

The role of auditor assurance and internal control in company performance evaluation by non-professional investors

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ABSTRACT

This study aims to examine the preferences of non-professional investors regarding management disclosures for remediation of internal controls, whether financial statements with internal auditor's assurance and external auditor's assurance are more credible than those without assurance. Participants in this study include accounting and management students with knowledge of investment and capital markets, financial statement analysis, and auditing. The total number of research participants is 150 students. The results of the research on pervasive accounts show that (1) there is a significant difference in perceptions of non-professional investors regarding the credibility of financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance; (2) there is a significant difference in the perception of non-professional investors regarding the level of material weakness of financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance; (3) there is a significant difference in the perception of non-professional investors regarding the level of material weakness of financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance; (4) there is no significant difference in the perception of non-professional investors regarding the desire to buy shares, either without collateral, with internal auditor's assurance, or with external auditor's assurance.

ABSTRAK

Penelitian ini bertujuan untuk menguji preferensi investor non-profesional mengenai pengungkapan manajemen untuk mengetahui apakah perbaikan pengendalian internal yang dijamin oleh auditor internal dan auditor eksternal lebih kredibel dibandingkan pengungkapan tanpa jaminan. Partisipan dalam penelitian ini antara lain: mahasiswa akuntansi dan manajemen yang memiliki pengetahuan di bidang investasi dan pasar modal, analisis laporan keuangan dan auditing. Total partisipan penelitian sebanyak 150 orang. Hasil penelitian terhadap akun pervasif menunjukkan: (1) terdapat perbedaan persepsi investor non-profesional yang signifikan mengenai kredibilitas laporan keuangan, baik yang tidak terjamin, dengan jaminan auditor internal, maupun dengan jaminan auditor eksternal; (2) terdapat perbedaan persepsi investor non-profesional yang signifikan mengenai tingkat kelemahan material laporan keuangan, baik tanpa jaminan, dengan jaminan dari auditor internal, maupun dengan jaminan dari auditor eksternal; (3) terdapat perbedaan persepsi investor non-profesional yang signifikan mengenai tingkat kelemahan material laporan keuangan, baik tanpa jaminan, dengan jaminan auditor internal, maupun dengan jaminan auditor; (4) terdapat perbedaan persepsi investor non-profesional yang signifikan terhadap keinginan membeli saham baik tanpa agunan, dengan jaminan auditor internal, maupun dengan jaminan auditor eksternal.

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1. INTRODUCTION

In addition to the audit committee, management, and external auditors, internal auditors also have an important role in corporate governance. In the post-SOX era, as a key component of corporate governance, internal auditors are essential in uncovering corporate scandals and dealing with legal changes (Carcello et al., 2005; Jackson, 2007). According to Deloitte (2006), internal audit is one way to uncover material weaknesses in business and non-compliance with the law [Sarbanes-Oxley].

Internal control assurance from internal auditors is useful in investment assessment and decision-making. Mercer (2004) states that the credibility of disclosure will increase if there is control assurance from the internal auditor. Shoja et al. (2024) investigated the perspectives of professional and non-professional investors on the impact of major audit issues on investment decisions. The study's findings show that there is no relationship between changing the level of disclosure provided by the auditor and the credibility of corporate management toward auditor independence, as well as the risk of material misstatement not disclosed by the auditor.

This study examines the perception of non-professional investors about the internal control information presented by internal or external auditors, with the focus on two theories: agency theory and source credibility theory. The agency theory, proposed by Jensen and Meckling (1976), states that managers must be willing to conduct evaluations as a form of information assurance to overcome information risk problems. The benefits obtained from reducing information risk will outweigh the costs incurred in providing the service.

According to Deumes and Knechel (2008), management uses voluntary disclosure as a monitoring signal. Furthermore, Healy and Palepu (2001) state that managers have economic incentives in the form of lower information asymmetry, increased stock liquidity, and decreased cost of capital.

This study aims to test the following 4 (four) arguments: (1) non-professional investors consider management disclosures on internal control remediation guaranteed by internal auditors to be more credible than disclosures without guarantees; (2) non-professional investors are more likely to invest in companies whose management's disclosure

of internal control information is assured by internal auditors than disclosures without assurance; (3) non-professional investors will assess the credibility of pervasive internal control remediation disclosures assured by internal auditors to be lower than account-specific internal control remediation disclosures assured by internal auditors and all internal control remediation disclosures assured by external auditors; (4) non-professional investors tend to invest in a company with pervasive internal control remediation disclosures assured by internal auditors than in companies with account-specific internal control remediation disclosures assured by internal auditors and companies with internal control remediation disclosures assured by auditors external.

This study uses a 3 x 2 experimental method. There are 2 variables manipulated: the source of assurance (no assurance, assurance from internal auditors, or assurance from external auditors) and the type of material weakness (pervasive or account specific). The assignment given to the participants is to assess the credibility of disclosures and the likelihood of investment based on summary information from annual reports that indicate material weaknesses in ICFR. Subsequently, participants are provided with quarterly disclosure information indicating remediation of the previously mentioned ICFR material weaknesses and randomized collateral-type disclosures.

From a research perspective, this study is expected to contribute to the existing literature on internal auditing, voluntary assurance disclosure, internal control, and management credibility. The auditing literature provides a wealth of information regarding the effect of external auditor assurance on investor judgment and decision-making. However, little is known about how non-professional investors perceive assurance from internal audits. For example, research conducted by Archambeault et al. (2008) notes the need for additional research related to opinion-based and voluntary internal audit disclosures.

This study extends the literature into a largely unexplored area regarding the effect of internal auditors' voluntary opinion-based disclosure on non-professional investor judgment and decision-making. From a policy and practice perspective, the results of this study provide additional information on the growing literature on the benefits of increased internal

audit disclosure. In addition, the results of this study also explain how the combination of audit and internal control information influences the judgments and decision-making of non-professional investors.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The Role of Internal Audit in Corporate Governance

Internal audit has a very important function in corporate governance because internal audit can reduce material weaknesses in the company's financial reporting. Stock exchanges in several countries have recognized the important role of internal audit in corporate governance. The New York Stock Exchange requires companies to have internal auditor reporting. According to Prawitt, Smith, and Wood (2009), a decrease in earnings management can be achieved if the company invests in the implementation of internal audit. The results of research conducted by Ege (2015) show that the higher the quality of internal audit, the lower the occurrence of management errors. The research proves that internal audit has an important function in the process of controlling and managing company risk.

Internal audit reporting is voluntary, while reporting overseen by the audit committee, external auditors and management is directly accessible to investors. Accounting research has explored the key role of internal audit in Corporate Governance (Archambeault et al. 2008; Holt & DeZoort 2009; Holt 2012; Boyle et al. 2015). Archambeault et al. (2008) explored the benefits of increasing internal audit disclosure to external stakeholders. The results of research conducted by Holt & DeZoort (2009) provide empirical evidence that, in making investment decisions, investors also consider internal audit reporting which is a voluntary disclosure for the company. The results of research conducted by Holt & DeZoort (2009) show that descriptive disclosure in the internal audit report is positively related to investor confidence in the effectiveness of corporate supervision and the reliability of financial reporting. Holt (2012) provides evidence that credible information is information derived from descriptive internal audit disclosure. Boyle et al. (2015) examine the impact of internal audit reporting on internal auditor risk assessments, and the results show that internal audit reports provide assurance which leads to more conservative fraud risk assessments by internal auditors.

Voluntary Guarantee

Agency theory Jensen & Meckling (1976); Watts & Zimmerman (1986) suggests that investors face information risk due to information asymmetry between investors and corporate managers. Monitoring mechanisms, such as audits, are one way to reduce this risk. Monitoring mechanisms through audits aim to improve the reliability of information. Resources for monitoring implementation need to be prepared by management, as long as these expenses do not outweigh the market-related benefits provided by reducing information risk.

Deumes & Knechel (2008) provide evidence that management will demonstrate effective monitoring implementation through voluntary disclosure. In addition, managers will voluntarily disclose internal control information positively if it is related to indications of agency conflicts. Voluntary disclosure in the form of effective supervision can have an impact on better market conditions. Healy & Palepu (2001) examined the effect of voluntary disclosure on market benefits. The results show that voluntary disclosure can increase stock liquidity, reduce capital costs, and increase financial analysts which leads to reduced information asymmetry.

Disclosure of information about the supervision carried out by the company can help reduce information risk to the extent that the information is trusted by the public. Pre-existing third-party assurance is a way to increase the credibility of information (Mautz & Sharaf, 1961). According to Hodge (2001); Pflugrath et al. (2011) audited information is credible information and affects stock prices in the capital market, while unaudited information is considered non-credible information (Willenburg, 1999).

The results of research conducted by Corem et al. (2009) show that the safety net of positive disclosure of voluntary non-financial information has an effect on the company's stock price. Furthermore, the results of research conducted by Simnett et al. (2009) provide evidence that voluntary assurances in corporate sustainability reports have an effect on disclosure eligibility and corporate reputation.

Pratoomsuwan & Yolrabil (2021) examined the effects of key audit matter (KAM) disclosures in auditors' reports and their impact on fraud and misstatement cases. The effect of KAM is manifested in different ways

for different evaluators. Specifically, auditor participants rated auditor responsibility higher when misstatements were related to errors compared to fraud. KAM also appeared to reduce auditor liability in fraud cases, but not in error cases. The results show that non-professional investor participants rated auditor liability higher when misstatements were fraud-related than error-related. KAM also appears to have an insignificant impact on auditor liability.

Credibility of Disclosure

According to Mercer (2004), there are 4 factors that affect investors' perceptions of the credibility of management disclosures, such as situational incentives, management credibility, assurance, and disclosure characteristics. The overall risk assessment of the company's control system is carried out through the internal audit process (Dunn, 2006). This study uses the disclosure of material weakness remediation to test the effect of internal auditor assurance on the perceptions of non-professional investors. Investors believe that a credible report is an opinion-based report, not a report that does not offer assurance. This is due to the increased perception of the reliability of the information in the report resulting from the collection of evidence needed to form the basis for an opinion (Libby et al., 2004). Research conducted by Coram et al. (2009) and Simnett et al. (2009) examined the effect of positive credibility on voluntary information assurance. The results show that individuals respond more to opinion-based information from internal audit as their perceptions of information quality increases.

This study examines the factors that influence investors' decisions regarding investment possibilities by assessing the effect of information credibility. The results of research conducted by Hammersley, Myers, and Shakespeare (2008) and Beneish et al. (2008) provide evidence of a negative market reaction to the initial disclosure of ICFR material weaknesses. The results of research conducted by Lopez et al. (2009) show that investors perceive companies that have material weaknesses in ICFR as having a higher risk of misstatement and risk premium, as well as lower transparency and earnings continuity. Furthermore, the results of research conducted by Aghazadeh & Peytcheva (2017) indicate that investors will invest their funds in companies audited by external auditors compared to

companies that are not audited. This shows that the credibility effect provided by internal auditors will increase the probability of investment.

Research conducted by Hoang and Phang (2021) examines efforts to improve reporting reliability, often referred to as 'combined assurance'. Combined assurance is a mechanism for the audit committee to coordinate the roles of management assurance, internal assurance, and external assurance, which then concludes the effectiveness of risk management, internal control, and reporting quality. This effort is made by the company to restore investors' desire to invest when there is a significant risk of reporting reliability.

Auditor Type Effect

The theory of source credibility, studied by Walster et al. (1966); Birnbaum & Stegner (1979); Eagly & Chaiken (1993), states that the positive effect of assurance depends on the type of assurance (including, no auditor, with internal auditor, or with external auditor). In the theory of source credibility, it is stated that individuals will rely on information that is considered the most credible. Birnbaum and Stegner (1979) show 2 components of source bias that are important in evaluating the credibility of information: reliability and expertise or competence. Credible information is information that has a more objective source. According to Gramling et al. (2004), independence is an important criterion in evaluating the objectivity of internal auditors. The governance function in the company shows that the external auditor function is inherently more objective than the internal auditor function. Assured information is expected to be considered more credible than unassured information. The credibility effect of the external auditor's assurance should be greater than that of the internal auditor's assurance due to potential concerns of source bias related to objectivity.

Material Weakness Type Effect

The two categories in the ICFR major weakness classification include the transaction-level category and the Company-level control category (Moody's Investor Service Inc, 2004). Hammersley et al. (2008), Rose (2010), Aghazadeh & Peytcheva (2017) and Asare & Wright (2017) examine material weaknesses based on whether they are account-specific or pervasive. Pervasive material weaknesses

are inherently risky because they are more difficult to address and verify. Aghazadeh and Peytcheva (2017) provide evidence that investors are sensitive to the types of material weaknesses by showing that the investment likelihood enhancement effect of externally warranted material weaknesses only exists for pervasive weaknesses compared to account-specific weaknesses.

Mercer (2004) suggests that plausible information is one of the characteristics of disclosure credibility. According to Asare & Wright (2017), investors view pervasive weaknesses as increasing remediation and operational risks. Based on several previous studies, it can be concluded that the increased risk of pervasive material weaknesses, the difficulty of remediation, and the increased potential for bias in internal auditors versus external auditors, pervasive material weaknesses are less credible than remediation of specific account errors. This credibility effect will impact the investment likelihood of investors.

So there are two hypotheses proposed to be tested in this study.

- H1:** Non-professional investors perceive that financial reports assured by external or internal auditors have a higher level of credibility than economic reports not assured by external or internal auditors on special accounts.
- H2:** Non-professional investors perceive that financial reports assured by external or internal auditors have a higher level of credibility than financial reports not assured by external or internal auditors on pervasive accounts.

3. RESEARCH METHOD

Research Participants

Research participants are non-professional investors. Subject criteria in this study include knowing the field of investment and capital markets, financial report analysis, and auditing. Based on these subject criteria, the subjects in this study include accounting and management students who know the fields of investment and capital markets, financial statement analysis, and auditing. Participants in this study were also asked to fill out 10 general questions to find out students' understanding of investment management and capital markets and determine the common understanding of research participants. The

population in this study is students who have knowledge about Financial Report Analysis, Investment and Capital Markets, and Auditing. Sampling is conducted using purposive sampling technique. The research sample criteria: (1) students who have taken the courses of Investment Management and Capital Markets, Financial Report Analysis, and Auditing; (2) students who have passed the research manipulation check.

This study involved 165 students who had taken the courses Investment and Capital Markets, Financial Report Analysis, and Audit, but 15 students were declared to have failed the manipulation test so that the number of participants in this study was only 150 students.

Research Design and Procedure

This study uses a 3 x 2 between-subject design to test the hypotheses. In particular, the analysis of variance approach to investor response provides a basis for evaluating non-professional investors' judgments and tests for differences between levels of assurance (no assurance, internal audit assurance, and external audit) and types of material weakness (account specific versus pervasive).

After completing the consent form, participants received general instructions and were provided with information about the hypothetical company. The background information describes a publicly traded consumer products company. The information states that the company's auditor, an international public accounting firm, had issued a "clean" opinion on the financial statements and effectiveness of internal controls for the years prior to 2015. This information is also about the company's internal audit department. Specifically, the department includes a Chief Audit Executive (with 10 years of experience and CPA and CIA certification), five other internal auditors, and reporting relationships with the audit committee chair and the CFO. Summary financial information reports account balances and performance results for annual financial reports.

Independent Variable

The experimental materials contained background information indicating that management disclosed and the company's external auditors agreed that the company had a material weakness in internal control as of December 31, 2015. Participants were randomly assigned to one of two cases, involving a

manipulation of the type of material weakness between an account-specific weakness and a pervasive weakness. The description of material weakness is similar to that presented by Rose et al. (2010). The account-specific manipulation record includes a material weakness that results from a failure to maintain adequate access and password controls over certain appropriate sales records in the appropriate reporting period. It is important to note that this weakness may only affect sales transactions near the end of the period and does not pose a threat to other transactions or accounts in the financial statements.

The pervasive manipulation record includes a material weakness that results from a failure to maintain adequate access and password controls over Trexler's entire system. It is important to note that this weakness threatens all transactions and accounts in the financial statements and can result in material misstatement of the entire financial statements.

The examiner further informed participants that several months had passed since the annual financial statements, and participants were provided with information disclosed in the company's third-quarter financial statements. Specifically, they were informed that management had developed a plan to address the material weaknesses discovered at the end of the previous year and had implemented remedial measures. In addition, they were informed that management had determined that the remedial measures were effective and that the previously disclosed material weaknesses no longer existed at the end of the quarter.

Next, participants were randomly assigned to one of three cases that manipulated the type of assurance between no assurance, internal audit assurance, and external audit assurance. The no assurance case noted that management had remedied the material weakness but did not mention any disclosure regarding the audit of the material weakness. The internal audit or external audit assurance

case noted that a report by Trexler's internal auditors (APC, an independent international accounting firm) indicated that they had audited the remediation and agreed that the material weakness no longer existed at the end of the quarter.

Dependent Variable

This study uses dependent variable measurement referring to Pflugrath et al. (2011) to assess investors' perceptions of source credibility. Pflugrath et al. (2011) measured overall source credibility. Participants were asked to rate how likely they perceived the source's credibility to be using an 11-point scale, where a value of (0) means very unlikely and a value of (10) means very likely. The second dependent variable is investment likelihood. Participants were asked to rate how likely they would invest in Trexler stock using an 11-point scale, where a value of (0) means very unlikely and a value of (10) means very likely.

4. DATA ANALYSIS AND DISCUSSION

The population of this study is students who have taken the courses of Investment Management and Capital Markets, Financial Report Analysis, and Audit. This criterion is set so that most of the population in this study can understand the scenario of the material presented. This study uses student participants who are non-professional investor participants, namely investors who have knowledge of the capital market and financial statement analysis, but do not have experience related to the capital market. Table 2 shows the demographic data of research participants. The number of female participants is more than male participants. The number of female participants is 78.67% while the number of male participants is 21.33%. Participants in this study are students of the Faculty of Economics and Business class of 2018 at a private university in Surabaya.

The manipulation of special accounts in this study refers to accounts that record material weaknesses caused by failure to maintain

Table 1
Experiment Scenario

Assurance Level	Types of Material Weaknesses	
	Special Account	Pervasive
No Assurance	Cell 1	Cell 4
Internal Audit Assurance	Cell 2	Cell 5
External Audit Assurance	Cell 3	Cell 6

Source: Data Processed

adequate passwords and access controls over the appropriate portion of sales records in the appropriate reporting period. It is important to note that such weaknesses may only affect sales transactions near the end of the period and do not pose a threat to other transactions or accounts in the financial statements.

Manipulation of the perception related to the absence of collateral is a material weakness. Management has prepared a plan to address the material weakness discovered at the end of the previous year and has implemented corrective measures. Management has determined that the corrective measures are effective. Management has made improvements to the material weakness so that in the 2020 Financial Statements no material weaknesses were found.

Manipulation of the perception related to assurance from internal auditors is a material weakness. Management and internal auditors have prepared a plan to address the material weakness found at the end of the previous year and have implemented corrective measures. Management and internal auditors have determined that the corrective measures are effective. Management and internal auditors have made improvements to the material weakness so that in the 2020 Financial Statements no material weaknesses were found.

Manipulation on perceptions related to the existence of assurance from the external auditors is a material weakness. Management and external auditors have developed a plan to overcome the material weaknesses found at the end of the previous year and have implemented remediation measures. Management and the external auditors have determined that the remediation measures are effective. Management and external auditors have remedied these material weaknesses so that in the 2020 Financial Statements no material weaknesses were found.

Table 3 shows the statistical results of participants' perceptions on special accounts. Data on the perception of non-professional investors regarding the level of credibility in the 2020 financial statements with material weaknesses in special accounts show that the level of credibility is higher if the financial statements are assured by external auditors (average 6.9710) and by internal auditors (average 6.7826). Although on average the perceptions of non-professional investors are

higher if the financial statements are assured by external and internal auditors, there is no significant difference in the perceptions of non-professional investors regarding the level of credibility of financial reports either without assurance, with internal auditor assurance, or with external auditor assurance (significance level 0.896). Descriptive data show that the level of credibility of financial statements is higher if there is assurance from internal and external auditors.

Non-professional investors' perceptions regarding material weaknesses in special accounts in the 2020 financial statements are lower if the financial statements are assured by external auditors (average 7,333), and by internal auditors (average 7,000). Even though on average the perception of non-professional investors regarding material weakness is lower if the financial statements are assured by external and internal auditors, there is no significant difference in the perceptions of non-professional investors regarding the level of material weakness in financial statements either without assurance, with assurance from internal auditors, or with assurance from external auditors (significance level 0.444). The descriptive data show that the level of material weakness in the 2020 financial statements is lower if there is assurance from internal and external auditors.

The non-professional investors' perceptions regarding concerns about recurring material weaknesses (special accounts) in the 2020 financial statements are lower if the financial statements are assured by internal auditors (average 5.8986), compared to if the financial statements are not assured (average 6.2899), and assured by external auditors (average 6.0275). Even though the average perception of non-professional investors regarding material weaknesses (special accounts) is lower if the financial statements are assured by internal auditors than if the financial statements are not assured, and assured by external auditors, there is no significant difference in perceptions of non-professional investors regarding the level of concern about recurring material weaknesses in financial statements (special accounts) either without assurance, with internal auditor assurance, or with external auditor assurance (significance level 0.639). The descriptive data show that the level of concern about the recurrence of material weaknesses in financial

statements (passive accounts) is lower if there is no assurance and there is assurance from external auditors.

Non-professional investors' perceptions regarding material weaknesses in special accounts in the 2019 financial statements would not be repeated in 2020. The non-professional investor's perceptions regarding material weaknesses in special accounts in 2019 that would not be repeated in 2020 are higher if the financial statements are assured by external auditors (average 8.1449), and assured by internal auditors (average 7.8261). Even though on average the perceptions of non-professional

investors regarding material weaknesses not recurring in 2020 is higher if the financial statements are assured by external and internal auditors, there is no significant difference in the perceptions of non-professional investors regarding the level of material weaknesses in financial statements either without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.177). The descriptive data show that the material weaknesses in the financial statements would not recur in 2020, which is higher if the financial reports have assurance from internal and external auditors.

Table 2
Demographic Data of Participants

No.	Demographic Data	Amount	Percentage
1	Man	32	21.33%
	Woman	118	78.67%
	Sub-Total	150	100.00%
2	2017	0	0%
	2018	150	100%
	2019	0	0%
	Sub-Total	150	100%

Source: Data Processed

Table 3
Descriptive Data and Statistical Results of Participant Perceptions on Specific Accounts

No.	Professional Investor Perception	Average Perceived Score			Sig.
		No Assurance	Internal Auditor Assurance	External Auditor Assurance	
1	The company's 2020 financial statements show a high level of credibility.	6.7536	6.7826	6.9710	0.896
2	The company's financial statements in 2020 still show material weaknesses as seen in 2019.	6.9275	7.000	7.333	0.444
3	The concern of non-professional investors with this type of material weakness recurs in the 2020 financial reports.	6.2899	5.8986	6.0725	0.639
4	Management reports submitted in 2020 can convince non-professional investors that material errors in 2019 will not occur again in 2020.	7.7101	7.8261	8.1449	0.177
5	As an investor, would you buy ABC company stock?	6.1159	6.3043	6.7101	0.248

Source: Data Processed

Perceptions of non-professional investors regarding the desire to buy shares indicate that investor perceptions regarding the desire to buy shares are higher if the financial statements are assured by external auditors (average 6.7101), and assured by internal auditors (average 6.3043). Although on average the perceptions of non-professional investors regarding the desire to buy shares are higher if the financial statements are assured by external and internal auditors, there is no significant difference in the perceptions of non-professional investors regarding the desire to buy shares either without assurance, with internal auditor's assurance, and with external auditor's assurance (sig level 0.248). Descriptive data show the desire to buy company shares is higher if the financial statements are assured by internal and external auditors. The research results show that hypothesis 1 is not supported.

Pervasive manipulation notes material weaknesses resulting from failure to maintain adequate password and access controls over appropriate portions of sales records in appropriate reporting periods. It is important to note that the weakness may only affect sales transactions towards the end of the period, and does not pose a threat to any other transactions or accounts in the financial statements.

Manipulation of related perceptions without any assurance is a material weakness. Management has developed a plan to overcome the material weakness found at the end of the previous year and has implemented remediation actions. Management has determined that remediation actions are effective. Management has remediated these material weaknesses so that in the 2020 Financial Report no material weaknesses were found.

Manipulation of perceptions related to the existence of assurance from internal auditors is that management and internal auditors have developed a plan to overcome material weaknesses found at the end of the previous year and have implemented remediation actions. Management and internal auditors have determined that remediation actions are effective. Management and internal auditors have remediated these material weaknesses so that in the 2020 Financial Report no material weaknesses were found.

Manipulation of perceptions related to the existence of assurance from the external auditor is that the management and external auditor have developed a plan to overcome the material weakness found at the end of

the previous year and have implemented remediation actions. Management and external auditors have determined that remediation actions are effective. Management and external auditors have remediated these material weaknesses so that they are no longer found in the 2020 Financial Report.

Table 4 shows the statistical results of participants' perceptions of pervasive accounts. Non-professional investor perception data regarding the level of credibility in the 2020 financial statements with material weaknesses in pervasive accounts show that credibility is higher if the financial statements are assured by external auditors (average 8.1940), and assured by internal auditors (average 7.3134). The differences in perceptions of non-professional investors show that there are significant differences in the perceptions of non-professional investors regarding the level of credibility of financial reports without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.015). This shows that non-professional investors trust more information provided by external parties, such as external and internal auditors. The results of this study support the Source Credibility Theory which states that individuals consider information to be more credible to the extent that they believe the source is more objective. A more objective source is a source of information obtained from an independent party. Non-professional investors consider the information submitted by internal auditors and external auditors to be sources of information from independent parties, so that the information submitted is more credible information.

Non-professional investors' perceptions regarding material weaknesses in pervasive accounts in the 2020 financial statements show that investors' perceptions regarding material weaknesses in 2020 are lower if the financial statements are assured by internal auditors (average 5.9194), and assured by external auditors (average 5.1507). The average perception of non-professional investors regarding material weaknesses is lower if the financial statements are assured by external and internal auditors, and there is a significant difference in the perceptions of non-professional investors regarding the level of material weaknesses of financial statements without assurance, with internal auditor's assurance, and with external auditor's assurance (level significance 0.048).

Table 4
Descriptive Data and Statistical Results of Participant Perceptions on Pervasive Accounts

No.	Professional Investor Perception	Average Perceived Score			Sig.
		No Assurance	Internal Auditor Assurance	External Auditor Assurance	
1	The company's 2020 financial statements show a high degree of credibility.	6.0000	7.3134	8.1940	0.015
2	The company's financial statements in 2020 still show material weaknesses as seen in 2019.	6.8060	5.9194	5.1507	0.048
3	The concern of non-professional investors with this type of material weakness recurs in the 2020 financial reports.	6.4328	5.9851	5.0209	0.036
4	Management reports submitted in 2020 can convince non-professional investors that material errors in 2019 will not occur again in 2020.	6.5970	7.9403	8.8657	0.040
5	As an investor, would you buy ABC company stock?	6.6418	7.0149	8.0448	0.034

Source: Data Processed

Non-professional investors' perceptions regarding concerns about material weaknesses recurring (special accounts) in the 2020 financial statements show that investors' perceptions regarding concerns about material weaknesses recurring (special accounts) are higher if the financial statements are not assured (average 6.4328), compared to if the financial reports are assured by internal auditors (average 5.9851), and assured by external auditors (average 5.0209). The average perception of non-professional investors regarding material weaknesses (pervasive accounts) is higher if the financial statements are not assured than if the financial reports are assured by internal auditors and assured by external auditors. There is a significant difference in the perceptions of non-professional investors regarding the level of concern about the recurrence of material weaknesses in the financial statements (special account) without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.036).

Non-professional investors' perceptions regarding material weaknesses in pervasive accounts in the 2019 financial statements

would not recur in 2020. This shows that non-professional investors' perceptions regarding material weaknesses in special accounts in 2019 would not recur in 2020 is higher if the financial reports are assured by external auditors (average 8.8657), and assured by internal auditors (average 7.9403). The average perception of non-professional investors regarding material weaknesses not recurring in 2020 is higher if the financial reports are assured by external and internal auditors. The statistical test results also show that there are significant differences in the perceptions of non-professional investors regarding the level of material weaknesses in financial statements without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.040).

Non-professional investors' perceptions regarding the desire to buy shares show that investors' perceptions regarding the desire to buy shares are higher if the financial statements are assured by external auditors (average 8.0448), and assured by internal auditors (average 7.0149). The average perception of non-professional investors

regarding their desire to buy shares is higher if the financial reports are assured by external and internal auditors. The research results show that there are significant differences in the perceptions of non-professional investors regarding their desire to buy shares in financial statements without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.034). Audited information is generally considered more credible than unaudited information and is linked in determining share prices on the capital market (Willenborg, 199). Non-professional investors believe that a company that presents information that has been audited by an independent party will increase the confidence of non-professional investors to invest in the company. Audited financial reports provide assurance to non-professional investors by reducing the risk that in the long term the company will continue to run its business.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

The results of this study on special accounts show that (1) there is no significant difference in the perception of non-professional investors regarding the level of credibility of financial reports without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.896); (2) there is no significant difference in the perception of non-professional investors regarding the level of material weakness in financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance (significance level 0.444); (3) there is no significant difference in the perception of non-professional investors regarding the level of concern about the recurrence of material weaknesses in financial statements (special accounts) either without guarantees, with internal auditor's assurance, or with external auditor's assurance (significance level 0.639); (4) there is no significant difference in the perception of non-professional investors regarding the level of material weakness in the financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance (significance level 0.177); (5) there is no significant difference in the perception of non-professional investors regarding the desire to buy shares either without assurance, with internal auditor's

assurance, or with external auditor's assurance (significance level 0.248).

The results of the research on pervasive accounts show that: (1) there is a significant difference in the perception of non-professional investors regarding the level of credibility of financial reports either without assurance, with internal auditor's assurance, and with external auditor's assurance (significance level 0.015); (2) there is a significant difference in the perception of non-professional investors regarding the level of material weakness in financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance (significance level 0.048); (3) there is a significant difference in the perception of non-professional investors regarding the level of concern about the recurrence of material weaknesses in financial statements (special accounts), either without assurance, with internal auditor's assurance, or with external auditor's assurance (significance level 0.036); (4) there is a significant difference in the perception of non-professional investors regarding the level of material weakness in financial statements, either without assurance, with internal auditor's assurance, or with external auditor's assurance (significance level 0.040). Descriptive data show that material weaknesses in the financial statements will not recur in 2020, which is higher if the financial reports have assurance from internal and external auditors; (5) there is a significant difference in the perception of non-professional investors regarding the desire to buy shares, either without assurance, with internal auditor's assurance, or with external auditor's assurance (significance level 0.034).

This study has several limitations. The lack of internalization of the material indicates that there is no difference in response even though different treatments are given. In addition, this study employed students as participants, but they were not first given an understanding of the importance of the roles of internal and external auditors. Further research is suggested to internalize the experimental material by providing a short video about the roles of internal and external auditors before participants work on the experimental task. It is also suggested that further research use practitioners as participants to determine whether experience influences investor perceptions of the roles of internal and external auditors.

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