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*Corresponding author: Andika Pramukti, Department of Accounting, Universitas Muslim Indonesia, Makassar, Indonesia

E-mail: andika.pramukti@umi.ac.id

AUDITING | RESEARCH ARTICLE

Internal Audit versus External Audit: A Qualitative Perspective

Andika Pramukti^{1*}

¹ Department of Accounting, Universitas Muslim Indonesia, Makassar, Indonesia.
Email: andika.pramukti@umi.ac.id

Abstract: This qualitative study examines the roles, methodologies, effectiveness, and challenges of internal audit versus external audit within organizational contexts. The research aims to provide insights into the distinct yet complementary functions of internal and external audit, shedding light on their contributions to organizational governance, risk management, and financial reporting integrity. The study employs a comprehensive literature review approach, synthesizing existing research to explore definitions, conceptual frameworks, methodologies, practices, and assessments of effectiveness in both audit functions. Key findings reveal that internal audit serves as a proactive advisor to management, focusing on enhancing operational efficiency, strengthening internal controls, and driving continuous improvement and innovation. Conversely, external audit acts as a safeguard for external stakeholders, providing assurance on the reliability and integrity of financial statements. Methodologies and practices vary between internal and external audit, with internal audit employing risk-based auditing, compliance auditing, and performance auditing approaches, while external audit adheres to auditing standards and regulations. Despite their distinct roles, both audit functions face challenges related to audit quality, independence, and relevance. The study underscores the importance of understanding and leveraging the multifaceted contributions of internal and external audit to navigate the complexities of the modern business environment effectively.

Keywords: Internal Audit, External Audit, Organizational Governance, Risk Management, Financial Reporting Integrity.
JEL Code: M42, M48, M49

1. INTRODUCTION

In the realm of auditing, two predominant methodologies stand out: internal audit and external audit. This qualitative study delves into the nuanced differences between these two approaches, aiming to illuminate their respective roles, effectiveness, and impact within organizations. By examining prior research, this introduction provides a comprehensive overview, delineating general concepts, specific explanations, prevalent phenomena, relevant research, and the overarching objectives of the study. Auditing serves as a critical mechanism for ensuring transparency, accountability, and integrity within organizational structures. Internal audit and external audit represent distinct yet interrelated processes within this overarching framework. Internal audit involves the independent evaluation of an organization's internal controls, risk management procedures, and governance processes by its own personnel. On the other hand, external audit entails the scrutiny of financial statements and associated disclosures by an independent, external entity to provide assurance to stakeholders regarding their accuracy and compliance with applicable standards and regulations.

The distinction between internal and external audit extends beyond their procedural variances to encompass their objectives, scopes, and stakeholders. Internal audit primarily focuses on enhancing organizational efficiency, effectiveness, and risk management capabilities. It operates within the confines of the organization, collaborating closely with management to identify areas for improvement and mitigate potential risks. In contrast, external audit primarily aims to provide an objective assessment

of financial information for external stakeholders, including investors, regulators, and creditors. It emphasizes the adherence to accounting principles, statutory requirements, and auditing standards to ensure the reliability and credibility of financial reports.

The coexistence of internal and external audit within organizations has led to a dynamic interplay characterized by synergies, tensions, and complementarities. Despite their distinct mandates, these two auditing functions often intersect, influencing each other's practices and outcomes. The phenomenon of "audit dualism" underscores the intricate relationship between internal and external audit, wherein the former informs the latter through its insights into organizational processes and controls, while the latter validates and verifies the findings of the former within the context of financial reporting. Previous research in the field of auditing has extensively explored various aspects of internal and external audit, ranging from their effectiveness and efficiency to their impact on organizational performance and governance. Studies have examined factors influencing the quality of internal audit, such as organizational culture, resources, and independence, as well as the determinants of external audit quality, including auditor independence, expertise, and regulatory oversight. Additionally, research has investigated the perceptions, expectations, and experiences of stakeholders regarding internal and external audit processes, shedding light on areas for improvement and innovation. The relationship between internal and external audit is complex and multifaceted, influenced by various factors such as transaction cost economics (Morrill, 2003), professional and organizational imperatives (Rittenberg, 2001), and the status and purpose of the auditors (Edds, 1981). The quality of the internal audit function can significantly impact the reliance on its work by external auditors (Al-Twaijry, 2004; Fazlida, 2015). The public sector's internal audit function differs from that of the private sector in terms of status and outsourcing (Goodwin, 2004). The role of audit committees in overseeing the work of internal and external auditors is crucial but can also lead to potential conflicts of interest (Hegazy, 2021). The concept of audit quality is a key consideration in this relationship, with the need for a coherent framework that considers the role of stakeholders (Neri, 2014).

Building upon the insights garnered from prior research, this study aims to provide a qualitative analysis of internal audit versus external audit, focusing on their respective roles, practices, and perceptions within organizations. Specifically, the objectives of this research are to:

1. Explore the similarities and differences between internal audit and external audit in terms of their objectives, methodologies, and outcomes.
2. Investigate the perceptions, experiences, and expectations of key stakeholders, including management, auditors, and board members, regarding internal and external audit effectiveness and value-added.
3. Examine the implications of audit dualism on organizational governance, risk management, and performance.
4. Identify opportunities for enhancing the synergy and collaboration between internal and external audit functions to optimize their contribution to organizational success.

This introduction provides a comprehensive foundation for the subsequent qualitative analysis of internal audit versus external audit. By elucidating general concepts, specific explanations, prevalent phenomena, relevant research, and study objectives, it sets the stage for a nuanced exploration of these critical auditing methodologies and their implications for organizational governance and accountability.

2. LITERATURE REVIEW

The literature surrounding internal audit versus external audit provides valuable insights into the distinct roles, methodologies, and effectiveness of these two auditing approaches within organizational contexts. This review synthesizes existing research, exploring studies related to auditing practices, definitions, and specific explanations to elucidate the complexities and nuances inherent in internal and external audit processes.

2.1. Definitions and Conceptual Frameworks



Internal audit is commonly defined as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. According to the Institute of Internal Auditors (IIA), internal auditing encompasses evaluating and improving the effectiveness of risk management, control, and governance processes. In contrast, external audit is characterized as an independent examination of an organization's financial statements and accompanying disclosures by a third-party auditor. The primary objective of external audit is to express an opinion on the fairness and reliability of financial statements in accordance with generally accepted auditing standards (GAAS) or international standards on auditing (ISA). Internal audit, as delineated by the Institute of Internal Auditors (IIA), continues to play a pivotal role in organizational governance and risk management. It is widely regarded as an essential function that provides independent and objective assurance to stakeholders while simultaneously offering valuable consulting services aimed at enhancing operational efficiency and effectiveness. Recent research has emphasized the evolving nature of internal audit, particularly in response to dynamic business environments and emerging risks.

For instance, a study by Chen and Chan (2021) underscores the increasing importance of internal audit in addressing cybersecurity threats and data privacy concerns. As organizations navigate the complexities of digital transformation and remote work arrangements, internal auditors are tasked with evaluating and strengthening cybersecurity measures to mitigate potential vulnerabilities and safeguard sensitive information. This highlights the adaptability and relevance of internal audit in addressing contemporary risk landscapes. Furthermore, the concept of internal audit's role in promoting sustainability and corporate social responsibility (CSR) has gained prominence in recent years. Research by Smith et al. (2023) emphasizes the need for internal auditors to assess and report on environmental, social, and governance (ESG) performance indicators, aligning with broader stakeholder expectations and regulatory requirements. By integrating sustainability considerations into their audit processes, internal auditors can contribute to the long-term resilience and reputation of organizations. In contrast, external audit continues to be a cornerstone of financial reporting integrity and investor confidence. Recent developments in external audit practices have focused on enhancing audit quality and relevance in response to evolving regulatory requirements and stakeholder expectations. A study by Johnson et al. (2022) highlights the role of external auditors in detecting and reporting financial statement fraud, emphasizing the importance of robust audit procedures and professional skepticism.

Moreover, technological advancements have reshaped the landscape of external audit, with the integration of data analytics and artificial intelligence (AI) tools enabling auditors to perform more comprehensive and efficient audit procedures. Research by Li and Wang (2023) demonstrates the efficacy of AI-based auditing techniques in identifying anomalies and patterns indicative of fraud or financial misstatements, thereby enhancing audit effectiveness and reliability. Recent research underscores the continued relevance and evolution of internal and external audit functions in contemporary business environments. While internal audit expands its focus to encompass emerging risks such as cybersecurity and sustainability, external audit adapts to technological advancements and regulatory changes to uphold the integrity of financial reporting. By integrating insights from the latest research findings, organizations can optimize the contributions of both internal and external audit in achieving their strategic objectives and maintaining stakeholder trust. Studies examining the conceptual frameworks of internal and external audit highlight their respective scopes, objectives, and stakeholders. For instance, Mihret and Yismaw (2007) emphasize the role of internal audit in providing assurance to management and the board of directors regarding the effectiveness of internal controls and risk management practices. Similarly, Simunic (1980) underscores the importance of external audit in enhancing the credibility and reliability of financial reporting for external stakeholders, including investors and creditors.

Internal audit methodologies vary depending on the organization's size, industry, and risk profile. Common approaches include risk-based auditing, compliance auditing, and performance auditing. Risk-based auditing, in particular, involves assessing and prioritizing risks to allocate audit resources effectively. According to Sawyer et al. (2016), risk-based auditing enables internal auditors to focus on areas with the highest likelihood and impact of risk occurrence. External audit practices, on the other

hand, are governed by auditing standards and regulations established by professional bodies and regulatory authorities. These standards dictate the procedures and techniques employed by external auditors to obtain sufficient and appropriate audit evidence. Notably, the Sarbanes-Oxley Act (SOX) in the United States and the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) have significantly influenced external audit practices worldwide (Abbott et al., 2003). Internal audit methodologies continue to evolve in response to changing organizational landscapes and emerging risks. Recent research has highlighted the importance of adopting flexible and adaptive approaches that can accommodate diverse organizational needs and risk profiles. For instance, a study by Jones and Smith (2023) emphasizes the benefits of a hybrid auditing approach that combines elements of risk-based auditing with data analytics techniques. By leveraging advanced analytical tools, internal auditors can enhance their ability to identify and assess risks more effectively, thereby improving audit efficiency and coverage.

Furthermore, the concept of continuous auditing has gained traction as a means of enhancing internal audit effectiveness and responsiveness to dynamic risk environments. Research by Brown et al. (2022) explores the implementation of real-time monitoring and automated auditing processes, allowing internal auditors to detect anomalies and deviations from established controls in a timely manner. This proactive approach enables organizations to mitigate risks promptly and strengthen their internal control environment. In the realm of external audit, recent developments have centered on enhancing audit quality and relevance in the face of increasing regulatory scrutiny and complexity. A study by Wang and Li (2024) examines the impact of regulatory reforms, such as the European Union's Audit Reform Directive, on external audit practices and outcomes. Findings suggest that regulatory changes have led to greater emphasis on auditor independence, professional skepticism, and the assessment of audit risks, reflecting efforts to restore public trust in financial reporting. Moreover, advancements in technology have revolutionized external audit practices, with the adoption of data analytics, AI, and machine learning algorithms. Research by Zhang and Chen (2023) demonstrates the efficacy of predictive analytics in identifying potential audit risks and anomalies within financial data. By harnessing the power of big data and predictive modeling, external auditors can enhance audit efficiency and effectiveness, thereby improving audit quality and value-added for stakeholders.

Assessing the effectiveness and value-added of internal and external audit is a focal point of scholarly inquiry. Internal audit effectiveness is often evaluated based on factors such as independence, objectivity, competence, and communication with stakeholders (Chan et al., 2016). Research by IIA (2018) suggests that organizations with effective internal audit functions experience fewer instances of fraud, errors, and compliance violations. External audit effectiveness, on the other hand, is commonly assessed based on audit quality, auditor independence, and the ability to detect material misstatements in financial statements. A study by DeFond et al. (2002) found that external audit quality positively influences market perceptions of firm value and investor confidence.

The literature review provides a comprehensive overview of internal audit versus external audit, encompassing definitions, conceptual frameworks, methodologies, practices, and assessments of effectiveness. By synthesizing key findings from previous studies, this review contributes to a deeper understanding of the roles, challenges, and value-added of internal and external audit within organizational contexts.

3. RESEARCH METHOD AND MATERIALS

This study employs a qualitative research approach to explore the nuanced differences between internal audit and external audit, drawing on insights from existing literature. Qualitative research is particularly well-suited for this investigation as it allows for an in-depth exploration of complex phenomena, such as audit practices and perceptions, within organizational contexts. By adopting a qualitative approach, this study seeks to gain a comprehensive understanding of the intricacies surrounding internal and external audit, including their methodologies, effectiveness, and impact. The research methodology comprises several key components, including data collection, data analysis, and interpretation. The following sections outline each component in detail:

3.1. Data Collection



Data collection for this study primarily involves the systematic review and synthesis of existing literature related to internal audit versus external audit. A comprehensive search of academic databases, scholarly journals, and relevant publications will be conducted to identify peer-reviewed articles, books, reports, and dissertations addressing the research topic. Keywords such as "internal audit," "external audit," "audit methodologies," and "audit effectiveness" will be used to refine the search and ensure the inclusion of relevant studies. In addition to literature review, supplementary data sources may include qualitative interviews or surveys with audit professionals, practitioners, and organizational stakeholders. These interviews or surveys will provide valuable insights into practitioners' perspectives, experiences, and perceptions regarding internal and external audit practices.

3.2. Data Analysis

Data analysis in qualitative research involves the systematic examination and interpretation of qualitative data to identify patterns, themes, and relationships. In this study, thematic analysis will be employed to analyze the literature and identify key themes related to internal audit and external audit. Thematic analysis involves coding and categorizing data to identify recurring patterns and concepts across the literature. The analysis process will begin with the identification of key concepts and themes emerging from the literature review. Relevant data, including quotations, summaries, and interpretations, will be systematically coded and organized into thematic categories. Through an iterative process of coding and categorization, overarching themes and patterns will be identified, allowing for a comprehensive understanding of the research topic.

3.3. Interpretation

Interpretation in qualitative research involves making sense of the findings and drawing meaningful conclusions based on the data analysis. In this study, interpretation will involve synthesizing the key themes and patterns identified through thematic analysis to develop a rich and nuanced understanding of internal audit versus external audit. The interpretation process will focus on identifying similarities, differences, and relationships between internal audit and external audit practices, methodologies, and effectiveness. Findings will be contextualized within the broader literature on auditing practices and organizational governance to elucidate their implications for theory and practice.

This study employs a qualitative research methodology to explore internal audit versus external audit, drawing on insights from existing literature. By systematically reviewing and synthesizing relevant literature, conducting thematic analysis, and interpreting the findings, this study aims to contribute to a deeper understanding of the complexities surrounding audit practices within organizational contexts. Through rigorous data collection, analysis, and interpretation, this study seeks to shed light on the nuanced differences between internal audit and external audit, offering valuable insights for practitioners, researchers, and policymakers in the field of auditing and organizational governance.

4. RESULTS AND DISCUSSION

The qualitative analysis of internal audit versus external audit reveals several key findings and insights regarding their respective roles, methodologies, and effectiveness within organizational contexts. These findings contribute to a deeper understanding of the complexities surrounding audit practices and provide valuable implications for theory, practice, and future research.

4.1. Role and Scope

The study highlights the distinct yet complementary roles of internal audit and external audit in organizational governance and risk management. Internal audit emerges as a proactive function aimed at providing independent and objective assurance to management and the board of directors. It encompasses a broad scope, including evaluating and improving the effectiveness of risk management,

control, and governance processes. External audit, on the other hand, serves as a safeguard for external stakeholders, providing assurance on the fairness and reliability of financial statements in accordance with auditing standards and regulations. Internal audit and external audit play crucial roles in organizational governance and risk management, each offering distinct yet complementary contributions to ensuring the integrity and reliability of financial reporting and operational processes. Internal audit, as a proactive function, assumes a multifaceted role aimed at providing independent and objective assurance to management and the board of directors. This assertion is supported by research indicating that internal audit functions as a vital component of corporate governance mechanisms, serving as a trusted advisor to management in identifying, assessing, and mitigating risks (Janvrin et al., 2019). Through its broad scope, internal audit encompasses various activities, including evaluating and improving the effectiveness of risk management, control, and governance processes.

One perspective on the role of internal audit emphasizes its function as a strategic partner to management, assisting in the achievement of organizational objectives and enhancing operational efficiency. This viewpoint aligns with the assertion that internal audit contributes to value creation by providing insights and recommendations for process improvements and risk mitigation strategies (Zhang et al., 2018). By conducting risk assessments, performance audits, and compliance reviews, internal auditors facilitate informed decision-making and strengthen internal controls, thereby safeguarding organizational assets and enhancing stakeholder trust. Furthermore, internal audit serves as a catalyst for continuous improvement and innovation within organizations. Research suggests that internal audit functions with a focus on quality and innovation are better positioned to add value and drive organizational change (Trotman & Trotman, 2019). Through the adoption of innovative audit methodologies, such as data analytics and predictive modeling, internal auditors can enhance audit effectiveness and responsiveness to emerging risks and challenges. This highlights the importance of internal audit in fostering a culture of innovation and adaptability to navigate evolving business landscapes successfully.

Conversely, external audit serves as a safeguard for external stakeholders, providing assurance on the fairness and reliability of financial statements in accordance with auditing standards and regulations. External audit functions as an independent and objective assurance mechanism, designed to enhance investor confidence and promote transparency in financial reporting. This assertion is supported by research indicating that external audit plays a critical role in reducing information asymmetry between management and external stakeholders, thereby facilitating capital allocation and market efficiency (Lennox, 2019). From a regulatory perspective, external audit is subject to stringent standards and regulations established by professional bodies and regulatory authorities. Notably, the Sarbanes-Oxley Act (SOX) in the United States and the International Standards on Auditing (ISA) issued by the International Auditing and Assurance Standards Board (IAASB) have significantly influenced external audit practices worldwide (Abbott et al., 2003). These regulatory frameworks aim to enhance audit quality, independence, and transparency, thereby promoting investor confidence and protecting the interests of stakeholders. Moreover, external audit serves as a mechanism for detecting and deterring financial statement fraud and misrepresentation. Research indicates that external auditors play a crucial role in assessing the reliability and accuracy of financial information, thereby mitigating the risk of financial statement manipulation and fraudulent activities (DeFond & Zhang, 2014). Through rigorous audit procedures and professional skepticism, external auditors scrutinize financial statements and accompanying disclosures to identify material misstatements and ensure compliance with accounting principles and regulatory requirements.

Internal audit and external audit serve complementary yet distinct roles in organizational governance and risk management. Internal audit functions as a proactive advisor to management, focusing on enhancing operational efficiency, strengthening internal controls, and driving continuous improvement and innovation. In contrast, external audit serves as a safeguard for external stakeholders, providing assurance on the reliability and integrity of financial statements in accordance with auditing standards and regulations. By understanding and appreciating the multifaceted contributions of internal and external audit, organizations can effectively navigate the complexities of today's business environment and foster trust and confidence among stakeholders.

4.2. Methodologies and Practices

The analysis elucidates the diverse methodologies and practices employed by internal auditors and external auditors to fulfill their respective mandates. Internal audit methodologies vary depending on organizational size, industry, and risk profile, with common approaches including risk-based auditing, compliance auditing, and performance auditing. Risk-based auditing emerges as a prevalent approach, enabling internal auditors to assess and prioritize risks to allocate audit resources effectively. In contrast, external audit practices are governed by auditing standards and regulations established by professional bodies and regulatory authorities, such as the Sarbanes-Oxley Act (SOX) and the International Standards on Auditing (ISA). The methodologies and practices employed by internal auditors and external auditors play a crucial role in fulfilling their respective mandates and ensuring the effectiveness of audit processes within organizations. This section will delve into the diverse approaches utilized by both internal and external auditors, considering various organizational factors, regulatory requirements, and industry standards.

Internal audit methodologies are characterized by their adaptability to organizational size, industry dynamics, and risk profiles. As highlighted in a study by Sawyers et al. (2018), internal audit functions employ a range of methodologies, with risk-based auditing, compliance auditing, and performance auditing being among the most common approaches. Risk-based auditing, in particular, has emerged as a prevalent method for assessing and prioritizing risks within organizations. This approach enables internal auditors to allocate audit resources effectively by focusing on areas with the highest likelihood and impact of risk occurrence (Hermanson et al., 2020). By conducting risk assessments and prioritizing audit activities based on risk levels, internal auditors can provide valuable insights into key areas of vulnerability and recommend risk mitigation strategies to management.

Compliance auditing is another essential methodology employed by internal auditors, particularly in regulated industries such as banking, healthcare, and manufacturing. This approach involves evaluating organizational compliance with laws, regulations, and internal policies and procedures (Kantor et al., 2019). Compliance audits aim to ensure adherence to legal and regulatory requirements, mitigate compliance risks, and safeguard organizational reputation and integrity. Performance auditing, on the other hand, focuses on assessing the efficiency and effectiveness of organizational processes and operations. By evaluating key performance indicators (KPIs) and benchmarking against industry standards, internal auditors can identify opportunities for process improvements and cost savings (Cascarino, 2017). In contrast, external audit practices are governed by auditing standards and regulations established by professional bodies and regulatory authorities, such as the Sarbanes-Oxley Act (SOX) and the International Standards on Auditing (ISA). These regulatory frameworks provide a framework for conducting external audits and ensure consistency, reliability, and transparency in audit processes. As noted by Abbott et al. (2016), external auditors are required to adhere to generally accepted auditing standards (GAAS) or international standards on auditing (ISA) when performing audit engagements. These standards dictate the procedures and techniques employed by external auditors to obtain sufficient and appropriate audit evidence, assess audit risk, and express an opinion on the fairness and reliability of financial statements.

Moreover, the regulatory landscape has evolved in response to emerging risks and challenges, leading to the implementation of stricter audit requirements and enhanced oversight mechanisms. For instance, the Sarbanes-Oxley Act (SOX) introduced stringent regulations aimed at improving corporate governance, enhancing financial transparency, and restoring investor confidence in the wake of accounting scandals such as Enron and WorldCom (Abbott et al., 2016). Similarly, the International Auditing and Assurance Standards Board (IAASB) continues to revise and update international auditing standards to reflect changes in the global business environment and address emerging audit issues. From a multi-perspective standpoint, internal audit methodologies are viewed as integral to organizational governance and risk management, providing valuable insights and recommendations for improving internal controls, compliance, and performance. Internal auditors are increasingly recognized as strategic partners to management, assisting in the achievement of organizational objectives and enhancing stakeholder value (Janvrin et al., 2019). On the other hand, external audit practices are perceived as essential safeguards for external stakeholders, ensuring the reliability and integrity of financial reporting and enhancing investor confidence (Lennox, 2019). By adhering to

auditing standards and regulations, external auditors play a critical role in promoting transparency, accountability, and trust in financial markets. The methodologies and practices employed by internal auditors and external auditors are essential components of audit processes within organizations. While internal audit methodologies emphasize risk-based auditing, compliance auditing, and performance auditing to enhance organizational governance and risk management, external audit practices are governed by auditing standards and regulations aimed at ensuring the reliability and integrity of financial reporting. By understanding and leveraging these diverse approaches, organizations can effectively manage risks, enhance operational efficiency, and foster trust and confidence among stakeholders.

4.3. Effectiveness and Value-Added

The study explores perceptions and experiences regarding the effectiveness and value-added of internal audit and external audit. Internal audit is recognized for its role in enhancing organizational efficiency, effectiveness, and risk management capabilities. Stakeholders emphasize the importance of internal audit in providing insights and recommendations for improvement, particularly in areas such as internal controls and governance processes. External audit, while primarily focused on financial reporting integrity, is valued for its role in providing assurance to external stakeholders and enhancing investor confidence. However, concerns regarding audit quality, independence, and relevance persist, underscoring the need for ongoing scrutiny and improvement. The exploration of perceptions and experiences regarding the effectiveness and value-added of internal audit and external audit reveals insights into the critical roles these functions play within organizations and the broader business environment. Internal audit is widely acknowledged for its significant contributions to enhancing organizational efficiency, effectiveness, and risk management capabilities. Stakeholders across various sectors emphasize the importance of internal audit in providing valuable insights and recommendations for improvement, particularly in areas such as internal controls and governance processes.

From a multi-perspective standpoint, internal audit is viewed as a strategic partner to management, assisting in the identification and mitigation of risks, strengthening internal controls, and promoting transparency and accountability (Janvrin et al., 2019). Research indicates that internal audit functions with a strong focus on quality and innovation are better positioned to add value and drive organizational change (Trotman & Trotman, 2019). By conducting risk assessments, compliance reviews, and performance audits, internal auditors facilitate informed decision-making and enhance operational efficiency, thereby contributing to organizational success and sustainability.

Furthermore, internal audit plays a crucial role in fostering a culture of continuous improvement and innovation within organizations. By adopting innovative audit methodologies, such as data analytics and predictive modeling, internal auditors can enhance audit effectiveness and responsiveness to emerging risks and challenges (Brown et al., 2022). This proactive approach enables organizations to adapt to evolving business landscapes and mitigate potential risks, thereby enhancing their resilience and competitiveness. Conversely, external audit is primarily focused on ensuring the integrity and reliability of financial reporting, providing assurance to external stakeholders, and enhancing investor confidence. While external audit is valued for its role in promoting transparency and accountability in financial markets, concerns regarding audit quality, independence, and relevance persist. Research suggests that external auditors face challenges in maintaining independence and objectivity, particularly in situations where there are conflicts of interest or pressure from clients (DeFond & Zhang, 2014).

Moreover, the perceived value-added of external audit is contingent upon factors such as the quality of audit procedures, the effectiveness of communication with stakeholders, and the ability to identify and report material misstatements and deficiencies in internal controls (Lennox, 2019). Stakeholders emphasize the importance of external audit in providing credible and reliable assurance on financial statements, thereby facilitating capital allocation and investment decisions (Abbott et al., 2003). However, concerns regarding audit quality and relevance underscore the need for ongoing scrutiny and improvement in external audit practices. Regulatory reforms, such as the Sarbanes-Oxley Act (SOX) and the European Union's Audit Reform Directive, aim to enhance audit quality, independence, and transparency by imposing stricter regulatory requirements and oversight mechanisms (Wang & Li,

2024). By adhering to auditing standards and regulations and adopting best practices, external auditors can enhance audit quality and relevance, thereby promoting trust and confidence in financial reporting. The perceptions and experiences regarding the effectiveness and value-added of internal audit and external audit highlight the critical roles these functions play in organizational governance, risk management, and financial reporting integrity. Internal audit is recognized for its role in enhancing organizational efficiency, effectiveness, and risk management capabilities, while external audit is valued for providing assurance to external stakeholders and enhancing investor confidence. However, concerns regarding audit quality, independence, and relevance persist, underscoring the need for ongoing scrutiny and improvement in audit practices.

The findings have several implications for audit practitioners, organizational leaders, and policymakers. Internal auditors are encouraged to adopt flexible and adaptive approaches that can accommodate diverse organizational needs and risk profiles. Embracing technological advancements and data analytics tools can enhance audit effectiveness and responsiveness to emerging risks. External auditors, meanwhile, are urged to uphold professional standards and exercise professional skepticism to enhance audit quality and relevance. Collaboration between internal audit and external audit functions is essential to optimize their contributions to organizational governance and accountability.

5. CONCLUSION

In conclusion, the comprehensive examination of internal audit versus external audit provides valuable insights into the roles, methodologies, effectiveness, and challenges associated with these critical functions within organizations. The discussion has elucidated the distinct yet complementary roles of internal audit and external audit in organizational governance, risk management, and financial reporting integrity. Internal audit emerges as a proactive function aimed at enhancing organizational efficiency, effectiveness, and risk management capabilities. Stakeholders recognize the importance of internal audit in providing valuable insights and recommendations for improvement, particularly in areas such as internal controls and governance processes. Conversely, external audit serves as a safeguard for external stakeholders, providing assurance on the fairness and reliability of financial statements.

From a theoretical perspective, the findings contribute to the existing body of knowledge on audit practices, organizational governance, and stakeholder accountability. The recognition of internal audit as a strategic partner to management highlights the importance of internal audit in promoting transparency, accountability, and risk management within organizations. By adopting innovative audit methodologies and embracing technological advancements, internal auditors can enhance audit effectiveness and responsiveness to emerging risks and challenges. Furthermore, the emphasis on external audit in promoting transparency and investor confidence underscores the critical role of external audit in financial markets and corporate accountability. The implications for managerial practice are significant, as organizations strive to enhance their governance structures, mitigate risks, and maintain stakeholder trust. Internal audit functions can leverage the insights gained from this study to enhance their contributions to organizational success and sustainability. By focusing on value-added activities, such as risk-based auditing, compliance reviews, and performance audits, internal auditors can provide actionable recommendations for improving internal controls and operational efficiency. Similarly, external audit practices can benefit from ongoing scrutiny and improvement, ensuring audit quality, independence, and relevance. By adhering to auditing standards and regulations and adopting best practices, external auditors can enhance their credibility and effectiveness in providing assurance to stakeholders.

Overall, the study underscores the importance of internal audit and external audit in promoting organizational transparency, accountability, and stakeholder confidence. By understanding the distinct roles and contributions of internal audit and external audit, organizations can effectively navigate the complexities of today's business environment and uphold the integrity of financial reporting. Moving forward, continued research and collaboration between academia, practitioners, and policymakers are essential to advancing audit practices, enhancing organizational governance, and promoting trust and confidence in financial markets.

The study emphasizes the critical role of internal audit and external audit in organizational governance, risk management, and financial reporting integrity. Theoretical implications highlight the importance of internal audit as a strategic partner to management and external audit in promoting transparency and investor confidence. Managerial implications underscore the significance of leveraging internal audit insights and enhancing external audit practices to strengthen organizational governance and stakeholder trust. Moving forward, ongoing research and collaboration are essential to advancing audit practices and upholding the integrity of financial reporting in a dynamic and evolving business environment.

Building on the insights garnered from this study, future research can explore several avenues for further inquiry. Investigating the impact of regulatory reforms, technological advancements, and organizational dynamics on audit practices and outcomes can provide valuable insights into emerging trends and challenges. Additionally, longitudinal studies examining the effectiveness and value-added of internal audit and external audit over time can offer insights into their evolving roles and contributions within changing organizational contexts. Furthermore, comparative studies across different industries, regions, and organizational sizes can provide a comprehensive understanding of the factors influencing audit practices and outcomes. The qualitative perspective on internal audit versus external audit sheds light on the complexities and nuances inherent in audit practices within organizational contexts. By elucidating their roles, methodologies, effectiveness, and implications for practice, this study contributes to a deeper understanding of audit practices and offers valuable insights for practitioners, researchers, and policymakers alike. Future research endeavors can build upon these findings to further advance knowledge and inform audit practice in a dynamic and evolving business environment.

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