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Audit Quality, Audit Competence, And Audit Evidence As Determinants Of Financial Transparency: Evidence From Indonesian Islamic Banks.

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Abstract

This study aims to analyze the influence of audit quality, audit competence, and audit evidence on financial transparency in Islamic banking institutions in Indonesia. This study uses a quantitative approach with panel data regression analysis based on data from 14 Islamic banks in Indonesia during the period 2017–2024, with a total of 112 firm-year observations. The data were analyzed using the Fixed Effect Model (FEM) with the Driscoll–Kraay error standard to produce robust estimates. The results showed that audit quality and audit evidence had a positive and significant effect on financial transparency, while audit competence had a positive but insignificant effect. Control variables, namely profitability (ROA) and company size, also have a positive and significant effect on financial transparency. Based on Stewardship Theory, auditors and management act as stewards who are responsible for encouraging transparency and accountability to protect the interests of stakeholders. These findings confirm the importance of a strong audit mechanism in improving financial transparency and governance in Islamic banking institutions in Indonesia.

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Keywords: Financial transparency, audit quality, audit competence, audit evidence, Islamic banking, Stewardship Theory.

INTRODUCTION

Islamic banking has experienced significant growth over the past decade and continues to play an increasingly important role in supporting financial inclusion and ethical finance within the global financial system(Rashid & Ghazi, 2021). Unlike conventional banking systems, Islamic banking operates based on Sharia principles that prohibit Riba (interest), gharar (uncertainty), and maysir (gambling), while promoting fairness, accountability, transparency, and risk-sharing practices (Mailindra et al., 2023) The growing public awareness of ethical finance and the increasing demand for Sharia-compliant financial products have accelerated the expansion of Islamic banking institutions across various countries, including Indonesia(Aspiranti et al., 2023). As one of the countries with the largest Muslim populations in the world, Indonesia has become an important market for the development of Islamic financial institutions and Islamic banking services (IFSB, 2023).

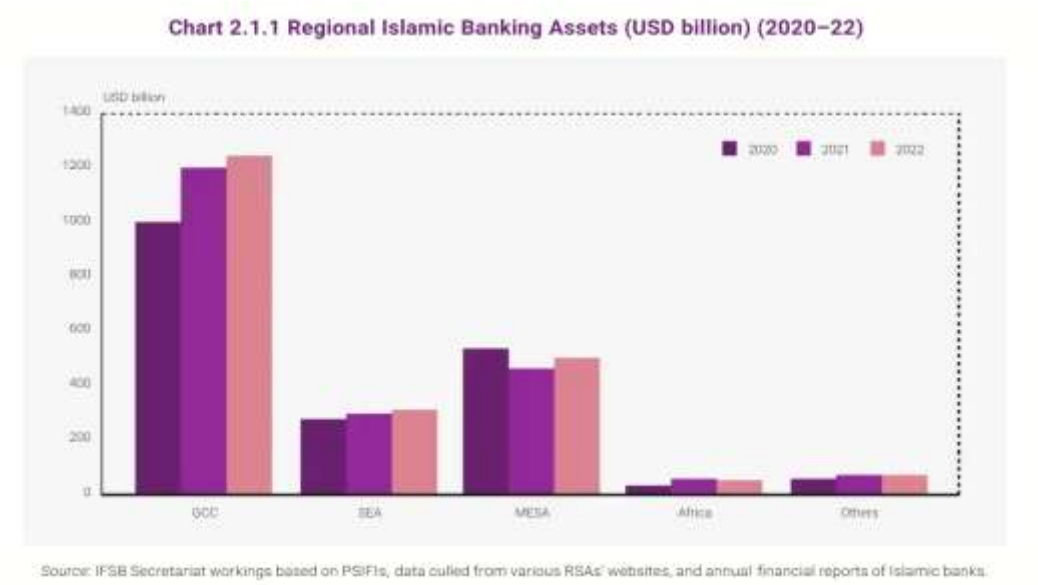


Figure 1.

(Source: Islamic Financial Services Board,2023)

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The growth of Islamic banking institutions has also increased the importance of transparency and accountability in financial reporting practices. Financial transparency is essential in ensuring that stakeholders receive reliable, relevant, and understandable financial information for decision-making purposes (Nugrahanti et al., 2023). Transparent financial reporting enhances stakeholder confidence, improves governance quality, reduces information asymmetry, and supports the long-term sustainability of financial institutions. In Islamic banking institutions, transparency becomes more important because these institutions are expected not only to achieve financial objectives but also to comply with ethical and religious principles based on Sharia law. Recent studies indicate that transparent reporting practices significantly strengthen governance effectiveness and improve stakeholder trust in financial institutions (Nugrahanti et al., 2023)

Despite the rapid growth of Islamic banking institutions, concerns regarding financial transparency and the quality of financial reporting remain major challenges within the industry. Islamic banks operate under a dual governance system where they are supervised not only by financial regulatory authorities but also by Sharia Supervisory Boards responsible for ensuring compliance with Islamic principles(IFSB, 2023). This governance structure creates additional monitoring complexity compared to conventional banking institutions. Inconsistent disclosure practices, limited institutional capacity, and weak monitoring mechanisms may reduce the effectiveness of governance systems and negatively affect financial transparency. Furthermore, weak transparency practices may reduce stakeholder trust and damage the credibility and sustainability of Islamic financial institutions. Therefore, strengthening governance and auditing mechanisms has become increasingly important in ensuring accountability and reporting reliability within Islamic banking institutions (Ayu et al., 2024; Nadiya Amany et al., 2024) .

According to the Indonesian Islamic Financial Development Report published by the Financial Services Authority (OJK, 2023), strengthening transparency and corporate governance is still one of the strategic priorities in supporting the sustainable development of the Islamic banking industry in Indonesia. This shows that increasing financial transparency is not only a theoretical concern, but also a practical issue that continues to be the focus of regulators in realizing a healthy, accountable, and reliable Islamic banking industry.

From the perspective of Stewardship Theory, management and auditors act as responsible stewards who prioritize organizational objectives and stakeholder interests through ethical behavior, accountability, honesty, and integrity(Joseph Seun et al., 2025) . Stewardship

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Theory emphasizes that managers and auditors are motivated to act in the best interests of the organization and stakeholders rather than prioritizing personal gain (Davis et al., 1997). In Islamic banking institutions, stewardship values are closely aligned with Sharia principles emphasizing accountability, transparency, ethical responsibility, and fairness in financial reporting practices. Therefore, audit quality, audit competency, and audit evidence can be viewed as important mechanisms in supporting transparent and accountable financial reporting practices within Islamic banking institutions (Blessing et al., 2025; Darmawan, 2023; Joseph Seun et al., 2025; Latifah & Taufik, 2025a).

One of the most important factors influencing financial transparency is audit quality. Audit quality refers to the ability of auditors to detect and report material misstatements while ensuring that financial statements are presented fairly and reliably. High-quality audits improve the credibility of financial information, strengthen internal control systems, and reduce the risk of fraudulent reporting practices (Nadiya Amany et al., 2024)**.** Effective auditing mechanisms also contribute to stronger governance and better financial disclosure practices. Recent empirical studies reveal that audit quality significantly contributes to improving financial reporting transparency and enhancing stakeholder confidence within financial institutions (Darmawan, 2023; Nugrahanti et al., 2023)

In addition to audit quality, audit competency also plays an essential role in ensuring transparent financial reporting. Audit competency reflects the knowledge, expertise, experience, and professionalism of auditors in conducting audit procedures effectively(Fadila et al., 2023). In Islamic banking institutions, auditors are expected not only to understand conventional accounting and auditing standards but also to possess adequate knowledge of Sharia principles and Islamic financial transactions(Aspiranti et al., 2023; Ayu et al., 2024). This dual responsibility increases the complexity of audit activities within Islamic banking institutions, Competent auditors are better able to identify reporting irregularities, evaluate compliance, and ensure the reliability and relevance of financial disclosures provided to stakeholders(Lathifah & Taufik, 2025).

Furthermore, audit evidence is another critical factor influencing financial transparency. Audit evidence refers to the information and documentation obtained by auditors to support audit conclusions and opinions(Blessing et al., 2025). Sufficient and appropriate audit evidence provides a strong basis for reliable financial reporting and reduces the risk of material misstatements. Strong audit evidence also enhances accountability, strengthens stakeholder

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confidence, and improves the credibility of financial disclosures(Yulianto et al., 2025). Previous studies suggest that reliable audit evidence significantly contributes to improving reporting quality and financial transparency within financial institutions (Blessing et al., 2025; Cen & Alur, 2024; Kokina et al., 2025)

Although previous research has examined the relationship between audit quality, audit competency, audit evidence, corporate governance, and financial transparency, there are still some research gaps that need to be considered. Most previous studies have focused on conventional banking or only examined audit quality, audit competence, and audit evidence separately, so they have not provided a comprehensive picture of the simultaneous influence of these three factors on financial transparency. In addition, empirical evidence regarding Islamic banking in Indonesia is still relatively limited, even though Islamic banking has characteristics of governance and compliance with sharia principles that are different from conventional banking. Research using panel data with the coverage of several Islamic banks during a fairly long observation period is also still limited. Therefore, this study seeks to fill this gap by analyzing the influence of audit quality, audit competence, and audit evidence simultaneously on financial transparency in Islamic banks in Indonesia during the 2017–2024 period (Blessing et al., 2025; Fadila et al., 2023; Mulyadi et al., 2022).

The novelty of this research lies in three aspects. First, this study integrates audit quality, audit competence, and audit evidence into an empirical model to explain financial transparency in Islamic banking. Second, this study specifically focuses on Islamic banks in Indonesia that have governance characteristics and compliance with sharia principles, so that financial transparency is a very important aspect in maintaining public trust. Third, this study applies the Fixed Effect model with the Driscoll–Kraay error standard to produce more robust and reliable estimates by overcoming the potential heteroscedasticity and autocorrelation commonly found in panel data analysis.

This study contributes to the existing literature by providing empirical evidence regarding the role of audit-related factors in enhancing financial transparency within Islamic banking institutions. The findings are expected to provide useful implications for regulators, Islamic banking institutions, auditors, and stakeholders in strengthening governance mechanisms, improving audit practices, and enhancing the quality of financial reporting transparency in Islamic banking institutions in Indonesia.

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Stewardship Theory

This study is based on Stewardship Theory, which explains that managers and organizational members act as stewards who prioritize organizational objectives and stakeholder interests rather than personal gain. Stewardship Theory assumes that individuals are motivated by responsibility, integrity, ethical behavior, and commitment to organizational success. Therefore, managers and auditors are expected to act in ways that enhance accountability, transparency, and organizational performance(Joseph Seun et al., 2025).

In the context of Islamic banking institutions, Stewardship Theory is highly relevant because Islamic financial institutions emphasize ethical responsibility, honesty, accountability, and fairness in financial reporting and governance practices. Management and auditors are expected to ensure that financial information is presented transparently and accurately while maintaining compliance with Sharia principles. Transparent reporting practices are therefore considered an important mechanism for maintaining stakeholder trust and organizational legitimacy. Stewardship Theory also supports the relationship between audit quality, audit competency, audit evidence, and financial transparency. High-quality audits improve the reliability of financial disclosures, while competent auditors are more capable of conducting effective audit procedures and ensuring reporting accuracy. Similarly, sufficient and appropriate audit evidence strengthens the credibility of financial statements and supports transparent reporting practices. Therefore, Stewardship Theory provides an appropriate theoretical foundation for explaining how audit-related factors contribute to improving financial transparency within Islamic banking institutions(Aspiranti et al., 2023; Joseph Seun et al., 2025).

Financial Transparency

Financial transparency refers to the extent to which financial information is disclosed clearly, accurately, and in a timely manner to stakeholders(Bechihi & Nafti, 2025). Transparent financial reporting enables stakeholders to evaluate an institution's financial condition, performance, and accountability effectively. Financial transparency is important because it reduces information asymmetry between management and stakeholders, improves decision-making quality, and strengthens public trust in financial institutions(Chohan et al., n.d.). In the banking sector, transparent reporting practices also contribute to financial stability and enhance the credibility of financial institutions(Darmawan, 2023).

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In Islamic banking institutions, financial transparency has a broader meaning because these institutions are required not only to comply with financial regulations but also to maintain compliance with Sharia principles. Islamic banks are expected to operate ethically, fairly, and responsibly while ensuring that financial transactions and reporting activities are conducted according to Islamic values. Therefore, transparency becomes an essential component in maintaining stakeholder confidence and organizational legitimacy within Islamic financial institutions(Aspiranti et al., 2023).

Recent studies emphasize that transparent financial reporting practices improve governance effectiveness and strengthen accountability mechanisms within organizations. Audit quality, governance structures, and effective disclosure practices significantly influence the reliability and transparency of financial reporting. Strong transparency practices also enhance institutional credibility and reduce the risk of misleading financial disclosures(Darmawan, 2023; Salukh & Soewarno, 2022).

Furthermore, financial transparency is closely associated with the effectiveness of internal control systems and governance mechanisms. Institutions with stronger transparency practices are generally more capable of maintaining accountability, improving operational efficiency, and enhancing stakeholder confidence. In Islamic banking institutions, transparency is also essential in ensuring compliance with ethical and religious obligations under Sharia law (Ayu et al., 2024)

Audit Quality and Financial Transparency

Audit quality refers to the ability of auditors to detect and report material misstatements in financial statements while ensuring reliable and accurate financial reporting(Nadiya Amany et al., 2024). High-quality audits improve the credibility of financial information and strengthen stakeholder confidence in organizational reporting practices. In Islamic banking institutions, audit quality is particularly important because auditors are responsible not only for evaluating financial reporting accuracy but also for ensuring compliance with Sharia principles and ethical standards(Ainun & Islam Negeri Sultan Syarif Kasim Riau, 2024). The quality of audits is widely recognized as an important factor in ensuring the credibility of financial reporting. Previous research has shown that higher audit quality contributes to increased transparency and reliability of financial information because auditors are better able to detect and report material misstatements in financial statements (Manneh et al., 2025)

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According to (Nadiya Amany et al., 2024; Nugrahanti et al., 2023) studies indicate that stronger audit quality contributes positively to financial transparency by improving disclosure reliability, strengthening governance mechanisms, and reducing information asymmetry between management and stakeholders

From the perspective of Stewardship Theory, management and auditors are seen as parties who act as stewards who are committed to protecting the interests of stakeholders through responsible and transparent financial reporting (Davis et al., 1997). The high quality of audits reinforces the role of this stewardship by ensuring that financial statements are independently audited and in accordance with professional auditing standards. Therefore, high-quality audits increase the credibility, reliability, and transparency of financial information, thereby enabling stakeholders to make more informed decisions. Thus, higher audit quality is expected to increase financial transparency in Islamic banking institutions.

H1: Audit quality has a positive effect on financial transparency.

Audit Competency and Financial Transparency

Audit competency refers to the knowledge, expertise, experience, and professional capability of auditors in conducting audit procedures effectively. Competent auditors possess a strong understanding of accounting standards, auditing techniques, and professional ethics. In Islamic banking institutions, auditors are also required to understand Sharia principles and Islamic financial transactions, making audit competency increasingly important(Lathifah & Taufik, 2025a).

Previous studies suggest that auditor competency positively influences financial transparency because competent auditors are better able to identify reporting irregularities, evaluate compliance, and ensure the reliability of financial disclosures(Ainun & Islam Negeri Sultan Syarif Kasim Riau, 2024; Fadila et al., 2023).

Stewardship theory states that organizational actors are motivated to act in the best interests of stakeholders by carrying out their responsibilities with integrity and professionalism (Davis et al., 1997). The auditor's competence reflects the knowledge, technical expertise, and professional judgment necessary to effectively conduct audits and evaluate financial statements accurately. Competent auditors are better able to identify irregularities in reporting and ensure compliance with audit standards and Sharia principles. Therefore, a higher level of auditor

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competence is expected to encourage more transparent and accountable financial reporting in Islamic banking institutions.

H2: Audit competency has a positive effect on financial transparency.

Audit Evidence and Financial Transparency

Audit evidence refers to the information and documentation obtained by auditors to support audit conclusions and opinions(Ocansey, 2026). Sufficient and appropriate audit evidence is essential for ensuring reliable financial reporting and reducing the risk of material misstatements. Strong audit evidence enhances the credibility and accuracy of financial disclosures, thereby improving stakeholder confidence in financial reporting practices(IFSB, 2023).

Previous studies indicate that reliable audit evidence positively influences financial transparency by improving reporting quality, strengthening accountability, and supporting accurate financial disclosures(Blessing et al., 2025; Yulianto et al., 2025).

According to Stewardship Theory, transparency and accountability are achieved when organizational decisions are supported by reliable and verifiable information (Davis et al., 1997). Audit evidence provides an objective basis for auditors to evaluate financial statements and formulate audit opinions. Sufficient and appropriate audit evidence can reduce the risk of material misstatements and improve the reliability of financial reporting. Therefore, stronger audit evidence is expected to improve financial transparency by ensuring that the financial information disclosed by Islamic banking institutions is accurate, credible, and accountable.

H3: Audit evidence has a positive effect on financial transparency.

CONTROL VARIABLES

Aside from the main independent variables, this study also includes several control variables consisting of firm size and profitability. Control variables are included to minimize potential bias and improve the accuracy of the regression model because organizational characteristics may also influence financial transparency. Previous studies indicate that larger firms generally provide more extensive disclosures and possess stronger governance mechanisms due to greater public scrutiny and regulatory pressure (Abiodun et al., 2024). While profitable firms tend to disclose more financial information to maintain stakeholder confidence and organizational reputation(Maria Ulfa & Ermian Challen, 2020).

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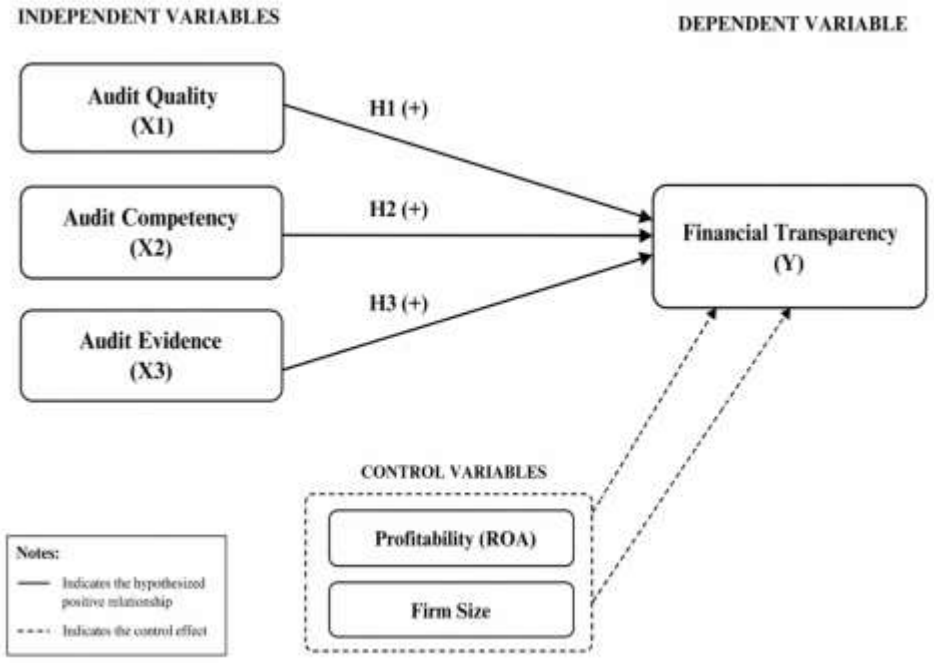
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CONCEPTUAL FRAMEWORK

This study examines the effects of audit quality, audit competency, and audit evidence on financial transparency in Islamic banking institutions. Audit quality reflects the ability of auditors to ensure reliable and accurate financial reporting, while audit competency represents the knowledge, expertise, and professionalism of auditors in conducting audit activities effectively. Audit evidence refers to the adequacy and appropriateness of information obtained to support audit conclusions and reporting reliability. These variables are expected to influence financial transparency because stronger auditing practices contribute to more credible, accountable, and transparent financial reporting(Ocansey, 2026; Salukh & Soewarno, 2022).

Based on Stewardship Theory, management and auditors act as responsible stewards who prioritize organizational accountability, ethical responsibility, and stakeholder interests. Therefore, stronger audit quality, higher auditor competency, and reliable audit evidence are expected to enhance financial transparency within Islamic banking institutions (Davis et al., 1997).

The conceptual framework of this study is presented as follows:



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METHODS

This study uses a quantitative approach with panel data regression analysis to test the influence of audit quality, audit competence, and audit evidence on financial transparency in Islamic banking institutions in Indonesia. The data was analyzed using the STATA software. The analysis is carried out through several stages. First, descriptive statistics are used to describe the characteristics of the research variables. Second, the selection of panel data models is carried out through the Chow Test, Hausman Test, and Lagrange Multiplier (LM) Test to determine the most suitable estimation model. Third, diagnostic tests were carried out to identify the presence of heteroscedasticity and autocorrelation. To anticipate possible violations of classical assumptions and ensure robust estimation results, this study uses the Driscoll–Kraay error standard in the final panel data regression model. Finally, hypothesis testing is carried out to analyze the influence of audit quality, audit competence, and audit evidence on financial transparency.

POPULATION AND SAMPLE

The population consists of Islamic banks operating in Indonesia during the period 2017 to 2024. The sample is selected using purposive sampling based on the following criteria: Islamic banks that publish complete annual reports, Islamic banks with sufficient data for all variables, Banks operating continuously during the observation period. Therefore, A total of 14 Islamic banks was selected, resulting in 112 firm year observations. This study uses secondary data obtained from Annual reports of Islamic banks and Official bank websites

Operational Definition of Variables

Variables	Operational Definition of Variables	Variable Measurement
Financial Transparency (Y)	Financial transparency refers to the extent to which financial information is disclosed clearly, accurately, and in a timely manner to stakeholders to enhance accountability and reduce information asymmetry **(Darmawan, 2023).**	Disclosure Index = (Number of disclosed items / Total disclosure items) × 100%
Audit Quality (X1)	Audit quality refers to the ability of auditors to detect and report material misstatements while	AQ = Big Four Auditor + Audit Tenure / 2 (Dummy)

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	ensuring reliable and credible financial reporting **(Nadiya Amany et al., 2024).**	
Audit Competency (X2)	Audit competency refers to the knowledge, expertise, professionalism, and experience of auditors in conducting effective audit procedures and ensuring reporting reliability **(Chrisna Putri et al., 2024; Lathifah & Taufik, 2025a).**	Certification + Experience / 2 (Dummy)
Audit Evidence (X3)	Audit evidence refers to the adequacy and appropriateness of information obtained by auditors to support audit conclusions and improve reporting reliability **(Blessing et al., 2025; Yulianto et al., 2025).**	Explanatory Notes + Key Audit Matter / 2 (Dummy)
Firm Size (FS)	Firm size reflects the scale of organizational operations and institutional capacity that may influence disclosure practices and transparency levels **(Abiodun et al., 2024).**	Ln (Total Assets)
Profitability (ROA)	Profitability reflects the institution's ability to generate earnings from its assets and maintain financial performance **(Muhammad Naeem et al., 2021).**	Net Income / Total Assets

Financial Transparency Index

The Financial Transparency Index was developed using a disclosure index approach based on the annual reports of Islamic banks. Financial transparency is measured by assessing the extent to which relevant financial information is disclosed in each annual report. Disclosure indicators include the main components of financial reporting, namely financial position statements, income statements, equity change reports, cash flow statements, notes on financial statements, explanatory notes, and key audit matters as presented in the annual report (Darmawan, 2023).

Each disclosure item is evaluated using the dummy scoring method, where a score of 1 is given if the item is disclosed and a score of 0 if it is not disclosed. The Financial Transparency Index is calculated by dividing the number of items disclosed by the total relevant disclosure

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items, then multiplied by 100 percent. Higher index values indicate a better level of financial transparency, which reflects more comprehensive and transparent financial reporting practices in Islamic banks(Lathifah & Taufik, 2025b).

The measurement proxies used in this study were selected based on their extensive application in previous audit studies as well as their ability to represent each of the research variables. Audit quality is measured using Big Four auditors and audit assignment periods (audit tenure), which reflect the auditor's reputation and level of understanding of clients. Audit competence is measured through auditor certification and professional experience, which represents the auditor's knowledge and expertise. Meanwhile, audit evidence is measured using records of financial statements and key audit matters disclosed in the annual report, as they provide information on the adequacy and reliability of the audit process(Nadiya Amany et al., 2024; Yulianto et al., 2025).

Data Analysis Method

The regression model is formulated as follows:

$$FT = \alpha + \beta 1AQ + \beta 2AC + \beta 3AE + \beta 4FS + \beta 5ROA + \varepsilon$$

Where:

FT= Financial Transparency
AQ = Audit Quality
AC = Audit Competency
AE = Audit Evidence
FS = Firm Size
ROA = Profitability
ε = Error term

Panel data regression analysis is used to test the relationship between variables and evaluate the proposed hypotheses. It is particularly suitable for this study as it allows the analysis of both cross sectional and time series variations, providing more robust and efficient estimates.

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Robustness Analysis

To ensure the robustness of the empirical findings, this study uses a Fixed Effect Model with the Driscoll–Kraay error standard. This estimation approach was chosen because it is able to produce a robust standard error for heteroscedasticity, autocorrelation, and potential cross-sectional dependency in the panel data. Therefore, the resulting coefficients are considered more reliable in explaining the relationship between audit quality, audit competence, audit evidence, and financial-transparency. **RESULTS AND DISCUSSION**

Table 1 Descriptive Statistics

Variable	Obs	Mean	Std.Dev.	Min	Max
Financial Transparency	112	0.892	0.238	0.000	1.000
Audit Quality	112	0.643	0.311	0.000	1.000
Audit Competency	112	0.652	0.354	0.000	1.000
Audit Evidence	112	0.719	0.327	0.000	1.000
ROA	112	2.312	13.366	-0.859	137.914
Firm Size	112	21.977	7.343	0.000	31.424

Source: Data processed,2026

Based on Table 1, the financial transparency variable has an average value of 0.892 with a standard deviation of 0.238. The relatively high average value indicates that most of the Islamic banking institutions in the study sample have implemented a good level of financial transparency. A minimum value of 0 and a maximum of 1 indicate a variation in the level of disclosure of information among the banks observed.

The audit quality variable had an average value of 0.643 with a standard deviation of 0.311. This shows that most of the observations have good audit quality characteristics. The audit competency variable had an average value of 0.652 and a standard deviation of 0.354, indicating that auditors in most of the institutions in the sample had an adequate level of competence. Meanwhile, the audit evidence variable has an average value of 0.719 with a standard deviation of 0.327, which shows that the majority of institutions have sufficient and appropriate audit evidence in the audit process.

For the control variable, profitability measured using Return on Assets (ROA) had an average value of 2.312 with a standard deviation of 13.366. The considerable difference between the minimum value (-0.859) and maximum value (137.914) indicates a high variation in

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profitability among Islamic banking institutions in the study sample. Furthermore, the company size has an average value of 21.977 with a standard deviation of 7.343. This value shows that there is a difference in the size of operations between Islamic banks that are the object of research.

Table 2 Model Selection Results

Testing	P-Value	Result
Chow Test	0.0000	Fixed Effect Model
Hausman Test	0.0157	Fixed Effect Model
Lagrange Multiplier Test	0.0000	Random Effect Model
Heteroskedasticity Test	0.0000	Heteroskedasticity Present
Autocorrelation Test	0.0002	Autocorrelation Present

Source: Data processed, 2026

Table 2 presents the results of the panel data model selection test. The Chow test yields a probability value of 0.0000, which indicates that the Fixed Effect Model (FEM) is more appropriate than the Common Effect Model (CEM). The Lagrange Multiplier (LM) test also yields a probability value of 0.0000, which indicates that the Random Effect Model (REM) is more appropriate than the Common Effect Model. Furthermore, the Hausman Test yielded a probability value of 0.0157, which is smaller than the significance level of 0.05, thus showing that the Fixed Effect Model is more appropriate than the Random Effect Model. Therefore, based on the results of the Chow Test, LM Test, and Hausman Test, the Fixed Effect Model was chosen as the most suitable model to be used in this study.

The results of the diagnostic test showed the existence of heteroscedasticity and autocorrelation problems, with probability values of 0.0000 and 0.0002, respectively. These findings indicate a violation of the classical assumption of regression. Therefore, this study uses a Fixed Effect Model with a Driscoll–Kraay error standard to obtain more robust and reliable estimation results.

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Regression Results

Tabel 3 Fixed Effect–Driscoll Kraay

Variables	Coefficients	P-Value	Results
Audit Quality	0,2087	0,004	Significant (+)
Audit Competencies	0,0429	0,155	Not significant (-)
Audit Evidence	0,2046	0,009	Significant (+)
ROA	0,0037	0,049	Significant (+)
Size	0,0083	0,009	Significant (+)

Within R^2 = 0,5852

Source: Data processed, 2026

The research model was able to explain 58.52% of the variation in financial transparency, while the rest was influenced by other factors outside the research model such as institutional conditions, governance mechanisms, and management policies.

The results show that audit quality and audit evidence have a positive and significant influence on financial transparency. Meanwhile, audit competence showed a positive but not significant influence. The control variables in the form of profitability and company size showed a positive and significant influence on financial transparency.

Hypothesis

Table 4 Hypothesis Test Results

Hypothesis	Statement	Results
H1	Audit Quality has a Positive Effect on Financial Transparency	Accepted
H2	Audit Competence has a Positive Effect on Financial Transparency	Rejected
H3	Audit Evidence has a Positive Effect on Financial Transparency	Accepted

Source: Data processed, 2026

Table 4 presents the results of the research hypothesis testing. The results of the study show that the quality of audits and audit evidence have a positive and significant effect on

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financial transparency so that H1 and H3 are accepted. On the other hand, audit competence did not have a significant effect on financial transparency, so H2 was rejected. These findings show that audit quality and audit evidence have a more important role in improving financial transparency than audit competence in Islamic banking institutions in Indonesia.

DISCUSSION

Audit Quality and Financial Transparency

The quality of audits shows a positive and significant influence on financial transparency. These results show that the higher the quality of the audit that the institution has, the higher the level of transparency of the financial statements produced. Quality audits are able to increase the credibility of financial information through more effective audit procedures so that it can reduce the possibility of mis presentation of information.

The results of this study are in line with the research of (Nugrahanti et al., 2023) which stated that audit quality is able to increase the reliability of information disclosure and strengthen the company's accountability mechanism. Research by (Nadiya Amany et al., 2024) also shows that effective auditing practices can improve financial reporting transparency as well as reduce information asymmetry. These findings are in line with the research of (Manneh et al., 2025) which states that audit quality has an important role in improving the credibility, reliability, and transparency of financial reporting. High-quality audits can increase stakeholders' confidence in financial information because auditors have better ability to detect and disclose material misrepresentations. Therefore, organizations that have a higher audit quality tend to show a better level of financial transparency.

Based on the perspective of Stewardship Theory, auditors act as the responsible party to safeguard the interests of stakeholders through the presentation of honest and transparent information. Therefore, better audit quality will increase stakeholder confidence in financial statements.

In the context of Islamic banking governance in Indonesia, these findings show that audit quality is an important element in supporting the implementation of Good Corporate Governance (GCG). Quality audits are able to increase the credibility of financial statements, strengthen accountability, and support compliance with the provisions of the Financial Services Authority (OJK) and sharia principles. Thus, improving audit quality can strengthen public trust in the Islamic banking system in Indonesia.

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Audit Competence and Financial Transparency

Audit competence shows a positive but not significant influence on financial transparency. These results show that auditor competence does not necessarily directly increase the transparency of financial statements.

This finding is different from the research of (Lathifah & Taufik, 2025a) which states that competent auditors have better ability to improve the quality of financial reporting. (Chrisna Putri et al., 2024)also explained that auditors who have high professional abilities can increase audit effectiveness.

In addition, the insignificance of the influence of audit competence on financial transparency can be caused by the characteristics of the Islamic banking industry that have been strictly regulated by regulators. Under these conditions, the level of financial transparency is determined more by compliance with applicable regulations, corporate governance policies, and reporting standards than by individual auditor competence. Auditors who have high competence are not necessarily able to increase the level of information disclosure if the scope and format of reporting have been determined by applicable regulations. Therefore, audit competence may contribute more to the quality and reliability of financial information than to the level of financial transparency itself.

Although auditor competence does not show a significant influence on financial transparency, auditor competence still has an important role in supporting the quality of the audit process and compliance with audit standards and sharia principles. In the context of Indonesian Islamic banking, improving auditor competence is still needed to strengthen corporate governance and maintain the quality of financial reporting in a sustainable manner.

Audit Evidence and Financial Transparency

Audit evidence shows a positive and significant influence on financial transparency. These results show that the more adequate the audit evidence the auditor has, the higher the level of transparency of the financial statements.

These findings are in line with (Ocansey, 2026) research which states that strong audit evidence can improve audit quality and credibility of financial reporting. (Salukh & Soewarno, 2022) also stated that adequate audit documentation can strengthen accountability mechanisms.

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Based on Stewardship Theory, auditors are responsible for maintaining stakeholder trust through accountable information. Therefore, strong audit evidence supports the creation of better financial transparency.

Regarding control variables, profitability (ROA) and company size show a positive and significant influence on financial transparency. Institutions with higher levels of profitability and enterprise scale tend to undertake broader disclosure of information to maintain reputations and increase stakeholder trust.

These findings also show that the adequacy of audit evidence has an important role in strengthening Islamic banking governance in Indonesia. Adequate audit evidence supports the auditor's objective decision-making process, improves the reliability of financial statements, and strengthens transparency and accountability which is an important part of the implementation of Good Corporate Governance and compliance with sharia principles.

CONCLUSION

This study aims to analyze the influence of audit quality, audit competence, and audit evidence on financial transparency in Islamic banking institutions in Indonesia. Using panel data analysis through the Fixed Effect Model and Driscoll–Kraay standard errors, this study yielded several important findings.

The results show that audit quality and audit evidence have a positive and significant influence on financial transparency. These findings suggest that a stronger audit mechanism is capable of improving the credibility, reliability, and transparency of financial reporting. Good audit quality helps reduce information asymmetry and increase stakeholder confidence in the financial information presented. In addition, adequate audit evidence supports auditors in evaluating the fairness of financial statements so that they can increase the level of transparency of reporting.

In contrast to these results, audit competence showed a positive but not significant relationship with financial transparency. These results indicate that auditors' abilities and expertise alone do not necessarily directly improve financial transparency. The level of transparency is likely to also be influenced by other factors such as corporate governance mechanisms, organizational policies, and the prevailing regulatory environment.

In the control variables, profitability (ROA) and company size showed a positive and significant influence on financial transparency. This suggests that institutions with better financial

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conditions and a larger operational scale are more likely to disclose information more widely in an effort to maintain a company's reputation and increase stakeholder trust.

Based on the perspective of Stewardship Theory, the results of this study support the view that auditors and management act as responsible parties in safeguarding the interests of organizations and stakeholders through transparent and accountable reporting practices. The results show that financial transparency is not only influenced by the amount of information disclosed, but also by the quality, credibility, and reliability of the information conveyed to stakeholders.

This research contributes to the development of literature on the role of audit factors in increasing financial transparency in Islamic banking institutions. In addition, this study also provides practical implications for regulators and financial institutions regarding the importance of strengthening audit quality and the adequacy of audit evidence to improve the quality of financial reporting.

This research still has some limitations. First, the measurement of financial transparency uses the disclosure index so that it is not yet able to fully capture the qualitative aspects of financial reporting. Second, the research model was only able to explain some of the variations in financial transparency, suggesting that there are still other factors outside the model that can affect financial transparency. Therefore, further research is recommended to add other variables related to corporate governance mechanisms and use alternative measurements in order to provide a more comprehensive understanding of the factors that affect financial transparency.

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