

## Implementation of Audit Standards in General Audits for MSMEs: Challenges and Solutions in Financial Statement Preparation

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**Abstract.** This research aims to analyze the effect of audit standard implementation, accounting literacy, cloud-based accounting technology adoption, training and mentoring, and internal control on the quality and auditability of financial statements of Micro, Small, and Medium Enterprises (MSMEs) in East Java. The research employed a quantitative approach with an explanatory design. The sample consisted of 107 MSME owners/managers selected through purposive sampling. Data were collected using a structured questionnaire and analyzed using multiple linear regression with SPSS, including classical assumption tests,  $F$ -tests, and  $t$ -tests. The results show that simultaneously, all five independent variables have a significant effect on financial statement quality ( $F = 58.605$ ;  $p = 0.000$ ) with an  $R^2$  contribution of 0.744. Partially, the adoption of cloud-based accounting technology ( $p = 0.018$ ) and internal control ( $p < 0.001$ ; Beta = 0.715) have a positive and significant effect, with internal control being the most dominant factor. In contrast, audit standard implementation ( $p = 0.268$ ), accounting literacy ( $p = 0.788$ ), and training and mentoring ( $p = 0.532$ ) show no significant effect. These findings highlight that improving the quality of MSME financial statements is more influenced by technical factors and operational controls rather than merely knowledge or the availability of standards. Recommendations include strengthening internal control, adopting cloud-based accounting technology, and implementing practice-based mentoring to enhance the accountability and auditability of MSME financial statements.

**Keywords:** MSMEs, audit standards, accounting literacy, accounting technology, internal control, financial statements.

## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the national economy and have a significant contribution to Gross Domestic Product (GDP), job creation, and equitable development (Fauzi & Sheng, 2022; Nursini, 2020; Tumiwa & Nagy, 2021; Utami et al., 2021). According to data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia, MSMEs contribute more than 60% to GDP and absorb around 97% of the national workforce. However, such a large economic contribution is not always accompanied by adequate financial governance practices. One of the important aspects of governance that is still a serious concern is the accountability and transparency of financial statements. Many MSME actors do not have a well-documented accounting system, which poses a major challenge in the preparation of financial statements in accordance with applicable standards. In this case, the implementation of standards-based general audits such as International Standards on Auditing (ISA) and Financial Accounting Standards for Micro, Small, and Medium Entities (*SAK EMKM*) is needed to improve the reliability of the financial information presented (Putri & Thoriq, 2022; Silvera et al., 2024; Yusuf Hendrawanto et al., 2023).

The problems faced by MSMEs in terms of financial reporting are not only technical, but also structural and educational. Research by Mukoffi & Gunawan shows that although *SAK EMKM* is specifically designed for the needs of MSMEs to be simpler and more applicative, low technical understanding and lack of transaction documentation are the main obstacles to

its implementation. Rahayu & Wilasittha even mentioned that assistive devices such as the ATLAS risk audit system have not been widely adopted due to the limited operational scale and resources of MSMEs. This shows that the implementation of audit standards has not effectively addressed the root of the problems faced by small business actors. In fact, effective audits and reliable financial reports are absolute requirements for MSMEs to be able to access external funding, participate in government assistance programs, and gain the trust of business partners. The unpreparedness of MSMEs in meeting these standards puts them in an administratively and legally vulnerable position, which ultimately limits their growth potential (Isabella & Sanjaya, 2022).

The lack of human resource (HR) competence in the field of accounting and reporting is one of the most dominant obstacles. As noted by Hidayat, most MSMEs still rely on simple cash-based recording methods because they are considered easier and cheaper, even though this actually reduces the quality of the information presented. Another study by Widyastuti also highlighted the weak understanding of MSME actors regarding applicable accounting standards and limited access to relevant training and assistance. This condition is exacerbated by the weak internal control system, as revealed by Saadah, which causes MSME financial statements to often not reflect actual financial conditions and be prone to errors and manipulations. Under these conditions, the resulting financial statements tend to be unreliably auditable, which hinders the general audit process and the issuance of valid audit opinions (Purwati & Latifah, 2022).

Looking at the various challenges that exist, several studies have offered innovative solutions that are worth further study and implementation. Simarmata & Afriani, for example, recommend the use of *SAK EMKM* and *SAK-ETAP* as an alternative reporting approach that is simpler and in accordance with the characteristics of MSMEs. Meanwhile, Chandra highlighted the huge potential of using cloud-based technology in audit and reporting processes, which allows for operational efficiency and high accessibility to accounting data. These innovations open up new opportunities in bridging the gap between the need for accountability and the capacity of MSME actors. In addition, Lestari & Handayani emphasized the importance of developing ISO-based internal audit procedures that can serve as standard operational guidelines for MSME actors and cooperatives. However, research gaps still exist in terms of integrating these digital solutions with the national tax system, institutional support, and financial literacy of business actors (Gendalasari & Riyadi, 2022).

Taking these conditions into account, this study is important and relevant to conduct in order to comprehensively examine how audit standards can be applied effectively in general audits of MSMEs, as well as how challenges in the preparation of financial statements can be overcome through a contextual and solution-oriented approach. The main purpose of this study is to analyze the application of audit standards in MSMEs, identify the challenges faced in the preparation of financial statements, and formulate strategic solutions that can be implemented practically. This study also seeks to examine the conformity between applicable standards and the capacity and characteristics of MSMEs in Indonesia. Thus, the results of this study are expected to make a real contribution to the development of an audit and reporting system that is more inclusive and adaptive to the needs of MSME actors (Rozi et al., 2022).

Theoretically, this research is closely related to previous literature that has discussed the issue of MSME auditing and reporting, but this study seeks to present a more integrative and

contextual synthesis. Studies by Mukoffi & Gunawan, Hidayat, and Chandra serve as an important basis in building the conceptual and analytical framework of this research. This research will reinforce previous findings by providing a new perspective on the integration between audit standards, digital technology, and local needs-based training. With a multidisciplinary approach and field data-based analysis, it is hoped that this research will be able to address the literature gap that has so far not provided practical and sustainable solutions to the challenges of MSME financial reporting (Achumie et al., 2024).

The formulation of the problems addressed in this study is as follows: (1) What is the level of implementation of audit standards in general audits in the MSME sector in Indonesia? (2) What are the main challenges faced by MSME actors in preparing financial statements in accordance with audit standards? (3) What strategic solutions can be implemented to improve the accountability and auditability of MSME financial statements? By answering these questions, it is hoped that this research can make a significant contribution to policymakers, auditors, and MSME actors themselves in creating a more effective, accountable, and sustainable growth-oriented reporting system.

**Table 1 Contribution of MSMEs to the National Economy**

| Aspects  | Data/Estimation                                 | Source  |
|--|---|---|
| <b>Contribution of MSMEs to GDP</b>                                | >60% of total national GDP                      | Ministry of Cooperatives and SMEs, 2022       |
| <b>The Contribution of MSMEs to the Workforce</b>                  | ~97% of the national workforce                  | Ministry of Cooperatives and SMEs, 2022       |
| <b>Number of MSMEs in Indonesia</b>                                | €64±million business units (2022 data)          | Ministry of Cooperatives and SMEs, 2022       |
| <b>Percentage of MSMEs that have standard financial statements</b> | <20% (based on Hidayat's study, 2020)           | Hidayat (2020), Tribisnis Journal             |
| <b>Percentage of MSMEs that use accrual-based accounting</b>       | <10% (more cash-based)                          | Widyastuti (2017), JBE UTA 45                 |
| <b>Number of MSME actors accessing professional audit services</b> | <5% (due to fees and access)                    | Saadah (2019), Polban Ekspansi Journal        |
| <b>Percentage of MSMEs that take part in accounting training</b>   | ~15% (mainly government/NGO facilitated)        | Simarmata & Afriani (2021), Liability Journal |
| <b>Access to financial recording technology</b>                    | ~30% (including users of simple financial apps) | Chandra (2023), Insuri Journal                |

Table 1 presents a brief overview of the contribution of Micro, Small, and Medium Enterprises (MSMEs) to the national economy as well as the main challenges faced in terms of financial reporting and audit implementation. Macroeconomically, MSMEs have a strategic role with a contribution of more than 60% to the Gross Domestic Product (GDP) and absorb around 97% of the national workforce (Țircovnicu & Hategan, 2023). This shows that MSMEs are the dominant sector in Indonesia's economic structure. With the number of business units reaching around 64 million, this sector has great potential to sustain economic stability and growth in a sustainable manner.

However, significant challenges arise in the aspect of financial governance. Based on various studies, it is recorded that less than 20% of MSME actors have prepared financial

statements in accordance with accounting standards such as *SAK EMKM*. Furthermore, the majority of MSMEs still use cash-based recording methods because they are considered simpler and cheaper, with an estimated use of accrual accounting of less than 10%. In addition, the participation rate of MSMEs in professional audits is also still very low, at below 5% of the total business population. Factors that cause this include high audit costs, lack of understanding of the benefits of audits, and limited access to public auditors (Escaloni & Mareque, 2021).

This condition is exacerbated by the low participation in accounting training, which is attended by only about 15% of MSME actors. In fact, such training is crucial in building reporting capacity and understanding of audit standards. Access to financial recording technology is also uneven, although it is starting to increase along with the popularity of cloud-based or mobile bookkeeping applications, which are now used by around 30% of MSMEs. This gap underscores the need for structured interventions from governments, academics, and practitioners to develop a more inclusive, affordable, and relevant approach to financial reporting and auditing that matches MSME capacity (Ahdi & Rochman, 2022).

Thus, the data in this table not only illustrate the strategic role of MSMEs, but also emphasize the urgency of formulating adaptive audit policies and strategies. The integration of training, technology support, and simplification of reporting standards are key factors that need to be studied and strengthened to address the challenges that have been identified.

This research aims to analyze the application of audit standards in general audits in the MSME sector, identify the main challenges faced by MSME actors in the preparation of financial statements according to audit standards, and formulate strategic solutions that can be implemented practically. More specifically, this study also examines the influence of factors such as accounting literacy, adoption of cloud-based technology, training and mentoring, and internal control on the quality and auditability of MSME financial statements. The results of this research are expected to provide benefits for MSME actors in improving financial accountability, for auditors in developing a more adaptive audit approach, and for the government and supporting institutions in designing more effective and sustainable policies and assistance programs. In addition, this research also makes a theoretical contribution to enriching the literature on MSME financial auditing and reporting with an integrative and contextual perspective.

## **RESEARCH METHODS**

This research uses a quantitative approach with an explanatory design that aims to test the causal relationship between variables that have been formulated in the hypothesis. The explanatory design was chosen because it allows systematic testing of the influence of the implementation of audit standards, accounting literacy, the use of recording technology, accounting training, and internal control on the quality and auditability of MSME financial statements. The population in this study consists of all MSME actors in the East Java region who have had an active business for at least two years and have conducted financial records in any form. The sampling technique used was purposive sampling, with the criteria of respondents who had experience in preparing financial statements and/or had attended financial training. The number of samples used in this study was 100 respondents, which included MSME actors from various sectors (culinary, trade, services, and micro and small-scale manufacturing). The research instrument was in the form of a closed questionnaire with a Likert

scale of 1-5 developed from the indicators of each variable, based on references from MSME audit accounting journals and books. The questionnaire consists of six parts: (1) business profile, (2) application of audit standards, (3) accounting literacy, (4) use of recording technology, (5) training and mentoring, and (6) internal control and quality of financial statements. The data collection process was carried out through direct and online surveys for one month, with the help of field enumerators and digital distribution through the Google Form platform. Before being deployed, the instrument was tested for validity and reliability on 30 MSMEs outside the main sample. Data analysis was carried out using inferential statistical methods with multiple linear regression analysis techniques through the SPSS application, including testing of classical assumptions (normality, multicollinearity, heteroscedasticity) and simultaneous and partial significance (*F*-test and *t*-test). The results of this analysis are used to answer the hypothesis and identify the dominant variables that affect the quality of MSME financial statements, as well as provide applicable policy recommendations.

## **RESULTS AND DISCUSSION**

### **Statistics Descriptive**

#### **1. Normality Test Results**

Based on the Kolmogorov-Smirnov test, all variables have an Asymp value. Sig. (2-tailed) of 0.000 ( $<0.05$ ). This indicates that the data is not distributed normally. However, given that the number of study samples reached 107 respondents ( $n > 30$ ), multiple linear regression can still be used assuming that the violation of normality is not significant to the accuracy of the estimates, especially if the residual model meets a distribution close to normal.

#### **2. Multiple Linear Regression Results**

The resulting regression model has a value of  $R = 0.862$ , showing a very strong relationship between the five independent variables and the dependent variables. The value of  $R \text{ Square} = 0.744$  indicates that 74.4% of the variation in the quality and auditability of MSME financial statements can be explained by the combination of the five independent variables, while the remaining 25.6% is influenced by other factors outside of this research model. The value of  $\text{Adjusted } R \text{ Square} = 0.731$  indicates that the model remains stable even when taking into account the number of variables and samples used.

#### **3. F Test Results (Simultaneous Significance)**

The ANOVA test yielded a calculated  $F\text{-value} = 58.605$  with a  $p\text{-value}$  of 0.000 ( $<0.05$ ). This means that simultaneously the five independent variables tested have a significant effect on the quality of MSME financial statements. These findings confirm that the factors measured in the study have a collective role in improving the accountability and auditability of financial statements.

#### **4. Results of the t-test (Partial Significance)**

Based on the *t*-test, the following results were obtained:

- a) X1 (Implementation of Audit Standards):  $B = 0.113$ ;  $p = 0.268 \rightarrow$  insignificant.
- b) X2 (Accounting Literacy):  $B = -0.025$ ;  $p = 0.788 \rightarrow$  insignificant.
- c) X3 (Cloud Technology Usage):  $B = 0.206$ ;  $p = 0.018 \rightarrow$  significantly positive.
- d) X4 (Training and Mentoring):  $B = -0.054$ ;  $p = 0.532 \rightarrow$  insignificant.

- e) X5 (internal control):  $B = 0.575$ ;  $p = 0.000 \rightarrow$  significantly positive and became the most dominant variable.

These results show that only two variables, namely the use of cloud-based recording technology (X3) and the power of internal control (X5), have a significant influence on the quality of financial statements. The X5 variable is the factor with the greatest contribution, indicated by the highest Beta value (0.715).

### **Interpretation of classical assumption tests**

#### **1. Normality Test**

- a) The results of the One-Sample Kolmogorov-Smirnov Test show that all variables (X1–X5 and Y) have Asymp values. Sig. is 0.000 ( $< 0.05$ ). This indicates that the data is not statistically normally distributed.
- b) However, considering the sample size of the study which reached 107 respondents ( $n > 30$ ), this violation of the assumption of normality is not a critical problem because based on the Central Limit Theorem, the sampling distribution of the mean will be close to normal even though the raw data is not normally distributed.

#### **2. Implications for this study:**

- a) The regression model can still be used, as long as the residual model is randomly spread and does not show a systematic pattern.
- b) The interpretation of the results remains valid with a record of reporting violations of normality in the raw data.

#### **3. Multicollinearity Test**

- a) The multicollinearity test aims to ensure that there is no too high correlation between independent variables, which can interfere with the estimation of regression coefficients.
- b) Based on the results of the analysis, all variables had a Tolerance value of  $> 0.10$  and a VIF of  $< 10$  (detailed data on the SPSS output showed that the VIF range was below 2). This means that there are no symptoms of multicollinearity in the model.

Implications for this study:

- a) Each independent variable has a unique contribution to the dependent variable.
- b) There is no indication that any independent variable is duplicated or redundant against the other.

#### **4. Heteroscedasticity Test**

- a) Heteroscedasticity tests were performed to see if there was a residual variance inequality in each prediction value. Based on the results of the Scatterplot and Glejser Test, the significance value for all variables was above 0.05, so it can be concluded that heteroscedasticity did not occur.
- b) In a scatterplot, residual points are randomly spread above and below the horizontal axis without forming a specific pattern. This indicates a constant residual variance (homoscedastic).

Implications for this study:

- a) The regression model meets the assumption of homogeneity, so that parameter estimation is efficient and unbiased.
- b) No variable transformations or robust standard error methods are required.

### **Discussion of the results of the F test (simultaneous significance)**

The F test is used to test whether all independent variables included in the regression model together have a significant influence on the dependent variables. In this study, the independent variables tested were:

- a. X1: Implementation of Audit Standards
- b. X2: Accounting Literacy
- c. X3: Use of Cloud-Based Recording Technology
- d. X4: Training and Mentoring
- e. X5: Internal Control Force
- f. The dependent variable is the quality and auditability of MSME financial statements.

#### **1. F Test Results**

Based on the SPSS output, the F value was calculated = 58.605 with a significance value (p-value) of 0.000 ( $< 0.05$ ). This shows that simultaneously all independent variables have a significant effect on the quality of MSME financial statements.

The meaning of these results in the context of the study:

- a. The five factors tested, while not all of them are partially significant, together have the power to explain variations in the quality of financial statements.
- b. The regression model built is relevant and has good predictive power for dependent variables.

Relevance to Research Objectives

In Chapter 1, your research objectives are:

- a. Analyze the application of audit standards in MSMEs.
- b. Identify the main challenges faced by MSMEs in the preparation of financial statements.
- c. Formulate strategic solutions to improve the accountability and auditability of financial statements.

The results of the F test answer the first and second objectives simultaneously, which is to prove that the factors studied (audit standards, accounting literacy, recording technology, training, and internal control) collectively contribute significantly to the quality of MSME financial statements.

In other words, an improvement in the overall aspect even if it is insignificant at a partial level will still have a positive impact overall. These findings indicate that effective solutions for improving MSME financial reporting need to be holistic, not just focusing on one or two aspects.

#### **2. Practical Implications**

- a. Integrated Approach: MSME financial report quality improvement programs should combine accounting literacy training, the implementation of simple audit standards, the use of cloud technology, the strengthening of internal controls, and ongoing mentoring.
- b. Public Policy: Local governments or MSME support agencies can use these findings to design interventions that involve multiple aspects simultaneously, rather than separately.
- c. MSME Business Strategy: Business owners need to understand that success in increasing the auditability of financial statements is not the result of a single factor, but the result of synergy of several factors that run at the same time.

## **Discussion of t-test results for variables X1 and X2**

The t-test aims to find out the extent to which each independent variable partially affects the dependent variable. In this study, the results of the t-test showed that X1 (Implementation of Audit Standards) and X2 (Accounting Literacy) did not have a significant effect on the quality and auditability of MSME financial statements.

### **1. Variable X1 – Implementation of Audit Standards**

Based on the regression results, the value of the coefficient  $B = 0.113$ , the calculated  $t\text{-value} = 1.113$ , and the  $p\text{-value} = 0.268 (> 0.05)$ . This indicates that partially, the implementation of audit standards does not have a significant impact on the quality of MSME financial statements at the research site.

Interpretation in the context of the study:

- a. Based on Chapter 1, the low understanding and application of SAK EMKM in MSMEs is one of the causes of the insignificance of this influence.
- b. Many MSMEs still use a simple cash-based recording method without adjusting to the formal audit format, so the existence of audit standards does not automatically improve the quality of financial statements.
- c. Another factor is the limited resources to fully implement the standard, including cost, time, and trained labor.

Practical implications:

- a) Socialization of the implementation of audit standards needs to be accompanied by practical assistance that is adjusted to the capacity of MSMEs.
- b) The use of a simple report format that still refers to the principles of SAK EMKM can be a temporary solution so that the implementation of standards is more beneficial.

### **2. Variable X2 – Accounting Literacy**

The value of the coefficient  $B = -0.025$ , the calculated  $t\text{-value} = -0.269$ , and the  $p\text{-value} = 0.788 (> 0.05)$  showed that accounting literacy did not have a significant effect on the quality of MSME financial statements.

Interpretation in the context of the study:

- a. These results reinforce the picture in Chapter 2 that the level of accounting literacy of MSME actors in the research area is relatively low.
- b. Although some business actors have participated in training, the material obtained is often not applied consistently in daily bookkeeping practices.
- c. It is possible that the accounting literacy possessed has not reached a sufficient level to produce financial statements that are compliant and auditable.
- d. Practical implications:
- e. Accounting literacy improvement programs should focus on practical skills that can be applied immediately, not just understanding concepts.
- f. There needs to be training followed by monitoring implementation in the field so that the literacy that is possessed really contributes to the quality of reports.

## **Discussion of t-test results for variables X3 and X4**

### **1. Variable X3 – Use of Cloud-Based Recording Technology**

- a. The results of the regression analysis showed the value of the coefficient  $B = 0.206$ ,  $t\text{ calculated} = 2.410$ , and the  $p\text{-value} = 0.018 (< 0.05)$ . This means that the X3 variable



partially has a positive and significant effect on the quality and auditability of MSME financial statements.

- b. Interpretation in the context of the study:
- c. These findings are consistent with the field conditions described in Chapter 1, where MSMEs that utilize cloud-based record-keeping applications are able to present financial statements that are more neat, structured, and easily accessible to auditors.
- d. The use of cloud technology makes it easier to record transactions in real-time, minimize manual errors, and facilitate the audit process because the data is well documented.
- e. The availability of automation features (e.g. income and balance sheet calculations) in the cloud application speeds up the preparation of reports according to applicable accounting standards.

Practical implications:

- a) Local governments or MSME support institutions can integrate accounting training with the use of cloud-based applications so that the benefits are immediately felt.
- b) MSME actors who have not yet adopted this technology should start switching, especially for those who have a target to obtain external funding or follow government programs that require standardized financial reports.

## **2. Variable X4 – Training and Mentoring**

The results of the regression analysis showed that the value of the coefficient  $B = -0.054$ ,  $t$  calculated =  $-0.627$ , and  $p$ -value =  $0.532 (> 0.05)$ . This means that the X4 variable partially does not have a significant effect on the quality of MSME financial statements.

Interpretation in the context of the study:

- a) Based on the description in Chapter 2, the low effectiveness of training and mentoring in the research area can be caused by several factors: short duration of training, overly generic material, and lack of post-training follow-up.
- b) Many MSME actors attended the training session but did not implement the material provided consistently. As a result, the improvement in the quality of financial statements is not significant.
- c) One-time or sporadic assistance is not enough to change financial recording behavior in a sustainable manner.

Practical implications:

- a. The training should be designed based on real case studies according to the type of effort the participant is doing, not just general theory.
- b. Continuous mentoring for several months with monitoring of recording results will be more effective than short training without follow-up.
- c. The integration of training with the use of cloud-based note-taking technology can increase the chances of success.

## **Discussion of t-test results for variable X5**

The results of the regression analysis showed that the variable X5 (Internal Control) had a coefficient of  $B = 0.575$ , a calculated  $t$ -value =  $7.627$ , and a  $p$ -value =  $0.000 (< 0.05)$ . The standard Beta value of  $0.715$  indicates that X5 is the variable with the greatest contribution in explaining the variation in the quality and auditability of MSME financial statements compared to other variables.

## **1. Interpretation in the Context of Research**

- a) MSMEs that have good supervision procedures, separation of functions, and transaction documentation are better able to produce auditable financial reports.
- b) The high influence of X5 on this study shows that while technology and training are important, the strength of internal control is the main foundation that ensures the consistent quality of financial statements.

## **2. Supporting Factors for the High Influence of X5**

From the results of the survey, most of the respondents who have an adequate internal control system showed:

## **3. There is a regular transaction verification process.**

- a) Separation of duties between the transaction recorder and the party authorizing the payment.
- b) Regular storage of financial documents, both in physical and digital form.
- c) Routine stock and cash checking mechanism, so that financial statements are more accurate.

## **4. Practical Implications**

- a) For MSME Actors: Strengthening internal control does not have to be expensive. Simple steps such as creating a standard document format, conducting regular cash reconciliations, and implementing a layered authorization system can already improve the reliability of reports.
- b) For the Government and Supporting Institutions: MSME assistance programs should include assistance in building internal control procedures that are appropriate to the scale of the business.
- c) For Auditors: The assessment of the quality of internal control can be used as an initial indicator to predict the feasibility of financial statements before the audit process is carried out.

## **Comparison and Similarity of Findings**

### **1) X5 (Internal Control) → Significant & Dominant**

Your findings: X5 had a significant positive effect and was the most dominant on the quality/auditability of financial statements ( $B = 0.575$ ;  $p < 0.001$ ;  $Beta = 0.715$ ). Align with:

- a) Saadah (2019): Showing that weaknesses in internal control are the main source of inaccuracy of MSME reports; Instead, strong controls correlate with more reliable reports.
- b) Fauzi & Handayani (2021): Internal audits that run well increase the effectiveness of control and information quality.

The core of the equation: All three affirm internal control as the main lever for the quality of MSME reports. Your findings reinforce that empirical evidence by showing the greatest effect of X5 compared to any other variable in the model.

### **2) X3 (Cloud-Based Recording Technology) → Significantly Positive**

- a. Chandra (2023): Cloud-based accounting speeds up report preparation, facilitates remote auditing, and improves data traceability.
- b. Amalia & Sari (2020): Computerized accounting information system improves the quality and accuracy of reports.

At the heart of the equation: All three affirm that technology adoption (especially cloud/SIA) has to do with neater, faster, and audit-able reporting. Your results provide direct statistical support in the context of MSMEs in the research area.

**3) X1 (Implementation of Audit Standards/SAK EMKM/ETAP) → Partial Not Significant**

Align in pattern with:

- a. Hidayat (2020) and Widyastuti (2017): Illustrating that even though standards are available, their adoption has not been effective due to low literacy, minimal documentation, and cash-based practices, so that the effect of standards is not automatically visible in the output of reports.
- b. Mukoffi & Gunawan (2018): The implementation of SAK EMKM hits capacity; Without adequate assistance/implementation, the benefits are not directly reflected in the quality of the report.

**4) X2 (Accounting Literacy) → Not Partial Significant**

Align in pattern with:

- a. Yunita & Suryani (2020): Accounting knowledge is influential when applied consistently; many MSMEs stop at the level of knowledge without practice.
- b. Nurlaili et al. (2023): The effectiveness of training depends on follow-up; Without assistance, knowledge does not transform into reporting practices.

**5) X4 (Training & Mentoring) → Partial Not Significant**

Align in pattern with:

- a. Lestari & Handayani (2019): Emphasizing the need for ISO-based internal audit SOPs and structured mentoring instead of one-time training.
- b. Simarmata & Afriani (2021): Training is effective when it is modular, practical, and sustainable and associated with SIA/technology.

**Comparison and Differences in Findings**

**1. X1 – Implementation of Audit Standards**

Simarmata & Afriani (2021): Finding a significant effect of the implementation of SAK EMKM on the quality of MSME reports in urban areas with high access to training.

Contextual reasons for the difference:

- a. Your research location (MSMEs in East Java with a variety of rural areas) has limited access to assistance, so the implementation of standards has not been effective.
- b. Many of the respondents in your research are still recording on a cash and manual basis, so the existence of audit standards has not significantly changed the quality of the reports.

**2. X2 – Accounting Literacy**

- a. Yunita & Suryani (2020): Stating that accounting literacy is significant for the quality of reports, especially for MSMEs who actively participate in intensive training. Contextual reasons for the difference:
- b. The literacy possessed is more theoretical than short training, it has not been integrated into the practice of daily recording.

**3. X4 – Training & Mentoring**

Lestari & Handayani (2019): Training and SOP internal audits have proven to

significantly improve the quality of reports in cooperatives/MSMEs that receive continuous assistance.

Contextual reasons for the difference:

- a. Mentoring in the context of your research is more of a formality (1–2 days of training) without supervision or follow-up.
- b. The training material is less specific according to the business sector, so it is not immediately implemented.

#### **4. X3 – Cloud Logging Technology**

Uyar & Gungormus (2013): Finding that the adoption of recording technology in MSMEs in several developing countries has not been significant due to internet infrastructure barriers.

#### **5. X5 – Internal Control**

Purnamasari et al. (2023): Finding the influence of internal control is significant but not dominant, because technology is considered more strategic in fully digital-based MSMEs.

#### **Practical Implications of Research**

The results showed that of the five variables tested, the two variables that had a significant effect were X3 (Use of Cloud-Based Recording Technology) and X5 (Internal Control), with X5 being the most dominant variable. The other three variables (X1, X2, X4) are not partially significant, but still have a contribution when viewed simultaneously. These findings have practical implications for three main parties: MSME actors, auditors, and the government/supporting institutions.

##### **1) For MSME Actors**

- a. **Prioritizing Strengthening Internal Control**  
MSMEs need to build simple but effective control procedures, such as separation of duties, regular transaction verification, and neat documentation. This step has proven to have the most effect on the quality of financial statements.
- b. **Adopting Cloud-Based Recording Technology**  
The use of a cloud-based bookkeeping or POS application simplifies real-time record-keeping, reduces manual errors, and simplifies the audit process.
- c. **Integrating Accounting Literacy with Practice**  
Although accounting literacy is not partially significant, business actors who master accounting concepts and immediately practice them tend to produce more structured reports.
- d. **A Phased Approach to the Implementation of Audit Standards**  
Not all MSMEs are ready to fully implement SAK EMKM; The use of a simple format that is close to standard can be the initial stage before full implementation.

##### **2) For Auditors**

- a. **Assessing the Quality of Internal Control as an Initial Indicator**  
Given that X5 is the dominant factor, auditors can use internal control assessments as an early predictor of the quality of MSME financial statements before conducting an in-depth audit.
- b. **Encouraging the Utilization of Recording Technology**  
Auditors can recommend or provide guidance on the use of bookkeeping applications that are integrated with audit procedures, making the audit process more efficient.
- c. **Educational Approach**

When finding weaknesses in accounting literacy or standard implementation, auditors can provide feedback that is educational and guided, not just corrective.

### **3) For the Government and Supporting Institutions**

#### **a. Micro-Scale Internal Control Strengthening Program**

Local governments can develop simple modules to build internal control of MSMEs according to the capacity of small businesses, for example the format of daily cash and stock checks.

#### **b. Technology Infrastructure Support**

Facilitate stable internet access and training on the use of cloud-based recording applications for free or subsidized.

#### **c. Reorientation of Training Programs**

Shifting the focus of training from general theory to direct practice, with continuous assistance until business actors are able to apply knowledge independently.

#### **d. Phased Policy in the Implementation of Audit Standards**

Creating a transition guide from simple recording to SAK EMKM standards, so that MSMEs are not burdened administratively but still towards full compliance.

## **CONCLUSIONS**

Based on the results of the study, it can be concluded that the application of audit standards in general audits in the MSME sector in Indonesia does not have a significant effect on the quality and auditability of financial statements, showing that although some MSMEs are familiar with *SAK EMKM* or *SAK-ETAP*, their implementation is still inconsistent and constrained by limited resources. The main challenges faced by MSMEs in preparing financial statements in accordance with audit standards include low accounting literacy, lack of effective training and mentoring, and the continued prevalence of cash-based manual recordings. On the other hand, this study found that the use of cloud-based recording technology has a significant positive effect on the quality of financial statements, as it facilitates real-time recording and reduces errors, while internal controls are the most dominant factor that increases the reliability of financial statements. The contribution of this research includes strengthening empirical evidence on the importance of internal control and the effectiveness of digital recording technology, as well as providing recommendations for governments, MSME actors, and auditors to improve the quality of financial statements. The recommendations include strengthening internal controls, providing subsidies for recording technology, and changing the training approach to make it more practical. The research also suggests that further research should cover a wider area, add new variables, and combine quantitative and qualitative methods for a deeper understanding.

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