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THE FUNCTION OF INTERNAL AUDIT AND FINANCIAL REPORTING QUALITY: THE MODERATING ROLE OF THE RISK MANAGEMENT COMMITTEE

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Abstract**:** *This study aims to analyze the moderating role of the risk management committee on the relationship between the internal audit function and the financial reporting quality. This research was motivated by the expansion of previous research related to the role of the internal audit function in the financial reporting quality. This extension is carried out by analyzing the moderating role of the risk management committee in this relationship, supported by robustness testing through coarsened exact matching. Based on the ordinary least square test results on 1,322 non-financial companies listed on the Indonesia Stock Exchange in the 2018-2024 period, several test results were obtained. The results show that the existence of an internal audit function in a company can improve the financial reporting quality. In addition, the existence of a risk management committee can strengthen the relationship between the internal audit function and the financial reporting quality. Academically, the results of this study are expected to contribute to the literature regarding what factors can improve the quality of corporate financial reporting. Meanwhile, regulators and company management can use the results of this study as consideration for companies to have internal audit functions and risk management committees within their companies as part of the corporate governance mechanism, so that companies can present high-quality financial reporting.*

Keywords**:** Financial Reporting Quality, Internal Audit Function, Risk Management Committee

INTRODUCTION

Stakeholder trust in the financial statements issued by the company is the most important thing that management needs to pay attention to (Gebrayel et al. 2018). The management must understand the impacts that can affect the perception of users of financial statements on the financial condition and operations of the company. This needs to be done to maintain the trust of stakeholders. In fact, several companies in Indonesia still commit fraud against their published financial statements, which of course, will reduce the quality of the resulting financial reporting. One of them is the case of PT Garuda Indonesia that was widely discussed in 2020. Reporting from CNN Indonesia's online portal, PT Garuda Indonesia managed to report a net profit of US$ 809 thousand in 2018. This is in contrast to the 2017 report, which stated that PT Garuda

Indonesia experienced a loss of US$216.58 million. This significant increase was apparently caused by recognizing receivables from PT Mahata Aero Teknologi as income even though PT Garuda Indonesia had not received the payment. This incident resulted in a decrease in the share price of PT Garuda Indonesia. The destructive impact of fraudulent financial reporting is quite significant, one of which is the decline in stakeholder confidence in the quality of the company's financial reporting, resulting in a decrease in stock prices.

A good governance mechanism is needed to prevent losses from fraud and maintain good financial reporting quality. There are four tools that companies should have with the aim of supporting the creation of good and effective corporate governance, namely the existence of executive management, the board of directors, internal auditors, and external auditors (Prawitt et al. 2009). This statement is also supported by Al-Shetwi et al. (2011), who argues that based on the results of his research, an internal audit function is a form of internal control that can have a significant effect on the effectiveness of corporate governance. In addition, the existence of an internal audit function can also be used as a way to provide assurance and increase stakeholder confidence regarding the quality of the resulting reporting.

Based on agency theory, information asymmetry arises because of differences in the information received by shareholders as principals and company management as agents (Jensen & Meckling 1976). These contracts give rise to agency problems, including information asymmetry and conflicts of interest between management and the owners (Murti 2024). To reduce the information gap between principal and agent, reliable internal control is needed in corporate governance to monitor the sustainability of the company and the financial reporting quality. Therefore, investment in the internal audit function in a company is a crucial thing to consider. (Adıgüzel 2013) states that investment in the internal audit function will encourage the creation of quality company financial reports when compared to companies that do not have this function in their companies.

A good internal audit function can be used by companies to prevent earnings management (Prawitt et al. 2009), improve the financial reporting quality (Abbott et al. 2016), prevent management fraud (Ege 2015), and reduce the risk of fraud (Norman et al. 2010). The internal audit function also assists management in detecting fraud within the company. In addition, the internal audit activity assures management and the audit committee to understand the company's risks better, so that they know how to manage them. The Institute of Internal Auditors (IIA) in (Moeller 2015) defines the internal audit function as an independent assessment function established within an organization that aims to assess and evaluate company operations. This makes the internal audit position a valuable resource for the company to be able to achieve its overall business goals.

Good corporate governance, risk management, and internal control are critical to the success and sustainability of the company. In addition to the internal audit function, the existence of a risk management committee is also one of the governance mechanisms that the company can utilize to monitor and manage existing risks. The establishment of mechanisms such as board oversight and risk management committees is often used to reduce agency conflicts and costs (Gunawan et al. 2025). Previous research stated that the risk management committee has carried out its role effectively in controlling, detecting, and preventing risk, especially in terms of financial risk (Abdullah et al. 2017). Increased awareness of risk management is mainly due to the many recent corporate scandals and various unexpected business failures (Walker et al. 2002). In Indonesia, the risk management committee is only mandated for companies in the financial/banking sector because they have a higher inherent risk in their business activities

(Larasati et al. 2019). Along with the increasing awareness of risk management, risk management committees began to be formed voluntarily in non-banking sector companies. Based on the general guidelines for good corporate governance issued by the national committee of corporate governance in Indonesia, the board of commissioners can form a supporting committee such as the risk management committee to support its duties (Larasati et al. 2019).

This research was motivated by the expansion of previous research related to the role of the internal audit function in the financial reporting quality. The novelty of this study is carried out by analyzing the moderating role of the risk management committee in this relationship, supported by robustness testing through coarsened exact matching. The risk management committee is selected as a moderating variable because it strengthens how internal audit findings are translated into effective risk mitigation and governance actions. While the internal audit function identifies and evaluates financial reporting risks, the risk management committee ensures that these risks are formally monitored, prioritized, and addressed at the board level. Consequently, the presence of a risk management committee enhances the effectiveness of internal audit in improving financial reporting quality.

The results of this study are expected to provide practical and theoretical contributions. Practically, it is hoped that this research can be used as consideration for companies to have internal audit functions and risk management committees within their companies as part of the corporate governance mechanism to present high-quality financial reporting. Meanwhile, from a theoretical perspective, this research is expected to contribute to the literature regarding what factors can improve the quality of corporate financial reporting to be used as a reference for further research.

Internal Audit Function and Financial Reporting Quality

The realization of good governance within the company can produce quality financial reports. Following agency theory, the existence of information asymmetry between management and shareholders can be reduced by implementing suitable governance mechanisms. The internal audit function in a company is a form of corporate governance that is expected to reduce information asymmetry. The existence of an internal audit function within the company plays an essential role in the financial reporting quality. This is because the internal audit function is tasked with overseeing organizational risk, assessing internal control, and detecting possible manipulations. After all, internal auditors also take part in evaluating the company's financial procedures. As a result, the internal audit function can reduce the information asymmetry between management and shareholders. In addition, the internal audit function can also reduce conflicts of interest by providing the information needed for the audit committee (Gebrayel et al. 2018).

Research by Sewwandi & Abeygunasekera (2021) found that the internal audit function within a company significantly influences the quality of financial reporting in companies in the banking industry. Meanwhile, research by Madawaki et al. (2022) found a significant and positive relationship between the internal audit function (specifically the internal audit work performed, internal control activities, and coordination between internal and external auditors) and financial reporting quality.

H_1: The internal audit function is positively related to the financial reporting quality.

The Moderating Role of Risk Management Committee

From an agency theory perspective, conflicts of interest and information asymmetry arise due to differing objectives and information access between managers as agents and shareholders as principals. This situation

creates opportunities for managerial opportunism, particularly in risk management and financial reporting. Effective corporate governance mechanisms are therefore necessary to monitor managerial behavior and protect shareholders' interests. Good corporate governance, risk management, and internal control are critical to the success and sustainability of the company. If the internal control system is implemented correctly, the reliability of financial reporting, efficiency, and operations will be achieved. In addition to the internal audit function, the risk management committee is also a form of embodiment of good corporate governance. Companies with a risk management committee will delegate a separate risk management function and the committee (Rahayu et al. 2021). This is likely to reduce the time and attention constraints of those responsible for risk management (Iselin 2020). From an agency theory viewpoint, this committee enhances board-level monitoring by ensuring that key risks, including financial reporting risks, are systematically identified and addressed.

The establishment of a risk management committee will increase the soundness and strength of an adequate industry, or at least an effective risk management committee should assist organizations in achieving their goals, securing the organization's reputation, and providing higher quality financial reporting (Abdullah & Said 2019). With the existence of an internal audit function and a risk management committee within a company, the company's risk will be better controlled, increasing the financial reporting quality.

H_2: The risk management committee can strengthen the relationship between the internal audit function and the financial reporting quality.

METHOD

This study uses data sourced from the annual report to obtain information related to the variables of the internal audit function (IAF), the risk management committee (RMC) and the number of the company's board of directors (BODSIZE). As for other financial variables obtained from the OSIRIS database. The sample selection used in this study used a purposive sampling method on all companies listed on the Indonesia Stock Exchange in the 2018-2024 period. Several sample selection criteria were set to obtain the final sample, which would then be processed in this study. This study excludes companies in the financial sector (SIC 6) and observations with incomplete data. After making a selection based on predetermined criteria, the final sample size was 1,322 observations.

Variables

Financial reporting quality (FRQ) is the dependent variable in this study. The financial reporting quality in this study was measured using accrual quality regarding the measurement model used by Kothari et al. (2005), who consider that this measurement is the most appropriate measurement to describe the financial reporting quality. This model is a performance-adjusted discretionary accrual model, where this model considers the role of Return on Assets as an independent variable in the modified Jones model (Wahab et al. 2020). After measuring the residual value, the next step is to make the residual value absolute and multiply by minus 1 (-1) to describe the financial reporting quality. This means that the higher the value, the better the financial reporting quality.

The internal audit function (IAF) is the independent variable in this study. This function describes the existence of an internal audit department in a company so that this variable is measured using a dummy variable. A value of 1 is given if the company discloses the existence of an internal audit function in its annual report, while 0 otherwise (Dzikrullah et al. 2020; Gebrayel et al. 2018). This study also uses the risk management committee (RMC) variable as a variable that moderates the relationship between the internal audit function and the

financial reporting quality. Again, RMC in this study is measured using a dummy variable, where a value of 1 is given if the company has and discloses the existence of a risk management committee in its annual report, and 0 is given otherwise (Rahayu et al. 2021).

This study adds several control variables to the research model. Firm size (SIZE) is the natural logarithm of the company's total assets (Gebrayel et al. 2018). The size of the board of directors (BODSIZE) is the number of people who serve on the board of directors (Sucahyati et al. 2020). Loss (LOSS) is a variable that describes if the company has experienced a loss or not. This variable is a dummy variable where 1 is given if the company has experienced a loss and 0 otherwise (Dzikrullah et al. 2020). Leverage (LEV) is total debt divided by total assets (Dzikrullah et al. 2020). Intangible Assets Ratio (INTANGIBLERATIO) is total intangible assets divided by total assets.

Research Design

This study uses several analytical techniques, including descriptive statistics, frequency distribution, Pearson correlation test, and ordinary least squares regression test. This study uses regression with cluster model as robust to reduce the possibility of heteroscedasticity (Petersen 2009). Regression with the cluster model is done by grouping the company code (ticker) and year to estimate the regression model. By using this model, abnormal errors and outliers that affect the regression model can be overcome. In addition, the cluster model can also minimize the occurrence of heteroscedasticity and autocorrelation problems. In this study, robust testing was also carried out to strengthen the research results through Coarsened Exact Matching testing.

The data that has been collected will be processed using STATA 17 software. Before processing the data, each variable used in the test will be winsorized first because there may be data outliers in the distribution of this research data. Winsorizing data does not reduce the number of samples used. The process of winning data only changes the behavior of the data and eliminates problems caused by data outliers such as data bias, poor data transcription, and other problems (Kettaneh et al. 2005). The following is a regression model that will be used to test the existing hypotheses:
Regression model to test hypothesis 1:

$$\begin{aligned}\mathrm{FRQ}_{i,t} = {} & \beta_0 + \beta_1 \mathrm{IAF}_{i,t} + \beta_2 \mathrm{SIZE}_{i,t} + \\ & \beta_3 \mathrm{BODSIZE}_{i,t} + \beta_4 \mathrm{LOSS}_{i,t} + \\ & \beta_5 \mathrm{LEV}_{i,t} + \\ & \beta_6 \mathrm{INTANGIBLERATIO}_{i,t} + \\ & \beta_7 \mathrm{INDUSTRY}_{i,t} + \beta_8 \mathrm{YEAR}_{i,t} + \varepsilon \quad (1)\end{aligned}$$

$$\begin{aligned}\mathrm{FRQ}_{i,t} = {} & \beta_0 + \beta_1 \mathrm{IAF}_{i,t} + \beta_2 \mathrm{RMC}_{i,t} + \\ & \beta_3 \mathrm{SIZE}_{i,t} + \beta_4 \mathrm{BODSIZE}_{i,t} + \\ & \beta_5 \mathrm{LOSS}_{i,t} + \beta_6 \mathrm{LEV}_{i,t} + \\ & \beta_7 \mathrm{INTANGIBLERATIO}_{i,t} + \\ & \beta_8 \mathrm{INDUSTRY}_{i,t} + \beta_9 \mathrm{YEAR}_{i,t} + \varepsilon \quad (2)\end{aligned}$$

Regression model to test hypothesis 2:

$$\begin{aligned}\mathrm{FRQ}_{i,t} = {} & \beta_0 + \beta_1 \mathrm{IAF}_{i,t} + \beta_2 \mathrm{RMC}_{i,t} + \\ & \beta_3 \mathrm{IAF} * \mathrm{RMC}_{i,t} + \beta_4 \mathrm{SIZE}_{i,t} + \\ & \beta_5 \mathrm{BODSIZE}_{i,t} + \beta_6 \mathrm{LOSS}_{i,t} + \\ & \beta_7 \mathrm{LEV}_{i,t} + \\ & \beta_8 \mathrm{INTANGIBLERATIO}_{i,t} + \\ & \beta_9 \mathrm{INDUSTRY}_{i,t} + \\ & \beta_{10} \mathrm{YEAR}_{i,t} + \varepsilon \quad (3)\end{aligned}$$

RESULTS

Based on Table 1, descriptive statistics for the financial reporting quality variable (FRQ) show that the average value of financial reporting quality is -0.233 with a range of values between -115.233 to -0.000. The company size variable (SIZE) has an average of 28.888, with the lowest value being 23.475 and the highest being 34.975. The number of the board of directors (BODSIZE) in this research observation is at most 22 people and at least 2 people. From all samples, the average number of directors in a company is 5.142 or 5 people in a company. Meanwhile, the level of leverage

(LEV) and intangible ratio (INTANGIBLERATIO) of the entire research sample has an average value of 1.208 and 0.053. The range of values from all observations shows 0.006 to 973.406 for the leverage variable and 0.000 to 13.120 for the intangible ratio variable.

The distribution of data for the dummy variable in this study can be seen in the frequency distribution shown in Table 2. This table shows that 99.55% (1,316 observations) of the entire sample of observations have an internal audit function within their company. The remaining 0.45% (6 observations) do not have an internal audit function in their company. The total number of research observations that have a risk management committee within the company is less when compared to the total observations that do not have one of these forms of governance, namely as many as 376 observations (28.44%) for observations that have a risk management committee and the rest 71.56% (946 observations) don't have this committee. Of all observations, only 299 observations (22.62%) had experienced losses.

The distribution of the sample based on the industrial sector is shown in Table 3. Based on the table, the sample of this study is dominated by observation data in the manufacturing sector (SIC code 2), which is a total of 283 observations (21.41%) consisting of 3 observations that do not have an internal audit function and 280 observations that have an internal audit function. At the same time, the minor sample distribution comes from the Health, Legal, and Educational Services and Consulting (SIC code 8), which is 55 observations with an internal audit function. Thus, in the sample of this study, there are 1,316 observations (99.55%) with an internal audit function, while the remaining 6 observations (0.45%) do not have an internal audit function.

Pearson correlation in this study is used to show the relationship between the two variables in this study. This relationship is shown in Table 4, the results of the Pearson correlation test. Based on the table, it can be concluded that there is no significant positive relationship between the internal audit function (IAF) and the financial reporting quality (FRQ). These results only measure the relationship between two variables directly, namely the internal audit function and financial reporting quality variables without considering control variables.

In addition, Table 4 also shows the results of the Pearson correlation test between firm size (SIZE), number of board of directors (BODSIZE), loss (LOSS), and the level of leverage (LEV) and the financial reporting quality (FRQ). The results of the study indicate a significant positive relationship between each of the variables SIZE, BODSIZE, LOSS, and LEV. This means that the larger a company and the larger its board of directors, the higher its financial reporting quality. The same results indicate that when a company experiences losses and has a high level of leverage, its financial reporting quality also increases

Table 1. Descriptive statistics

	Mean	Median	Minimum	Maximum
FRQ	-0.233	-0.095	-115.233	-0.000
SIZE	28.888	28.935	23.475	34.975
BODSIZE	5.142	5.000	2.000	22.000
LEV	1.208	0.432	0.006	973.406
INTANGIBLERATIO	0.053	0.009	0.000	13.120

Source: STATA, 2025

Table 2. Frequency Distribution

Dummy Variable	Label	Meaning	Frequency	Percentage
IAF	0	The company does not have an internal audit function.	6	0.45%
	1	The company has an internal audit function.	1,316	99.55%
RMC	0	The company does not disclose the existence of a risk management committee in the company's report.	946	71.56%
	1	The company discloses the existence of a risk management committee in the company's report.	376	28.44%
LOSS	0	The company has never experienced a loss.	1,023	77.38%
	1	The company has suffered losses.	299	22.62%

Source: STATA, 2025

Internal Audit Function and Financial Reporting Quality

Table 5 shows ordinary least square regression testing results on the internal audit function (IAF) and financial reporting quality (FRQ) variables. Columns (1) and (3) in Table 5 show the regression results from model 1, where column (1) is the result of OLS regression and column (3) is the result of OLS regression with a cluster approach as a robustness test. While column (2) shows the results of the OLS regression from model 2, and column (4) shows the results of the OLS regression with a cluster approach for model 2 after including the risk management committee (RMC) variable.

The results show that the internal audit function is not proven to significantly affect the financial reporting quality in the OLS regression results without a cluster approach (column 1 & 2). On the other hand, there is a significant positive relationship between the internal audit function and the financial reporting quality when a robustness test is performed using a cluster approach. These results were significant before and after the RMC variable was added to the research model (column 3 & 4). This is indicated by the IAF variable, which has a coefficient value of 0.037** (t=2.02) before entering the RMC variable and 0.034** (t=2.11) after entering the RMC variable. This result was significant at the 5% level (p-value < 0.05). These results follow the proposed hypothesis that the existence of an internal audit function is significantly positively related to the financial reporting quality, so H1 is accepted.

The results of H1 testing indicate that the influence of the internal audit function on financial reporting quality is sensitive to the estimation approach used. In the OLS regression results without the cluster approach, the IAF variable did not show a significant effect. This finding can be explained by the extremely skewed distribution of the IAF variable, where the majority of companies in the sample already have an internal audit function. This condition limits data variation and potentially reduces the statistical power of the model in detecting the effect of the presence of an internal audit function on financial reporting quality.

However, when a robustness test was conducted using clustered standard errors to accommodate potential intra-firm correlation and heteroscedasticity, the relationship between the internal audit function and financial reporting quality was positive and significant at the 5% level. Specifically, the coefficient of the IAF variable was 0.005 (t = 0.08) without the cluster approach and 0.034** (t = 2.11) after the robustness test with the cluster approach. The consistency of these results indicates that the main findings are not influenced by the specific model specification.

Table 3. Sample Distribution by Industry Sector

SIC	Industry	Does not have an Internal Audit Function		Have an Internal Audit Function		Total	
		n	%	n	%	n	%
0	Agriculture, Forestry and Fisheries	0	0%	78	100%	78	100%
1	Mining	2	0.91%	218	99.09%	220	100%
2	Manufacturing	3	1.06%	280	98.94%	283	100%
3	Construction Industries	0	0%	165	100%	165	100%
4	Transportation, Communications and Utilities	1	0.55%	179	99.45%	180	100%
5	Wholesale & Retail Trade	0	0%	192	100%	192	100%
7	Service Industries	0	0%	149	100%	149	100%
8	Health, Legal, and Educational Services and Consulting	0	0%	55	100%	55	100%
Total		6	0.45%	1,316	99.55%	1,322	100%

Source: STATA, 2025

The significance that emerged in the cluster-based model indicates that the insignificant results in the standard OLS model are likely influenced by the limited variation of the IAF variable due to its highly skewed distribution. In other words, although the number of companies without an internal audit function is relatively small, the presence of an internal audit function remains positively associated with financial reporting quality when the data structure is more precisely accounted for.

Table 4. Pearson Correlation

	FRQ	IAF	RMC	SIZE	BODSIZE	LOSS	LEV	INTANGIBLE RATIO
FRQ	1.000							
IAF	0.018	1.000						
	(0.515)							
RMC	-0.014	-0.007	1.000					
	(0.614)	(0.790)						
SIZE	0.152***	0.064**	0.391***	1.000				
	(0.000)	(0.021)	(0.000)					
BODSIZE	0.062**	0.050*	0.202***	0.395***	1.000			
	(0.025)	(0.068)	(0.000)	(0.000)				
LOSS	0.086***	0.010	-0.080***	-0.164***	-0.102***	1.000		
	(0.002)	(0.727)	(0.003)	(0.000)	(0.000)			
LEV	0.055**	-0.033	0.123***	0.144***	-0.028	0.315***	1.000	
	(0.046)	(0.230)	(0.000)	(0.000)	(0.314)	(0.000)		
INTANGIBLERATIO	-0.024	-0.005	0.097***	0.135***	0.123***	0.042	0.050*	1.000
	(0.391)	(0.842)	(0.000)	(0.000)	(0.000)	(0.128)	(0.071)	

Source: STATA, 2025. p-values in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Table 5. Relationship between Internal Audit Function and Financial Reporting Quality

	OLS Regression		OLS Regression with Cluster Approach	
	(1) FRQ	(2) FRQ	(3) FRQ	(4) FRQ
IAF	0.009	0.005	0.037**	0.034**
	(0.17)	(0.08)	(2.02)	(2.11)
RMC		-0.024***		-0.016*
		(-2.80)		(-1.94)
SIZE	0.013***	0.015***	0.013***	0.014***
	(5.68)	(6.29)	(3.59)	(3.90)
BODSIZE	0.001	0.001	-0.001	-0.001
	(0.37)	(0.54)	(-0.73)	(-0.63)
LOSS	0.038***	0.036***	0.036***	0.035***
	(4.06)	(3.94)	(3.48)	(3.41)
LEV	-0.002	0.001	-0.019	-0.016
	(-0.16)	(0.09)	(-1.60)	(-1.42)
INTANGIBLERATIO	-0.088*	-0.083*	-0.044	-0.041
	(-1.94)	(-1.82)	(-0.95)	(-0.89)
_cons	-0.515***	-0.566***	-0.487***	-0.523***
	(-6.56)	(-7.04)	(-4.69)	(-5.03)
Industry Fixed Effect	No	No	Yes	Yes
Year Fixed Effect	No	No	Yes	Yes
R^2	0.038	0.044	0.218	0.220
Adjusted R^2	0.034	0.039	0.207	0.208
N	1322	1322	1322	1322

Source: STATA, 2025. t statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The results show that when a company has an internal audit function in its corporate governance mechanism, it will help improve its financial reporting quality. The results of this study support the research of (Arum 2015), (Gros et al. 2017), and (Gebrayel et al. 2018), which states that the existence of an internal audit function contributes to improving the financial reporting quality. The existence of an internal audit function within the company plays a vital role in the financial reporting quality. This is because the internal audit function is tasked with overseeing organizational risk, assessing internal control, and detecting possible manipulations. After all, internal auditors also take part in evaluating the company's financial procedures. As a result, the internal audit function can reduce the information asymmetry between management and shareholders. In addition, the internal audit function can also reduce conflicts of interest by providing the information needed for the audit committee (Gebrayel et al. 2018). Therefore, the existence of an internal audit function helps the task of the audit committee to find out all issues related to company finance, internal control, and auditing, which can lead to sorting out problems and conflicts identified. Regarding the financial reporting quality, an internal audit function can detect earnings management actions to improve the financial reporting quality.

Internal Audit Function, Risk Management Committee, and Financial Reporting Quality

Table 6 shows the test results to see the moderating role of the risk management committee in the relationship between the internal audit function and the financial reporting

quality. Column (1) shows the test results on model 3 without using a cluster approach. On the other hand, column (2) presents the robustness test results on model 3 using a cluster approach.

The results showed that the risk management committee was not proven to significantly strengthen the relationship between the internal audit function and the financial reporting quality on tests without a cluster approach (column 1). However, the results show the opposite on testing with a cluster approach (column 2) which shows that the risk management committee is proven to significantly strengthen the relationship between the internal audit function and the financial reporting quality. This is indicated by the value of the IAF*RMC interaction variable of 0.100*** (t=5.65) and significant at the 1% level. These results support the proposed hypothesis, so H2 is accepted.

Furthermore, the results of testing H1 and H2 indicate that conventional OLS estimation does not produce a significant relationship, while significance emerged after applying clustered standard errors. This difference can be explained by the characteristics of the research data. The key governance variables have limited variation and an unbalanced distribution, reducing the statistical power of conventional OLS. Furthermore, firm-year data potentially contains intra-firm correlation between periods, making the assumption of independence of errors in OLS less accurate. The cluster approach was used to accommodate this data structure and produce more reliable standard error estimates. As in Nasih et al. (2024), clustered standard errors can be used to handle correlation within groups of data and improve the precision of statistical inference.

The existence of a risk management committee can strengthen the influence of the internal audit function on the financial reporting quality. Companies that have an internal audit function and a risk management committee as a form of embodiment of the suitable corporate governance mechanism will be able to produce good quality financial reporting. Combining the existence of a risk management committee and the internal audit function in a company plays a vital role in reducing information asymmetry and existing conflicts of interest. Companies with a risk management committee will delegate a separate risk management function and the committee (Rahayu et al. 2021). This is likely to reduce the time and attention constraints of those responsible for risk management (Iselin 2020). The risk management committee will independently complete its functions with the audit committee to work more effectively to carry out its risk management oversight responsibilities (Buckby et al. 2015).

The establishment of a risk management committee will increase the soundness and strength of an adequate industry, or at least an effective risk management committee should assist organizations in achieving their goals, securing the organization's reputation, and providing higher quality financial reporting (Abdullah & Said 2019). With the existence of an internal audit function and a risk management committee within a company, the company's risk will be better controlled, increasing the financial reporting quality

Table 6. Relationship between Internal Audit Function, Risk Management Committee and Financial Reporting Quality

	(1) FRQ	(2) FRQ
IAF	-0.022	0.001
	(-0.35)	(0.06)
RMC	-0.105	-0.115***

	(1) FRQ	(2) FRQ
	(-0.94)	(-7.02)
IAF*RMC	0.082	0.100***
	(0.72)	(5.65)
SIZE	0.015***	0.014***
	(6.24)	(3.87)
BODSIZE	0.001	-0.001
	(0.54)	(-0.64)
LOSS	0.036***	0.035***
	(3.91)	(3.38)
LEV	0.002	-0.016
	(0.13)	(-1.38)
INTANGIBLERATIO	-0.083*	-0.041
	(-1.81)	(-0.88)
_cons	-0.537***	-0.488***
	(-5.97)	(-4.74)
Industry Fixed Effect	No	Yes
Year Fixed Effect	No	Yes
R^2	0.044	0.221
Adjusted R^2	0.039	0.208
N	1322	1322

Source: STATA, 2025. t statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Robustness Test Using Coarsened Exact Matching (CEM)

One of the endogeneity issues in research is that the observation samples used are not fully comparable. This condition can lead to bias in the results if the observations do not reflect the characteristics of other observations, known as the sample selection bias problem (Nasih et al. 2024). This study uses the Coarsened Exact Matching (CEM) method as a robustness test that can strengthen the research results, overcome endogeneity problems, and ensure the consistency of the constructed model. The CEM test in this study was conducted by dividing the sample into two groups: the treatment group and the control group. This test divides the control group into three strata by grouping them based on the characteristics of the independent variable. This study uses the IAF variable as the treatment. The CEM regression results are presented in Table 7.

Table 7. Robustness Test Using Coarsened Exact Matching (CEM)

	(1) FRQ	(2) FRQ	(3) FRQ
IAF	0.053***	0.050***	0.025
	(4.90)	(4.81)	(1.12)
RMC		-0.020**	-0.095***
		(-2.12)	(-4.18)
IAF*RMC			0.077***
			(3.02)
SIZE	0.008	0.009*	0.009*

	(1) FRQ	(2) FRQ	(3) FRQ
	(1.48)	(1.77)	(1.68)
BODSIZE	-0.002	-0.001	-0.001
	(-0.67)	(-0.62)	(-0.64)
LOSS	0.030***	0.026**	0.026**
	(2.97)	(2.47)	(2.48)
LEV	-0.051***	-0.048***	-0.046**
	(-2.96)	(-2.76)	(-2.62)
INTANGIBLERATIO	0.009	0.020	0.022
	(0.09)	(0.21)	(0.22)
_cons	-0.339**	-0.373***	-0.338**
	(-2.35)	(-2.70)	(-2.45)
Industry Fixed Effect	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes
R^2	0.277	0.281	0.283
Adjusted R^2	0.250	0.252	0.252
N	519	519	519

Source: STATA, 2025. t statistics in parentheses, * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The CEM test results showed the same results and supported the main regression. The results showed that the existence of an internal audit function was proven to have a significant positive effect on financial reporting quality at the 5% level. This is indicated by the coefficient value of 0.053*** (t=4.90) in column 1 (before the addition of the RMC variable) and 0.050*** (t=4.81) in column 2 (after the addition of the RMC variable). Furthermore, the CEM test results also showed that the existence of a risk management committee in a company can strengthen the influence of the internal audit function and financial reporting quality.

CONCLUSION

This study analyzes the moderating role of the risk management committee on the relationship between the internal audit function and the financial reporting quality in 1,322 non-financial companies listed on the Indonesia Stock Exchange in the 2018-2024 period. The results of the test and discussion show two conclusions. First, the existence of an internal audit function in a company can improve the financial reporting quality. Second, the existence of a risk management committee can strengthen the relationship between the internal audit function and the financial reporting quality. When the company has an internal audit function and a risk management committee as a form of implementing good corporate governance, the quality of the company's financial reporting will increase. This is because the internal control and supervision of the company's risk can be managed appropriately to present high-quality financial reporting. These results are robust using coarsened exact matching (CEM) testing.

The results of this study are expected to provide practical and theoretical contributions. Practically, it is hoped that this research can be used as consideration for companies to have internal audit functions and risk management committees within their companies as part of the corporate governance mechanism to present high-quality financial reporting. Meanwhile, from a theoretical perspective, this research is expected to contribute to the literature regarding what factors can improve the quality of corporate financial reporting to be used as a reference for further research.

For further research, it can improve the limitations of this study to improve research on similar topics. Further researchers can add some characteristics of other internal audit functions that are suspected to also affect the financial reporting quality, for example, the expertise of internal auditor personnel and the number of personnel in the company's internal audit dividend as in the research of Dzikrullah et al. (2020). In addition, further researchers can also expand the research sample by adding years of research or conducting research related to the internal audit function in financial sector companies, so that the results obtained can be more generalized.

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