

Quality of OPD Financial Reports from Internal Auditor's Perspective

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Abstract: North Sumatra Province has so far obtained unqualified (WTP) opinion, but the opinion obtained is still leaving findings that lead to recommendations for improvement from BPK RI. In general, when the financial statements have been well monitored by internal auditors, of course the financial reports are already good but the audit results by the BPK found that there are still quite a lot of findings such as assets not presented at fair value, cash shortages, unrecorded expenses, administration of receivables and inventories inadequate, inadequate presentation of receivables and allowances and the realization of goods and services spending that cannot be believed to be reasonable due to inflated revenues to achieve targets and others. The purpose of this study was to find out the factors that influence the quality of OPD financial statements through the auditor's internal point of view of the OPD financial statements that they have reviewed. This research is a quantitative study using primary data sources. Data collection techniques using questionnaires and data analysis techniques using descriptive statistical analysis with SmartPLS tools. The results show from the auditor's perspective that the reviewed OPD financial statements indicate that the quality of the OPD financial statements is not influenced by the application of the government's internal control system, the adoption of government accounting standards, and management commitment. Other results show that management's commitment can strengthen the effect of the application of internal control systems on the quality of OPD's financial statements, management's commitment can strengthen the effect of applying government accounting standards to the quality of OPD's financial statements.

1 INTRODUCTION

The financial statements contain information that is very important as a form of accountability for the entity. The importance of the information presented in the financial statements certainly requires the availability of quality financial statements. Quality financial statements must contain information that is free from material misstatements, is accurate and can be accounted for Mutiana, Diantimala, & Zuraida (2017). The financial statements are prepared through an adequate control mechanism, in accordance with the standards and compliance with applicable regulations and adequate disclosure of information (Suwanda, Wiratmoko, & Lindri, 2017) and the financial statements have reviewed the audit process carried out by external auditors by obtaining an opinion good (Yusniar, Darwanis, & Abdullah, 2016). According to Guy, Alderman and Winters (1996) when the auditor believes the relationship

between economic data assertions with specified criteria and then communicates these results to interested users of the financial statements, it can be stated that the financial statements have met the audit criteria (Tandiontong, 2016) . Financial statements that have been examined externally contain relevant policies and procedures related to audits concerning the ability of entities to record, process, summarize and report financial data based on those contained in the financial statements (Tandiontong, 2016). Tandiontong further stated that the transaction cycle approach the examiner is usually used to assess control risk.

In the regional government entity, the financial statements are produced by the Regional Apparatus Organization (OPD) as a reporting entity through internal supervision of the auditor (inspectorate) and then must be reported to the Republic of Indonesia Financial Examination Board (OPD) as the auditing entity. From 32 Regional Government Financial

Reports (LKPD)) 94% or 32 LKPD of them are of unqualified status (WTP) and the remaining 6% or 2 LKPD get fair with an exception (DPR RI, 2019). North Sumatra Province has so far obtained WTP opinion, but the opinion obtained is still leaving findings that lead to recommendations for improvement from BPK RI. In general, when the financial statements have been well monitored by internal auditors, of course the financial reports are already good but the audit results by the BPK found that there are still quite a lot of findings such as assets not presented at fair value, cash shortages, unrecorded expenses, administration of receivables and inventories inadequate, inadequate presentation of receivables and allowances and the realization of goods and services spending that cannot be believed to be reasonable due to inflated revenues to achieve targets and others (<http://medan.bpk.go.id>, 2018).

The data description shows that there are still problems in the financial statements of the local government. This problem eventually raises questions about the role of control of the internal auditor. The internal auditor (inspectorate) has a supervisory and consultative function. Routine monitoring will help the WTO to improve the quality of the financial statements produced. Problems with the Government's Internal Control System (SPIP) are weak, financial reports that are not in accordance with Government Accounting Standards (SAP) and low management commitment ultimately impact on the low quality of reports financials generated. Previous research found that the application of SPIP did not significantly influence LKPD (Suwanda, 2015). In contrast to Suwanda, Harlinda (2016); Upabayu, Mahaputra, & Putra (2014), found that the Internal Control System significantly affected the quality of financial statements. Regarding the suitability of financial statements in government accounting standards it was found that there was a significant positive effect on SAP implementation on the quality of local government financial reports (KLKPD) (Upabayu et al., 2014). Different results were found by Gamayuni (2017) where the application of SAP had no significant effect on LKPD. Other important efforts to improve the quality of financial statements are inseparable from strong management commitment. In the public sector, management commitment refers to the commitment of regional heads. Mahlil & Yahya (2017) and Silviana (2012) state that the heads of local authorities and accounting knowledge affect the quality of financial statements. regional government. The role of management's commitment to improve the quality of

financial statements is logically quite strong, because no matter how good a standard and system is applied if without commitment management is unable to achieve the expected goals. Referring to the explanation above, this research is to see the extent of the internal auditor's views on the financial statements The review is reviewed in terms of the application of SPIP, SAP Application and management commitment.

2 LITERATURE REVIEW

Quality of Financial Statements

Quality is defined as "conformity to standards, measured based on the degree of non-conformity, and is achieved through inspection" [(Mulyana, 2010: 96); PP No. 71 of 2010]. Qualitative characteristics that must be fulfilled in financial statements so that quality consists of "relevant, reliable, comparable, understandable" (PP Number 71, 2010).

Internal Control System

Referring to PP No. 60/2008, internal control is an "integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in achieving organizational goals through effective and efficient activities, financial reporting reliability, security of assets. state and obedience to laws and regulations ". The elements of the Internal Control System in Republic of Indonesia Regulation Number 60 Year 2008 include "Control Environment. Risk Assessment, Control, Information and Communication, Monitoring Activities.

Several studies have found that the internal control system has a significant effect on the quality of financial statements [Erwana (2017); Kesuma, Anwar, & Darmansyah (2017); Mailoor, Sondakh, & Gamaliel (2017)]. These findings can be interpreted as the application of adequate internal control that will have an impact on the quality of the financial statements produced.

Government Accounting Standards

It is the application of "accounting principles in preparing and presenting Government Financial Statements in the framework of transparency and accountability and improving quality" LKPD [(PP No. 71 Year, 2010); (Permendagri No. 61 of 2013), (Erlina et al., 2017). The indicators used are 8 (eight) accounting principles and financial reporting consisting of, "accounting basis, historical value,

realization, substance involving formal forms, reality, consistency, disclosure, fair presentation". The results showed the application of accounting standards had a significant positive effect on the quality of financial statements [Yusniar et al. (2016); Rahman, Hardi, & Diyanto (2015); Nelia K (2015); (Eriadi, Erlina, Muda, & Abdullah, 2018)]. Referring to the results of this study it can be concluded that if the preparation of financial statements using appropriate and adequate accounting standards will produce quality financial reports.

Management Commitment

Management's commitment is a commitment in following up the findings of BPK RI's audit results [(Silviana, 2012), (BPK Regulation No. 9 of 2009)]. This construct indicator refers to RI Law Number 15 of 2004 concerning the Audit of State Financial Management and Responsibility article 20 consisting of "Officials must follow up the recommendations in the audit report, the official must provide an answer to the explanation to the BPK about the follow-up to the recommendations in the audit report, the answer or explanation referred to in paragraph (2) is submitted to the BPK no later than 60 (sixty) days after report on audit results is received, the BPK monitors the implementation of the follow-up of audit results as referred to in paragraph (1) ”

The obligation of regional heads is reaffirmed by the enactment of Government Regulation No. 12 of 2019 concerning Regional Financial Management. Based on PP No. 12 (2019) article 192, it states that "the regional head gave a response and made adjustments to the report on the audit results of the Supreme Audit Board over the Regional Government's Financial Statements. Officials known to have not carried out the obligations referred to in paragraph (1) may be subjected to administrative sanctions in accordance with the provisions of the legislation in the field of employment and or criminal sanctions ". Silviana (2012); Tambingon, Yadiati, & Kewo (2018); Kibet (2016) found a positive effect on the commitment of regional heads on the quality of financial statements. These findings indicate a high commitment from management / management that will increasingly have an impact on improving the quality of financial statements [(Fitriani, 2017); (Tambingon et al., 2018)].

3 METHOD

This research is a quantitative study with primary data. The data collection technique uses questionnaires. All instrument statements in this study were measured using a Likert scale. Measurement of variable indicators in this study used weighting assessment using score 1 to 5 for each respondent's answer to the statement. The selection of the right measuring instrument will determine the validity or validity of a research result. Mistakes in choosing a measuring instrument will cause the results obtained will not describe the real situation. Sekaran (2010) states "to overcome this, two types of tests are needed, namely the test of validity (validity or validity test) and the test of reliability used to test the sincerity of respondents' answers". Data processing devices in the equation model in this study use PLS. The research model looks like the following Figure 1:

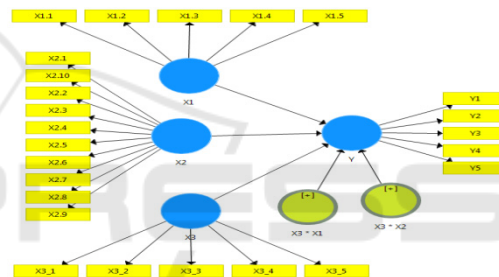


Figure 1.

4 RESULTS AND DISCUSSION

Based on the results of the calculation of the sample of this study were 77 respondents. Of the 100 questionnaires distributed by returning questionnaires, only 78 questionnaires, respondents were executors of the review in the financial statements of the North Sumatra Provincial Government, Namely Inspectorate Level 1. Distribution of the questionnaire is explained in table 5.1 below:

Table 1 Distribution of Questionnaires

Questionnaires were distributed	100
Questionnaires returned	78
Questionnaires completed	1
Questionnaires not completed	77

Source : research data processed (2019)

The return rate of the questionnaire was 77%, this amount was sufficient because it was in accordance with the number of samples needed in this study. This research model uses a Likert scale of 1 to 5 so if the maximum total respondent answers then the maximum total score obtained is 5×77 questionnaire = 382.

Research Respondent Demographics

The information presented in table 2 below shows that of the 77 respondents working with positions as First, Intermediate and Young Auditor, Supervisory Auditor, P2UPD and government supervisors. As many as 31 Auditors or as much as 40.25% have the position of Expert Audit, as many as 3 people or as much as 3.9% work with positions as supervisory audits. Internal auditors who work in PU2PD positions are 17 people or 22.07% and the rest hold positions as government supervisors as many as 26 people or as much as 33.77%. More complete information about the position of the respondent is explained in table 2 below:

Table 2 Demographics of Respondents by Position

Position	Total	%
First Auditor	17	22,07
Intermediate Auditor	3	3,90
Young Auditor	11	14,29
Supervisory Auditor	3	3,90
P2UPD	17	22,07
Government Supervisors	26	33,77
Total	77	100,00

Source: 2019 research results (data processed)

Related to the education level of business people, it can be seen in table 3. Information about the education level of respondents in the level 1 inspectorate of North Sumatra Province is available. From the level of S1 to S3, it is obtained that the majority of respondents in this sample have a Bachelor Degree (S1) education, namely 49 people or 63.64% of the amount of education is sufficient for an auditor to assume the position. other data shows as many as 27 people or 35.06% of them have a Bachelor's Degree (S2) education and only 1 person or 1% have a Bachelor's Degree (S3) education.

Table 3 Demographics of Respondents by Education Level

Education	Total	%
S2	49	63,64%
S1	27	35,06%
S3	1	1,3%
Total	77	100%

Source: 2019 research results (data processed)

From a total of 77 respondents it was found that 46 respondents came from an economic background. Although the auditor's education level is adequate, but from the total respondents obtained data of 1 person or 1.3% who have an accounting education background. This is quite surprising considering that these internal auditors function to oversee the OPD and provide consultations on financial governance. Referring to the lack of auditors with accounting education backgrounds while in the Province of North Sumatra there are 34 Regional Apparatus Organizations (OPDs) certainly very inadequate. respondents showed management background of 17 people or 22.1%. Other information shows that as many as 28 respondents or 36.4% are staff auditors with economic education backgrounds. A fairly high number indicates that the majority of auditors have an economic background. The rest of the data shows that auditors with non-economic backgrounds are 31 people or 40.23%. In total, 31 people were scattered in the legal background of 11 people or 14.3%, Agriculture as many as 2 people or 2.6%, Social as many as 9 people or 11.7% and Engineering as many as 9 people or 11.7%. Seeing from the many education it is natural that internal auditors must be equipped with different educational backgrounds given the scope of audits needed will also vary. However, with the lack of respondents with accounting backgrounds deserves attention. More complete distribution of respondents' data about educational background can be seen in table 4 below.

Table 4 Demographics of Respondents by Department of Education

Department of Education	Number	%
Accounting	1	1,3%
Management	17	22,1%
Economy	28	36,4%
Law	11	14,3%
Agriculture	2	2,6%
Social	9	11,7%
Engineering	9	11,7%
Total	77	100%

Source : research data processed (2019)

Table 5 shows the distribution of respondents' data on length of service. Of the 77 respondents indicated they had worked from zero to past 30 years. As many as 22 people or 28.57% have worked for 10-15% and 12 people or 15.58% have worked for 16-20 years. Other data shows that as many as 13 people or 16.88% worked for 21-25 years, and the rest 17 or 22.08% respectively and 13 or 16.88% worked for 26-30 years and > 30 years respectively . This data illustrates that respondents actually have quite experienced considering they have worked for more than 10 years.

Table 5 Demographics of Respondents by Length of Work

Length of Work	Total	%
10-15 Years	22	28.57%
16-20 Years	12	15.58%
21-25 Years	13	16.88%
26-30 Years	17	22.08%
> 30 Years	13	16.88%
Total	77	100.00%

Source: 2019 research results (data processed)

Data Quality Testing

Data is processed using Structural Equation Modeling (SEM) with the Partial Least Square (PLS) alternative method. Quantitative data analysis using statistical analysis with SEM-PLS tools consists of two stages. The first stage is carried out to see the validity and the reliability of the measuring instrument that is manifested by the data collected. After these two things are fulfilled, the second stage is carried out to analyze the data in accordance with the proposed hypothesis. According to Barclay, Higgins, & Thomson (1995) in SEM-PLS the first stage is called the measurement model or outer model testing and the second stage is called the structural model or inner model testing.

Testing the Outer Research Model (Outer Model) Assessing Outer Loading

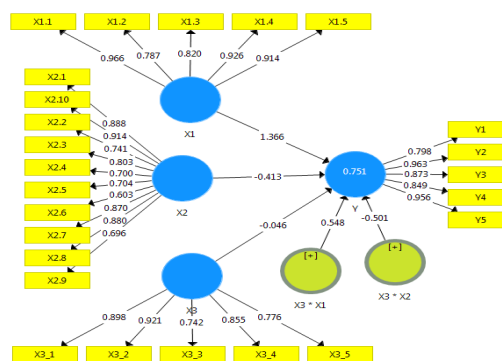


Figure 2: Full Model Path Diagram with Moderating Variables

Checking the loading value of each corresponding latent variable indicator can be done in two ways, namely by looking at the path diagram or by selecting the final result outer loadings menu (Sentosa, 2018). Through the calculation using SmartPLS, a full model path diagram is obtained which shows the path diagram display along with the latent variable complete with the indicators

The magnitude of the outer loading of each indicator that forms the variables of Y, X1, X2, and X3. All indicators of variables Y (Quality of Regional Financial Statements), X1 (Application of Internal Control Systems), X2 (Application of Government Accounting Standards), and X4 (Management Commitment) refers to the opinion above, then all indicators meet the reliability and validity requirements and can be used for further analysis.

Correlation value / path coefficient between latent variables with other variables (β) according to the hypothesis that was built. The path coefficient column in the table shows the values of each hypothesis (H), while the value of the tcount column shows how significant the relations are among the latent variables and can be said to be a significant relation if the t-value of the value of table 1.993. For H1, it shows a path coefficient of 0.370 and a calculated value of 0.942. for H2 shows a path coefficient of 0.518 and a calculated value of 1.462. H3 shows the path coefficient of -0.037 and t value of tcount at the value of 0.178, while testing the path coefficient (β) and Value of tcount by entering the management commitment variable as a moderating variable shows the results according to the data seen in table 7.

The results of calculations for Hypothesis 1 (H1) in tables 6 and 7 can be seen a decrease in the value of β and the value of the t-value before and after moderation by the variable management

commitment. For H1, where the β value before moderation was 0.370, it dropped to -0.413, while the t-value value before being moderated was 0.942, but after being moderated by management commitment, the t-value value increased to 2.704.

The calculation for Hypothesis 2 (H2) where a decrease in the value of β and the value of the t-value before and after moderation by the variable management commitment. For H2, where the β value before moderation was 0.518, it rose to -0.413 while the value of t-count before being moderated was 1.462, but after being moderated by management commitment, the t-value dropped to 0.744. For Hypothesis 3 (H3) there are also differences in calculations before and after moderation by the Management commitment variable. The β value for H3 before being moderated is -0.037 and after being moderated by the management commitment variable to be -0.046, while the value of t-value before being moderated is 0.178, but after being moderated by management commitment the t-count value rises to 0.271. The path coefficient for multiplication variable multiplication (KM x SPI) gets a value of 0.548 with a value of tcount of 2.457 and the path coefficient for multiplication of a moderating variable (KM x SAP) gets a value of -0.5001 with a value of tcount of 2.070

In addition to the path coefficient, the structural model also needs to be calculated the coefficient of determination (R2) of each endogenous latent variable. Through the coefficient of determination (R2) it can be seen that the Implementation of the Government Internal Control System (X1), the Application of Government Accounting Standards (X2), Management Commitments (X3) simultaneously have an effect of 69.8% on the Quality of Regional Government Financial Statements. Then testing (R2) by involving the Management Commitment variable as a moderating variable obtained a simultaneous result of 73.3% of the Quality of Financial Statements. The value (R2) without the moderating variable is 69.8% and the moderating variable (R2) becomes 73.3%.

Cronbach alpha values indicate compliance with standards > 0.7 (George & Mallery, 2003). Cronbach alpha value > 0.7, while for the value of construct reliability and validity > 0.7. Referring to the Cronbach alpha value and construct reliability and validity means that it can be stated that the data has good and reliable internal consistency. Valid AVE root value if AVE value > 0.5. The AVE root column shows the value that matches the entered criteria,

thus it can be concluded that the data is valid for further processing.

4.1 Discussion

To enforce the hypothesis in addition to seeing the path coefficient must also see the value of t arithmetic. The value of tcount obtained must be tested again by comparing the value of tcount with ttable. The value of ttable can be obtained by looking at student-t. If the tcount > ttable then the hypothesis can be accepted. a total of 231 data then the value of the table is 1,993. Table 6 shows the results of the hypothesis.

Table 6 shows hypothesis testing by including management commitment variables as moderating variables. The results of multiplication of management commitment variables with the variable implementation of the internal control system shows the effect on the quality of financial statements. With management commitment as a moderating variable on the effect of management processes on the quality of financial statements, it shows that management commitment strengthens the relationship between internal control systems and commitment.

Table 6 Pathway Coefficients with Moderation Variables

	(β)	T _{count} Value	t _{table} Value	P Values	Informa tion
X1 →Y	1,366	2,704	1,993	0.007	Signific antly positive effect
X2 →Y	-0,413	0,744	1,993	0.457	No effect
X3 →Y	-0,046	0,271	1,993	0.787	No effect
X3* X1 →Y	0,548	2,457	1,993	0.014	Signific antly positive effect
X3* X2 →Y	-0,501	2,070	1,993	0.039	Signific antly positive effect

Source: SmartPLS Output Attachment

The result can be seen from the tcount of 2.457> 1.993 which means that there is a positive and significant influence on the implementation of the internal control system on the quality of the financial statements. Management's commitment is also able

to strengthen the effect of the application of government accounting standards on the quality of the financial statements where the tcount of 2,070 > 1,993 can be interpreted there is a positive and significant effect of the application of government accounting standards to the quality of financial statements.

Internal Auditor's Perception on the Quality of Financial Statements based on the Implementation of the Internal Control System

Statistical test results without including moderating variables indicate that the quality of financial statements is not influenced by the application of the internal control system. This is in line with the results of BPK audits in 2017 and 2018 which state that the financial statements have not met the elements of adequate internal control. Although the opinion obtained by the Government of the Province of North Sumatra is reasonable without scrutiny, this is not accompanied by a lack of recommendations received. This inconsistency is also seen in the level of maturity. If the opinion obtained is fair without exceptions (WTP), the minimum level of maturity is at level 3 "undefined". However, due to the low implementation of policies and procedures, as well as incomplete relevant documents and inadequate communication of policies and procedures and the not yet fully implemented written policies and procedures, making the achievement of the maturity level of the North Sumatra Provincial Government is at level 2 "developing". This unsynchronization ultimately led to the internal control system not affecting the quality of financial statements.

Internal Auditor's Perception on the Quality of Financial Statements based on the Application of government accounting standards

Statistical test results show that the quality of financial statements is not influenced by the adoption of government accounting standards. Referring to these results indicate that government accounting standards do not improve the quality of financial statements. The enactment of government accounting standards based on PP No. 71 of 2010 which gave birth to an accrual basis of accounting may still confuse OPD where financial managers are not entirely educated in accounting. The enactment of Permendagri number 64 of 2013 which regulates reports that must be compiled is an obstacle for OPD. Lack of training and technical guidance for the staff preparing the financial statements in the end the

resulting financial statements are not adequate. Weak coordination between subsections, between PPTK in the end consolidation of financial statements becomes slow to do. The level of PPTK education that does not all understand accounting problems becomes a problem where recognition of the value of assets, liabilities, opinions, expenses and expenditure is finally reflected. related to assets. The assets presented have not shown fair value and there are still assets with zero value. Referring to the Government Accounting Standards, the governance of financial transactions and the accounting basis that must be carried out must be standardized. Thus, recognition, measurement and disclosure all refer to Government Accounting Standards.

Internal Auditor's Perception on the Quality of Financial Statements based on the Application of government accounting standards

The results of the study without including moderation variables also indicate that the quality of financial statements is not influenced by management commitment. From the perspective of the internal auditor, even though management commitment is good if there is no internal control system in the OPD environment and the application of accounting standards is still not good, of course there is no benefit. strong management commitment, but in the entity there are no sanctions and reward mechanisms that ultimately cause working conditions to be not conducive. No matter how strong a commitment is, if it is not regulated, a sanction and reward mechanism will eventually become a mere formality session.

Management's commitment strengthens the influence of the internal control system on the quality of financial statements.

Statistical test results without including management commitment as a variable show the results that there is no influence between the internal control system with the quality of the financial statements. that the inspectorate believes that the OPD financial statements that they reviewed have been prepared through an adequate internal control system if management's commitment is strong enough. The Inspectorate believes that committed management is able to maximize the dimensions of internal control such as the control environment, application of risk, control activities, information and communication, monitoring to be effective in

controlling the process of preparing financial statements adequately.

Management's commitment strengthens the influence of Auditing Accounting Standards on the Quality of Financial Statements.

Hypothesis test results indicate that management commitment is able to strengthen the effect of the adoption of government accounting standards on the quality of financial statements, where government accounting standards are a standard for determining the appropriateness or appropriateness of a financial statement preparation mechanism in which government accounting standards are binding regulatory regulations and their application is forced (mandatory). This research also found data that the understanding of the recognition of revenue, expenses, assets and liabilities on an accrual basis is still quite low in OPD. The results of this achievement are relevant to data showing that staff who deal with financial statements have accounting education of only 13.4%. The lack of HR with accounting competence is a problem in itself. Referring to the above data when management's commitment is strong, management will endeavor to improve the competence of financial management whether through ASN recruitment as needed or conduct adequate training and technical guidance so that ASN related to financial management has a strong understanding of SAP adoption. often the rules change so that it causes OPD to be difficult to understand the new rules while the old rules have not been well implemented. Understanding of accounting standards is still inadequate, lack of understanding of respondents on weak accrual assumptions, and staff lack of understanding of the mechanism of recording on an accrual basis, especially PPTK, resulting in inadequate financial statements. Weakness of understanding on the basis of Accounting, Historical Cost (Realization), Realization, Substance Over Form, Periodicity, Consistency, Full Disclosure, Fair Presentation be a cause of misstatement in the financial statements, determination of the value of assets that are not fair, disclosure of the value of inventory that is not relevant. This weakness is often the finding of an examination conducted both internal and external.

5 CONCLUSIONS

The results of this study can be concluded from the auditor's point of view on the OPD financial statements reviewed as follows:

1. The quality of OPD financial statements is not influenced by the implementation of the government's internal control system.
2. The quality of OPD financial statements is not influenced by the adoption of government accounting standards.
3. The quality of OPD financial statements is not influenced by management commitment.
4. Management's commitment can strengthen the influence of the implementation of internal control systems on the quality of OPD financial statements.
5. Management's commitment can strengthen the effect of applying government accounting standards to the quality of OPD financial statements.

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APPENDIX

If any, the appendix should appear directly after the references without numbering, and not on a new page.