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# The Role of Audit Frequency in Ensuring Corporate Financial Compliance

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## Abstract

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The frequency of external audits plays a significant role in strengthening financial oversight, particularly by ensuring higher compliance with accounting standards and regulatory requirements. This study explores the relationship between external audit frequency and financial compliance, positioning audits as an essential external control mechanism for organizations. Using a qualitative approach, the research relies on secondary data drawn from books, peer-reviewed journals, scholarly articles, and official reports. The findings indicate that increasing the frequency of external audits enhances the timeliness and accuracy of financial reporting, while also fostering stronger accountability and transparency in financial practices. These results are consistent with agency theory, which highlights the importance of independent oversight in reducing conflicts of interest between management and stakeholders. Empirical evidence further supports the positive correlation between frequent audits and compliance, though the degree of effectiveness is influenced by contextual factors such as organizational size, internal control systems, and the balance between benefits and associated audit costs. Consequently, the study emphasizes the need for adaptive, risk-based audit policies to ensure long-term financial integrity and sustainable compliance.

## 1. Introduction

Corporate financial compliance with regulations and accounting standards is essential for building a transparent, accountable, and sustainable financial system. Within the framework of Good Corporate Governance, compliance should not be seen merely as an administrative formality but as a critical foundation for maintaining stakeholder trust, including that of investors, creditors, regulators, and the public. Failure to comply with financial regulations may result in manipulated financial statements, significant financial losses, and severe reputational or financial crises for companies.

External audits serve a vital role as an independent monitoring mechanism, evaluating the fairness of financial statements and ensuring adherence to generally accepted accounting principles and regulations. Acting as impartial third parties, external auditors not only provide professional opinions on financial reports but also highlight weaknesses in internal control systems that could potentially lead to irregularities. The growing emphasis on accountability and transparency across both public and private sectors further reinforces the importance of external audits as an effective governance instrument (Earnhart & Harrington, 2021).

Nevertheless, evidence shows that financial irregularities continue to occur even when companies undergo external audits. According to the Semester II 2023 Audit Summary Report (*Ikhtisar Hasil Pemeriksaan Semester*/IHPS) issued by the Supreme Audit Agency (*Badan Pemeriksaan Keuangan*/BPK), there were 10,747 cases of administrative and financial non-compliance among government institutions and state-owned enterprises, with estimated state losses reaching Rp18.2 trillion. This finding demonstrates that external audits alone have not been sufficient to prevent violations and irregularities. In this regard, the frequency of external audits conducted emerges as a critical factor that warrants closer attention.

External audits are typically carried out on an annual basis as required by regulations, particularly for public companies and entities under financial authority supervision. Although annual audits fulfill formal compliance obligations, the fast-changing nature of corporate operations and susceptibility to fraudulent practices demand more rigorous oversight. In this regard, the frequency of external audits becomes a crucial factor in strengthening the effectiveness of supervision and ensuring that companies consistently comply with financial principles and regulations (Sulaiman, 2023). Nevertheless, some organizations continue to treat external audits as a mere administrative requirement rather than as a strategic tool to enhance integrity and the quality of financial management. When audits are reduced to formalities, their function as an internal control mechanism is weakened, leading to recurring audit issues, inaccurate reporting, and heightened fraud risks. This indicates that conducting external audits more frequently has the potential to encourage stronger, more sustainable compliance behavior (Erin & Adegboye, 2022).

Prior research has largely concentrated on the influence of audit quality on financial compliance. Suttipun (2020) found that the quality of external audits significantly improves financial reporting transparency, while Azzam et al. (2020) emphasized that auditor independence and professional competence are key in preventing manipulation of financial statements. However, studies specifically focusing on audit frequency remain limited. For example, LÜ (2020) reported that the frequency of internal audits is positively associated with financial control, but there is still a lack of empirical research examining how external audit frequency affects financial compliance particularly in the Indonesian corporate context.

In Indonesia, data from the Financial Services Authority (*Otoritas Jasa Keuangan*/OJK) in 2022 show that around 82% of public companies conduct external audits only once a year without any additional reviews. This indicates that most firms have not incorporated audit frequency into their strategies for strengthening compliance. Conducting audits more frequently could deliver stronger oversight signals and encourage management to be more cautious in financial decision-making. Accordingly, this study seeks to examine the relationship between external audit frequency and the level of corporate financial compliance. By adopting a quantitative approach, the research aims to provide empirical contributions to the auditing and financial governance literature while also offering practical insights for regulators and corporate leaders in designing more adaptive and effective financial oversight strategies.

## 2. Methods

This study adopts a qualitative research design utilizing the literature review method. This approach was selected to gain a comprehensive understanding of the relationship between external audit frequency and the level of financial compliance, drawing on theoretical frameworks and findings from previous studies. The central objective is to explore the influence of audit frequency on financial compliance by examining theoretical, normative, and empirical perspectives through an extensive review of academic references.

The data used are secondary sources, collected from credible and relevant materials such as academic books, national and international journals, online scientific articles, prior research, official reports from audit institutions, and regulations related to auditing practices and financial compliance. Sources were purposively selected based on their relevance and alignment with the research objectives.

This study considers two main variables: the independent variable external audit frequency, defined as the intensity or number of audits conducted by external auditors within a given period; and the dependent variable financial compliance, referring to the degree to which entities adhere to applicable accounting standards, regulations, and reporting principles. Data analysis was conducted using descriptive and qualitative techniques, involving reviewing, categorizing, and synthesizing key findings from the literature to build a conceptual framework and explain the relationship between the variables. Unlike statistical hypothesis testing, this study seeks to provide a theoretical and argumentative exploration of the potential impact of external audit frequency on financial compliance. Through this approach, it aims to contribute meaningful conceptual insights to the field of auditing and financial governance studies in Indonesia.

## 3. Results

### 3.1. Concept of External Audit Frequency and Financial Compliance

The role of external audit frequency in influencing financial compliance has been widely discussed in accounting and finance literature, both conceptually and empirically. Audit frequency refers to how often an organization, whether a company, government body, or nonprofit, is reviewed by independent external auditors. The purpose of these audits is to confirm the accuracy of financial reports, ensure compliance with standards such as Indonesia's Financial Accounting Standards (SAK) or the international IFRS, and identify possible errors, irregularities, or fraud. How often audits are conducted may differ annually, every two years, or more frequently, depending on regulations, the size and complexity of the organization, and the needs of stakeholders such as investors, creditors, or regulators (Azzam et al., 2020). Financial compliance shows how well an entity follows accounting standards, regulations, and internal reporting rules. This includes timely submission of financial reports, accuracy of the data presented, tax compliance, and adherence to other financial regulations (Earnhart & Harrington, 2021). Compliance is not only about meeting formal requirements but also about building transparency and accountability, which are essential for maintaining stakeholder trust. For this reason, the connection between external audit frequency and financial compliance has become an important subject of research, since external audits are considered an effective oversight tool to ensure that organizations follow the required standards and regulations.

From a theoretical standpoint, agency theory, introduced by Jensen and Meckling (1976) provides an essential basis for explaining the role of external audits (Cheffins, 2021). According to this theory, external audits function as a control mechanism that reduces conflicts of interest between management (agents) and stakeholders or owners (principals). Since managers may be motivated to manipulate financial statements for personal benefit such as boosting bonuses or hiding poor performance, frequent audits increase oversight, which encourages stronger compliance with financial regulations. The possibility of negative audit findings also pressures managers to be more careful when preparing financial reports, thereby lowering the risk of fraud or misrepresentation (Oosthuizen et al., 2020). Supporting this perspective, Sulaiman (2023) highlights that regularly scheduled external audits help ensure financial reports comply with generally accepted accounting principles such as GAAP or IFRS. Conducting audits more frequently allows auditors to review financial data in greater depth and identify errors or inconsistencies more promptly (Alam et al., 2022). This not only enhances the reliability and quality of financial reporting but also boosts stakeholder trust in the credibility of those reports. Such trust is particularly vital for organizations that rely heavily on external financing or are required to present financial information transparently to the public.

According to Zdyrko et al. (2022), external audits play a crucial role in public entities, particularly in local governments. They argue that conducting audits more frequently strengthens accountability and ensures better compliance with financial reporting standards, especially in settings governed by strict regulations. In the public sector, where the proper use of public funds is a central concern, higher audit frequency allows for closer monitoring of financial practices and promotes greater transparency and responsibility. This practice is especially significant in countries where governance frameworks strongly emphasize public accountability.

### 3.2. Empirical Evidence and Influencing Factors

Empirical research also offers strong evidence regarding the influence of external audit frequency on financial compliance. For instance, Ta and Doan (2022), in a study on Indonesian local governments, revealed that more frequent audits are positively linked to greater financial statement disclosure. Frequent audits create pressure on entities to be more transparent, as previous audit findings often drive improvements in financial reporting practices for subsequent periods. For example, when auditors uncover discrepancies in budget management, local governments are compelled to refine their accounting processes before the next audit takes place.

Similarly, Abdelrahim and Al-Malkawi (2022) found that audit frequency has a significant impact on the timeliness of financial reporting. Since delayed reports often indicate weak internal controls or non-compliance, more frequent audits encourage organizations to be more disciplined in preparing and submitting financial statements promptly, thereby reducing the likelihood of regulatory sanctions. In addition, Suttipun (2020) emphasized that periodic external audits enhance the quality of financial reporting. A higher frequency of audits allows for earlier detection and correction of inconsistencies, minimizing the risk of inaccurate disclosures. This is especially important in the banking industry, where adherence to strict financial regulations is crucial, and reporting errors can lead to serious consequences such as regulatory penalties or loss of stakeholder trust.

A study by LÜ (2020) demonstrates that frequent external audits in local government institutions enhance budget efficiency and accountability. Routine audits help identify instances of wasteful spending or budgetary irregularities, ultimately reinforcing financial compliance. In the context of governance, where public funds must be managed prudently, a high audit frequency serves as a crucial mechanism to ensure that resources are utilized efficiently and in accordance with established regulations.

Research by Nouraldeen et al. (2021) highlights that the frequency of external audits has a significant positive impact on the timeliness of financial reporting by local governments in Indonesia. However, this effect may be influenced by factors such as the size of the region and the complexity of the entity. Entities with weak internal controls tend to benefit more from frequent external audits, as these audits can compensate for the deficiencies in internal monitoring. Conversely, entities with strong internal controls may not require audits as frequent to maintain the same level of compliance.

Erin and Adegboye (2022) further argue that external audit frequency can help reduce audit delays, which are often an indirect indicator of financial compliance issues. Entities that undergo more frequent audits are generally more disciplined in preparing timely financial reports, due to the pressure imposed by tight audit schedules.

Despite the numerous advantages of high audit frequency, certain challenges must also be taken into account. Teng et al. (2022) point out that the costs associated with frequent audits and the limited availability of auditor resources can pose significant barriers, especially for smaller entities or local governments with restricted budgets. This highlights the need for a balance between audit frequency and cost-effectiveness in order to achieve the best possible outcomes. Furthermore, research by Hazaea et al. (2020) reveals that the impact of audit frequency on compliance varies based on the characteristics of the entity, such as profitability or ownership structure. For example, organizations with complex ownership structures may require more frequent audits to ensure compliance, as opposed to those with simpler structures.

The frequency of external audits influences financial compliance through several key mechanisms. First, more frequent audits improve oversight of management practices. Discrepancies identified during audits can be promptly addressed, encouraging entities to maintain discipline in financial reporting. Second, higher audit frequency facilitates the early detection of irregularities, such as accounting errors or fraudulent activities (Imen & Anis, 2021). This early intervention is essential to prevent significant deviations that could harm the entity's reputation or result in legal repercussions. Third, routine external audits bolster stakeholder confidence, including that of shareholders, creditors, and the general public. In order to preserve this trust, entities are incentivized to comply with financial regulations and produce transparent reports. Lastly, the regular occurrence of audits instills a disciplinary effect on management. With the knowledge that financial statements will be consistently scrutinized, management is less likely to engage in financial manipulation or other irregularities, thereby fostering a culture of compliance within the organization.

The effectiveness of how often external audits are conducted depends on several key factors. The size of an organization is a major influence larger entities with complex operations typically need more frequent audits to address higher risks of non-compliance. The strength of internal controls also matters significantly. Organizations with weak internal controls benefit greatly from regular audits, as these can offset deficiencies, while those with strong controls may require less frequent audits. The regulatory and operational environment further shapes audit effectiveness. In highly regulated sectors like banking or governance, frequent audits are more effective for ensuring compliance. However, in industries with fewer regulations, the benefits of frequent audits may be less significant. Additionally, audit costs and the availability of auditor resources are crucial considerations. Smaller organizations or those with limited budgets may find it challenging to conduct frequent audits, requiring a careful balance between audit frequency and cost-effectiveness (Buallay & Al-Ajmi, 2020).

For both private and public organizations, increasing the frequency of external audits can be a powerful way to improve financial compliance, especially in high-risk settings or when internal controls are weak. However, organizations must carefully evaluate the costs versus the benefits to ensure efficiency. Policymakers and regulators can use these insights to create tailored audit frequency requirements, particularly for sectors like local governments or financial institutions that are prone to non-compliance. Looking ahead, advancements in technology, such as data-driven audits and artificial intelligence, could further improve the efficiency and accuracy of external audits, making them even more effective.

External audit frequency significantly boosts financial compliance in organizations, as supported by agency theory, accountability theory, and numerous empirical studies. This impact stems from improved oversight, early identification of issues, greater accountability, and a disciplining effect on entities. However, the effectiveness of frequent audits depends on factors like the organization's size, the strength of its internal controls, regulatory requirements, and audit costs. To maximize benefits, organizations should balance audit frequency with cost efficiency and ensure audits are performed by skilled, independent auditors. Future research could explore differences between private and public sectors and examine how technology influences this dynamic, offering deeper insights into optimizing audit frequency for better financial compliance.

## 4. Conclusion

More frequent external audits significantly enhance financial compliance in both public and private sector organizations. These audits serve not only to verify financial statements but also as a robust independent mechanism to ensure adherence to accounting standards and regulations. Regular audits encourage management to maintain transparency, discipline, and accountability in financial operations. From a theoretical lens, such as agency theory, frequent audits reduce conflicts of interest between management and stakeholders by fostering closer oversight. Empirical evidence further supports that increased audit frequency improves the timeliness of financial reporting, strengthens accountability, minimizes audit delays, and enhances the quality of financial information. However, the effectiveness of frequent audits depends on factors like the organization's size, the strength of its internal controls, regulatory requirements, and the cost-efficiency of audits.

Despite these benefits, frequent audits come with challenges, particularly related to costs and resource limitations. Striking a balance between sufficient oversight and operational efficiency is crucial. Governments and regulators can support this by designing policies tailored to the unique needs of different entities and leveraging modern audit technologies to boost the effectiveness of external audits. Increasing audit frequency is a valuable strategy to strengthen financial compliance, promote transparency, and build stakeholder confidence in the integrity of financial reporting. Further research is needed to explore the role of audit frequency across various sectors and institutional contexts, as well as the potential of technology to optimize both the frequency and impact of external audits in the future.

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