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INFLUENCE OF INTERNAL AUDITOR COMPETENCE AND INDEPENDENCE ON THE QUALITY OF FINANCIAL REPORTING BY MUNICIPAL/PROVINCIAL GOVERNMENT

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Abstract

Quality financial reporting will result in a quality of accounting information. Quality financial reporting is determined by many factors including the independence, competence and professionalism of internal auditors. In this study discusses the influence of the internal auditor independence and the quality of financial reporting. The study was conducted by using a questionnaire given to internal auditor of municipal /provincial governments to measure the variables of competence, independence and quality of financial reporting. Based on a review of previous studies and in this study proves that the competence and independence of the internal auditor primarily affects the quality of financial reporting on city government and the provincial government.

Keywords: competency, independency, auditor internal, quality of financial reporting

INTRODUCTION

Quality financial reporting will result in a quality of accounting information. According to Mohamad Yusuf (2012), chairman of the Jakarta BPK, several factors that led to the financial statements of the Ministry/ Agency and the local government has not yet received an unqualified opinion is due to: 1. presentation that has not been fully compliant government accounting standards(SAP); 2. weak internal control system; 3. not yet well-organized property of the state/region in an orderly manner; 4. procurement of goods that have not followed the applicable regulations, and 5. Lack of capacity and financial management.

According to Hadi Purnomo (2011), Chairman of the CPC, said that the results of the Audit Board on Financial Institutions 358 Local Governments in IHPS first reported in 2011 found 3,397 cases of weakness of the system of internal pengedalian (SPI) system that includes accounting control system weaknesses and drawbacks reporting finance.

Gumawan Fauzi (2011), the interior minister, highlighting the events of the weakness of internal control system that includes accounting control system weaknesses and weaknesses of financial reporting, the incident indicates that the implementation of regional financial reporting system that tends to be inefficient in terms of both time and budget. Seeing this the minister at the latest target of 2014, as many as 50% of the total of 524 local governments in Indonesia can achieve an unqualified predicate (WTP) as they relate to assessment of local government financial statements are fairly bad.

Dudy Setiabudi (2011) as the secretary of the city of Bekasi, suggests that poor financial reporting also occurred in the city of Bekasi. Bekasi Regional Secretary stated that the financial statements of the city of Bekasi have a disclaimer opinion, this shows the financial reporting system Bekasi city poor.

Yohanes SantosoWibowo as Bureau Chief, Directorate of Credit, Rural Bank and SME Bank Indonesia stated that in addition to poor record keeping at the local government also occurs in government banks such as rural banks. Seen from the Rural Agency industry readiness is still there that use manual accounting and human resources competencies in BPR is still limited, which led to poor financial reporting.

Anwar AbuBakaras at the Administrative Reform and Bureaucratic Reform said that the financial reporting system in poor areas still encourage the initiative of Minister of Administrative Reform and Bureaucratic Reform that local governments cooperating Financial and Development Supervisory Agency(BPK) to achieve good financial governance in their respective local governments.

TioIndra Setiadi as the secretary of the city Tasik, said that one of Tasikmalaya local governments also have poor financial statements, it is known based on the findings of the CPC, the city government to do Tasik is improved financial reporting.

Agus Martowardojo, as finance minister, in 2012, suggested that the government in this case the finance minister admitted today conducted based on the findings of the current CPC turns out there are 10 ministries / agencies that have a poor quality of financial reporting.

Chairman of the Capital Market Supervisory Agency and Financial Institution (Bapepam-LK), Nurhaida (2011), looked at the management company's internal oversight committee that admission to the market is still weak and the issuer also has internal financial auditors every year is always to control the flow in and out of funds . But in reality, the supervision and control is still weak. Thus, the internal control committee should be stronger.

According to Senior Research Directorate of Banking Research and Regulation Agusman central bank, Bank Indonesia (BI) rate of internal audit in the Indonesian banking system has not been optimal. Even banks often ignore it by putting someone less competent. Deputy Chairman of the State Audit Agency (BPK), Hasan Basri (2014) said it regretted the lack of internal monitoring agency performance.

Executive Director AAIPI WiyotoSidik, according inaugural AAIPI officials in the Office of the Vice President, Jakarta, Indonesia Association of Government Internal Auditors (AAIPI) states, 94 per cent of Government Internal Supervisory Apparatus (APIP) in the center and the regions can not detect corruption. Of the five levels in the IACM approach, 93.96 percent at the level of the supervisor and only 5.74 percent in the second level, while only one of APIP in level III. Level one does not have the ability to detect corruption. This capability possessed after level II and above. Level one can not detect the level of corruption in the K / L. Since it is natural if the internal K / L can not detect corruption, since not been able to.

Accordingly, Mardiasmo (2014) as well as the Board of Trustees AAIPI BPK Chief said that the poor quality of the government auditors as a result of recruitment of auditors in the past. Previous exhaust (which was considered a bad employee is placed as an internal watchdog). In addition, the placement of the internal auditor is also not based on skill and ability.

Finance Minister ChatibBasri (2013) asked the Government Internal Auditors not only audit and review the management of the Government's budget, but also accompany and provide consultation to all the agencies in order to secure the quality of governance budget.

Bill Government Internal Control System, according to Mardiasmo, (2013) as head of BPK, will arrange the basics of the profession of internal auditors that promote independence and professionalism. This profession will join the AAIP and certified. "Internal auditors must be competent to the front marked with certification," he said

Executive director of the Association of Indonesian Government Internal Auditors (AAIPI) WiyotoSidik (2012) stated that the government is committed to combating Although corruption in its ranks, but it turns out the government's own internal auditors is still in limited quality.

According to Indonesia's Vice President Boediono(2012) Association of Internal Auditors hope the Indonesian government be able to contribute to improving the quality of internal auditors as well as the quality of an organization can be increased significantly.

Vice President Boediono said the government also that the internal auditor is still in limited quality. From the results of the survey in 2010-2011, it is known that almost 95 percent of the government's internal auditor is still at the beginner level of expertise. Various phenomena that occur above that causes poor quality financial reporting is determined in part by the quality of internal auditors as proposed by Amin Widjaja Single (2009), that internal auditors should have the mental attitude that objective, impartial and avoid potential conflicts of interest (conflict of interest).

Research conducted by Fadilah, mailani (2013) who found that the results of research on the first test showed that the competence of the human resources manager of the financial effect on the quality of financial reporting and the second test showed that the effect on the quality of the internal control of financial reporting.

The quality of financial reporting in addition is determined by the competence of internal auditors by auditor independence. Auditor independence can give an honest assessment impartially and without prejudice (Kusharyanti, 2003: 25).

Mulyadi (2008) defines independence is a mental attitude that can not be influenced, not controlled the other hand, does not rely on the other party. The independence means that there is honesty infact and the auditor in considering the existence of an objective dispassionate consideration within the auditor to formulate and express their opinions.

Attitudes are not easily influenced and not in favor of any person is important for auditors themselves (Francine Ardini, 2010). This lack of interest which may lead to unacceptable risk or bias associated with context information that is the subject to financial statement audit engagement (Payamta, 2006).

Management role make accounting information, factors affecting the quality of financial reporting is a very important one of which is the management (RezaSchoorvarzy Mohamad, 2011). For good governance, the company should mengembangkan six-legged stool model that supports half-Java and reliability of financial statements. The group that was instrumental in creating the quality of financial reporting are: the audit committee, management and the auditor (Ganesh Krishnamoorthy, 2002).

Payamta (2006) suggested that auditor quality and auditor independence affects the quality of financial reporting and GaneshKrishnamoorthy(2002) also gives different opinions with Payamta(2006) there is the implementation of a management role in addition to auditor independence that affect the quality of financial reporting.

Linkage competence and independence of internal auditors on the financial statements expressed in by Rezaee, Zabihollah (2003: 26) that there Conceptually various determinants of financial reporting quality. Rezaee, (2003: 26) suggested six (6) factors that determine the quality of financial reporting, namely: board of directors, internal auditors, the audit Committee, the external auditors, top management teams, governing bodies.

Research on the influence of the independence of the internal auditors on the quality of financial reporting by WidiHidayat researched, Elizabeth (2012) which states that the auditor independency, company age and operation cycle of company has a significant influence to quality of company financial reporting. And together all the regressors have significant on quality of company financial reporting.

While research on the linkage of independence and quality of financial reporting scrutinized by Payamta (2006) which states that the auditor quality and auditor independence affects the quality of financial reporting.

Implementation of a management role and independence of auditors affect the quality of financial reporting (Ganesh Krishnamoorthy, 2002). According to Paul BW Miller (2002) the quality of financial reporting practice is a set of specific actions related to capital market participants to better understand their needs and serve them quickly fully and comfortably as compared to their competitors.

Statement of the problem

Based on the background above, research problem is formulated as: How big is the competence and independence of the internal auditor affect the quality of financial reporting

CONCEPTUAL REVIEW

Definition of Competence

Definition of competence according to Arens. Elder. Beasley (2012) states that: "Competence is the knowledge and skills Necessary to Accomplish tasks that define an individual's job." Based on the definition above can be defined Competence is the knowledge and skills necessary to complete the job tasks that define the individual in this case the individual an internal auditor.

Competence according to Alan Millichamp and John Taylor (2008) is Auditors must be thoroughly trained and PROVE Reviews their competence before they can sign an audit report on the financial statements in order to quality.

Based on the above definition of the auditor must be properly trained and prove their competence before they can sign the audit report. Parliament has decreed that only members of certain professional bodies may be the auditor of the company bodies professional. This is limited (three institutions certified accountants and chartered accountants) have developed competence in their members by using a difficult examination, and Post-qualifying education. In addition, there is a requirement before a member can be and continue to be registered auditors.

According to DavidN.Ricchiute (2003) that Competence can be evaluated by considering, for example, internal auditors educational level, professional experience, professional certification, and continuing education

Competence is the knowledge and skills necessary to complete the job tasks that define the individual. Commitment to competence includes management's consideration of the competence levels for particular jobs and how the transfer rate translate into requisite skills and knowledge (Beasley et.al, 2008).

Meanwhile, according to Amin Widjaja competence Single (2009) Competence Principle is: Internal 1. Services based on the knowledge, skills and experience to the service. Internal 2.Implement internal audit services in accordance with the standards for the professional practice of internal auditing (standards for the professional practice of internal auditing).

Internal 3.Improve skill proficiency (proficiency) and the effectiveness and quality of their services.

Internal 4.Improve skill proficiency (proficiency) and the effectiveness and quality of their services.

William C.Boynton, Raymond N.Johnson and Walter G.Kell (2002) stated that the Competence is the result of education and experience. Education begins with the preparation to enter the profession. Followed by continuing professional education through career ladder members. Experience includes internships and increased acceptance of responsibility for the professional age members.

Definition of Independence

Robert R.Moeller(2005) states: "Independence is the freedom from significant conflicts of interest that threaten Objectivity. Such threats to Objectivity must be managed at the individual auditor level, the engagement level, and the organizational level".

Arens. Elder. Beasly (2012) stated that the AICPA Code of Professional Conduct and Code of Professional Conduct IESBA For both defines independence as being composed of two components: the independence of mind and appearance. The independence of the auditor's mind reflects the state of mind that allows the audit to be performed with a bias. Independence of mind reflects the old requirement that members must be independent in fact. Independence in appearance is the result of another interpretation of this independence.

Alan Millichamp and John Taylor (2008) states: "Auditors can not give unless they Unbiased opinios are independent of all the parties involved. There is a dilemma here in that auditors receive Reviews their fees from the client. Nonetheless, independence is very important. Not only auditors must be independent in fact and in attitude of mind but they must also be seen to be independent. "

F. Messier William, Jr.. (2006) defines that: "Independence precludes relationships that may impair the auditor's Objectivity."

David N.Ricchiute (2003) states that: "Independence is powerfully important to the profession's reputation as a trusted player in the market for assurance services."

Alvin A.Arens, Randal J.Elder and Mark S.Beasley(2003) said Independence in auditing means taking an unbiased view point in conducting audit testing, evaluate the results and make the audit report.

Sukrisno Agus (2004) suggested that Independence is a member of the Firm in their duties should always maintain an independent stance in providing professional services as stipulated in the public accounting professional standards set by the IAI. Independent mental attitude must include independent in fact (in fact) as well as in appearance.

C.Boyton William, Raymond and Walter G. KellN.Johnson (2002) stated that the Independence is to act with integrity and objectivity. Integrity is to consider all the decisions made in the assignment. Objectivity is a mental attitude that is impartial and not biased in all matters relating to the assignment.

Kusharyanti (2003) suggested that the possibility that internal auditors will find irregularities, fraud and misstatement depends on the quality of understanding(competence) of internal auditors. While the independence of the internal auditor can provide an honest assessment, impartially and without prejudice.

Mulyadi (2008) suggests that "Independence means mental attitude that can not be influenced, not controlled the other hand, does not depend on the other hand, independence means that there is honesty in the auditor in considering the facts and objective consideration within the auditor's impartiality in formulating and expressed his opinion "

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Payamta (2006) stated that Independence is the lack of interest (interest) which
may lead to unacceptable risk or bias or context it relates to the quality of information that is the subject of an audit assignment.

Based on the source of the above it can be concluded that the internal auditor is not independent of management but must be independent of the activities of the audit of the financial statements and freedom are objective.

Auditor Internal

Arens. Elder. Beasley (2012) states that Internal Auditors are employed by all types of organizations to audit for management, much as the government accountability office auditor does for congress. Based on the theory of Arens and colleagues suggested that internal auditors are employed by all types of organizations audits for management, accountability office as auditors of government for Congress. Amin Widjaja Single (2009) suggested that the Internal Auditor should have the mental attitude that is objective, impartial and avoid potential conflicts of interest.

Meanwhile, according to Randal J.Elder, Marks S. Beasley And Alvin A. Arens (2008) states the internal auditors are employed by companies to conduct audits for management, government accountability office as much to Congress. Responsibilities of internal auditors vary widely, depending on the boss. Some of the internal audit staff consists of only one or two employees conduct routine compliance audits. Other internal audit staff may have more than 100 employess who have diverse responsibilities, including many outside the field of accounting.

Quality of Financial Reporting

Accounting Information System is an important part of the management information system (AzharSusanto, 2013: 63). Therefore, because of the quality of financial reporting is an important part of the management information system by implementing a management role.

According to Paul BWMiller (2002) the quality of financial reporting practice is a set of specific actions related to capital market participants to better understand their needs and serve them quickly, fully and comfortably as compared to their competitors. Understanding quality of financial reporting according to Biddle et.al (2009) is a Quality of financial reporting is associated with a reduction of over-investment or with a reduction of under-investment. Financial reporting quality is associated with a reduction in over-investment or disinvestment.

While the quality of financial reporting according to Bailey et.al (2005) is a Financial Reporting Quality is a direct function of the quality of: (1) the reports prepared by management; (2) The internal audit activity; (3) oversight by the audit committee; and (4) the audit performed by the independent auditor.

Understanding the quality of financial reporting according to Zabihollah Rezaee (2003) is the quality of financial reporting including reliable financial statements are free from error and distortion Government Accounting Standards(SAP) which is contained in the Government Regulation No.71Year 2010 adopted a primary qualitative characteristics as stated in SFACNo.Only2SAP normative emphasis on the following four prerequisites:

1 Relevant, is the information contained in it may affect the user's decision to help them evaluate the events of the past or the present and predict the future, as well as correcting the results of their evaluation in the past. Relevant information has the following elements: a. Benefits feedback (feedback value). Information tool allows users to define their expectations of correcting past. b. Benefits of Predictive (predictive value). Information can help users to predict the future based on past and present events. c. On time (timeliness). The information is presented in a timely manner can be influential and useful in decision making. d. Complete, which includes all the accounting information that may affect decision-making. Background information of each item of information contained in the primary financial statements clearly revealed that errors in the use of such information can be prevented. 2 Andal, is the information in the financial statements are free from errors and misleading understanding of the material, presenting any facts honestly, and can be verified. Reliable information to meet the following characteristics: a. Presentation honest. Information honestly describe transactions and other events that should be presented, or may reasonably be expected to be presented. b. Can be verified (verifiability). The information presented in the financial statements can be tested, and if the testing is done more than once by different parties, the results still show that is not much different conclusion. c. Neutrality, which is directed at the needs of general information and are not in favor of the needs of a particular party. 3 can be compared, the information contained in the financial statements would be more useful if it can be compared with the previous period financial statements or other reporting entity's financial statements in general. 4 It is understandable information presented in the financial statements can be understood by the user and is expressed in the form and terms adapted to the understanding of the users.

According Zabihollah Rezaee (2003) the quality of financial reporting including the reliability of the financial statements. Free from misstatements, errors and irregularities, it is striking a balance can be achieved when the system function of corporate governance or government.

Research Hypothesis

H1: Internal Auditor Competence Affect the Quality of Financial Reporting the municipal/ Provincial governments of Jakarta

H2: Internal Auditor Independence Affects Quality of Financial Reporting the municipal / provincial governments of Jakarta

H3: Internal Auditor Competence and Independence affect Financial Reporting Quality The Municipal/Provincial Governmentsof Jakarta.

METHODOLOGY

Design of this study is a census method. This study used a qualitative research approach that the data and analysis are based on figures which are then taken into account statistically, so the meaning of the results and conclusions are also based on the results of statistical analysis (Moleong, 2000).

The study was conducted by using questionnaires given to internal auditor of municipal /provincial governments to measure the variables of competence, independence and quality of financial reporting using a likert scale. Responses the 71 of 127 internal auditors were received, leading to a response rate of 55.9 %. Data thus collected was anlayzed using partial and multiple regression.

EMPIRICAL RESULTS

Internal Auditor Competence Influence on the Quality of Financial Reporting

Variables examined in this study is a variable that is considered weak, especially in the region of the Provincial Government and the City of Jakarta. Factor "quality of external governance mechanisms (ie audit quality") is proxied by the quality of the services the internal auditor competence with regard to education, skills and expertise as well as proficiency positions. This study also supports research on Rezaee (2003: 26) states that the Internal Auditor Competence Affects Quality of Financial Reporting.

Internal Auditors' Independence Influence on the Quality of Financial Reporting

This study proves that the competence of internal auditors affect the quality of financial reporting. 0.379 R square figures. R Square is also called the coefficient of determination coefficient which in this case means that 37.9% of the variation in the quality of financial reporting can be explained by the variable financial competence of internal auditors.

Hence, this study also supports previous research that affects the Internal Auditor Independence Financial Reporting Quality The Municipal Government / Government of Jakarta.

These findings are consistent with the study by WidiHidayat, Elizabeth (2012). Research on the Relationship of auditor independence and financial reporting quality expressed by WidiHidayat, Elizabeth (2012) who argued that the auditor independency, company age and operation cycle of company has a significant influence to quality of company financial reporting. And together all the regressors have significant on quality of company financial reporting.

Auditors' Internal Competence and Independence Influence on the Quality of Financial Reporting

These results indicate that 44.9% of the variable quality of financial reporting can be explained by the variable competence, independence of internal auditors. While the remaining 55.1% is explained by causes lain.

CONCLUSION

Competence affect the quality of financial reporting. Quality of Financial Reporting will add value to the provincial government and the municipal of Jakarta when internal auditors have the competence in the manufacturing process or review of financial reporting, Independence influence on the quality of financial reporting by the sense that the quality of financial reporting would be good if an internal auditor has the independence, Competence and independence of the Internal Auditor affect the quality of financial reporting, variables are highly correlated with the quality of financial reporting is variable competence.

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