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Intellectual capital mediates good corporate governance and internal audit on the quality of financial reports PT. Akebono Brake Astra, Indonesia

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Abstract

This study aims to determine and analyze the influence of good corporate governance, internal audit on the quality of financial reports directly and indirectly through intellectual capital. The research was conducted at PT. Akebono Brake Astra Indonesia, with a sample size of 60 respondents. The method used in the sampling process is random sampling. The analysis model uses path analysis and descriptive analysis. The study's findings indicate that: 1) good corporate governance has a positive and significant impact on intellectual capital; 2) internal audit has a positive and significant impact on intellectual capital; 3) good corporate governance has a positive and significant impact on the quality of financial reports; 4) internal audit has a positive and significant impact on the quality of financial reports; 5) intellectual capital has a positive and significant impact on report quality; 6) there is no positive and significant impact of good corporate governance on report quality through intellectual capital; and 7) there is not a positive and significant influence of internal audit on report quality through intellectual capital. The company's management adheres to the principle of prudence and compliance with the articles of association and company regulations, thus fulfilling social responsibility through a commitment to community welfare and environmental sustainability, especially around the company. The company presents financial report information that can be compared with other reporting entities and with previous financial reports, thus facilitating internal and external comparisons.

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Internal audit.

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1. Introduction

In the era of globalization like today, everything is running and developing rapidly. The progress of the era that cannot be avoided, because the level of technology is increasingly sophisticated, it requires companies to be able to compete healthily. Along with the development of technology and economy in every country, it certainly requires good governance. This good government is a form of success in carrying out the task of building the country according to the planned goals.

Good Corporate Governance (GCG) is a system that regulates and controls companies to create added value for all stakeholders paying attention to the importance of shareholder rights to obtain information correctly, accurately and on time and the company's obligation to disclose accurately, on time, and transparently regarding all information on company performance, ownership, and stakeholders.

Good corporate governance not only affects the quality of financial reports, but also explains the implementation of internal audits that affects the quality of financial reports. That what is meant by internal audit is an examination carried out by the company's internal division, both on financial reports and financial accounting records, as well as compliance with predetermined top management policies and compliance with government regulations and provisions of applicable professional associations. The audit conducted by the company's internal audit department on financial reports and accounting records aims to determine how the bookkeeping and financial reports show a true picture of activities and to determine how each department or unit has actually implemented the policies, plans or procedures that have been set by top management.

Auditors are a profession trusted by clients to prove the fairness of financial statements presented by company management. In order to maintain the trust of clients and other users of audited financial statements, auditors are required to be experts. Clients and users of audited financial statements expect auditors to be able to provide assessments and provide information regarding the condition of the financial statements presented by company management. The assessment of the financial statements is an effort to realize the auditor's responsibility as an external party who is considered to have the expertise and experience to carry out a series of audit procedures aimed at obtaining adequate assurance that the financial statements do not contain fraud that causes material misstatements.

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Auditors are viewed by clients as experts who can verify the correctness of the financial statements that company management provides. To maintain the trust of clients and other users of audited financial records, auditors need to be experts. Customers and users of audited financial statements expect auditors to provide insights and information on the quality of the financial statements that management of the company has prepared. In order to obtain sufficient assurance that there is no fraud in the financial statements that results in material misstatements, the auditor, an outsider, is considered to have the knowledge and experience to conduct a number of audit procedures. This evaluation of the financial statements is an attempt to fulfill this obligation. Experience is a prerequisite for auditors in addition to audit expertise. One of the things that affects an auditor's abilities is their experience, as more seasoned auditors are better at spotting financial statement fraud. The quantity of audit practice assignments completed by the auditor serves as an indicator of audit experience. To increase their ability to detect fraud from the customers they audit, auditors need to possess both technical qualifications and industry experience.

A company's financial situation and performance are determined or evaluated using its financial statements as the foundation. The financial statements that are provided must accurately depict the company's current state since information about the financial position and performance helps interested parties make decisions. The output of the accounting process are financial statements, which can be utilized as a communication tool by managers to interact with interested parties and as a means of managing the organization.

Generally speaking, accrual-based balance sheets, income statements, and equity statements make up financial statements. The accrual basis is used to prepare financial statements because it is a more reasonable and equitable way to represent the company's actual financial situation. However, using the accrual basis can give management flexibility in selecting accounting procedures, allowing them to alter financial statements to generate the desired level of profit (earnings). Earnings management is the purposeful selection of accounting procedures by management to achieve specific goals.

Earnings can be managed in two ways: lawfully and illegally. Any earnings management techniques, such as accounting estimations, method adjustments, and shifting of the income or expense period, must not be in violation of current accounting regulations in order to be practiced as law. On the other hand, illicit profit management strategies may include withholding certain transactions from reporting in order to attain targeted profit margins, or they may involve reporting fictitious revenue or expense transactions with inflated or deflated amounts.

An appropriate accounting system is one of the instruments that can provide financial report data. All management levels, owners or shareholders, creditors, and other users of financial reports (stakeholders) can receive financial information from firm accountants if there is a sufficient accounting system in place. These users then utilize the information to make economic decisions. Management can plan and oversee the company's activities with the help of this technology. In more detail, Mulyadi (2001) defined an internal control system as the organization, methods, and measures that are coordinated to maintain the organization's assets, verify the accuracy and reliability of accounting data, promote efficiency, and encourage the fulfillment of management policies. Put another way, internal control is made up of the policies and procedures that are used in business operations to ensure compliance with applicable laws and regulations and to provide reliable financial information. The systemic outcomes of financial report audits serve as a guide for businesses as they formulate and decide upon policies. This is evident from the audit's independence, competence, program, execution, report, and follow-up, all of which were completed in compliance with applicable regulations. As a result, the audit can assist the organization in achieving its objectives by evaluating and improving risk management, control, and honest, hygienic, and good processes using a methodical and disciplined approach. These outcomes allow the system to function in a way that meets the objectives of the business.

There have been a series of financial scandals involving multiple corporations, which has led some parties to question the accuracy of financial reporting. Concerning the of the legislation controlling auditors' work and the of the auditors' job itself, several questions have been raised. The skill and impartiality of the auditor are key components of high-quality financial reports. Professional training, experience, and knowledge of certain clients and sectors are prerequisites for competence. Since the outset, the profession has controlled educational requirements and developed technical standards (Sumarwoto, 2006).

Basically, a number of significant factors have a big impact on how financial reports are prepared. To provide dependable financial report quality, each of these plays a relevant role. Of the many indications, excellent company governance and the execution of internal audits are two (two) significant indicators that are critical to raising the of financial reports. Each has goals and purposes that may affect how financial report preparation turns out.

By implementing the internal control system, management will emphasize the importance of control and take significant steps to control it. The internal control system includes an organization that is coordinated to maintain the organization's assets, verify the accuracy and reliability of accounting data, encourage efficiency, and encourage the fulfillment of management policies. In order to generate financial information and information for management, including the creation of high-quality financial reports and the avoidance of information leakage to the public, this goal also makes sure that the company's operations comply with company policies and procedures, laws, and regulations . The methodical process of gathering and assessing information used in financial statement audits is intended to ascertain if the financial statements are prepared in compliance with widely accepted accounting principles. The financial statement audit's conclusions are frequently quite helpful. Based on the auditor's recommendations, these discoveries may lead to modifications to the organization's procedures and organizational structure, which will raise the of the financial statements.

A fundamental component of managing a business in line with widely recognized norms and principles is good corporate governance, which calls for open, responsible, and equitable business practices. To ensure the sustainability of a company's operations, good corporate governance has five essential elements: openness, accountability, responsibility, independence, and fairness. The aforementioned five constituents hold significance in the context of good corporate governance, which espouses the principles of preserving objectivity in business operations, accomplishing pre-established goals, ensuring transparent business operations, and disclosing material and pertinent information to the public through timely and accurate financial reporting. The characteristics of intangible assets apply to intellectual capital.

According to PSAK No.19 amended 2000, intangible assets are identifiable non-monetary assets without a physical form that are owned and used for administrative, rental, or production of goods or services. Items from intangible assets may eventually bring financial advantages to the business, claims (Lako, 2007). Intangible assets are sometimes compared to a "black box" that holds the key to a company's long-term survival. It goes on to say that intangible assets are an effective way for businesses to generate economic value.

In the global context as well as in Indonesia, the use of intellectual capital is still relatively new; only a small number of industrialized nations, such as those in America, Australia, and Scandinavia, have done so (Sawarjuwono & Kadir, 2003). The fact that intellectual capital is still relatively unknown in Indonesia is explained by the fact that the practice is relatively new there. This is evident from the fact that enterprises typically operate their operations using conventional methods, which results in goods with low levels of technological content. The three components of intellectual capital that businesses have not given more consideration to are customer, structural, and human capital (Ulum, 2009).

Human resources and customer-related information systems, knowledge, and customer-related structures are examples of intellectual capital that can give a business a competitive edge. As an illustration, the requirement for labor is now focused more on workforce quality than on workforce number. Reputable employees will provide ideas and improvements to the business, enabling it to generate benefits and additional value. Investors and other stakeholders will have more faith in the business as a result of this added benefit, which will eventually boost the business's financial performance. Intellectual capital is crucial to the financial industry. Trust is built and maintained by the use of funds acquired from shareholders or fund managers. Personnel with expertise and professionalism are needed to manage these money. It is anticipated that the organization will possess robust intellectual capital to foresee future commercial competition by means of superior resources.

2. Literature Review

2.1. Good Corporate Governance

The Latin word gubemance, which meaning to direct and control, is where Aldridge and Sutojo (2008) in their book Good Corporate Governance claim that the word governance originates. The term "corporate governance" is used in business management science to refer to an endeavor to guide and regulate organizational activities, including businesses. However, as per Mardiasmo (2002) book Public Sector Accounting, governance is frequently seen to be a means of overseeing public affairs. According to the World Bank, governance is the process of allocating and allocating social and economic resources for the advancement of society. On the other hand, governance is the exercise of political, economic, and administrative authority to oversee a country's affairs at all levels, according to the United Nations Development Program (UNDP). In this instance, the United Nations Development Program (UNDP) places greater emphasis on the political, economic, and administrative facets of managing the State, while the World Bank places more emphasis on how the government administers social and economic resources for the benefit of community development.

"Corporate governance is the system by which business corporations are directed and controlled," states the Organization for Economic Co-operation and Development (OECD), which Tunggal and Amin (2002) mention. The corporate governance structure lays out the rules and processes for making decisions about corporate affairs as well as the rights and obligations that are assigned to various stakeholders, including shareholders, board management, and other members of the organization. In doing so, it also offers the framework for achieving organizational goals, as well as the methods for accomplishing them and tracking progress."

"Corporate governance is a collection of laws, regulations, and rules that must be met that can encourage the performance of company resources to work efficiently, producing sustainable long-term economic value for shareholders and the surrounding community as a whole," states the World Bank, which Tunggal and Amin (2002) cited.

According to Zarkasyi (2008) put forward five principles of GCG, namely:

1) Transparency. Basic principle, to maintain objectivity in running a business, the company must provide material and relevant information in a way that can be easily accessed and understood by stakeholders. The company must take the initiative to disclose not only the issues required by laws and regulations, but also matters that are important for decision making by shareholders, creditors and other stakeholders.
2) Accountability. Basic principle, the company must be able to account for its performance in a transparent and fair manner. For this reason, the company must be managed properly, measurably and in accordance with the interests of the company while still taking into account the interests of shareholders and other stakeholders. Accountability is a prerequisite needed to achieve sustainable performance.
3) Responsibility. Basic principle, the company must comply with laws and regulations and carry out responsibilities towards the community and the environment so that business continuity can be maintained in the long term and gain recognition as a good corporate citizen.
4) Independence. Basic principle, to facilitate the implementation of GCG, the company must be managed independently so that each company organ does not dominate each other and cannot be intervened by other parties
5) Equality and Fairness. Basic principle, in carrying out its activities, the company must always pay attention to the interests of shareholders and other stakeholders based on the principles of equality and fairness.

2.2. Internal Audit

In order to help all members of management manage their responsibilities effectively, internal audit is a managerial supervision whose role it is to measure and evaluate the control system and provide analysis, assessments, recommendations, and comments pertaining to the activities reviewed. It is defined as follows by the Institute of Internal Auditors (IIA), which Messier (2005) cited.

Although the internal auditor is free from the influence or power of the party being audited, this assessment activity is independent—not in the absolute sense, which implies devoid of all dependencies—with the expectation that it will be able to deliver an unbiased assessment. In addition to describing the goals and duties of internal auditors, this definition also outlines the wide range of contemporary internal audits, which place a greater emphasis on value addition and all issues pertaining to risk, governance, and control. According to Mulyadi (2001) internal auditors are auditors who work for businesses (state-owned or private), and their primary responsibilities include assessing whether top management's policies and procedures have been followed, determining whether the organization's assets are protected, and assessing the accuracy of data generated by different departments within the business.

According to Tunggal (2006) "The implementation of internal audits must include audit planning, testing and evaluating information, notification of results and following up" Internal auditing is defined by Tunggal (2006) as follows: An impartial assessment process called internal audit is used in an organization to evaluate financial accounting practices and other practices critically in order to give business executives constructive and protective advice.

According to Tunggal (2006) the stages in implementing internal audit activities are as follows:

1) Audit Planning Stage. Internal audit must plan each audit. Planning must be documented and must include Obtaining background information about the activities to be audited and determining the various personnel needed to conduct the audit.
2) Information Testing and Evaluation Stage. At this stage, internal audit must collect, analyze, interpret and prove the truth of information to support the audit results.
3) Audit Result Submission Stage. Internal audit must report the results of the audit it has conducted, namely A report must be objective, clear, concise, structured and timely and the report must state the intent, scope and results of the audit implementation.
4) Audit Results Follow-up Stage. Internal audit continuously reviews/follows up to ensure that appropriate action has been taken against the reported audit findings. Internal audit must ensure whether corrective action has been taken and provided the expected results, or whether senior management or the board has accepted the risk due to not taking corrective action on the reported findings.

2.3. Intellectual Capital

The definition of intellectual capital according to Stewart (2010): "Intellectual capital is the sum of everything everybody in a company knows that gives it a competitive edge. Intellectual capital is intellectual material-knowledge, information, intellectual property, experience-that can be put to use to create wealth". Furthermore, Moeheriono (2012) defines intellectual capital as follows: "Intellectual capital is the knowledge and ability possessed by a social collectivity, such as an intellectual community organization, or professional practice and intellectual capital represents a resource that is of high value and capable of acting based on knowledge." Meanwhile, according to Sangkala (2006) states that: "The definition of intellectual capital is not only related to intellectual material contained in the company's employees such as education and experience. Intellectual capital is also related to company material or assets that are based on knowledge, or the results of the knowledge transformation process that can be in the form of the company's intellectual assets". From several definitions that have been put forward above, the author understands that intellectual capital is the main capital that comes from the knowledge and abilities possessed by an organization, including the skills and expertise of employees in it as well as technology or the process of transformation this knowledge so that it can be in the form of intellectual assets that will form other high-value capital that can create value for a company. Moeheriono (2012) states that intellectual capital consists of three main elements, namely:

a) Human capital. The ability of employees to provide solutions to customers, to innovate, and to renew. Also included is the dynamic of an intelligent organization in changing the competitive environment, its creativity, and innovation, such as training programs, recruitment, tacit knowledge, and explicit knowledge.
b) Structural capital or organizational capital. Infrastructure that supports human capital, such as information systems and technology, corporate image, organizational concepts and documentation.
c) Relational capital or customer capital. Relationships with people and people related to the company's business, such as long-term contracts, customer satisfaction, customer profiles, and loyal customers

2.4. Quality of Financial Reports

Financial reports, which include a balance sheet, profit and loss statement, summary of retained profits, and financial position statement, are tools for assessing the health of a business. Final output from the accounting process is financial reporting. Financial reports are defined as follows by Kusnadi (2002) in his book "Intermediate Financial Accounting": a financial summary including a balance sheet, profit and loss statement, retained earnings statement, cash flow statement, and capital change statement that is created at the conclusion of a period based on records of the company's operations during that time.

In the meanwhile, Munawir (2002) defines financial reports as follows in his book "Financial Report Analysis": A balance sheet, profit and loss statement, and capital change statement are typically included in financial reports. A company's assets, liabilities, and capital are listed on its balance sheet as of a given date. The profit and loss statement, on the other hand, details the company's accomplishments and outlays for a given time period, and the capital change statement provides information on the sources of funding and the factors that influence capital changes.

In order to give useful business compliance, financial reports can effectively display a company's financial health. For business management, financial reports are crucial, particularly for planning and decision-making processes. As a result, specific requirements must be met by the accounting information acquired.

The Financial Accounting Standards Board (FASB) stated in Baridwan (2010) that the primary need for accounting information is that it be helpful in making decisions. The two primary qualities that an information must possess to be considered useful are relevance and reliability. Three requirements must be satisfied for the information to be considered relevant: it must be timely, have feedback value, and have predictive value. Three qualities define reliable information: it must be neutral, verifiable, and deliver the information as it should. Accounting information includes two secondary and interactive qualities, namely being comparable and consistent, in addition to its two primary features, which are relevant and reliable. Qualitative attributes are attributes that contribute to the usefulness of information in financial reports for users, according to the Indonesian Institute of Accountants in Financial Accounting Standards (FAS) (2012).

Financial reports can be said to be relevant if the information contained therein can influence user decisions by helping them evaluate past or present events, and predict the future, as well as confirm or correct their past evaluation results. Thus, relevant financial report information can be linked to the intended use.

a) Has Predictive Benefits. Information can help users predict the future based on past results and current events.
b) Timely. Information is presented on time so that it can influence and be useful in decision making.
c) Complete. Government financial accounting information is presented as completely as possible, covering all accounting information that can influence decision making by considering existing constraints. Information that underlies each main information item contained in the financial report is clearly disclosed so that errors in the use of the information can be prevented.
d) Reliable. Information in the financial report is free from misleading understandings and material errors, presents every fact honestly, and can be verified. Information may be relevant, but if its nature or presentation is unreliable, then the user of the information can potentially be misled. Reliable information meets the characteristics.
e) Honest Presentation. Information honestly describes transactions and other events that should be presented or that can reasonably be expected to be presented.
f) Verifiable. Information presented in financial reporting can be tested, and if the test is carried out more than once by different parties, the results still show conclusions that are not much different.
g) Neutrality. Information is directed at general needs and does not favor the needs of certain parties.
h) Comparable. Information contained in the financial statements will be more useful if it can be compared with the financial statements of previous periods or the financial statements of other reporting entities in general. Comparisons can be made internally and externally. Internal comparisons can be made if an entity applies the same accounting policy from year to year. External comparisons can be made by comparing the application of the same accounting policy. If a government entity applies a better accounting policy than the accounting policy currently applied, the change is disclosed in the period in which the change occurs.
i) Understandable. The information presented in the financial statements can be understood by users and is stated in a form and terms that are adjusted to the limits of the users' understanding. For this, users are adjusted to have adequate knowledge of the activities and operating environment of the reporting entity, as well as the willingness of users to study the information in question".

3. Research Method

PT. Akebono Brake Astra Indonesia, Jl. Pegangsaan Dua No.KM. 1 Block A1, District, Kec. Klp. Gading, North Jakarta, Special Capital Region of Jakarta 14250 Indonesia, phone (021) 46830075, is the location where this research was carried out.

In order to determine the degree to which the independent variables—good corporate governance and the implementation of internal audits—have an impact on the dependent variables—the author of this thesis employs a quantitative survey research method with correlational analysis. A group of people, particularly workers of PT. Akebono Brake Astra Indonesia, were the subject of the study.

3.1. Population and Sample

Populations are typically intended to be parts of generalization areas made up of objects or individuals with particular attributes and traits, according to Sugiyono (2014). The 60 employees of PT. Akebono Brake Astra Indonesia made up the study's population. One sampling method is a sampling method. A variety of sampling strategies are employed to choose the study's sample. Saturated sampling, also known as census sampling, is a sample research method in which every member of the population is used as a sample. It was employed in this study. According to the description, there were sixty respondents in the study's samples. Random sampling was employed in the sampling process.

3.2. Data Analysis Technique

In this research activity, data presentation, central measure, and spread measure are all done by descriptive analysis. The lowest score, highest score, mean, median, mode, standard deviation, and score range will all be explained by the data. The gathered data will be displayed as a frequency histogram list and numerical distribution to make it easy to view and organize.

The hypothesis is tested using path analysis tools and inferential statistical analysis. The research model's variable relationships must be linear in order to be used for path analysis. Because of this, tests of the prerequisites are required, such as the regression equation's linearity test and the estimated error's normalcy test.

4. Research Results and Discussion

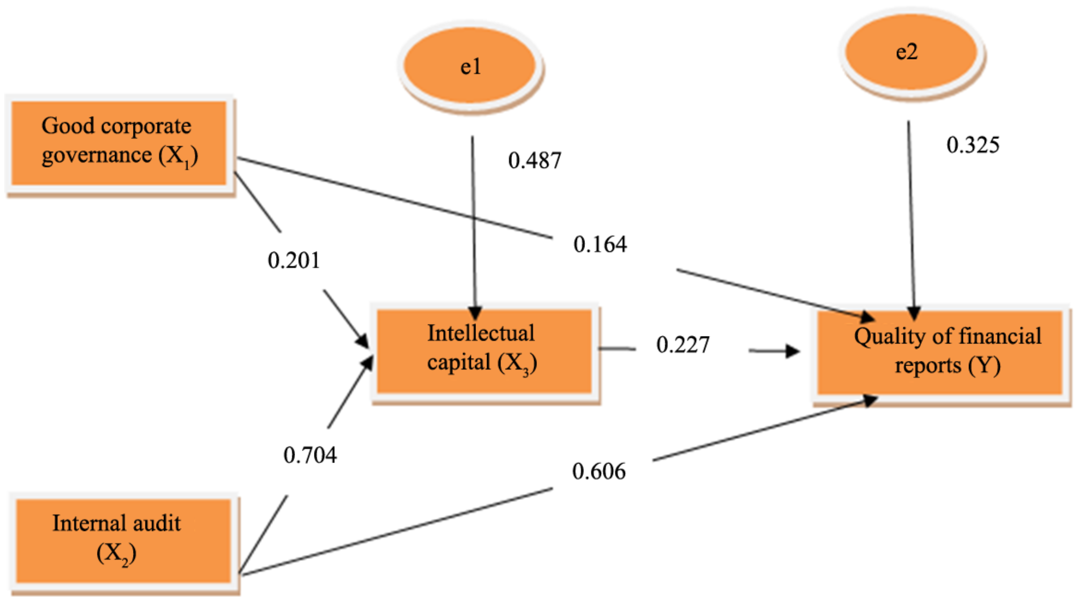

Figure 1. Research model

Based on Figure 1, shows that the coefficient value of the direct influence of good corporate governance on intellectual capital is 0.201, internal audit has a direct influence on intellectual capital with a coefficient value of 0.704. Likewise, the coefficient value of the direct influence of good corporate governance on the quality of financial reports is 0.164, and internal audit has a direct influence on the quality of financial reports with a coefficient value of 0.606 and the influence of the direct influence of intellectual capital on the quality of financial reports with a coefficient value of 0.227.

4.1. The Effect of Good Corporate Governance on Intellectual Capital

To find out this, it is necessary to use the t-test. The following is the test of each variable:

Table 1. Results of the t-test of the effect of good corporate governance on intellectual capital.

Coefficients						
Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	-1.306	3.105		-0.421	0.676
	X1	0.163	0.086	0.201	2.884	0.035
	X2	0.669	0.101	0.704	6.609	0.000

Source: Data processed, 2024.

According to Table 1, the good corporate governance variable has a t-count value of 2.884 and a t-table value of 1.664. The significance value (0.035 ˆ 0.05) and t-count > t-table (2.884 > 1.664) indicate that H0 is rejected and H1 is accepted at the real level. This leads to the conclusion that intellectual capital is positively and significantly impacted by corporate governance. As a result, the first theory is validated and confirmed.

4.2. The Effect of Internal Audit on Intellectual Capital

The internal audit variable's t-count value was 6.609 and its t-table was 1.664 according to the t-test results. This indicates that H0 is rejected and H1 is accepted because t-count > t-table (6.609 > 1.664) and the significance value (0.000 < 0.05). This leads to the conclusion that intellectual capital is positively and significantly impacted by internal audit. As a result, the second hypothesis is validated and verified.

Table 2. The effect of good corporate governance on the quality of financial reports.

Coefficients						
Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	3.185	1.968		1.619	0.111
	X1	0.125	0.056	0.164	2.226	0.030
	X2	0.203	0.085	0.227	2.385	0.020
	X3	0.570	0.084	0.606	6.800	0.000

Source: Data processed, 2024.

Based om Tabel 2, shows that the following:

4.3. The Effect of Good Corporate Governance on the Quality of Financial Reports

The good corporate governance variable yielded a t-count value of 2.226 and a t-table of 1.664 in the t-test findings. This indicates that H0 is rejected and H1 is approved since the t-count > t-table (2.226 > 1.664) and the significance value (0.030 < 0.05). This leads to the conclusion that financial statement quality is positively and significantly impacted by sound corporate governance. The third hypothesis is so verified and put to the test.

4.4. The Effect of Internal Audit on the Quality of Financial Statements

Table 1 yielded a t-count value of 2.385 and a t-table of 1.663 for the internal audit variable's t-test findings. This indicates that H0 is rejected and H1 is approved since the t-count < t-table (2.385> 1.664) and the significance value (0.020 < 0.05). This leads to the conclusion that the quality of financial reporting is positively and significantly impacted by internal audit. As a result, the fourth theory is validated and confirmed.

4.5. The Effect of Intellectual Capital on the Quality of Financial Reports

The t-count value for the intellectual capital variable was 6,800, and the t-table value was 1.664, based on Table 1's t-test results. Given that the significance value (0.000˄0.05) and the t-count < t-table (6,800 > 1,664), H0 is rejected and H1 is approved. This leads to the conclusion that the quality of financial reports is positively and significantly impacted by intellectual capital. As a result, the fifth theory is validated and confirmed.

4.6. The Effect of Good Corporate Governance on the Quality of Financial Reports Through Intellectual Capital

$$X_1 \rightarrow X_3 \rightarrow Y = (\rho x_3 x_1)\ x\ (\rho y x_3) = 0.201\ x\ 0.227 = 0.045$$

The path coefficient value ρx3x1 multiplied by the path coefficient value ρyx3 yields the indirect effect value. The result of multiplication indicates that the value of the indirect impact coefficient (0.045) is lower than the value of the direct influence coefficient (0.164). This demonstrates that effective company governance, which influences the of financial reporting, is not a positive and significant mediating effect of intellectual capital. As a result, the sixth hypothesis is neither verified nor tested.

4.7. The Effect of Internal Audit on the Quality of Financial Reports Through Intellectual Capital

$$X_2 \rightarrow X_3 \rightarrow Y = (\rho x_3 x_2)\ x\ (\rho y x_3) = 0.704\ x\ 0.227 = 0.159$$

The path coefficient value ρx3x2 multiplied by the path coefficient value ρyx3 yields the indirect effect value. Indirect effect coefficient (0.159) is less than direct influence coefficient (606), according to the multiplication result. This demonstrates that internal auditing does not have a positive and significant mediating influence on the of financial reports when it comes to intellectual capital. The seventh hypothesis is therefore neither verified nor tested.

5. Discussion

5.1. The Effect of Good Corporate Governance on Intellectual Capital

Research conducted by Pratami (2018) indicates that corporate governance influences intellectual capital disclosure. The research conducted by Subaida (2019) indicates that effective corporate governance, as represented by the size of the board of directors, influences intellectual capital disclosure; nevertheless, it does not impact the company's value through such disclosure. The dimensions of corporate governance, specifically the size of the board of commissioners and the audit committee, do not influence the disclosure of intellectual capital or the company's value derived from such disclosure.

The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement associated with the good corporate governance characteristic. The primary indicator that enhances the establishment of effective corporate governance variables is responsibility, whereby the company's leadership adheres to the principles of prudence and compliance with statutory regulations and internal bylaws, thereby fulfilling social responsibility through a commitment to community welfare and environmental sustainability, particularly in the vicinity of the company. The mean value of the corporate governance variable indicates that employees at PT. Akebono Brake Astra Indonesia generally concur that the indicators of transparency, accountability, responsibility, independence, and equality constitute effective corporate governance factors.

The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the assertions related to the intellectual capital variable. The primary indicator contributing to the formation of the intellectual capital variable is the human capital stage, wherein employee competencies align with the optimal level. The company implements a training program aimed at enhancing employee skills through collaborative team tasks, ensuring the best outcomes for both the organization and its workforce. The mean value of the intellectual capital variable indicates that employees at PT Akebono Brake Astra Indonesia predominantly concur that human capital, structural capital, and relational capital constitute the intellectual capital variable.

The regression analysis results indicate that effective company governance enhances intellectual capital. The findings of this study align with the studies undertaken by Pratami (2018) and Subaida (2019).

5.2. The Effect of Internal Audit on Intellectual Capital

Shadreck and Hebert (2013) assert that the impact of training on the of internal auditors will be seen through the evaluation methodology and audit outcomes. A positive impact is observed when internal auditors receive training compared to prior conditions.

Research undertaken by Mukoffi, Sulistiyowati, and Reda (2023) indicates that internal audit, robust corporate governance, and financial statement audits greatly influence the accuracy of financial statements. They support the notion that internal and financial statement audits significantly influence the quality of financial statements. The quality of financial reporting appears to be minimally affected by robust corporate governance elements. The aforementioned description suggests a direct positive impact of internal audit adoption on intellectual capital.

Zelovena, Jannah, and Kususmastuti (2023) demonstrated that effective corporate governance, including board independence, optimal board size, and a proficient audit committee, positively impacts the quality of financial statements in Indonesian manufacturing firms. This study demonstrates that a well-defined corporate governance policy and management's commitment to executing effective corporate governance enhance the quality of financial reporting. This study's conclusions aim to guide manufacturing businesses in Indonesia to enhance their focus on effective corporate governance to elevate the quality of their financial reports. Suharti and Priyadi (2020) demonstrated that internal audit and intellectual capital positively and significantly influence banking financial performance, indicating that enhanced internal audit and intellectual capital correlate with improved banking financial performance. The descriptive analysis indicates that most respondents' replies fall within the category of agreement. The majority of respondents indicated a tendency to concur with the assertions associated with the internal audit variable. The most significant factor influencing the internal audit variable is the audit planning phase, wherein company leadership supplies essential information regarding the activities to be audited, prepares financial report documentation, and allocates personnel for the audit process. Additionally, leaders are involved in selecting various staff members to execute the audit stages. The mean value of the internal audit variable indicates that PT employees. Akebono Brake Astra Indonesia concurs that the indications of the audit planning phase, the information testing and evaluation phase, the results delivery phase, and the audit result follow-up phase constitute the internal audit variable.

The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement associated with the intellectual capital variable. The most significant indicator for the development of intellectual capital is the alignment of employee competencies with the optimal level of human capital, complemented by a training program designed to enhance employee skills through collaborative team tasks, thereby ensuring the best outcomes for both the company and its employees. The mean value of the intellectual capital variable indicates that employees at PT. Akebono Brake Astra Indonesia predominantly concur that human capital, structural capital, and relational capital constitute the intellectual capital variable.

The regression analysis results indicate that internal audit enhances intellectual capital. The findings of this study align with the research conducted by Mukoffi et al. (2023) and Zelovena et al. (2023).

5.3. The Effect of Good Corporate Governance on the Quality of Financial Reports

Good Corporate Governance (GCG) is a framework that manages and oversees corporations to generate value for all stakeholders, highlighting the significance of shareholders' rights to receive information that is correct, precise, and timely. It also mandates the company's duty to provide accurate, timely, and transparent disclosures concerning all information related to company performance, ownership, and stakeholders.

Research conducted by Suharti and Priyadi (2020) indicates that the implementation of effective corporate governance is a critical determinant of financial report quality (Kasim, 2015). The research findings of Pratami (2018) and Avilya and Ghozali (2022); Indriyana (2024) indicate that Good Corporate Governance and Internal Audit significantly influence the Quality of Financial Reports, both individually and collectively. The implementation of Good Corporate Governance influences the Quality of Financial Reports by 30.1%, while the Implementation of Internal Audit also affects it by 30.1%. Together, the Implementation of Good Corporate Governance and Internal Audit accounts for a 62.3% impact on the Quality of Financial Reports.

The descriptive analysis indicates that most respondents' replies fall into the category of generally agreeing. The majority of respondents indicated their agreement with the statement associated with the good corporate governance characteristic. The most significant indicator for the development of the good corporate governance variable is responsibility, wherein the Company's leadership adheres to principles of prudence and legal compliance with the articles of association and corporate regulations, thereby fulfilling social responsibility through a commitment to community welfare and environmental sustainability, particularly in the vicinity of the company. The mean value of the excellent corporate governance variable indicates that employees at PT. Akebono Brake Astra Indonesia generally concur that the indicators of transparency, accountability, responsibility, independence, and equality constitute the good corporate governance variable.

The descriptive analysis indicates that most respondents' replies fall into the category of general agreement. The majority of respondents indicated their agreement with the statement related to the financial report quality variable. The most significant indicator for the quality of financial reporting is comparability, which allows the Company to present financial information that can be compared with other reporting entities and with prior periods, facilitating both internal and external financial report comparisons. The mean value of the financial report quality variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that relevance, dependability, comparability, and comprehensibility constitute the financial report quality variable. The regression analysis indicates that effective company governance enhances the quality of financial reports. The findings of this study align with the research undertaken by Suharti and Priyadi (2020); Pratami (2018) and Indriyana (2024).

5.4. The Effect of Internal Audit on the Quality of Financial Reports

The function of internal audit in executing financial audits is to periodically provide suggestions on financial reports. Assist or enhance the scope of the audit of yearly financial statements. The function of Internal Audit in executing Management Audit an Operational Audit not only examines the statistics in financial reports but also critically assesses the adherence to applicable legislation, performance management, effectiveness, economy, business efficiency, and the disclosure of deviations from previously set policies. Contributes to early warnings by evaluating the efficiency and effectiveness of corporate activities from planning through implementation to control. Consequently, the significant function of internal audit is essential to enhance the quality of the external audit, specifically regarding the audit of financial reports (Indriyana, 2024).

Mardiasmo (2013) asserted that the internal audit's function is crucial in attaining a Unqualified Opinion (WTP) due to its contribution to the reliability of the Internal Control System, adherence to regulatory requirements, and conformity with the Government Administration System. The efficacy of Financial Reports can be enhanced through the function of Internal Audit.

Research undertaken by Mukoffi et al. (2023) and Avilya and Ghozali (2022) demonstrates that internal audit, effective corporate governance, and financial statement audit substantially influence the precision of financial statements. They support the notion that internal and financial statement audits significantly influence the quality of financial statements. Conversely, the of financial reporting appears to be minimally affected by robust corporate governance elements.

The research conducted by Pratami (2018) indicates a considerable impact of internal audit functions on the quality of financial statements in BUMN within Bandung City. The internal audit's impact on the quality of financial statements is 91.4%. The remaining 8.6% is attributable to factors external to the internal audit role variable.

The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement associated with the internal audit variable. The most significant factor in the establishment of internal audit variables is the audit planning phase, during which the Company's leadership supplies essential information regarding the activities to be audited, prepares financial report documentation as foundational data, and allocates personnel for the execution of the audit stages. Additionally, leaders are involved in selecting various employees to undertake the audit processes. The mean value of the internal audit variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that the indicators of the audit planning phase, information testing and evaluation phase, results delivery phase, and follow-up phase of the examination results constitute the internal audit variable. The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the assertions related to the financial report quality variable. The most significant indicator for the quality of financial report formation is comparability, which entails that the Company provides financial report information that can be compared with other reporting entities and with prior periods' financial reports for both internal and external analysis. The average value of the financial report quality variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that relevance, reliability, comparability, and understandability constitute the variables of financial report quality.

The regression analysis indicates that internal audit enhances the quality of financial reports. The findings of this study align with the research undertaken by Mukoffi et al. (2023) and Pratami (2018).

5.5. The Effect of Intellectual Capital on the Quality of Financial Reports

Intellectual capital (IC) is an intangible asset possessed by a firm that must be evaluated to analyze the company's performance and is crucial for inclusion in the financial statements. Pulic (1998) IC measurement evaluates the efficacy of value addition stemming from the company's intellectual capacity (Value Added Intellectual Coefficient - VAIC). Intellectual capital is intrinsically linked to the company's people resources and constitutes the primary component of intellectual capital. Human resources encompass the combined cognitive and physical capabilities inherent in humans (Hasibuan, 2003). A corporation with highly credible human resources can produce financial reports with a high degree of accuracy and minimal manipulation.

Zelovena et al. (2023) indicates that effective corporate governance, including board independence, appropriate board size, and a competent audit committee, positively impacts the quality of financial reports in Indonesian manufacturing companies. This study demonstrates that the presence of explicit corporate governance regulations and management dedication to executing effective corporate governance enhances the quality of financial reports. This study's conclusions aim to guide manufacturing businesses in Indonesia to enhance their focus on effective corporate governance to improve the quality of their financial reports.

The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement related to the intellectual capital component. The most significant indicator for the development of the intellectual capital variable is the human capital stage, wherein employee competencies align with the optimal level. The company implements a training program aimed at enhancing employee skills through collaborative team tasks, ensuring that both the organization and its employees consistently perform at their best. The mean value of the intellectual capital variable indicates that employees at PT. Akebono Brake Astra Indonesia predominantly concur that human capital, structural capital, and relational capital constitute the intellectual capital variable.

The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement related to the financial report quality variable. The most significant indicator contributing to the quality of financial reports is comparability, which allows the Company to present financial information that can be compared with other reporting entities and with prior periods' financial reports for both internal and external analysis. The mean value of the financial report quality variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that relevance, reliability, comparability, and comprehensibility constitute the financial report quality variable.

The regression analysis indicates that intellectual capital enhances the quality of financial reports. The findings of this study align with the research conducted by Zelovena et al. (2023).

5.6. The Effect of Good Corporate Governance on the Quality of Financial Reports Through Intellectual Capital

Research conducted by Subaida (2019) indicates that effective corporate governance, as represented by the size of the board of directors, influences the disclosure of intellectual capital; nevertheless, it does not impact the company's value through this disclosure. The dimensions of corporate governance, including the size of the board of commissioners and the audit committee, do not influence the disclosure of intellectual capital or the company's worth through such disclosures.

The research findings by Satria, Mismiwati, Desiana, and Juairiah (2021) indicate that Corporate Governance has a partial effect on Intellectual Capital, evidenced by a t-count value of -2.763, compared to a t-table value of -1.68709, with a significant level of 0.009, which is below α 0.05. Corporate governance does not influence maqashid sharia, with a t-count value of 0.068, a t-table of 1.68709, and a significance level of 0.946 at α 0.05. Intellectual capital exerts a negative and significant influence on maqashid Syariah, evidenced by a t-count of -2.303, surpassing the t-table value of -1.68709, with a significance level of 0.027, which is below α 0.05. Examination of the casual step technique and Sobel test reveals that intellectual capital mediates the influence of corporate governance on the financial report quality variable.

The descriptive analysis indicates that most respondents' replies fall inside the category of tending to agree. The majority of respondents indicated their agreement with the statement related to the good corporate governance variable. The most significant indicator contributing to the establishment of effective corporate governance is responsibility, wherein the company's leadership adheres to principles of prudence and legal compliance with the articles of association and corporate regulations, thereby fulfilling social responsibility through a commitment to community welfare and environmental sustainability, particularly in the vicinity of the company. The mean value of the excellent corporate governance variable indicates that employees at PT.

Akebono Brake Astra Indonesia generally concur that the indicators of transparency, accountability, responsibility, independence, and equality constitute the good corporate governance variable.

The descriptive analysis indicates that most respondents' replies fall into the category of general agreement. The majority of respondents indicated their agreement with the statement associated with the intellectual capital variable. The most significant indicator for the development of the intellectual capital variable is the human capital stage, wherein employee competencies align with the optimal level. The company implements a training program aimed at enhancing employee skills through collaborative team tasks, ensuring the best outcomes for both the organization and its workforce. The mean value of the intellectual capital variable indicates that employees at PT. Akebono Brake Astra Indonesia predominantly concur that human capital, structural capital, and relational capital constitute the intellectual capital variable. The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement related to the financial report quality variable. The most significant indicator for the quality of financial reporting is comparability, which entails that the Company provides financial information that can be benchmarked against other reporting entities and can also be contrasted with prior periods' financial reports for both internal and external assessments. The mean value of the financial report quality variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that relevance, reliability, comparability, and comprehensibility constitute the variables of financial report quality.

The path analysis results indicate that intellectual capital enhances company governance and the quality of financial reporting. The findings of this study align with the studies conducted by Subaida (2019) and Satria et al. (2021).

5.7. The Effect of Internal Audit on the Quality of Financial Reports Through Intellectual Capital

Pratami (2018) indicates that effective corporate governance and internal audit significantly influence the quality of financial reports, both individually and collectively. Research by Subaida (2019) indicates that effective corporate governance, exemplified by board size, influences the disclosure of intellectual capital; nevertheless, it does not impact the company's value through such disclosure. The dimensions of corporate governance, including the size of the board of commissioners and the audit committee, do not influence the disclosure of intellectual capital or the company's valuation via such disclosures. The research findings of Satria et al. (2021) indicate that Corporate Governance has a partial impact on Intellectual Capital. Corporate governance does not influence the quality of the financial statements of maqashid sharia. Intellectual capital adversely and significantly impacts the quality of financial statements pertaining to maqashid sharia. Examination of the casual step technique and the Sobel test reveals that intellectual capital mediates the influence of corporate governance on the performance of maqasid sharia. The descriptive analysis indicates that most respondents' replies fall under the category of moderate agreement. The majority of respondents indicated their agreement with the statement associated with the good corporate governance characteristic.

The primary indicator contributing to the formation of the good corporate governance variable is responsibility, wherein the company's leadership adheres to the principles of prudence and compliance with the articles of association and regulations, thereby fulfilling social responsibility through a commitment to community welfare and environmental sustainability, particularly in the vicinity of the company. The mean value of the excellent corporate governance variable indicates that employees at PT. Akebono Brake Astra Indonesia generally concur that the indicators of transparency, accountability, responsibility, independence, and equality constitute the good corporate governance variable. The descriptive analysis indicates that most respondents' replies fall into the category of general agreement. The majority of respondents indicated their agreement with the statement related to the internal audit variable.

The most significant factor influencing the development of the internal audit variable is the audit planning phase, during which the company's leadership supplies essential information regarding the activities to be audited, prepares financial report documents as foundational data, and allocates personnel for the execution of the audit stages. Additionally, leaders are capable of participating in the selection of various employees to undertake the audit processes. The mean value of the internal audit variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that the indicators of the audit planning phase, information testing and evaluation phase, results delivery phase, and audit result follow-up phase constitute the internal audit variable. The descriptive analysis indicates that most respondents' replies fall inside the category of tending to agree. The majority of respondents indicated their agreement with the statement related to the intellectual capital component.

The primary indicator contributing to the formation of the intellectual capital variable is the alignment of employee competencies with the optimal level of human capital, supported by a training program that enhances employee skills through collaborative team tasks, thereby ensuring the best outcomes for both the company and its employees. The mean value of the intellectual capital variable indicates that employees at PT. Akebono Brake Astra Indonesia predominantly concur that human capital, structural capital, and relational capital constitute the intellectual capital variable.

The descriptive analysis indicates that most respondents' replies fall into the category of general agreement. The majority of respondents indicated their agreement with the statement related to the financial report quality variable. The most significant indicator for assessing the quality of financial reports is comparability, which entails that the Company provides financial information that can be compared with that of other reporting entities and with prior periods, facilitating both internal and external financial report comparisons. The mean value of the financial report quality variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that relevance, dependability, comparability, and comprehensibility constitute the financial report quality variable.

The regression analysis results indicate that intellectual capital enhances the quality of financial reporting. The findings of this study align with the studies conducted by Pratami (2018) and Satria et al. (2021).

6. Conclusion

Based on the results of the research analysis and discussion, the following conclusions can be drawn:

6.1. Based on Descriptive Analysis

1) Regarding the variable of strong corporate governance, the majority of respondents' replies fall within the group of generally agreeing. The majority of respondents indicated their agreement with the statement associated with the good corporate governance characteristic. The primary indicator that enhances the establishment of effective corporate governance variables is responsibility, wherein the company's leadership adheres to the principles of prudence and compliance with the articles of association and corporate regulations, thereby fulfilling social responsibility through a commitment to community welfare and environmental sustainability, particularly in the vicinity of the company. The mean value of the corporate governance variable indicates that employees at PT. Akebono Brake Astra Indonesia generally concur that the indicators of transparency, accountability, responsibility, independence, and equality constitute effective corporate governance factors.
2) In the internal audit variable, most respondents' replies fall within the group of tending to agree. The majority of respondents indicated their agreement with the assertions related to the internal audit variable. The most significant factor influencing the development of internal audit variables is the audit planning phase, during which the company's leadership supplies essential information regarding the activities to be audited, prepares financial report documentation, and allocates personnel for the audit process. Additionally, leaders are involved in selecting various staff members to execute the audit stages. The mean value of the internal audit variable indicates that employees of PT. Akebono Brake Astra Indonesia generally concur that the indicators of the audit planning phase, information testing and evaluation phase, results delivery phase, and audit result follow-up phase constitute the internal audit variable.
3) The variable predominantly encompasses responses that fall within the category of preferring to agree. The majority of respondents indicated their agreement with the statement associated with the intellectual capital variable. The most significant indicator for the development of intellectual capital is the alignment of employee competencies with the optimal level of human capital, complemented by a training program that enhances employee skills through collaborative team tasks, thereby ensuring the highest standards for both the company and its employees. The mean value of the intellectual capital variable indicates that employees at PT. Akebono Brake Astra Indonesia predominantly concur that human capital, structural capital, and relational capital constitute the intellectual capital variable.
4) The majority of respondents tend to agree about the quality of financial reports. The majority of respondents indicated their agreement with the statement on the quality of financial reports. The most significant indicator for assessing the quality of financial report formation is comparability, which ensures that the Company presents financial report information that can be compared with other reporting entities and with prior financial reports, facilitating both internal and external comparisons. The average assessment of financial report quality indicates that employees at PT. Akebono Brake Astra Indonesia generally concur that relevance, reliability, comparability, and comprehensibility constitute the dimensions of financial report quality.

6.2. Based on Path Analysis

1) The t-count value for the good corporate governance variable is 2.884, whereas the t-table value is 1.664. As a result, t-count exceeds t-table ($2.884 > 1.664$), and the significance value ($0.035 < 0.05$) indicates that H0 is rejected and H1 is accepted at the actual level. This concludes that effective business governance positively and significantly influences intellectual capital.
2) The t-test findings for the internal audit variable yielded a t-count of 6.609 and a t-table value of 1.664. This indicates that t-count exceeds t-table ($6.609 > 1.664$), and the significance value ($0.000 < 0.05$) implies that H0 is rejected and H1 is accepted. This concludes that internal audit positively and significantly influences intellectual capital.
3) The t-test findings for the good corporate governance variable yielded a t-count of 2.226 and a t-table value of 1.664. This indicates that t-count exceeds t-table ($2.226 > 1.664$), and the significance value ($0.030 < 0.05$) implies that H0 is rejected and H1 is accepted. This concludes that effective company governance positively and significantly influences the quality of financial reports.

4) The t-test findings for the internal audit variable yielded a t-count of 2.385 and a t-table value of 1.663. This indicates that the t-count (2.385 > 1.664) and the significance value (0.020 < 0.05), leading to the rejection of H0 and the acceptance of H1. This concludes that internal audit positively and significantly impacts the quality of financial reports.

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