

Literature Review: Transparency In Improving The Quality Of Internal Audits

Farida Khairani Lubis*, Fahmi Natigor Nasution, Sirozujilam, Narumondang B Siregar

Faculty of Economics and Business, Doctorate in Accounting Science, Universitas Sumatera Utara, Medan, Indonesia
Jl. Dr. T. Mansyur No. 9, Padang Bulan, Kec. Medan Baru, Kota Medan, Sumatera Utara 20155, Indonesia
Email: ¹*faridakhairani@students.usu.ac.id, ²fahmi.natigor@usu.ac.id, ³sirozujilam@usu.ac.id, narumondang@usu.ac.id

Correspondence Author Email: faridakhairani@students.usu.ac.id

Submitted: 01/12/2025; Accepted: 07/01/2026; Published: 25/01/2026

Abstract—The purpose of this study is to systematically review the existing literature on transparency in improving the quality of internal audit in regional public hospitals in North Sumatra Province. The need for transparency in the audit process has become an essential factor in improving the quality and effectiveness of hospital management. This study used a systematic literature review (SRB) approach by collecting, evaluating and synthesizing empirical research articles published between 2015-2015 from reputable international and national journals. The review process followed PRISMA guidelines to ensure transparency and comprehensiveness in selecting relevant studies. A total of 35 articles were identified and categorized based on their research focus, methodology and main findings. From the studies presented in this paper, it was revealed that as many as 80% of the articles consistently found a positive and significant relationship between transparency and internal audit quality. Transparency in the audit process enables the auditors responsible in the process to exhibit the objectivity and evidence in their work, an essential factor in the development and production of credible reports. Transparency in the audit process has become an essential factor in governance, resulting in the elimination and reduction of knowledge and information gaps, all of which play a crucial role in the management and effective governance of hospitals. The role and purpose of the internal audit process in an organization include the ability and capacity to enable the organization to attain their objectives through the evaluation and development of the effectiveness and efficacy of the organization's internal management and control systems and risk management activities. The internal audit team has the responsibility and authority to make recommendations on the aspects that need improvement and ensure that all relevant regulations and rules are obeyed.

Keywords: Transparency; Internal Audit Quality

1. INTRODUCTION

Corporate governance (CG) has been a hotly debated topic for the past 15 years, particularly following the bankruptcy of numerous companies worldwide. Accounting scandals, particularly following the collapse of one of the five largest accounting firms, Arthur Anderson, have highlighted the importance of improved accounting and auditing quality. Professional bodies (e.g., AICPA, IIA, SEC, IAASB, IFAC, ISO, COSO, ICAEW) are paying close attention to the quality of audit services provided to organizations, both internally and externally (Altwajry, 2017). Also in regional public hospitals in North Sumatra Province have a history of inefficiency, scandals, and fraud charges in the delivery of public healthcare. Certain scandals that have been exposed through media reports reflect weaknesses in their internal controls and supervision. This is compounded by ineffective audit mechanisms. Auditing in Indonesia does not emphasize performance but financial compliance, limiting its usefulness to inform government initiatives. Lack of effective follow-up systems and sanctions for noncompliance tends to minimize the conclusions of audit findings, eroding public trust in governments' monitoring activities.

As a reaction to the demands of the public with regard to governance, transparency has emerged as a key tenet which has to be fully embedded within the medical environment. As a key tenet within the medical field, transparency is marked by aspects of openness and access to precise information in relation to financial information, procurement, and an indication with regard to the level of quality of healthcare services. Transparency is a key requirement which has a direct impact on the effectiveness and level of quality of internal audit (Johl et al., 2021). When the hospital administration is transparent in sharing information, then information asymmetry issues among audited entities and auditors will be greatly removed. This is because a transparent setting makes it easier for the auditors to gather credible and detailed audit evidence, focus audit work on areas with high risks, and therefore come up with specific audit remarks. This is due to the fact that a transparent setting ensures the audit process is carried out in a fair and transparent manner, and this increases the confidence levels of all relevant parties in the audit findings and outcomes. This is because a transparent setting increases the accountability and credibility of audit findings, and therefore supports the use of governance principles such as integrity, transparency, and accountability. A transparent setting makes it easier for fraud prevention and ensures conformity with relevant legislation for all organizational operations, therefore promoting audit quality and ensuring the integrity of the internal control function (Soehaditama & Sawitri, 2023). This audit report offers hospitals the opportunity to showcase their strengths in audit quality and affirm their dedication to high standards. Consequently, transparency concerning these internal factors is thought to enhance confidence and views of overall audit quality (Fu et al., 2015).

The quality of internal audits impacts directly on public services, and a truly effective audit is one that is independent, objective, and professional (Holili & Khoiroh, 2023). However, hospitals have to struggle with political pressures, bureaucratic complexities, and a shortage of qualified personnel. To tackle these problems, there is an increasing need for transparency, as through transparency, auditors can verify transactions and the effectiveness of programs while overcoming the resistance from management. Although research into the role of audits in governance has

been conducted, how transparency enhances internal audit quality in hospitals is not well understood. Stakeholder trust is an essential ingredient in ensuring that a hospital functions well, and openness and accountability through regular audits help engender this trust (Heald, 2018). Although this governance mechanism has been widely recognized, empirical findings on transparency in improving internal audit quality in regional public hospitals (RSUD) remain fragmented and inconclusive. Some studies have demonstrated a positive relationship between transparency and internal audit quality, while others highlight the moderating or mediating role of various institutional factors. Similarly, research on internal audit quality has yielded mixed results, with differences in audit independence, competence, objectivity, and reporting quality influencing outcomes. Given these inconsistencies, there is an urgent need for a comprehensive review that systematically consolidates existing evidence, identifies knowledge gaps, and proposes directions for future research. Therefore, this study aims to conduct a systematic literature review (SLR) on transparency in regional public hospitals (RSUD). By synthesizing findings from diverse empirical studies this paper seeks to provide a unified understanding of how transparency mechanisms contribute to internal audit quality and identify factors that enhance or hinder this relationship. This review will be guided by established theoretical frameworks, including agency theory with the aim of producing a robust and comprehensive analysis. This agency theory explains that an agency relationship arises when one or more people (principals) employ another person (agent) to provide a service and then delegate decision-making authority to the agent (Sari et al., 2024). This paper is structured as follows: the next section presents the research methodology, including selection criteria and literature analysis. The next section discusses the result and findings of the reviewed studies. The paper concludes by summarizing key insights implications for policy and practice and suggestions for future research in the context of internal audit quality in regional public hospitals.

2. RESEARCH METHODS

2.1 Research Methodology

This study used a Systematic Literature Review (SLR) methodology to thoroughly discover, assess, and integrate existing empirical research on the role of transparency in improving internal audit quality within regional general hospitals (RSUD) in North Sumatra Province. This method was chosen for its systematic, transparent, and replicable framework for gathering and analyzing research evidence. The review followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to ensure methodological accuracy and rigor. Relevant literature was collected from various academic databases, including Scopus, Web of Science, Google Scholar, Emerald Insight, ProQuest, and Garuda, using a combination of specific keywords such as transparency and internal audit quality. The search focused on papers published in English and Indonesian from 2015 to 2025.

We executed a strict selection process after identifying potential studies, applying clear inclusion and exclusion criteria. We considered studies if they were empirical and explored the relationship between transparency and internal audit quality. Data extraction was carried out according to a predefined formula to gather important information, including study objectives, methodologies, key findings, and theoretical frameworks. We then analyzed the data thematically and assessed each study's quality based on relevance, methodological rigor, and clarity. The comprehensive findings were summarized and visually represented through a Prisma flowchart to illustrate the literature selection process.

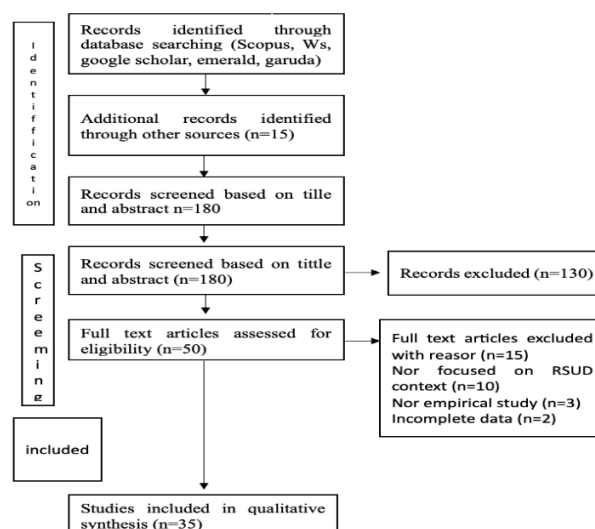


Figure 1. Systematic Literature Review (SLR) Prism

This figure shows the flowchart used in this study to outline the systematic literature selection process. The initial phase involved 180 papers sourced from multiple academic databases, including Scopus, WOS, Google Scholar, Emerald, and Garuda, plus an additional 15 publications from other sources. After removing duplicates, 18 papers moved to the screening phase, during which titles and abstracts were checked for relevance. At this stage, 130 papers were discarded

due to their irrelevance to the research topic. Next, we assessed 50 publications that were comprehensive but did not align with the research topic for practicality. Additionally, 15 publications were excluded: 10 did not pertain to general and regional hospitals, 3 were non-empirical studies, and 2 had insufficient data. In total, 35 empirical studies meeting the inclusion criteria were included in the qualitative literature evaluation. The organized and clear selection process ensured the validity, accuracy, and replicability of the systematic literature review results.

3. RESULTS AND DISCUSSION

Based on the studies, the paper has concluded that there are 35 studies on the subject issue in the range of 2015-2025, and they all proved the importance and role of transparency in ensuring the quality of internal auditing in general regional-state hospitals in the Province of North Sumatra. The studies constantly revealed the importance and role of transparency in ensuring the quality of internal auditing, hence the performance and governance in hospitals. The studies revealed that the impact of transparency on the quality of internal auditing in hospitals was positive and significant. Transparency enables the internal auditing professionals in hospitals to meet the expectations and demands of the users. Furthermore, transparency enables the internal auditing professionals in hospitals to act in an apparently unbiased manner. Transparency enables all the findings and conclusions in the internal auditing process to be supported by evidence. In other words, there would be no opportunity in the internal auditing process in hospitals because the argument would lack evidence. Transparency in hospitals enables the internal auditing process in the organization to act as a driving force. The internal auditing process would rise from the role of detecting weaknesses in the organization. The process would emerge and become a credible strategic partner in governance, risk management, and controls.

According to (Nuryadin, Adriyana Adevia, Arifuddin, Pontoh, 2020), Transparency is essential for improving audit quality. It is a key element because it allows organizations to provide auditors with more complete, clear, and accessible information. Greater openness helps auditors gather more accurate and thorough data about a company's financial activities, making audits more effective. Agency theory highlights the importance of transparency in internal audits. This governance system is important for reducing the knowledge gap and conflicts of interest between shareholders and managers. Managers have access to exclusive operational information and can act in their own interests, which may negatively impact shareholders. The internal audit plays a crucial role by promoting transparency throughout the planning, reporting, and follow-up processes. Auditors act as unbiased sources that deliver trustworthy information to the audit committee and the board of directors, representing the interests of shareholders. This transparency significantly reduces information gaps, limits personal agendas, and pushes managers to be more accountable. From an economic perspective, greater transparency and better internal audit quality lower a company's agency costs by enhancing oversight efficiency and decreasing losses that arise from management decisions that do not align with the interests of owners. High-quality audits are vital for building trust and ensuring the effectiveness of internal controls. Research conducted by (Soehaditama & Sawitri, 2023) Openness affects internal audit quality by ensuring that management procedures match relevant standards. Audits improve management's responsibility for their actions. They also improve transparency in organizational management by giving stakeholders a clearer understanding of the firm.

The International Auditing and Assurance Standards Board (IAASB) (All, 2018) defines the internal audit function as an entity's function that performs assurance and consulting activities designed to evaluate and improve the effectiveness of the entity's governance, risk management, and internal control processes. Moreover by (Holili & Khoiroh, 2023) adds that the internal audit process has immense importance in an organization, and this assists in the prevention of fraud within the organization. The independent internal auditor has the ability to analyze and review all types and forms of fraud within the organization. The process performed by the internal audit team performs independently and objectively, ensuring that the process and procedure remain unbiased, genuine, and trustworthy. Furthermore, (Kaawaase et al., 2021) define internal audit as an audit that evaluates the effectiveness of internal controls, participates in risk management, and ensures compliance with laws and regulations. This means that once internal audit has the capacity to review the effectiveness of internal controls and participate in risk management, it is deemed competent. If internal audit staff are not competent, independent, and do not adhere to professional standards, they cannot carry out their role and are therefore not functioning. Low audit quality occurs when an auditor makes errors or intentionally fails to adhere to established audit standards or professional ethics. This can be detrimental to stakeholders in the audited financial statements (Agus & Ghozali, 2019). Similarly, Haeridistia and colleagues demonstrated that a lack of accounting ethics is a contributing factor to fraudulent financial reporting, ultimately reducing the quality of financial statements (Edi & Enzelin, 2022). However, in this context, no one has yet examined the effect of auditor ethics on financial reporting quality, mediated by audit quality. (Susanto, 2016) argue that internal audit quality is analyzed through an internal auditor quality survey, which focuses primarily on auditor professionalism, training, and the timeliness of internal audits. This indicates that internal audit quality is positively correlated with financial reporting quality, suggesting that the higher the quality of a company's internal audit, the higher the quality of its financial reporting (Xu & Loang, 2023). The results obtained from the work conducted by (Middin et al., 2024) highlight that transparency includes governments, businesses, organizations, and individuals making available information related to regulations, strategies, procedures, and actions. Transparency in the functioning and decision-making process in governments has become highly important, assisting in informing the citizens. Transparency encourages all stakeholders, and their participation in the process increases, making it an essential factor in the policy-making procedure, achieving accountability and effectiveness. (Chen & Hu, 2025) clarify that transparency in

the process means submitting reports openly and honestly in front of all stakeholders in the operation and management process, including all aspects related to the process and procedure in the execution and implementation stages. The findings and results obtained from the work conducted by (Cracel Viana et al., 2022) clarified the effectiveness and advantage achieved in the process and procedure by transparency, and transparency increases the quality and accountability of the government by making the findings credible and trustworthy, resulting in the effectiveness and proficiency of the audit process and procedure. The work conducted by (de Fine Licht, 2019) clarified that transparency affects and assists in the process and procedure of the audit and has a reciprocal relationship in improving the quality and effectiveness related to the internal auditing process. The process and procedure performed with increased transparency increase the ability in reducing the risk and certainty in the process and procedure and increase the authenticity and credibility in governance, making it an essential factor related to the quality and effectiveness in internal auditing.

The evidence from the work by (Fatty & Rhman, 2025) confirms that the effectivity and quality that openness can bring positively in terms of affecting the quality of the internal audit process reiterates the significant role that it has in terms of becoming the foundation that determines the value and effectivity of the audit process. In this regard, the effectivity and quality that it provides are necessary since they provide the credentials, enabling the stakeholders involved to confirm the objectivity and validity of the findings provided. (Darmawan, 2023) the importance and issue raised in relation to the quality and transparency that the audit process has in relation to the enhancement and aspects where there is transparency in the reporting process has become important since it has underscored the importance and need to become ethical in terms of the process involved. In relation to the importance and aspect involved, the quality and transparency that the audit process provides serve as an important aspect because they provide valuable insights in terms of auditing and corporate governance. According to (Holili & Khoiroh, 2023) the aspect and importance where the audit process has provided in relation to the enhancement and aspects involved has underscored the importance and role since the process involved in the internal controls has become important and essential in terms of the process involved. Research findings (Saputra et al., 2025) has revealed that the transparency in company management has provided an important effect in moderating the relationship between the quality and transparency involved in the audit process and the quality involved in the financial report. In relation to the work and findings involved, the importance and role involved in terms of the quality and transparency that the audit process has become important since they confirm and underscore the relationship involved in the effectiveness and quality involved in the internal controls (Nugrahanti et al., 2023) . The work carried out has revealed that the effectiveness and quality involved in becoming the foundation has become important since they provide rigorous measurement and capital structure, resulting in the importance involved in the relationship. In relation to the work and findings involved, the development involved in the aspects and importance has underscored the importance and role in terms of the effectiveness involved in the process. (Saputra et al., 2025) . The work carried out has confirmed that transparency has the ability and effectivity in terms of the relationship since the increase in the transparency involved has increased the relationship involved in terms of the quality and transparency involved in the audit process and the quality involved in the reporting process (Kgalamone et al., 2025).

3.1 Discussion

The role of transparency in internal audits in relation to the effectiveness and quality within hospitals cannot be overemphasized. The role of transparency in the internal audit process offers assurance concerning the financial aspects and the open reporting on the issues concerning the lack of efficiencies and suspicious activities, including the use of drugs and equipment. Through the transparency process, hospitals are able to make people aware of the issues and the strategies involved in improving the hospitals, and this shows the seriousness involved in wanting to make the hospitals better. In this regard, transparency in the process increases the ability to make improvements since the best practices involved in the units are recorded and shared. Through the process, there is a proper distribution of innovations related to the operations and the health regulations, and this increases the quality within the hospitals. This argument emphasizes the importance of ensuring there is proper and measurable quality in the process through transparency. There is a need within the medical institutions to make improvements in the aspects concerning the prevention and reduction of fraud and the governance within the hospitals. Future studies should focus on broader variables and meta-analysis.

Several studies have also highlighted the link between transparency and strong audit quality, where strong audit quality serves as a reinforcing mechanism for the effectiveness of internal control processes. However, these observations also identify contextual challenges, including limited auditor independence, variations in institutional governance, inadequate professional training, and commitment, that impact the practical implementation of these financial governance mechanisms. This review reinforces the importance of establishing clear and measurable hospital management objectives supported by a robust internal control system and an independent and competent internal audit unit, as emphasized by agency theory. The synergistic interaction between internal audit functions strengthens hospital performance outcomes. However, the variation in findings across regional hospitals (RSUD) suggests the need for continuous improvement, capacity building, and policy support from relevant authorities to enhance governance quality.

4. CONCLUSION

This systematic literature review concludes that transparency plays a crucial and complementary role in improving internal audit quality in hospitals. Most empirical studies consistently show that a robust transparency system reduces

financial risk, strengthens oversight of financial governance practices, and ensures regulatory compliance. These findings align with agency theory, which underscores the importance of integrating comprehensive control mechanisms, promoting audit independence and competence, and setting quality internal audit targets. Despite these positive results, challenges such as limited auditor resources, diverse governance structures, and disparate leadership commitment persist, indicating the need to improve internal audit quality and strengthen policies to optimize hospital governance in the autonomous province of North Sumatra. Future research is recommended to explore these moderating factors in more depth and adopt a longitudinal or meta-analytical approach for broader generalization and deeper theoretical validation.

REFERENCES

- Agus, A., & Ghozali, I. (2019). Mediating effect of audit quality in relationship between auditor ethics and litigation: An empirical study. *International Journal of Economics and Business Administration*, 7(2), 91–100. <https://doi.org/10.35808/ijeba/217>
- All, jhol et. (2018). Internal Audit Function, Audit Committees' Effectiveness and Accountability in the Ugandan Statutory Corporations. *The Eletronic Library*, 34(1), 1–5.
- Altwaijry, A. (2017). Internal Audit Quality Evaluation and Reliance Decision: External Auditors' Perception. *International Journal of Economics & Management Sciences*, 06(05). <https://doi.org/10.4172/2162-6359.1000464>
- Chen, Z., & Hu, M. (2025). Does National Auditing Improve Local Fiscal Transparency? Evidence From China. *International Studies of Economics*, 20(2), 153–161. <https://doi.org/10.1002/ise3.70007>
- Cracel Viana, L., Moreira, J. A., & Alves, P. (2022). State audit of public–private partnerships: Effects on transparency, auditor's roles, and impact on auditee's reactions. *Financial Accountability and Management*, 38(4), 633–660. <https://doi.org/10.1111/faam.12342>
- Darmawan, A. (2023). Audit Quality and Its Impact on Financial Reporting Transparency. *Golden Ratio of Auditing Research*, 3(1), 32–45. <https://doi.org/10.52970/grar.v3i1.375>
- de Fine Licht, J. (2019). The role of transparency in auditing. *Financial Accountability and Management*, 35(3), 233–245. <https://doi.org/10.1111/faam.12193>
- Edi, E., & Enzelin, I. (2022). Analyzing the Effect of Accounting Ethics Toward the Quality of Financial Report. *Journal of Accounting, Finance and Auditing Studies*, 8(2), 36–53. <https://doi.org/10.32602/jafas.2022.009>
- Fatty, M., & Rhman, A. (2025). *International Journal of Current Science Research and Review A Global Examination of Audit Quality and its Contribution to Transparent Financial Reporting Corresponding Author : Arief Rhman Corresponding Author : Arief Rhman*. 08(10), 5359–5370. <https://doi.org/10.47191/ijcsrr/V8-i10-44>
- Fu, Y., Carson, E., & Simnett, R. (2015). Transparency report disclosure by Australian audit firms and opportunities for research. *Managerial Auditing Journal*, 30(8–9), 870–910. <https://doi.org/10.1108/MAJ-06-2015-1201>
- Heald, D. (2018). Transparency-generated trust: The problematic theorization of public audit. *Financial Accountability and Management*, 34(4), 317–335. <https://doi.org/10.1111/faam.12175>
- Holili, M., & Khoiroh, W. (2023). The Role of Financial Audits in Strengthening Accountability and Transparency in Funding Management. *Business and Applied Management Journal*, 1(1), 37–47. <https://doi.org/10.61987/bamj.v1i1.366>
- Johl, S. K., Muttakin, M. B., Mihret, D. G., Cheung, S., & Gioffre, N. (2021). Audit firm transparency disclosures and audit quality. *International Journal of Auditing*, 25(2), 508–533. <https://doi.org/10.1111/ijau.12230>
- Kaawaase, T. K., Nairuba, C., Akankunda, B., & Bananuka, J. (2021). Corporate governance, internal audit quality and financial reporting quality of financial institutions. *Asian Journal of Accounting Research*, 6(3), 348–366. <https://doi.org/10.1108/AJAR-11-2020-0117>
- Kgalamone, P., Myeza, L., & Varachia, Z. (2025). The impact of key audit matters (KAMs) on transparency and accountability in public sector auditing. *Public Money and Management*, 0962, 1–9. <https://doi.org/10.1080/09540962.2025.2544042>
- Middin, M., Nirwana, N., & Haliah, H. (2024). The Role of Internal Audit in Maintaining Financial Accountability and Transparency in Government Agencies: Literature Review. *Formosa Journal of Multidisciplinary Research*, 3(11), 4313–4326. <https://doi.org/10.55927/fjmr.v3i11.11887>
- Nugrahanti, T. P., Sudarmanto, E., Andani, M., & Judijanto, L. (2023). The Effect of Audit Quality, Auditor Independence, and Financial Reporting Transparency on Internal Control Effectiveness: A Case Study of a Public Company in Indonesia. *West Science Accounting and Finance*, 1(03), 108–118. <https://doi.org/10.58812/wsaf.v1i03.370>
- Nuryadin, Adriyana Adevia, Arifuddin, Pontoh, G. T. (2020). *The Effect of Accountability and Due Professional Care on Audit Quality with Auditor Ethics and Experience as Moderation Variable Adriyana*. 8(12), 114–124.
- Saputra, R., Hamzani, U., Fahmi, M., Helmi, S., & Dosinta, N. F. (2025). The Moderating Effect of Corporate Transparency on the Relationship between Audit Quality, Audit Committee, Ownership Structure, and Reporting Quality. *Buletin Poltanesa*, 26(1), 209–218. <https://doi.org/10.51967/tanesa.v26i1.3366>
- Sari, G. I., Suhaili, A., & Lesfandra, L. (2024). The Mediation Role of Audit Quality: Impact Internal Audit Strategy, Auditor Ethics, and Accounting Culture on Financial Report Quality. *Atestasi: Jurnal Ilmiah Akuntansi*, 7(1), 300–316. <https://doi.org/10.57178/atestasi.v7i1.779>
- Soehaditama, J. P., & Sawitri, N. (2023). Literature Review: The Effect of Internal Control System and the Role of Internal Audit on Good Corporate Governance. *Greenation International Journal of Economics and Accounting*, 1(4), 543–549. <https://creativecommons.org/licenses/by/4.0/>
- Susanto, A. (2016). The effect of internal control on accounting information system. *International Business Management*, 10(23), 5523–5529. <https://doi.org/10.3923/ibm.2016.5523.5529>
- Xu, F., & Loang, O. K. (2023). Impact of Internal Audit on Financial Statement Quality of China's SME Board. *International Journal of Accounting, Finance and Business*, 8(1), 106–118. <https://doi.org/10.55573/IJAFB.084608>