIEW AND FRAMEWORK OF THINKING

Understanding the relationship between internal audit quality and audit committees is crucial for improving financial reporting quality. High-quality internal audits enhance the accuracy and reliability of financial reports by ensuring compliance with accounting standards and detecting fraud, while effective audit

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committees, particularly those with financial expertise, oversee the reporting process with integrity. The synergy between internal audits and audit committees further strengthens internal controls and financial reporting. This research aims to provide a comprehensive understanding of these dynamics in Indonesian companies, offering practical insights for corporate governance and regulatory frameworks.

Financial Reporting Quality

Financial reporting is the process of presenting financial information to companies with the main aim of providing useful information for users of financial reports (Sukamulja, 2022). Financial reporting is different from financial reports because financial reports are the result of financial reporting (Handayani et al, 2022). In making financial information useful, the information must be relevant (relevance), and accurately represent what is presented (faithful representation). Then the benefits of financial information can be further increased if the information can be compared (comparable), verified (verifiable), timely (timely), and understandable (Ulupui et al, 2021).

Internal Audit Quality

Internal audit is an audit process as part of an organization's internal control, where internal audit is aimed at implementing coordinated quality control at every level of management of an organization, especially those with legal entities (Mangesti et al, 2021). Internal audit quality is the main factor that impacts the quality of the internal control system. Auditors must be able to provide added value to auditees by improving the internal control system through quality internal audits (Kuntadi, 2023).

The goals, authority, and responsibilities of the internal audit function must be formally outlined in the internal audit charter. This charter is an official document that details the objectives, authority, and duties of the internal audit activities. It establishes the internal audit function's position within the organization, grants access to records, personnel, and physical assets pertinent to the company's performance, and delineates the scope of the internal audit activities. (Ardianingsih & Setiawan, 2023).

Audit Committee

Main function of the audit committee is to supervise the preparation of financial reports with integrity, namely ensuring that financial reports are prepared honestly and comply with applicable principles by Financial Accounting Standards (Arif & Cheisviyanny, 2023). In his book, Syofyan (2021) reveals the benefits of having an audit committee for companies is increasing the quality of company financial reporting, increased independence of the board of commissioners in assessing the company's financial performance, guaranteed implementation of follow-up on recommendations for improvement from external auditors and internal auditors, increased independence of internal auditors and external auditors, reduced opportunities for incidents to occur within the company, increased

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stakeholder confidence, especially investors, in the company, creating a conducive communication climate, fulfillment of adequate disclosure and transparency for interested parties.

Ardianingsih (2018) explained that the purpose of forming an audit committee is related to financial reporting; the main responsibility of the directors and board of commissioners lies in the overall financial reports, while the external auditor is specifically responsible for the external audit financial reports.

This research is based on Agency Theory, Stakeholder Theory, and Internal Control Theory, which collectively explain how internal audit quality and audit committees influence financial reporting quality. Agency Theory addresses conflicts of interest between owners and managers, mitigated by accurate and reliable financial reports ensured by audits and committees. Stakeholder Theory emphasizes the company's responsibility to provide reliable information to all stakeholders through high-quality financial reporting. Internal Control Theory underscores the need for effective internal control systems, with high-quality internal audits crucial for efficient operations, accurate reporting, and regulatory compliance.

The Influence of Internal Audit Quality on the Quality of Financial Reporting

Internal audit must meet professional qualifications, such as having high competence, being independent, and adhering to professional standards in evaluating the effectiveness of internal control and playing a role in risk management. With a professional and quality internal audit, the quality of financial reporting can be further improved (Kaawaase et al, 2021). Oluwaseun et al (2021) emphasize that improving the quality of internal audits has a positive impact on financial reporting, triggering increased user confidence in the company's financial information. Internal audit, through testing and evaluating internal controls related to financial information, plays a role in improving the quality of financial reporting, and involvement of the internal audit function in the financial reporting process significantly influences improving the quality of financial reports (Yadiati, 2017).

Competent and independent internal auditors are better equipped to identify and correct discrepancies in financial records, ensuring accuracy and reliability. Their adherence to professional standards guarantees thorough and objective audits. Moreover, by evaluating internal controls and managing financial risks, internal audits enhance the overall integrity and credibility of financial reports, thereby increasing user confidence. From a theoretical perspective, this hypothesis is supported by the notion that internal audit is a key part of an organization's internal control system.

According to Mangesti et al. (2021), internal audit aims to implement coordinated quality control at every management level, particularly in organizations with legal entities.

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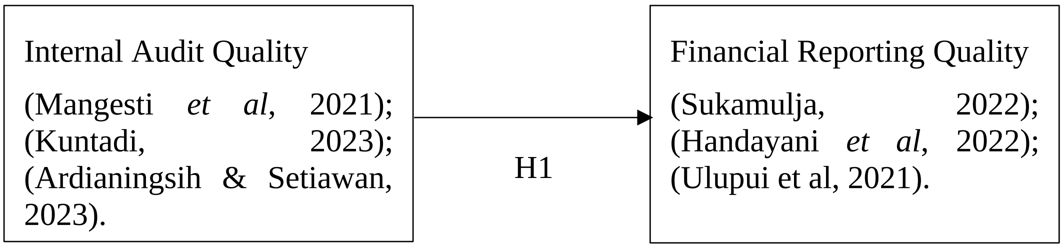


Source : Self Proceed

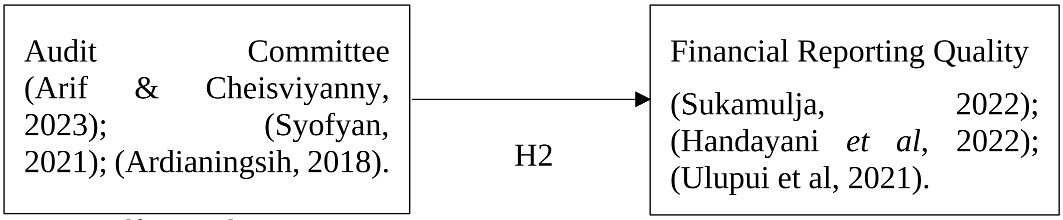
Figure 1: Research Model and Framework

Hypothesis I: Internal audit quality influences the quality of financial reporting.

The Influence of the Audit Committee on the Quality of Financial Reporting

The audit committee has control over financial reporting process, selects internal auditors, and supervises internal and external audit work in a company (Sudarmanto, 2020). An audit committee that has high financial expertise leads to an increase in the quality of financial reporting in the company (Geralyi et al, 2021). When audit committee members have industry and accounting or financial expertise, the audit committee's supervisory role increases so that the quality of the company's financial reporting also increases (Amalia, 2022). The theoretical foundation for the audit committee's influence on the quality of financial reporting lies in its primary role of supervising the preparation of financial reports with integrity, ensuring compliance with Financial Accounting Standards (Arif & Cheisviyanny, 2023). Syofyan (2021) highlights that an effective audit committee enhances financial reporting quality by fostering independence in assessing financial performance, implementing audit recommendations, minimizing operational incidents, and improving stakeholder confidence and transparency.

Ardianingsih (2018) further emphasizes the audit committee's support in maintaining report integrity and overseeing external auditor responsibilities. The logic behind this influence is straightforward: a competent audit committee provides rigorous oversight, identifies risks, and ensures accurate and transparent financial reporting.



Source : Self Proceed

Figure 2: Research Model and Framework

Hypothesis II: The audit committee influences the quality of financial reporting.

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3. DATA AND RESEARCH TECHNIQUE ANALYSIS

The type of research carried out in this research is explanatory research. In Jogiyanto's book (2007) explanatory research is research that tries to explain existing phenomena. The research population includes staff working in manufacturing, financial, educational, and service companies in Indonesia. Sampling was carried out using a nonprobability method with snowball sampling. Variables are concepts that have various (not single) values or meanings that are used to be studied in research (Zafri and Hastuti, 2023). The dependent variable (Y) is a type of variable whose value is influenced by other variables observed in the research, while the independent variables in the research
can be factors, traits, or conditions that are considered to influence the dependent variable (Dawis et al, 2023). The dependent variable used in this research is the quality of financial reporting, while the independent variable is the quality of the internal audit and audit committee. The following is the operational definition of variables in this research:

Table 1: Operational definition of the independent variable internal audit quality

Variable Operationalization				
Variable	**Dimensions**	**Indicator**	**Scale**	**Item Number**
Internal Audit Quality Internal Audit Quality is the main factor that has an impact on the quality of the internal control system. (P.xxxvi) (Kuntadi, 2023) (Public Sector Internal Audit). Internal audit quality (IAQ) is also an important component of an organization's sustainability because it helps businesses maintain effective controls and prevent fraud. Boskou, G., Kirkos, E., Spathis, C., 2019. Classifying internal audit quality using textual analysis: the case of auditor selection.	Internal Control System Internal Control System (SPI) is a way to direct, supervise and measure the resources of an organization. (P.62) (Ardianingsih & Setiawan, 2023) (Risk Based Internal Audit)	Directing resources	5 Point Likert Scale	1
		Monitor resources	5 Point Likert Scale	2
		Measuring resources	5 Point Likert Scale	3
	Fraud fraud is an intentional act or behavior where organizational/company resources are used inappropriately for personal gain, harming the organization/company concerned or other parties. (P.18) (Suhardi et al, 2022) (Fraud Risk Management)	Personal Benefits	5 Point Likert Scale	4

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Manag. Audit J. 34(8), 924–950.		Harmful to the organization/company	5 Point Likert Scale	5

Source : Self Proceed

Table 2: Operational definition of audit committee independent variables

Variable Operationalization				
Variable	**Dimensions**	**Indicator**	**Scale**	**Item Number**
Audit Committee The audit committee is a committee formed by the Board of Commissioners, which must be free from the influence of company management and be independent and responsible to the Board of Commissioners in improving the Board's supervision. Commissioners on the performance of company directors. (Siahaan et al, 2019)	Board of commissioners The board of commissioners supervises management policies and general management of both the company and the company's business. Supervision and providing advice are carried out for the benefit of the company. (P.75) (Business law) (Thian,2022)	Oversight of policy	5 Point Likert Scale	6
		Giving advice	5 Point Likert Scale	7
	Board of Directors The Board of Directors is an organ of the Issuer or Public Company which has full authority and responsibility for the management of the issuer or Public Company for the interests of the Issuer or Public Company, in accordance with the aims and objectives of the Issuer or Public Company and represents the Issuer or Public Company, both inside and outside the court. in accordance with the provisions of the articles of association. (P.52) (Corporate Governance: Concept and Implementation in Sharia Share Issuers) (Muchtar, 2021)	Full authority and responsibility for the management of the issuer	5 Point Likert Scale	8
		Representing the Issuer	5 Point Likert Scale	9

Source : Self Proceed

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Table 3: Operational definition of the dependent variable financial reporting quality

Variable Operationalization				
Variable	**Dimensions**	**Indicator**	**Scale**	**Item Number**
Quality of Financial Reporting The quality of financial reporting is based on two main things: relevance and honest representation. Meanwhile, the way to improve this is to ensure that the information presented is easy to understand, can be compared, verified and presented in a timely manner. (P.88) (Aluwi et al, 2023) (Finance, Accounting and Law in the Digital Age)	Relevance Relevance refers to the ability of information to influence the economic decisions of users of financial statements. Relevant information provides a better understanding of a company's financial condition, operational performance and future potential. (P 26-27) (Hidayati et al, 2023) (ACCOUNTING THEORY: Introduction and Application of Accounting Concepts)	Economic decisions of financial report users	5 Point Likert Scale	10
		Better understanding of the company's financial condition, operational performance and future potential.	5 Point Likert Scale	11
	Easy to understand Information must be understandable by the user, and expressed in forms and terms adapted to the user's understanding limits (P.17) (Hasibuan & Yurmaini, 2023) (Introduction to Accounting)	Can be understood by the user	5 Point Likert Scale	12
		Customized forms and terms	5 Point Likert Scale	13
	Comparable Information in financial reports will be more useful if it can be compared with previous period financial reports (P.17) (Hasibuan & Yurmaini, 2023) (Introduction to Accounting)	Comparable	5 Point Likert Scale	14
		Previous period	5 Point Likert Scale	15

Source : Self Proceed

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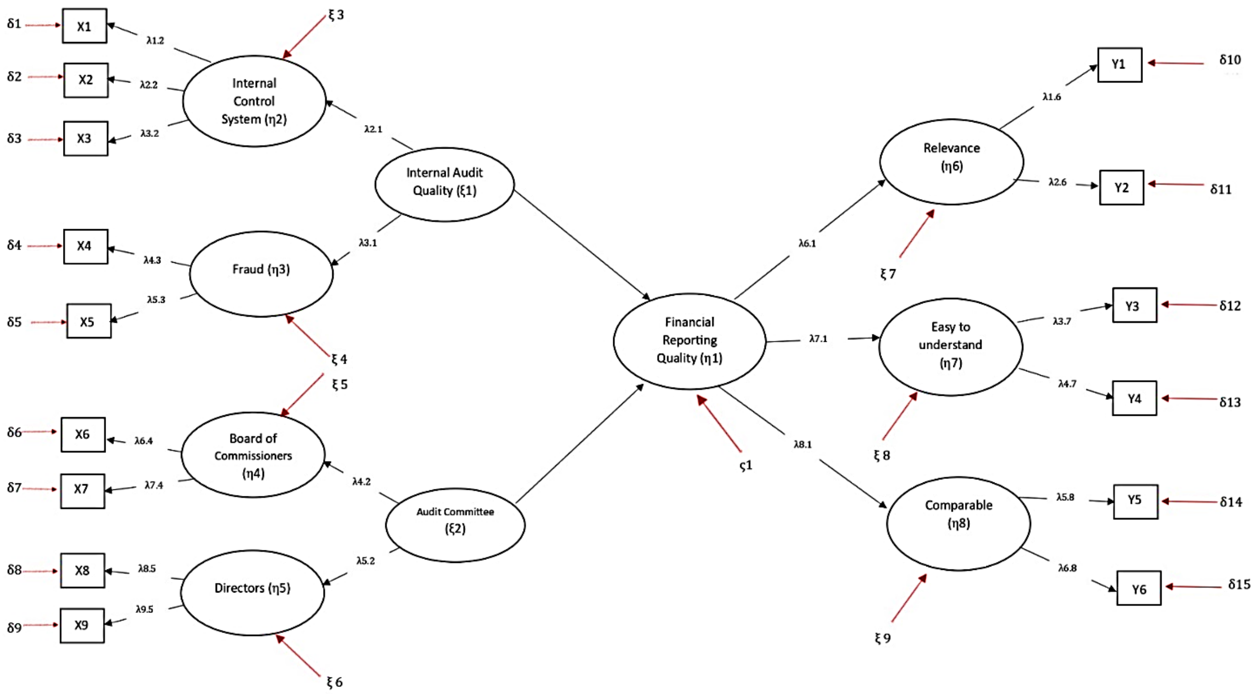
This study utilizes primary data. Primary data is data taken directly from the original data without using existing sources (Chandra and Priyono, 2023). In collecting primary data, the technique of distributing questionnaires and personal interviews with the owner or financial department of the company was used. The data analysis method was carried out with the help of Partial Least Square - Structural Equation Modeling (SEM-PLS) software. SEM-PLS maximizes the variance of the dependent variable that can be explained in the model and evaluates data quality based on the measurement model (Ananto et al, 2022). This research uses PLS structural model analysis. The stages in testing the structural model include the stages of forming the structural model, testing the feasibility of the structural model, and testing the significance of the influence of exogenous variables on endogenous variables (Mursid & Palupiningtyas, 2022).



Source : Self Proceed

Figure 3: Path Diagram for Combination of Measurement and Structural Models

4. RESULT AND DISCUSSION

57 respondents filled out this questionnaire who were engaged in or worked in the finance department of companies in Indonesia in the manufacturing, finance,

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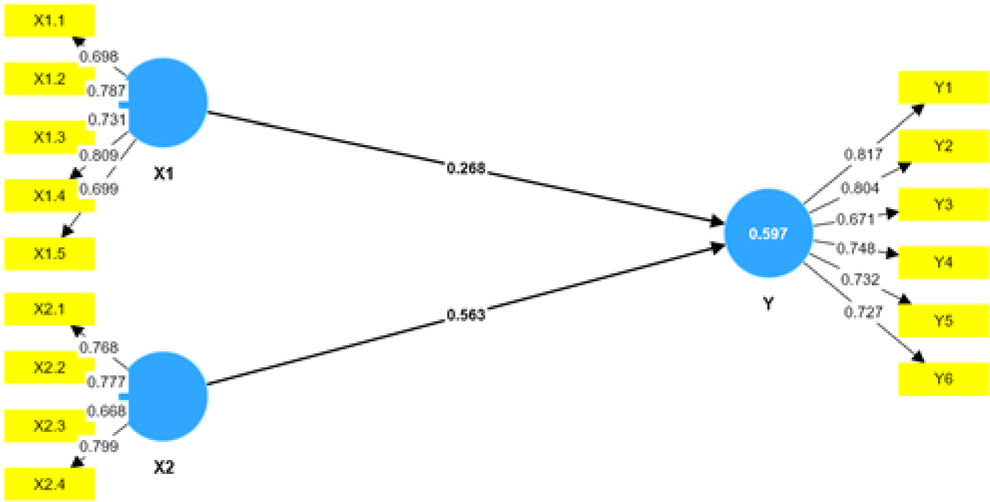
education, and service sectors. Data analysis was carried out in this research using SmartPLS 4. Figure 4 shows the complete model path diagram for the outer model.



Source : SmartPLS4 output

Figure 4: Full Model Path Diagram (for Outer Model).

Outer Model Evaluation

Table 4: Outer Loading

Variable	Indicator	Outer Loading
Internal Audit Quality (X1)	X1.1	0,698
	X1.2	0,787
	X1.3	0,731
	X1.4	0,809
	X1.5	0,699
Audit Committee (X2)	X2.1	0,768
	X2.2	0,777
	X2.3	0,668
	X2.4	0,799
Financial Reporting Quality (Y)	Y1	0,817
	Y2	0,804
	Y3	0,671
	Y4	0,748
	Y5	0,732
	Y6	0,727

Source: SmartPLS4 output

Validity Test

The validity of the indicators measured in the questionnaire can be seen with convergent validity through the outer loading or loading factor values on endogenous and exogenous variables. In research models that have been relatively

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widely studied, the recommended value for convergent validity is >0.7, while for newly developed research models the value can be tolerated up to 0.5 (Wati, 2018).

following the results of validity testing, it can be concluded that all statements measured in the questionnaire regarding indicators of internal audit quality, audit committee quality, and financial reporting quality can be said to be valid. All statement items in the questionnaire have a value of >0.5. Then, to assess the results of the discriminant validity evaluation, it can be seen from the average variance extracted (AVE). The AVE value is expected to be at least 0.5 (Musyaffi, 2021). The indicators used in the research have an AVE value of >0.5 and can be said to be convergently valid

Table 5: Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Internal Audit Quality (X1)	0,557
Audit Committee (X2)	0,570
Financial Reporting Quality (Y)	0,565

Source: SmartPLS4 output

Reliability Test

The measure for measuring the reliability of an indicator is using composite reliability and Cronbach alpha values. The composite reliability value is expected to be at least 0.7 (Sarstedt et al, 2021). Meanwhile, the Cronbach alpha value of each indicator to measure internal consistency is at least 0.7 (Basbeth et al, 2018).

Table 6: Cronbach's Alpha & Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Internal Audit Quality (X1)	0,805	0,862
Audit Committee (X2)	0,746	0.840
Financial Reporting Quality (Y)	0,845	0,886

Source: SmartPLS4 output

The results of reliability testing show that the Cronbach alpha and composite reliability values for the internal audit quality and financial reporting quality variables have high reliability values, namely > 0.7. Meanwhile, the audit committee variable has a lower Cronbach alpha value, namely 0.746, but it can still be said to be quite reliable with a composite reliability value of 0.840. Therefore, it is concluded that all statement items used have been proven to be reliable and the measuring instruments used are appropriate.

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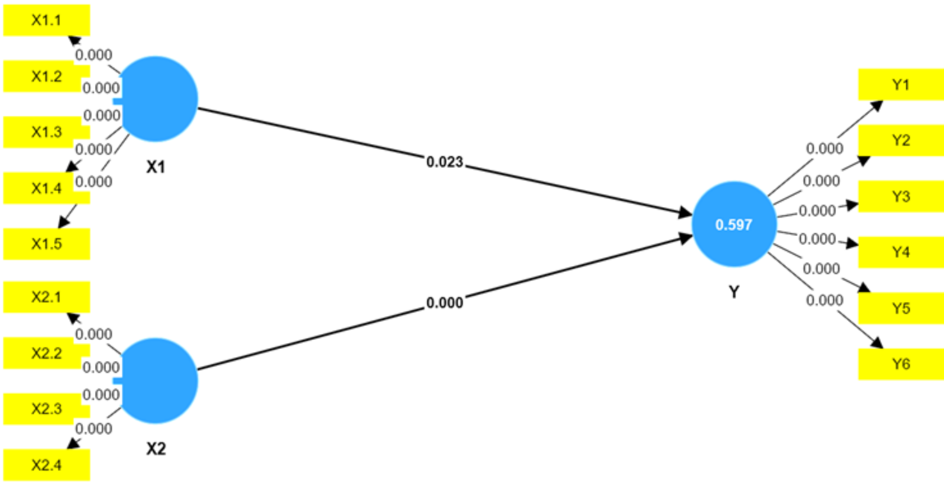
Inner Model Evaluation



Source : SmartPLS4 output

Figure 5: Complete Model Path Diagram (For Inner Model).

The R-Square Value

Table 7: R Square

	R Square	R Square Adjusted
Financial Reporting Quality (Y)	0,597	0,582

Source: SmartPLS4 output

By looking at the R Square value, it can be seen whether there is a correlation between the independent variable and the dependent variable. The R Square value is divided into 3 criteria, namely 0.67 meaning strong, 0.33 meaning moderate and 0.19 meaning weak (Musyaffi, 2021). From table 4 it can be concluded that 58.2% of the variation in financial reporting quality can be explained by the internal audit quality variable (X1) and the audit committee variable (X2) while 41.8% can be influenced by other factors.

Hypothesis Testing

Table 8: Bootstrapping Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
X1→Y	0,268	0,281	0,118	2,272	0,023
X2 →Y	0,563	0,583	0,151	3,739	0.000

Source: SmartPLS4 output

According to Table 5, the p-value of the internal audit quality variable (X1) is 0.023, and the p-value of the audit committee variable (X2) is 0.000. Both independent variables in this study have a p-value of less than 0.05, indicating that the internal audit quality variable (X1) has a significant influence on financial

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reporting quality (Hypothesis I is accepted). This finding is consistent with previous research by Erfiansyah & Kurnia (2018), who found that internal auditors have a positive and significant impact on financial reporting quality. Similarly, Oluwaseun et al. (2021) reported that internal audit quality affects financial reporting quality. This study suggests that a company's internal control system, including its internal audit, can ensure quality and direct the company's resources in implementing business strategies, resulting in high-quality financial reporting. An example of implementing internal audit quality is the use of software or automated systems to monitor daily transactions, which can alert relevant parties of any unusual or suspicious transactions.

This research provides an in-depth analysis of how the Indonesian regulatory environment and business culture influence the relationship between internal audit quality, audit committees, and the quality of financial reporting. In Indonesia, regulatory frameworks such as the Financial Accounting Standards (FAS) and strong corporate governance principles dictate that audit committees oversee the financial reporting process to ensure compliance and accuracy (Arif & Cheisviyanny, 2023). These regulations underscore the critical role of audit committees in safeguarding the integrity of financial reports by monitoring internal controls and external audits. The significant influence of the audit committee variable (X2) on financial reporting quality, as evidenced by accepting Hypothesis II, highlights the effectiveness of governance structures in Indonesia. This finding contrasts with Ermawati et al.'s (2020) study, which found a lack of significant impact from audit committees on financial reporting quality in a different context. In Indonesia, Amalia's (2022) research supports the current findings, indicating that well-functioning audit committees enhance financial reporting quality by ensuring transparency and adherence to accounting standards.

Theoretical implications suggest that effective governance practices, including strong audit committee oversight and active board engagement, contribute to the reliability and credibility of financial information. The board of commissioners' supervision of audit committees ensures alignment with organizational goals and regulatory requirements, reinforcing the integrity of financial reporting. Moreover, the board of directors plays a crucial role in stakeholder relations and strategic decision-making, which indirectly influences financial reporting through enhanced transparency and accountability. Practically, these findings imply that companies operating in Indonesia should prioritize robust governance structures and compliance with regulatory frameworks to enhance financial reporting quality. By strengthening internal audit functions and empowering audit committees with financial expertise, companies can mitigate risks, detect fraud, and improve the accuracy of financial reporting. This proactive approach not only fosters investor confidence but also aligns with global best practices in corporate governance. the analysis underscores the pivotal role of regulatory compliance and strong governance practices in shaping how internal audit quality and audit committees impact financial reporting quality in Indonesia. By integrating theoretical insights with practical implications, this research

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contributes to understanding how organizational governance structures can optimize financial transparency and accountability in a dynamic regulatory environment.

5. CONCLUSION & SUGGESTION

This study delves deeply into the intricate dynamics between internal audit quality (X1), audit committee effectiveness (X2), and their profound impact on the quality of financial reporting within the Indonesian regulatory framework and business culture. The findings illuminate that robust internal audit processes and strong audit committee oversight are crucial determinants of enhanced financial reporting quality. These insights hold significant implications for organizational stakeholders, particularly finance and audit teams tasked with ensuring the accuracy and reliability of financial disclosures. From a practical standpoint, organizations in Indonesia are advised to prioritize enhancing internal audit capabilities and optimizing audit committee structures. Strategic investments in advanced technology solutions, such as automated monitoring systems for transactional activities, can streamline internal control processes and improve the precision and timeliness of financial reporting. Additionally, fostering audit committees composed of members with diverse financial expertise and independence is essential for effective oversight of financial reporting practices and adherence to regulatory standards.

Effective oversight by the board of commissioners and proactive engagement by the board of directors are critical in aligning corporate objectives with regulatory mandates, thereby reinforcing the integrity of financial reporting. These governance mechanisms not only mitigate operational risks and detect potential fraud but also bolster stakeholder confidence in the transparency and accountability of financial disclosures. In comparison with existing literature, this study corroborates earlier findings that emphasize the significant influence of internal audit quality on financial reporting outcomes, particularly within the specific context of Indonesia. It contrasts with studies from other contexts that may depict varying impacts of audit committees on financial reporting quality. In the Indonesian context, this research supports the notion that well-functioning audit committees play a pivotal role in elevating financial reporting quality by ensuring adherence to accounting standards and promoting transparency in corporate disclosures. Companies can leverage these insights by adopting best practices in governance and internal control mechanisms to optimize financial transparency and accountability. Future research endeavors could explore alternative methodological approaches and expand the scope of variables to further validate and reinforce these findings across diverse organizational settings, thereby advancing the understanding of effective corporate governance practices in enhancing financial reporting quality.

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