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Internal Audit and Public Accountability as Strategic Instruments for Ensuring Transparency and Reliability in Public Financial Reporting

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Abstract

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The quality of financial statements represents a crucial component in achieving public accountability and good governance within the public sector. High-quality financial reporting characterized by reliability, transparency, and relevance serves not only as a tool for public disclosure but also as a strategic instrument that supports effective oversight, informed policy decisions, and sustainable trust between government institutions and society. Nevertheless, persistent challenges such as limited human resource capacity, inadequate compliance with accounting standards, and deficiencies in financial information systems often undermine the consistency and credibility of financial reports. Within this context, internal audit serves as a critical control mechanism that ensures the effectiveness of financial management, minimizes irregularities, prevents fraud, and enhances operational efficiency. Employing a systematic literature review approach, this study explores the interrelationship among financial statement quality, public accountability, and internal audit effectiveness in promoting good governance within governmental entities. The findings reveal that effective internal auditing positively contributes to improving transparency, strengthening the reliability of financial reports, and increasing public confidence in governmental accountability.

1. Introduction

Public accountability is one of the fundamental pillars in the implementation of good governance. This concept reflects the government's obligation to account for the management of public resources transparently, efficiently, and in accordance with the interests of the community. One concrete form of this public accountability is realized through the presentation of quality financial statements. Well-prepared financial statements do not only serve as a means of administrative reporting but also become a strategic instrument to ensure transparency, efficiency, and effectiveness in the use of public funds (Kewo & Mamuaya, 2019). Thus, high-quality financial statements are an important foundation for building and maintaining public trust in government administration.

The quality of public sector financial statements essentially represents the extent to which government entities apply generally accepted accounting principles by prioritizing the aspects of relevance, reliability, and timeliness in the presentation of financial information. Financial statements presented transparently allow the public to evaluate how public funds are managed and used, and provide a strong basis for oversight agencies and policymakers to formulate continuous public policy evaluation and improvement. However, in practice, various challenges are often faced, including the limitation of competent human resources in governmental accounting, weaknesses in the financial information system, and non-compliance with established financial reporting standards (Kaawaase et al., 2021). These factors have the potential to degrade the quality of financial statements and weaken the function of public accountability in managing state finances.

In this context, internal audit plays a strategic role in ensuring the integrity, accuracy, and credibility of government financial statements. As an independent function, internal audit does not only focus on finding errors or indications of irregularities but also serves to provide constructive recommendations to improve the efficiency and effectiveness of the public financial management system. The role of internal audit in the public sector becomes an essential control mechanism to ensure that all processes of budgeting, reporting, and financial supervision run in accordance with the principles of transparency and accountability (Abdulai et al., 2021). An internal audit function that is carried out professionally and continuously can strengthen the internal control system, reduce the risk of deviations, and enhance the reliability of financial information presented to the public.

Furthermore, internal audit is closely related to the implementation of good governance principles. These principles include aspects of participation, accountability, transparency, effectiveness, and the enforcement of the rule of law, which form the basis for clean and integrity-driven government administration. An optimally functioning internal audit is capable of strengthening the implementation of these principles through systematic oversight activities, assessment of risk management effectiveness, and providing relevant input on the organization's internal control. Previous research results indicate that the quality of internal audit has a positive relationship with the quality of financial statements and the effectiveness of overall government governance (Izedonmi & Olateru-Olagbegi, 2021). This means that the higher the quality of internal audit implemented, the greater its contribution to increasing government financial transparency and accountability. By considering this connection, it can be understood that the relationship between financial statement quality, internal audit effectiveness, and the level of public accountability are interacting components in creating a transparent, efficient, and integrity-oriented governmental system.

Accountable government demands financial statements compiled based on trustworthy standards, while a strong internal audit serves as the primary oversight tool to ensure these standards are met. Therefore, this research aims to systematically review various literature discussing the relationship between internal audit, the implementation of good governance, and the quality of public sector financial statements using the Systematic Literature Review (SLR) approach. Through an analysis of literature over the last five years, this study is expected to provide a comprehensive understanding of how the implementation of internal audit and good governance principles can strengthen the quality of public sector financial statements and enhance the accountability and public trust in government institutions.

2. Literature Review

2.1. Financial Statement Quality in the Context of Public Accountability

The quality of public financial statements is a reflection of a government entity's ability to manage and report the use of public funds transparently and accountably. High-quality financial statements must meet qualitative characteristics such as relevance, reliability, comparability, and comprehensibility by stakeholders. These criteria support the implementation of public accountability because they provide a basis for the public to assess the extent to which the government effectively carries out its financial responsibilities. According to Kewo and Mamuaya (2019), quality financial statements play an important role in realizing good governance because they provide useful information for public decision-making. They assert that the quality of financial statements can be improved through the strengthening of the internal audit system and the application of transparency principles.

Meanwhile, Gamayuni (2018) highlights that the reliability of financial statements depends not only on accounting procedures but also on the effectiveness of the internal audit function as a quality controller. Furthermore, Kaawaase et al. (2021) indicate that the quality of financial statements in public institutions is heavily influenced by the implementation of good governance, where effective oversight and adherence to international accounting standards can increase the credibility of financial statements. Strong public accountability demands reliable and timely financial statements so that the public and oversight bodies can objectively evaluate government performance.

2.2. The Role of Internal Audit in Financial Transparency and Control Internal

audit has a crucial role in ensuring that the financial reporting process in the public sector is executed transparently, accurately, and in accordance with the principles of accountability. In the context of government administration, internal auditors function to assess the effectiveness of the internal control system, identify potential financial risks, and provide strategic recommendations to enhance the efficiency and effectiveness of public financial management. Abdulai et al. (2021)

assert that the success of internal audit implementation substantially depends on the auditor's level of independence, technical competence, and management support in following up on recommendations resulting from the audit process. Research findings by Izedonmi and Olateru-Olagbegi (2021) show that internal audit effectiveness has a significant positive relationship with the improvement of public sector management quality. Internal auditors who carry out oversight and consultation functions objectively can help the government prevent budget misuse, increase the efficiency of resource management, and ensure compliance with applicable financial regulations and policies.

Meanwhile, Gamayuni (2018) adds that internal audit acts as a quality assurance mechanism for financial statements, especially in maintaining the accuracy and integrity of data presented to the public. Furthermore, the role of internal audit becomes even more strategic amidst increasing demands for public transparency. Continuous auditing serves not only to detect potential irregularities but also as a preventive instrument against the possibility of fraud in the management of state finances. Kaawaase et al. (2021) affirm that independent and professional internal audit is capable of increasing public trust in public institutions and strengthening the government's legitimacy in running an accountable and integrity-driven administration.

2.3. Good Governance as a Foundation for Improving Financial Statement Quality

The concept of good governance includes the principles of transparency, accountability, effectiveness, efficiency, and the rule of law. In the context of public sector financial reporting, good governance serves as a normative framework that ensures all reporting processes are carried out responsibly and openly. Kewo and Mamuaya (2019) state that the application of good governance principles in public financial management significantly contributes to increasing the reliability of financial statements. The research by Abdulai et al. (2021) also shows that the synergistic relationship between internal audit and good governance results in increased transparency and integrity of financial statements. A similar point is revealed by Kaawaase et al. (2021) who emphasize that strong public corporate governance cannot be separated from the existence of an effective internal audit system.

From a broader perspective, Gamayuni (2018) argues that the quality of public financial statements is a key indicator of successful government governance. A competent internal audit plays a role in ensuring compliance with these principles and strengthening public trust in the government. Thus, good governance is not only the result of quality financial statements but also a mutually reinforcing mechanism between internal audit and public accountability. The literature shows a close link between financial statement quality, internal audit, and good governance. These three elements form a continuous cycle that strengthens transparency, accountability, and efficiency in public financial management. By strengthening the internal audit function and implementing good governance principles, the government can ensure that financial statements not only fulfill administrative obligations but also become a key tool for building public trust and the integrity of state institutions.

3. Methods

This study uses the Systematic Literature Review (SLR) method to analyze the relationship between financial statement quality, internal audit, and the implementation of good governance in the public sector. The SLR approach was chosen because it allows the researcher to systematically and structurally collect, evaluate, and synthesize various empirical findings from previous research. The main objective of this method is to identify patterns, gaps, and relevant scientific contributions toward improving public transparency and accountability through quality financial statements. The research process was conducted through several stages. The first stage is literature identification, where the researcher collected relevant scientific articles from academic databases such as Google Scholar or Research Gate. The inclusion criteria used included English-language journal articles published within the last five years, and focused on the topics of financial statement quality, internal audit, public accountability, and good governance. Articles that lacked conceptual relevance or were outside the specified time range were excluded from the analysis.

The second stage is selection and screening. At this stage, each article was analyzed based on thematic relevance, clarity of methodology, and contribution to the research topic. This process followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to ensure consistency and transparency in study selection. The screening results yielded a collection of valid and reliable literature for further analysis. The third stage is content analysis and thematic synthesis. Each article was reviewed in depth to identify the relationship between the main variables, namely financial statement quality, internal audit, and good governance.

Data were then categorized based on themes such as "the influence of internal audit on transparency," "the relationship between governance and accountability," and "determinants of financial statement quality." This approach was used to find patterns of relationship between concepts and research gaps that are still open for further study. The final stage is the interpretation of results and the drafting of conclusions. Findings from the synthesis analysis were used to explain the contribution of internal audit to improving the quality of financial statements and the implementation of good governance in the public sector. Thus, the SLR method provides a strong, evidence-based foundation for understanding how internal audit practices and good governance principles can enhance public financial transparency and accountability.

4. Results

The results of this systematic review consistently show that the quality of public sector financial statements is influenced by three main factors: the effectiveness of internal audit, the application of good governance principles, and the level of public accountability. These three elements have a synergistic and mutually reinforcing relationship in ensuring the transparency, accuracy, and reliability of financial information presented by the government to the public. In the context of state financial governance, the presence of an effective internal audit is an important pillar that ensures the reporting process runs objectively and in accordance with the principle of public accountability.

Based on the analysis of various literature, the internal audit function is proven to have a significant role in improving the credibility and reliability of government financial statements. Abdulai et al. (2021) assert that internal audit effectiveness contributes to a decrease in the risk of reporting errors and an increase in the quality of financial information through an independent verification process. In this regard, internal auditors not only function as oversight parties but also act as consultants who provide strategic recommendations for improving the internal control system within public organizations. This view is reinforced by Kaawaase et al. (2021), who state that a quality-executed internal audit is capable of correcting weaknesses in financial recording, suppressing the potential for manipulative practices, and increasing compliance with reporting standards.

Internal audit carried out continuously and based on a risk approach also has the ability to detect irregularities early, thereby serving as a preventative mechanism against fraud. Research conducted by Zeyn (2018) also provides empirical support for this view by showing that the presence of an effective internal audit has a positive relationship with the integrity of public financial statements. When internal auditors have a high degree of independence and adequate access to financial data, the resulting audit findings tend to be objective and trustworthy. This condition strengthens the position of internal audit as the main oversight mechanism in maintaining the quality of financial statements and supporting the creation of a transparent and integrity-driven government financial system.

Furthermore, the implementation of good governance principles plays an important role in strengthening the transparency and accountability of public financial reporting. Kewo and Mamuaya (2019) affirm that the implementation of good government governance can increase public trust in financial statements because it strengthens the principles of transparency and accountability in every stage of state financial management. They also highlight that the existence of an effective internal audit system is a crucial component in ensuring the success of good governance implementation. Izedonmi and Olateru-Olagbegi (2021) reinforce this view by showing that quality internal audit is capable of encouraging compliance with good governance principles, including accountability, participation, and transparency.

Professionally audited financial statements not only increase information accuracy but also contribute to the improvement of public financial management policies and practices. In the long run, the synergy between internal audit and good governance principles can form an organizational culture oriented toward integrity, efficiency, and high public responsibility. According to Koo et al. (2017), the application of good governance principles also has a direct impact on increasing fiscal transparency and government legitimacy. Openness in the public budgeting and financial reporting process reflects the government's commitment to the principle of accountability to the public. This indicates that good government governance is not merely an administrative mechanism but also a strategic instrument in building long-term trust between the government and citizens.

Although various efforts for improvement have been made, challenges in maintaining the quality of public sector financial statements remain significant. Based on a review of a number of studies, common obstacles encountered include limitations in human resources, weaknesses in the financial information system, and a lack of commitment to applying international accounting standards. Zeyn (2018) notes that many public agencies still do not have internal auditors with adequate professional competence, thereby limiting the effectiveness of oversight and increasing the risk of reporting errors. The complexity of the government financial reporting system also often hinders the timeliness of statement preparation, which ultimately slows down the evaluation process and strategic decision-making (Nden, 2019).

Abdulai et al. (2021) add that resistance to audit results remains a serious obstacle, where many agencies have not consistently followed up on audit recommendations due to a low understanding of the long-term benefits of financial transparency. This situation causes the process of improving the internal control system to be slow, so the quality of financial statements has not experienced a significant increase. In a similar context, Koo et al. (2017) highlight the barriers to the application of information technology in the public accounting system, including infrastructure limitations and the technical capacity of human resources. However, the digitalization of the financial reporting system can strengthen the efficiency, accuracy, and transparency of the reporting process. Therefore, strengthening the capacity of human resources and modernizing accounting information systems are strategic steps that need to be prioritized to improve the quality of government financial reporting.

The findings in this review also demonstrate a close reciprocal relationship between internal audit effectiveness and the implementation of good governance. Quality internal audit not only strengthens accountability and transparency but also encourages the formation of an organizational environment that supports the independence and professionalism of auditors. Hazaea et al. (2020) explain that harmonious collaboration between internal audit and good government governance creates a continuous and adaptive oversight system for the dynamics of public bureaucracy changes. Izedonmi and Olateru-Olagbegi (2021) also affirm that internal audit focusing on risk mitigation and providing strategic recommendations can encourage innovation in public financial management. In this context, internal auditors not only serve as controllers but also as strategic partners in the government decision-making process. This synergy strengthens the added value of internal audit as an integral part of an effective and results-oriented government governance system.

Furthermore, high financial statement quality has direct implications for increasing public trust and the effectiveness of government administration. When financial statements are presented transparently and can be audited properly, the public will be more confident that public funds are managed responsibly and efficiently. Dewi et al. (2019) emphasize that financial reporting transparency plays an important role in strengthening government legitimacy and building healthy social relations between the state and citizens. Abdulai et al. (2021) also highlight that the effective implementation of internal audit not only impacts the improvement of financial statement quality but also contributes to operational efficiency and overall organizational performance improvement. Internal audit helps the government identify areas of waste, optimize resource utilization, and strengthen the internal control system.

These efforts directly support the achievement of national development goals sustainably. Thus, the overall results of this review confirm that improving the quality of public sector financial statements cannot be separated from the presence of professional internal audit and the consistent implementation of good governance principles. The synergy between these two elements results in a financial reporting system that is more transparent, accountable, and trustworthy, which ultimately strengthens the effectiveness of government and increases public confidence in state institutions.

5. Discussion

The results of the literature review indicate that the quality of public sector financial statements is a direct reflection of the effectiveness of the internal audit system and the level of good governance implementation in government organizations. The relationship between these three elements is synergistic and continuous, where internal audit plays a role in maintaining the integrity and reliability of financial data, while good governance strengthens the foundation of structural accountability and transparency. The harmonious collaboration between the two results in financial statements that are more transparent, credible, and trustworthy by the public as a form of government accountability for the management of public funds.

The research conducted by Hazaea et al. (2020) asserts that quality financial statements do not only function as an administrative product but also become a strategic instrument in building government legitimacy in the public eye. They highlight that the implementation of good government governance must be used as a normative framework to ensure the implementation of oversight principles, information openness, and transparency in the management of state finances. In line with this, Furqan et al. (2021) state that the role of a strong internal audit contributes significantly to improving the quality of financial reporting through the evaluation of the internal control system and oversight of the implementation of public financial policies.

This finding is reinforced by Dewi et al. (2019), who suggest that the consistent application of good governance can encourage an increase in fiscal transparency and strengthen internal control in public institutions. The presence of an independent internal audit plays a vital role in ensuring that the financial reporting process proceeds accurately, timely, and in accordance with the principle of accountability. Thus, the resulting financial statements do not only function as an administrative reporting tool but also as a means for the public to conduct constructive public oversight and strengthen trust in government institutions.

In addition to structural and institutional aspects, the human resource factor is also a determining element in ensuring the success of the internal audit system and reliable financial reporting. Bello et al. (2018) affirm that the technical competence of internal auditors, the level of professional independence, and support from organizational management are key determinants that influence audit effectiveness. Auditors who possess high analytical ability, deep understanding of financial risks, and strong professional ethics are capable of providing targeted policy recommendations for decision-makers in the public sector. Therefore, strengthening the capacity and professionalism of auditors through continuous training is a strategic step in maintaining the consistency of audit quality and the quality of government financial reporting. This review also emphasizes the importance of information technology innovation in strengthening the transparency and efficiency of public financial reporting. Digitalization of government accounting systems and the utilization of electronic audit trails can increase the reliability of financial transaction recording processes and reduce the potential for human error.

However, the application of this technology needs to be balanced with an increase in human resource capacity so that the digital system can be operated effectively and sustainably. The results of this review indicate that the quality of public sector financial statements can only be achieved through a synergistic combination of good government governance, an effective internal audit system, and an institutionalized culture of integrity within public organizations. The three are mutually complementary in forming a comprehensive accountability mechanism. Within this framework, internal audit does not merely function as an oversight tool but also as a strategic instrument in ensuring that every public financial policy and decision aligns with the principles of transparency, efficiency, and social justice.

6. Conclusion

The quality of public financial statements is an important indicator of the success of good governance. Based on the systematic review of various literature, it can be concluded that the quality of financial statements is highly influenced by the effectiveness of internal audit, the application of transparency principles, and commitment to public accountability. An independent, competent, and risk-oriented internal audit is capable of increasing the integrity and reliability of financial statements. Furthermore, the implementation of good governance principles strengthens the financial oversight and control system, which directly impacts the increase in public trust. The synergy between internal audit and good governance creates an organizational environment that is transparent, efficient, and oriented toward public service.

Challenges that are still faced, such as limitations in human resources and weaknesses in the financial information system, need to be overcome through continuous training, institutional reform, and the application of modern accounting technology. Thus, public financial statements not only become a tool for accountability but also a strategic instrument in improving government effectiveness and public confidence in the management of state finances. This research asserts the importance of internal audit as a key pillar of accountability and transparency. Therefore, increasing auditor capacity, strengthening regulations, and the consistent implementation of good governance are fundamental steps to realize high-quality and integrity-driven public financial management.

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