

THE EFFECT OF INTERNAL AUDIT ON THE QUALITY OF FINANCIAL STATEMENTS OF MEDAN CITY GOVERNMENT (CASE STUDY ON MEDAN CITY INSPECTORATE)

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ABSTRACT

This research supposed to determine the effect of Internal Audit on the quality of financial statements Medan City Government (Case Study on Medan City Inspectorate). This type of research is quantitative research, the location of the study was conducted at the Medan City Inspectorate Office, population and sample in this study amounted to 32 people. Data collection techniques using questionnaires, data analysis techniques using validity test, simple regression test and hyptosis test. The results of this study found that the internal auditor variable has a positive and significant impact on the quality of the Financial Statements of the Medan City Government (Case Study at the Medan City Inspectorate) the results of the determination test above show that the coefficient of determination value of 0.715 this means that 71.5% of the variance in the value of, Education and long work.

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1. INTRODUCTION

Government financial statements produced must meet the principles of timely and prepared by following Government Accounting Standards in accordance with Government Regulation No. 71 of 2010.

The government's financial statements are then submitted to the DPR/DPRD and the general public after being audited by the Supreme Audit Agency (BPK). The components of the financial statements submitted include the budget realization report (LRA), balance sheet, Operational Report (LO), statement of changes in equity (LPE), statement of changes in excess budget balance (SAL), Cash Flow Statement (LAK), and notes to the Financial Statements (CaLK).

The financial statements produced by the local government will be used by some interested parties as a basis for decision making. Therefore, the information contained in the Local Government Financial Statements (LKPD) must be useful and in accordance with the needs of users. Accounting information contained in the financial statements of local governments must meet several qualitative characteristics as required in government regulation no. 71 of 2010 on Government Accounting Standards, namely: relevant, reliable, comparable, understandable.

The Financial Statements of the Regional Government (LKPD) annually receive an assessment in the form of opinions from the Financial Supervisory Agency (BPK). When the BPK gives an unqualified opinion (WTP) on the Local Government Financial Statements (LKPD), it means that it can be said that the financial statements of a local government entity are presented and disclosed in a reasonable and quality manner.

However, in reality there are still many phenomena of government financial statements that have not presented data in accordance with regulations and there are still many irregularities that have been found by the Badan Pengawas Keuangan (BPK) in conducting audits of government financial

statements. It has also encouraged the central government and local governments to implement public accountability. The role of internal audit is very important.

The importance of Internal Audit in an institution makes the emergence of things that must be done by Internal Audit. Internal Audit must be free from obstacles in carrying out its duties. The task of the internal audit is to help the organization improve the company's internal controls, including control over sales, assist all members of Management in carrying out responsibilities, and an objective opinion on the activities that have been examined.

One of the core objectives of internal audit is to systematically regulate and evaluate internal control within the company. However, in reality internal control often does not run in accordance with the concept, due to lack of responsibility in the company and the number of irregularities in the company. The Internal Audit function in the Government of Indonesia is carried out by the government's Internal supervisory apparatus or internal supervisors in other institutions hereinafter referred to as APIP.

One form of supervision activities carried out by APIP, especially the District/City Inspectorate is currently reviewing local government financial statements (LKPD, based on the provisions of Government Regulation No. 8 of 2006 concerning financial reporting and performance of government agencies, Article 33 paragraph (3) states that: The government internal control apparatus (APIP) at the Ministry of state/institution/local government reviews the financial statements and performance in order to ensure the reliability of the information presented before it is submitted by the minister/head of institution/Governor/Regent /mayor to the parties as stipulated in Article 8 and Article 11. With the supervision of the inspectorate will produce good government financial reports and quality. The following are the results of BPK's examination of Medan's financial statements for the last four years.

Table 1: BPK audit results on Medan government financial statements

No	Year	Opinion
1	2018	WDP (Qualified With Exceptions)
2	2019	WDP (Qualified With Exceptions)
3	2020	WDP (Qualified With Exceptions)
4	2021	WDP (Qualified With Exceptions)

Source : BPK 2022

Based on the table above, it can be seen that for many years it received a fair opinion with exceptions (WDP), finally the Medan coordinating government received an unqualified opinion (WTP) on the Financial Statements of the Medan City Regional Government (LKPD) for fiscal year 2021 from the Badan Pengawas Keuangan (BPK) North Sumatra Representative. This means that for the previous 3 years LKPD Medan still needed revision in order to get WTP opinion.

Based on the phenomenon of data the author wants to conduct research on "the influence of Internal Auditors on the quality of Financial Statements of the Medan City Government (Case Study on the Medan City Inspectorate).

2. LITERATURE REVIEW

Internal Audit

An internal Audit is someone who carries out an independent activity, which aims to assure and advise against the operations of a company (IIA, 2011). With the Endron case that prompted the issuance of the Sarbanes-Oxley Act (2002), the role of internal audit becomes more important in the audit of financial control. In the 2012 internal audit report (PwC), research on 250 companies found that two different internal audit role models. First, the internal audit function provides confidence in the adequacy of the internal control system and the work that focuses on control. Second, the internal audit function is also satisfactory attention to the examination of risk management processes.

The Institute of internal Auditors (IIA) (2011) defines internal audit as an independent, objective and advisory activity designed to add value and improve an organization's operations. The Audit helps the organization achieve its objectives by establishing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management processes, the adequacy of controls and organizational governance.

Internal Audit Objectives

The board of Directors shall develop and implement a reliable internal control system of the company in order to maintain the company's wealth and performance as well as meet the laws and regulations. Work unit or internal audit function (Muheni 2020). Internal Audit assist the board of directors in ensuring the achievement of objectives and business continuity by:

- a) Conduct an evaluation of the company's program implementation
- b) Provide advice in an effort to improve the effectiveness of risk control processes
- c) Facilitate the smooth implementation of audits by external audit

Internal Audit Indicators

Muheni (2020) the indicators for becoming an internal audit are as follows :

- a) Auditee Performance
- b) Internal auditors must be directly involved in the organization's planning and strategy.
- c) Internal Consultant

Quality Of Government Financial Statements

According to Deddi Nordiawan and Ayuningtyas Hertianti (2011), the quality of financial statements are normative measures that need to be embodied in accounting information so that it can meet its objectives, in order to meet the desired quality of government financial statements must meet four characteristics, namely relevant, reliable, comparable and understandable. According to Dwi Ratmono and Mahfud Sholihin (2017), financial statements presented by local governments are considered quality if they meet the following characteristics: relevant, reliable, comparable and understandable. Financial statements are criteria for financial accounting report requirements that are considered to meet the wishes of users or readers of financial statements. Government Accounting Standards PP no. 71 of 2010 states that the qualitative characteristics of financial statements are normative measures that need to be embodied in accounting information so that it can meet its objectives.

Government Financial Statement's Indicators

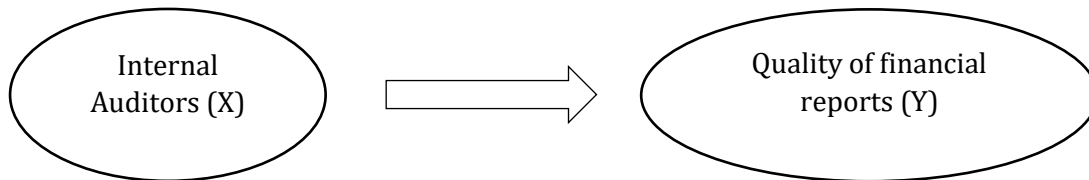
Dwi Ratmono and Mahfud Sholihin (2017) Quality financial statements must have elements of qualitative characteristics or have the following financial statement indicators:

- a) Relevant: financial statements can be said to be relevant if the information contained in them can influence user decisions by helping them evaluate past or present events.
- b) Timely: information is presented on time so that it can be influential and useful decision making.
- c) Complete: government financial accounting information is presented as completely as possible, covering all accounting information that can affect decision making by taking into account existing constraints.
- d) Reliable: the information in the financial statements is free from misleading notions and material errors, presents every fact honestly, and can be verified.
- e) Can be compared: the information contained in the financial statements will be more useful if it can be compared with the financial statements of previous periods

- f) **Comprehensible:** the information presented in the financial statements can be understood by users and expressed in terms and forms that are adapted to the limits of understanding of the users.

Theoretical Framework

The following framework of thinking the influence of Internal Auditors on the quality of financial statements :



Hypothesis

- Ha : Internal Auditors have a positive and significant effect on the quality of financial statements Medan City Government.
H0 : Internal auditors do not have a positive and insignificant effect on the quality of financial statements Medan City Government

3. METHOD

Population And Sample

Sugiyono (2017) population is the overall number of respondents in this case as an object at the Medan City Government Office. Population refers to a group of people, events, or things of interest that the researcher wishes to investigate and make inferences over that group of people, events, or things of interest. The population in this study are employees / staff and internal auditors who work in the Government of Medan, amounting to 32 staff auditors Inspectorate of Medan. The sample is representative and part of the total population, while the sampling technique used in this study is a saturated sampling technique where the entire population is sampled amounting to 32 staff auditors Inspectorate of Medan.

Data collection techniques

The collection of this research was obtained by spreading the questionnaire / questionnaire in the entire Medan City Inspectorate auditors totaling 32 people.

Data analysis techniques

The analysis technique used in this study using a simple regression analysis technique with the following formula : $Y = a + bx$

In addition, this study uses a hypothesis test that is a Partial Test (t test) and determination test (R²)

4. RESULT AND DISCUSSION

Identity of respondent

The distribution of the questionnaire that researchers did to 32 respondents, certainly has a difference in the characteristics of both gender, age, education in auditors at the Medan City Inspectorate. Therefore, there is a need for grouping for each respondent's personal identity.

Tabel 2 : Identity Respondent

Characteristics Of Respondents	Frequency	Percentage
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Age		
1. 35 – 40 Year	7	22%
2. 41 – 45 Year	13	40%
3. 46 - 50 year	8	25%
4. > 51 Year	4	13%
Education		
1. D3	3	9%
2. S1	22	69%
3. S2	7	22%
Gender		
1. Man	19	59%
2. Woman	13	41%

Source : Google Form

Based on the table above auditors with age 35-40 years as many as 7 people, auditors with age range 41 – 45 years as many as 13 people, auditors with age range 46 – 50 years as many as 8 people and auditors with age range > 51 years as many as 4 people.

Auditors with D3 education as many as 3 people or 9%, auditors with S1 education level as many as 22 people or 69% and auditors with S2 education level as many as 7 people or 22%. Auditors with male gender as many as 19 people or 59% and auditors with female gender as many as 13 people or 41%.

Validity Test

Validity testing is done based on the analysis of items that correlate the score of each item with the score of the variable (the sum of the entire score of the question item). The correlation technique uses Pearson Correlation. The question Item is valid if it has a calculation value > r tabel. Here are the validity test results :

Table 3 : Validity Test X (Auditor Internal)

Item	Correlation	r tabel	Description
No.1	0,777	0,344	Valid
No.2	0,712	0,344	Valid
No.3	0,687	0,344	Valid
No.4	0,703	0,344	Valid
No.5	0,715	0,344	Valid
No.6	0,776	0,344	Valid
No.7	0,724	0,344	Valid
No.8	0,702	0,344	Valid

Source : SPSS 2022

From the table above the SPSS output result is known that the value of R count is greater than r tabel that is 0.344 means that the questionnaire on variable X is valid.

Table 4 : Test Validity Y (Quality Of Financial Statements)

Item	Correlation	r tabel	Description
No.1	0,780	0,344	Valid
No.2	0,734	0,344	Valid
No.3	0,767	0,344	Valid

No.4	0,700	0,344	Valid
No.5	0,775	0,344	Valid
No.6	0,771	0,344	Valid
No.7	0,799	0,344	Valid
No.8	0,783	0,344	Valid
No.9	0,825	0,344	Valid
No.10	0,833	0,344	Valid
No.11	0,530	0,344	Valid
No.12	0,530	0,344	Valid

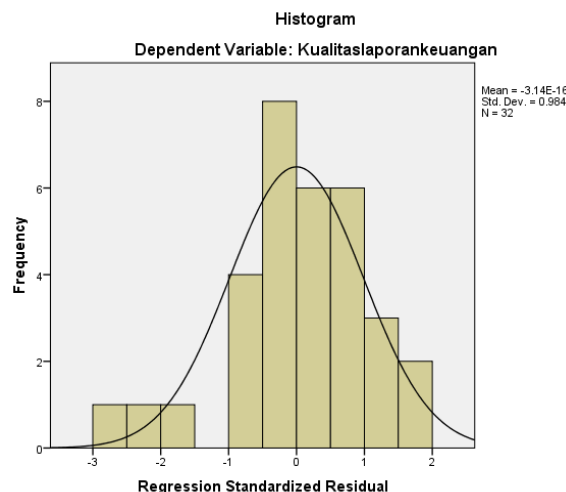
Source : SPSS 2022

From the table above the output of SPSS known value R count greater than r table is 0.344 means that the questionnaire on the variable Y is valid .

CLASSIC ASSUMPTION TEST

Normality Test

Before processing the data using regression analysis, first performed data normality test. Data normality test was conducted to analyze whether the regression equation requirements have been met or not by looking at the P-Plot image.



Picture 1 : Normal P-Plot of Regression Standardized Residual

Based on the histogram chart above, it can be seen that the histogram chart provides a symmetrical distribution. So the graph shows that the regression model does not violate the assumption of normality.

Multicollinearity Test

Multicollinearity test is a condition where between independent variables influence each other very strongly. A good multiple regression equation is one that is free of multicollinearity. The presence or absence of multicollinearity problems in a regression model can be detected by the value of VIF (variance inflactor factor) and the value of tolerance (tolerance). A regression model is said to be free from multicollinearity problems if the VIF value is less than 10 and has a tolerance value above 0.1. In this regression model, the results of multicollinearity can be seen in the following table :

Tabel 5 Multicollinearity Test

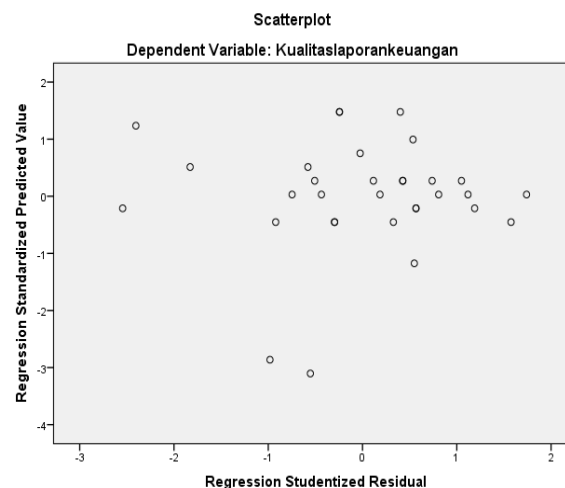
Model	Collinearity Statistics
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	Tolerance	VIF
1 (Constant)		
Auditor Internal	0.1000	1.000

Based on the results of processing on the VIF value and tolerance showed all variables in this study did not experience multicollinearity. This is indicated by the VIF value of all variables whose magnitude is less than 10 and the tolerance value far exceeds 0.1. These results indicate that in this regression model all independent variables do not occur multicollinearity problem.

Heterocedasticity Test

Heterocedasticity test is performed to test whether in a regression model there is a similarity of variance of residuals from one observation to another. If there is a regular pattern, then heterocedasticity has occurred. If there is no clear pattern and the dots spread irregularly then there is no heterocedasticity. The results of the heterokedasticity test can be seen in the figure below :



Picture 2 : Heterocedasticity Test

The picture above shows that the dots generated spread randomly and do not form a specific pattern or trend line. The image above also shows that the data spread is around the zero point. The results of this test indicate that the regression model is free from the problem of heterokedasticity, in other words the variables to be tested in this study are homokedasticity.

Simple Regression Test

The results of the interpretation of regression analysis obtained with the help of SPSS software version 24 using the equation form, where the equation or model contains constantan and regression coefficients obtained from the results of data processing that has been done before. Regression equation that has been formulated then with the help of SPSS program data processing is done to obtain the final equation as follows :

Tabel 6 Simple Regression test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		

1 (Constant)	9,724	4,827		2,015	,053
Auditor	1,226	,141	,845	8,666	,000
Internal					

a. Dependent Variable: Kualitaslaporankeuangan

Based on the calculation of simple linear regression in the table, the formula can be found as follows : $Y = 9.724 + 1.226 (X) + e$

From the above regression equation can be explained that: if the value of variable X (Internal Auditor) is constant or equal to zero, then the amount of variable Y (quality of financial statements) amounted to 9724.

Partial test

This partial test is done by comparing the value (alpha) with the value of p. If the value of $p < 0.05$, then H_0 is rejected. So it can be said there is a partial influence between the independent variable with the dependent variable, and vice versa. Here are the test results of T statistics, which can be seen in Table 7 below :

Tabel 7 Partial Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	9,724	4,827		2,015	,053
Auditor	1,226	,141	,845	8,666	,000
Internal					

a. Dependent Variable: Kualitaslaporankeuangan

Based on the above table obtained the value of t count = 8.666 which means t count > t table (8.666 > 2.039) with a significant $0.000 < 0.05$ then H_1 is accepted and H_0 studied means hypothesis (H_1) shows the results of Internal Auditors have a positive and significant effect on the quality of financial statements Medan City Government.

Determination test

Coefficient of determination (Adj. R²) from the regression results show how much the dependent variable can be explained by the independent variables.

Tabel 8 Determination test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.845 ^a	.715	.705	3,267

a. Predictors: (Constant), Auditor

b. Dependent Variable: Kualitaslaporankeuangan

The results of the determination test above shows that the value of the coefficient of determination (seen from the R Square) of 0.715 this means that 71.5% variance value of the quality of financial statements Medan city government is determined or explained by the independent variable is the Internal Auditor while the remaining 28.5% again influenced by other variables that are not examined in this study such as leadership style, education and length of work.

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5. DISCUSSION

Based on the results of hypothesis testing it can be said that internal auditors affect positively on the quality of the Financial Statements of the Government of Medan with a value of $t_{hitung} = 8.666$ which means $t_{count} > t_{table}$ ($8.666 > 2.039$) with a significant $0.000 < 0.05$ then H_a accepted and H_o rejected means hypothesis (H_1) shows the results of internal auditors have a positive and significant effect on the quality of the Financial Statements of the Government of Medan it is described as the auditor has the ability to assess objectively not easily influenced and does not think about the decision certain parties.

The Financial Report (2018) reported that internal auditors worked positively and significantly on the quality of Makassar city's financial statements.

Sabrina (2014) in the study finally stated that internal auditors work positively and significantly on the quality of BPR financial statements in Central Java.

Medan city government financial statements can be said to be of quality seen from the results of research conducted above that the internal audit greatly affects the quality of financial statements presented. This is due to the preparation of financial statements Medan city government has met several characteristics as follows:

- 1) The Financial Statements of the Medan city government can be clearly understood financial information presented in the form and technical language in accordance with the level of understanding of its use.
- 2) Financial Statements can be compared, it can be seen from the financial statements presented Medan city government which each year has increased profits.
- 3) The Financial Report of Medan city government is done on time at the end of December. This is done as a basis for decision making by management and submit all the financial facts so that it will not stress the users of financial statements.
- 4) Financial Information Medan city government addressed to the public not only to certain parties such as investors, auditors, and others.
- 5) financial information is presented reliably free from stressed understandings and material errors

CONCLUSIONS

The conclusions that can be drawn from this study are Based on this study, it was found that the variables of internal auditors have positive and significant effect on the quality of Financial Statements of Medan City Government (Case Study on Medan City Inspectorate) The results of the determination test above shows that the value of the coefficient of determination of 0.715 this means that 71.5% variance value of the quality of financial statements Medan city government is determined or explained by the independent variable is the Internal Auditor while the remaining 28.5% again influenced by other variables that are not examined in this study such as leadership style, education and length of work.

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