

A Deep understanding of the value of external audit for internal control and stakeholders

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ARTICLE HISTORY	ABSTRACT
<p>Received : February 17th, 2025 Revised : March 2nd, 2025 Accepted : March 15th, 2025</p> <p>Keywords :</p> <p>external audit internal control stakeholder trust</p>	<p><i>This research aims to gain a deep understanding of the value of external audits for internal controls and stakeholder trust by analyzing relevant previous journals. The approach used in this research is a literature study, which collects and analyzes various findings from previous research on the role of external audits in improving the effectiveness of internal controls and strengthening stakeholder trust. The results of the study show that external audits play an important role in ensuring the sustainability of a strong internal control system, as well as increasing the credibility of financial reports, which has a positive impact on stakeholder trust.</i></p>

INTRODUCTION

In an increasingly complex and dynamic business environment, companies face various challenges that require strategic decision-making that is both accurate and well-informed. One crucial source of information that can support this decision-making process is the analysis provided by external auditors. External auditors, as independent parties who evaluate a company's reports and internal control systems, play a key role in offering objective insights into the company's financial and operational performance. The role of external auditors is not limited to verifying and validating financial reports; it also includes risk assessment, regulatory compliance evaluation, and identifying weaknesses in the internal control system. (Vita Aprilia Maghfiroh et al, 2024)

Internal control refers to the processes, policies, and procedures implemented by a company to achieve its established objectives. Its primary purpose is to safeguard the company's assets from misuse and loss, ensure the accuracy and reliability of financial reports, and improve operational efficiency. By implementing internal controls, companies can prevent potential losses, produce reliable financial statements, and enhance performance. Therefore, internal control plays a crucial role within a company. Beyond economic objectives, it also ensures compliance with government policies in operations.

Internal control offers numerous positive impacts for a company when conducting its business activities. These benefits include enhanced reliability of financial reports, reduced risk of losses, and increased operational efficiency. Internal control not only ensures efficiency and protects assets but also establishes a strong foundation for the company's long-term growth and sustainability. Consequently, internal control greatly benefits companies in maintaining and improving their operations. (Hernan Sananta Nugroho, 2024)

Stakeholder trust in audited financial statements is crucial in the business context as it directly impacts a company's credibility and operational sustainability. Stakeholders, including

investors, employees, customers, and suppliers, have significant interests in a company's performance and transparency. Stakeholders, particularly investors, rely on audited financial statements to make informed investment decisions. Reliable reports provide assurance that the company is well-managed and has positive prospects. Uncertainty or doubt regarding financial statements can lead investors to withdraw their investments or avoid making new ones. (Mengenai Jenis-jenis dan Peran Stakeholder dalam Bisnis, 2024)

A company's credibility is heavily influenced by the quality of its audited financial statements. Reports audited by independent auditors provide assurance that financial information has been thoroughly examined and complies with applicable accounting standards. This fosters the perception that the company operates ethically and transparently. (Stakeholders: Peran Vital di Dunia Public Relations, 2023)

LITERATURE REVIEW

External auditors are professional auditors who provide their services to the public, primarily in auditing financial statements prepared by their clients. Users of a company's financial information, such as investors, government agencies, and the general public, rely on external auditors to produce unbiased and independent information. According to Messier et al. (2006), Certified Public Accounting firms (CPAs) are also referred to as external or independent auditors. These accountants are responsible for examining or auditing an organization's published financial statements and providing an opinion on the audited information. An external auditor may practice as a sole proprietor or as a member of a public accounting firm. They are referred to as external because they are not employed by the entity being audited. External auditors audit financial statements for both public and non-public companies. Audit standards restrict the types of other audit services that an external auditor can provide to financial statement audit clients that are public companies. (Arista Puji Utami et al, 2024)

Internal control is a process carried out by management and other personnel within an organization to direct, monitor, and measure resources to achieve specific objectives. According to COSO (Committee of Sponsoring Organizations of the Treadway Commission), internal control comprises five main components. The first is the control environment, which refers to the organizational atmosphere that establishes the foundation for internal control, including ethical values and integrity. The second is risk assessment, involving the identification and analysis of risks that may hinder the achievement of organizational goals. The third component is control activities, which are policies and procedures established to ensure that identified risks are effectively managed. The fourth is information and communication, referring to systems that support the collection and dissemination of relevant information to stakeholders. Lastly, monitoring involves ongoing assessments of the quality of internal controls to ensure their continued effectiveness.

In this context, external audits play a role in supporting the effectiveness of internal controls. External audits act as an independent mechanism for evaluating the reliability of financial reports and the effectiveness of the internal control system. External auditors provide an opinion on whether the financial statements are fairly presented in accordance with applicable accounting principles. This opinion enhances the credibility of the reports in the

eyes of stakeholders. External auditors assess a company's internal control systems, identify weaknesses, and provide recommendations for improvements to enhance control effectiveness. External audits can help detect fraud or irregularities in financial statements that may not be identified by internal audits. The presence of external audits gives stakeholders, such as investors and creditors, greater confidence in the integrity of financial reports, thereby strengthening their relationship with the company (Dina Arinda Putri, 2022).

Trust theory plays a crucial role in understanding the relationship between companies and stakeholders, particularly in the context of audited financial statements. This theory emphasizes how individuals or groups build confidence in one another within the framework of social and business interactions. In the business environment, stakeholder trust in a company is largely influenced by the transparency and accuracy of the information it provides. One key factor is information quality—clear, accurate, and timely information enhances stakeholder trust, and independently audited financial statements offer assurance that the information is reliable. Another factor is the company's reputation; companies with a strong reputation, built through consistent reporting and adherence to ethical standards, tend to earn greater trust from stakeholders. Additionally, positive interactions, such as open communication and responsiveness to stakeholder needs, further strengthen trust and foster long-term relationships.

External audits serve as an independent guarantee of a company's financial statements. External auditors provide opinions on the fairness of financial reports, which enhances the credibility of the information in the eyes of stakeholders. The audit process improves transparency in financial reporting, enabling stakeholders to feel more confident in making decisions based on that information. External audits also help detect fraud or irregularities in financial statements, offering additional protection for investors and other stakeholders. By ensuring high-quality external audits, companies can strengthen their relationships with stakeholders, increasing their trust and support for the organization.

METHODS

This study employs a qualitative descriptive approach using a literature review method. This approach aims to provide a deep and systematic understanding of the value of external audits for internal control and stakeholders. According to Sari & Maharani (2024), a literature review is a method that examines theories, findings, and other research materials from various relevant literature sources. This review integrates perspectives from academic journals, books, articles, and other credible sources.

This research utilizes secondary data obtained from previously published literature. The sources of secondary data include academic journals, which provide articles discussing external audits, internal control, and stakeholder trust; books and academic literature, which serve as theoretical references on auditing and corporate governance; internet articles, offering recent and relevant information related to the research topic; and research reports, which present studies on external audits and their impact on internal control systems and stakeholder relationships.

Data collection was conducted by selecting relevant literature based on specific criteria

to ensure the quality and relevance of the sources. The selection included articles published within the last five years to maintain up-to-date information, and literature in both Indonesian and English to broaden the scope of reference. The chosen sources were required to be directly relevant to the research topic, particularly focusing on external audits, internal control, and stakeholder trust. Additionally, articles were accessed through reputable platforms such as Google Scholar, ResearchGate, and various national or international journal databases.

Data analysis in this study is conducted using a qualitative analysis method, which involves several systematic steps. The first step is data reduction, where information from relevant literature is selected and simplified to focus on the value of external audits. This is followed by data presentation, in which the findings from the literature review are organized into narratives, tables, or diagrams to facilitate reader understanding. The final step is conclusion drawing, where conclusions are formulated based on the analysis results to address the research objectives—specifically, to understand the value of external audits in the context of internal control and stakeholder trust.

RESULTS

The Value of External Audits for Internal Control

External audits play a crucial role in supporting the effectiveness of a company's internal control system. One of the key contributions is the evaluation of internal control systems, where external auditors assess the reliability and adequacy of a company's control mechanisms. They identify existing weaknesses and provide recommendations for improvement, helping organizations enhance operational efficiency and safeguard their assets.

Another important contribution is fraud detection. External audits have the potential to uncover fraud or irregularities that may go unnoticed by internal audits. This independent evaluation strengthens the overall security and integrity of the internal control system, ensuring that financial reporting and operational activities are conducted transparently.

Lastly, external audits contribute to efficiency improvement. By reviewing and analyzing the company's systems and procedures, external auditors help reduce the risk of financial and operational losses. Their recommendations can lead to the implementation of more effective controls, thereby improving the overall efficiency and accountability of the organization.

The Impact of External Audits on Stakeholder Trust

External audits serve as an independent mechanism that significantly enhances the credibility of financial statements in the eyes of stakeholders. One of the main benefits is the assurance of transparency, where audited financial statements give stakeholders confidence that the reported information is accurate, complete, and in compliance with applicable accounting standards. This assurance is essential in fostering a sense of trust, particularly in environments where information asymmetry between management and stakeholders may exist.

Furthermore, external audits lead to increased investor confidence. Investors and other financial stakeholders tend to place greater trust in companies whose financial reports have been independently verified. The presence of an external auditor reduces the perceived risk associated with financial misstatements or manipulation, thereby encouraging investment and contributing to the company's financial stability. Additionally, audits serve as protection for stakeholders, providing a control mechanism that helps detect and prevent fraud, errors, and other irregularities that could harm the interests of shareholders, employees, and the broader public (Sugiharto, 2022).

Finally, a credible and consistent external audit process contributes to enhancing the company's reputation. When a company is known for engaging in transparent financial practices and adhering to ethical standards, it strengthens its public image and stakeholder relationships. This reputation not only supports the company's long-term sustainability but also provides competitive advantages, such as improved access to capital, stronger business partnerships, and customer loyalty.

The Strategic Role of External Audits in Internal Control

Effective internal control serves as a critical foundation for a company's long-term sustainability, and external audits play a key role in reinforcing this foundation. One of their primary contributions is ensuring compliance with regulations. By reviewing a company's adherence to applicable laws, standards, and policies, external auditors help reduce legal and financial risks. This compliance not only protects the company from penalties but also enhances its accountability and public image.

In addition, external audits are valuable for risk identification. Auditors independently assess operational and financial processes to detect potential risks that may threaten the achievement of organizational objectives. This external perspective enables management to recognize vulnerabilities and implement proactive strategies to manage and mitigate those risks effectively.

Lastly, external auditors contribute to enhancing internal processes. Their recommendations, based on objective evaluations, encourage companies to review and refine their internal control systems regularly. This continuous improvement supports better decision-making, increases operational efficiency, and promotes a culture of transparency and responsibility within the organization.

Implications for Stakeholder Trust

Stakeholder trust is a vital asset for a company's sustainability, and external audits play an important role in strengthening that trust. One of the key contributions is enhancing credibility—audited financial statements provide assurance that the company's financial information is accurate and free from material misstatements. This credibility builds confidence among stakeholders, including investors, creditors, customers, and regulatory bodies.

Moreover, external audits help facilitate better decision-making. Stakeholders rely on audited financial information to make informed strategic decisions, such as investing, lending, or forming partnerships. The assurance provided by an independent audit gives these parties a more reliable foundation upon which to assess the company's financial health and future prospects.

Lastly, external audits foster positive perceptions of the company. The transparency and accountability demonstrated through regular and credible audit practices lead stakeholders to view the company as one that values good governance and ethical conduct. This positive perception not only strengthens relationships with existing stakeholders but also attracts new ones, contributing to the company's long-term success and reputation.

Relevance of Trust Theory in External Audits

Trust theory explains that relationships between companies and stakeholders are built on the foundation of transparency and the accuracy of information. In this context, external audits serve as a practical mechanism that reinforces the principles of this theory. One key contribution is ensuring information quality, where the audit process verifies that financial statements are prepared in accordance with applicable accounting standards. This verification offers stakeholders greater assurance that the information they receive is both accurate and trustworthy.

Another important role of external audits is strengthening stakeholder relationships. When a company receives a positive audit opinion, it signals strong performance and sound financial management. This outcome builds stakeholder confidence and reinforces their trust in the company's operations and leadership. It demonstrates that the company is committed to accountability and ethical business practices.

In addition, external audits contribute by protecting against financial risks. Through thorough examinations of financial records and internal control systems, auditors can identify and highlight potential risks before they escalate into larger problems. This added layer of oversight not only safeguards the interests of stakeholders but also supports the company in maintaining financial stability and operational integrity.

CONCLUSION

External auditing plays a significant strategic role in supporting internal controls and enhancing stakeholder confidence. In the context of internal control, external auditors help evaluate existing systems, identify weaknesses, and provide recommendations for improvement. This not only improves the operational efficiency of the company but also safeguards assets from potential losses and discrepancies.

Furthermore, the role of external auditing in building stakeholder trust is crucial. By providing an independent opinion based on applicable accounting standards, external audits enhance the credibility of a company's financial statements. Stakeholders, including investors, creditors, and other parties involved, are more confident in supporting the company based on the transparency and reliability of the information presented.

In the long term, external auditing strengthens the relationship between the company and its stakeholders through improved quality of information, better risk management, and compliance with regulations. Thus, external auditing not only functions as a control tool but also serves as a strategic instrument in supporting the sustainability and growth of the company.

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