

THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON THE QUALITY OF FINANCIAL STATEMENTS WITH THE IMPLEMENTATION OF INTERNAL AUDITS AS A MODERATION VARIABLE

Eduward Tony Sitorus¹, Hari Setiyawati^{2*}, Ratna Mappanyuki³

¹ Postgraduate Program, Universitas Mercu Buana

² Postgraduate Program, Universitas Mercu Buana

³ Postgraduate Program, Universitas Mercu Buana

Abstract. This study aims to determine the effect of the effectiveness of the internal control system on the quality of financial statements with the implementation of internal audit as a moderating variable. This research is motivated by a disclaimer opinion on the Financial Statements of the Ministry of Maritime Affairs and Fisheries in 2016 and 2017. This indicates that the implementation of internal audits at the Ministry of Maritime Affairs and Fisheries has not been optimal. This study uses the causality method with a sample of 74 people from 90 internal auditors who were selected based on stratified random sampling according to their level of position. The results of the study indicate that the implementation of internal audits and the quality of financial reports at KKP has been very good. This is in accordance with the hypothesis and previous research which shows that there is an influence of the implementation of internal audit on financial reporting quality. The benefit of this research is to contribute scientifically to public sector audit science and solve problems for governments throughout the ministry in improving the quality of financial reports. Through the implementation of internal audits and increasing the effectiveness of the internal control system.

The results of this study state that the effectiveness of the internal control system no affects on the quality of financial statements. If the implementation of internal audit as a moderating variable the results still have an effect on the quality of financial statements. Moderation in this study is quasi moderation, because the results of the initial research influence the results of moderation still have an effect.

Keywords: Internal Control System, Internal Audit, Quality of financial statements

1. INTRODUCTION

In accordance with Article 30 paragraph (2) of Law Number 17 of 2003 concerning State Finance, the Financial Report submitted by the President to the DPR as a form of accountability for the implementation of the State Budget includes at least the APBN Realization Report, Balance Sheet, Cash Flow Statement, and Notes to Financial Statements. accompanied by financial statements of state companies and other entities. The Central Government Financial Report submitted by the President is a combination or consolidation of the Financial Statements of the State Ministries / Institutions (FSSM/I) and one State General Treasurer Financial Report. (SGTF).

The results of the 2016 FSSM/I examination based on the examination results of 87 (FSSM/I) and one SGTF Financial Report, as many as 74 FSSM/I (84%) obtained a Fair Without Exception (Opinion unqualified), 8 FSSM/I (9%) received a Fair Opinion with Exceptions (WDP) and 6 FSSM/I (7%) received an opinion Not Giving Opinion (disclaimer opinion). Qualified opinion 8 FSSM/I and disclaimer opinions on 6 FSSM/I did not materially affect FSSM/I in 2016.

* Corresponding Author, Email: hari_setiyawati@mercubuana.ac.id

The Ministry of Maritime Affairs and Fisheries is one of the ministries / institutions which in 2016 and 2017 received a disclaimer opinion from the Republic of Indonesia BPK so that it contributed to the achievement of FSSM/I opinion. One effort to realize transparency and accountability in managing state finances is by compiling a standard report as stipulated in Government Regulation Number 71 of 2010 concerning Government Accounting Standards.

2. LITERATURE REVIEW

2.1. Internal Control System

Arens, Elder, and Beasley (2014: 308) explain that, "A system of internal control is designed by the company achieves its objectives and goals". Weygandt, Kimmel, and Kieso (2015: 330) state that: Internal control is a process of assurance regarding the achievement of objectives related to operations, reporting, and compliance. In more detail, the related methods and measures adopted within an organization to safeguard assets, enhance the reliability of accounting records, increase the efficiency of operations, and ensure compliance with laws and regulations.

According to Tuanakotta (2016: 351), "Internal control is a process, policy, and procedure designed by management to ensure reliable financial reporting and the preparation of financial reports in accordance with the applicable accounting framework." Arens, Elder, and Beasley (2014: 345-355) reveal that COSO's integrated framework-internal control is the most widely accepted internal control framework in the United States. The framework outlines five components of internal control that are designed and implemented by management to ensure that the control objectives will be achieved. The COSO internal control component consists of: 1) Control environment; 2) Risk assessment; 3) Control activities; 4) Information and communication; 5) Monitoring.

2.2. Internal Audit

According to Hery (2017: 238) the definition of internal audit is "An assessment function that is developed freely in the organization to test and evaluate activities as a manifestation of service to the company's organization. Internal examination carries out free assessment activities in an organization to review activities in the accounting, finance and other fields of operations as the basis for providing services to management. " Whereas according to Sukrisno Agoes (2017: 18) internal audit (internal audit) is "Examination carried out by the company's internal audit section, on the company's financial statements and accounting records as well as compliance with predetermined top management policies and adherence to government regulations and provisions - provisions of applicable professional ties. According to the Indonesian Government Internal Auditor Association (AAIPI: 2013), "Internal audit is an independent and objective activity in the form of assurance activities and consulting activities, which are designed to provide added value and improve the operations of an organization (auditi) This activity helps organizations (audites) achieve their goals by using a systematic and regular approach to assessing and increasing the effectiveness of the risk management, control and governance (public sector) processes. According to AAIPI (2013) the effective role of APIP with quality audit results can be realized if supported by auditors who: (a) professionals, and (b) are competent.

2.3. Quality Of Financial Statements

Examination of financial statements will produce the quality of financial statements in the form of opinions regarding the fairness of the presentation of financial statement information. According to Waweru and Riro (2013: 46) defining financial reporting quality, "I conceptually define financial reporting as the precision with which financial reporting conveys information about the firm's operations, in particular expected cash flows, in order to inform equity investors." The same thing was also expressed by Nyor (2013: 274): Financial reporting, relates to the accuracy with which financials of a firm reflect its operating performance and how useful they are in forecasting future cash flows. Such qualities include but are not limited to understandability, relevance, consistency, comparability, reliability and objectivity. Financial statements according to Government Regulation Number 71 of 2010 are structured reports regarding financial position and transactions carried out by a reporting entity. According to PP No. 71/2010, the quality of financial statements is normative measures that need to be realized in accounting information so that it can fulfill its purpose as a joint need for users of government financial statements. Indicators that include important elements in the quality characteristics of financial statements are: (a) Level of relevance (relevant), (b) Level of reliability (reliable), (c) Level of comparability (comparable), (d) Level of understanding (can be understood)

2.4. Framework

In accordance with article 1 paragraph 3 PP No. 60 of 2008, internal supervision is the entire process of audit activities, review, evaluation, monitoring, and other supervisory activities for organizing tasks and organizational functions in providing confidence that activities have been carried out in accordance with the measures set effectively and efficiently for the benefit of leadership good governance. The relationship between the role of internal audit and the quality of financial statements is stated in the 2017 State Financial Examination Standard which states that the examiner can use the results of the APIP work, experts and / or examiners outside the BPK. The role of internal audit relates to the quality of financial statements in the management and responsibility of state finance article 9 (1) Law No. 15 of 2004, the examination of the management and responsibility of State finance was examined by Kasim (2015) which states that the implementation of internal controls has a positive effect on financial reporting. Research by Indriasih and Sofia (in 2014) argues that the internal audit function has a positive effect on financial reporting quality and has implications for good governance. This research framework model can be seen in the picture below:

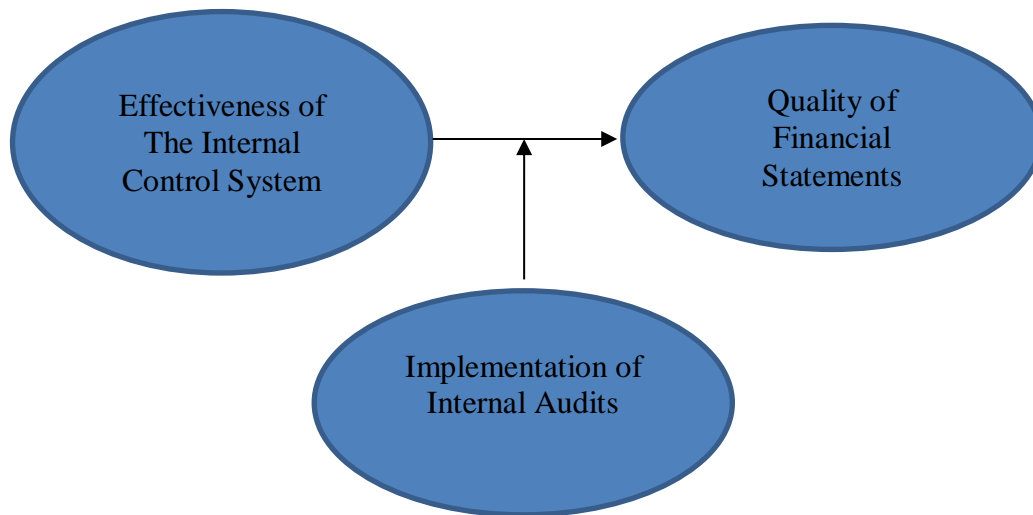


Figure 1. Thinking framework

2.5. Hypothesis

Based on the framework that was stated earlier, the research hypothesis can be arranged as follows:

- H1: The effectiveness of the internal control system has an effect on Report Quality Finance
- H2: The effectiveness of the internal control system influences the quality of financial statements moderated by the implementation of internal audits

3. RESEARCH METHODS

This study was conducted to test the hypothesis by using a type of causal research that aims to test the hypothesis about the influence of one variable with other variables where the effect of this research will be tested: The effectiveness of the internal control system on the quality of financial statements is moderated by the implementation of internal audits. This study uses a causality method with a sample of 74 people from 90 internal auditors taken randomly and proportionally (probability method) based on the strata set according to the level of office (proportionate stratified random sampling design). The data analysis method used in this study consisted of descriptive statistical analysis, validity test, reliability test, evaluation of structural model goodness of fit (inner model), hypothesis testing. Beikut is a list of populations, samples and respondents.

Table 1.Number of Populations and Research Samples

No	Auditor's functional	Level position	Total (people)	Number of responden
1	Skilled Auditor	a. Implementing Auditor	2	1
		Continued		
		b. Supervisor Auditor	2	2
2	Expert Auditor	a. First auditor	14	12
		b Young Auditor	49	40
		c Auditor Madya	18	15
		d Main Auditor	5	4
Amount			90	74
Average				4.21

Source: Processed Primary Data, 2019

4. STATISTICAL TEST RESULTS

4.1. Descriptive Statistics

Table 2.Variable Description of the Internal Control System

No.	Dimension	avarage	Standar deviation
1.	Environmental Control	4,24	0,71
2.	Risk valuing	4,14	0,67
3.	Control activities	4,19	0,70
4.	Communication & information system	4,25	0,75
5.	Monitoring of control syatem	4,25	0,71
Amount		21,06	

Average	4,21	
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Source: Processed Primary Data, 2019

Based on table 3 below, it can be seen that the internal audit has an average value of 4.216 with the value of each dimension, namely where the average value of the dimensions is professional at 4.230 and competent 4.202. This shows that internal auditors have good competence and professionalism.

Table 3. Variable Description of the Implementation of Internal Audit

No	Dimension	average	Standar deviasion
1	Profesional	4,230	0,650
2	competen	4,202	0,713
	average	4,216	

Source: Processed Primary Data, 2019

Quality dimensions of financial statements with 4 dimensions are reflective:

Table 4. Description of Quality Variables in Financial Statements

No.	Dimension	average	Standar deviation
1.	Relevant	4,34	0.83
2.	realibility	4,30	0.77
3.	On compable	4,33	0,83
4.	understandable	4,28	0.82
	amount	17,24	
	Average	4,31	

Source: Processed Primary Data, 2019

The table data above explains the quality of financial statements has an average value of 4.31 where the value for each dimension reaches above 4.00, this means that on average each apparatus of the work unit understands the elements in the quality of financial statements consisting from relevant, reliable, comparable and understandable.

4.2. Validity and Reliability Test

The following are the results of the factor loading construct of the Effect of Internal Audit Implementation, Effectiveness of the Internal Control System, and Quality of Financial Reports:

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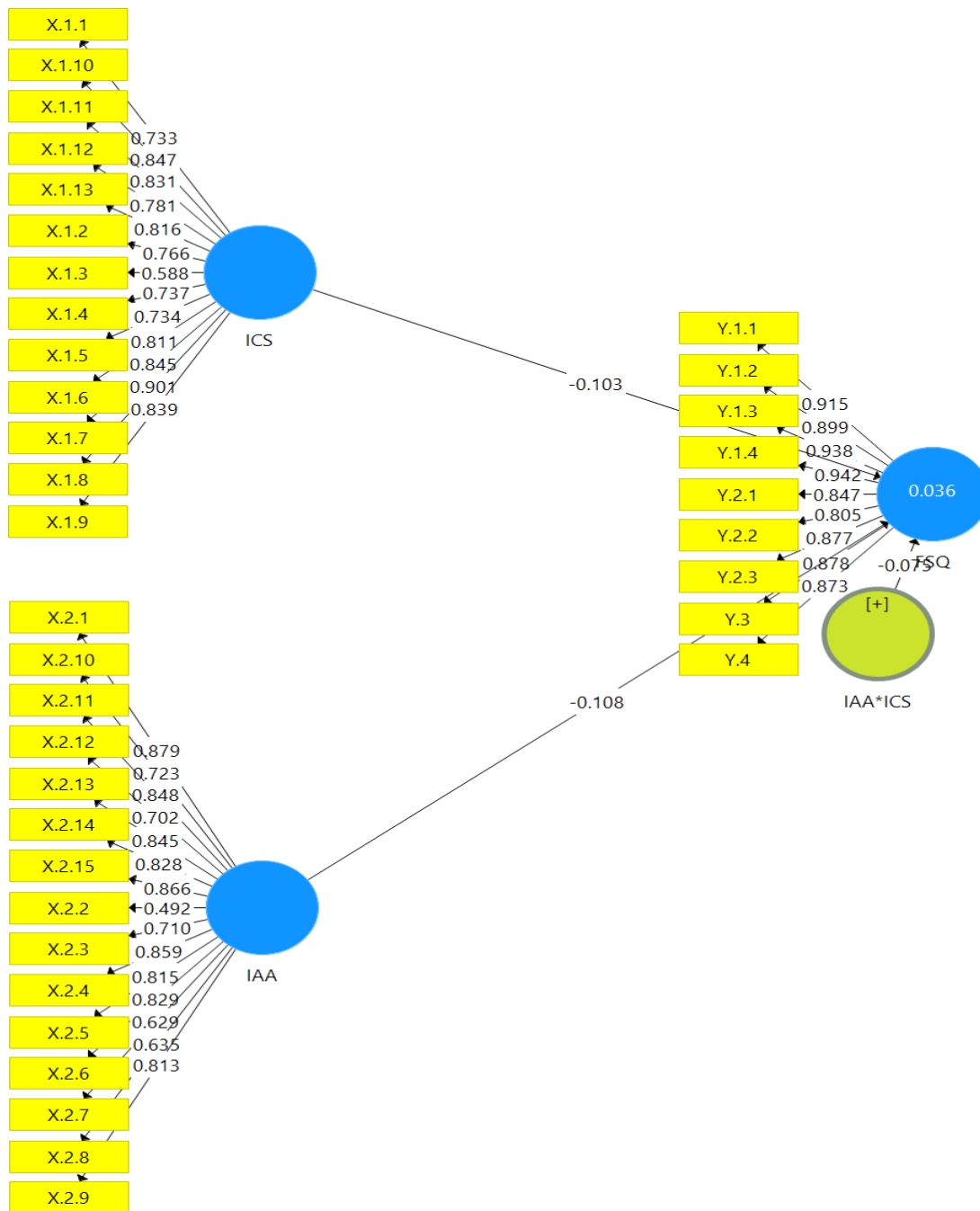


Figure 2. Research Variable Path & Loading Factor Diagram

Based on the output on the path diagram above, the loading factor for the second order meets convergent validity, the indicator value is above 0.5. All loading factors in both second order and first order are significant at the 5% level.

The reliability test results can be seen in the table below:

Table 5. Reliability Test

Variabel & Dimension	AVE	Cronbach's Alpha	Composite Reliability	Description
Efektivitas internal control syatem (X1)	0,687	0,952	0,975	Reliabel
Implementation internal auditor(X2)	0,697	0,960	0,969	Reliabel
Financial statement Quality (Y)	0,850	0,968	0,981	Reliabel
IAA*ICS	1.000	1.000	1.000	

Source: Processed Primary Data, PLS

The results of reliability output above, prove that the Influence variables of Internal Audit Implementation, Effectiveness of the Internal Control System, and Financial Report Quality have Cronbach's Alpha above 0.6 and Composite Reliability above 0.7, which means that the indicators used in each dimensions have reliability that is good enough or able to measure the construct.

4.3. Evaluation of Goodness of Fit Structural Models (Inner Model)

Table 6 below explains the results of the coefficient of determination analysis of the research variables:

Table 6.R Squire

Variable	R Square	R Square Adjusted
Financial Statement Quality (Y)	0.643	0.831

Source: Processed Primary Data, PLS

Based on the data above, the R2 value of the internal audit variable is 0.643 This means that the variable quality of financial statements can be explained by the influence of internal audit variables of 64.3.6% while the rest of 35.7% is influenced by other variables not tested in this study.

4.4. Hypothesis Testing

To find out the significance of the influence of internal audit implementation on the quality of the report can be seen in table 7 below:

Table 7. Path Coefficients

Inter variable influence	Coefisien Parameter	T Statistik	P Values	Description
Effectiveness of the Internal Control System => Quality of Financial Statements	- 0.103	0.369	0.700	No Influence
Implementation of Internal Audit => Quality of Financial Statements	-0.108	0.323	0.754	No Influence
IAA*ICS=> Quality of Financial Statements	0.075	2.416	0.001	Influence

Disc.: Significant on level 5%

The path parameter coefficient obtained from the influence of the effectiveness of the internal control system variable on the financial report quality variable is - 0.103 with a T statistic value of 0.369 <1.66, there is no influence on the effectiveness of the internal control system on the quality of financial statements. The path parameter coefficient obtained from the influence of the the effectiveness of the internal control system variable on the quality of financial statements moderated the internal audit implementation is - 0.075 with a Tstatistic value 2.416 >1.66 states that the implementation of internal audit moderates the influence of effectiveness of the internal control system on the quality of financial statements..

5. DISCUSSION

5.1. Effect of the Effectiveness of Internal Control on the Quality of Financial Statements

The hypothesis test results stated that the implementation of Internal Audit does not affect the Quality of Financial Statements. This means that the implementation of Internal Audit that has been carried out is not in line with internal control standards, namely the applied internal audit does not affect the quality of financial statements because it cannot provide improvement material in the implementation of past activities and internal audits rather than financial audits aimed at providing opinions, but audits which aims to improve the effectiveness of the risk management process, control (control), and governance (public sector) in order to achieve organizational goals.

In addition, the standards used in the implementation of internal audits are also different from the standards used in financial audits, where the internal audit uses the Indonesian Government Internal Audit Standard (SAIPI) issued by the Indonesian Government Internal Auditor

Association (IGIAA) in 2013 while the financial audit uses Standard The latest State Financial Examination (SFE) is published by the BPK RI in 2017.

In accordance with the results of the 2016 and 2017 BPKRI examinations obtaining a disclaimer opinion (not giving an opinion, this is partly due to differences in perceptions regarding the completeness of the evidence and accounting records in financial reporting. This information supports the results of this study.

The results of the study that support this research are Inapty and Martiningsih (2016) which produce internal audit roles that have no effect on the quality of financial reports, another study that supports Syarifudin (2014) who states that the role of internal audit has no significant effect on the quality of local government financial reports. meaning that the increasing role of the financial supervisor does not have a significant effect in improving the quality of local government financial reports.

Research that is not supportive is done by Rahmatika (2014) stating that the internal audit function has a positive effect on financial reporting quality and has implications for governance governance Research Opinion Rosma Simangunsong (2015) states that the effectiveness of internal controls and the role of internal audit both partially and simultaneously affect government performance getting better, so also if the variable effectiveness of internal control and the role of direct or indirect internal audits also affect the performance of local government for the better.

The research was conducted by A. Suherman (2018) who concluded that internal audit had a positive and significant effect on financial quality. The results of Erfan Edfiansyah and Ia Kurnia's research (2018) also concluded that the role of internal auditors had a positive effect on the quality of financial reporting.

5.2. The Effect of the Effectiveness of Internal Control on the Quality of Financial Reports is moderated by the Implementation of Internal Audit

Hypothesis test results state that the Effectiveness of the Internal Control System has an effect on the Quality of Financial Reports as well as moderated internal audits. This means that the internal control system that is implemented is good enough and effectively influences the quality of financial statements. The effectiveness of the internal control system aims that all elements run an internal control system. So as to provide adequate confidence for the achievement of effectiveness and efficiency in achieving the objectives of governance

This can be achieved, if the implementation of internal Audit functions optimally the government will be confident that the process of securing assets through the implementation of compliance (audit compliance) against regulations. can help protect assets and reduce the likelihood of fraud, increase reliability and financial integrity, ensure compliance with laws and regulations. and establish monitoring procedures (sawyer, 2014).

In connection with the results of the hypothesis these two things can be seen from the answers to the questionnaire with a greater average of 4 which means:

- a Understanding of the duties and responsibilities of each level can be understood well according to the standards applied by the Ministry of Maritime Affairs and fishery.
- b Internal auditors have carried out the audit process: through review, evaluation, monitoring,
- c. Other supervisory activities on the organization of tasks and functions of the organization through evaluation of the budget and realization provide confidence that the activities have been

carried out in accordance with the benchmarks that have been set effectively and efficiently for the benefit of the Ministry of Maritime Affairs and Fisheries.

The results of research that supports or is research conducted by Tuti Herawati (2014) which states that internal control systems consisting of control environment, risk assessment, control activities, information and communication, and monitoring have a positive and significant effect on the Quality of Local Government Financial Reports. The same research results were carried out by Rokhlinasari and Hidayat (2016) which stated that the internal control system had a positive and significant effect on the quality of financial statements. Likewise, research by Yusniyar, Darwanis and Abdullah (2016) states that internal control is able to contribute sufficiently in improving the quality of financial statements. This research was also supported by Susilawati and Riana (2014) who stated that the internal control system partially had a significant positive effect on the Quality of Local Government Financial Reports. Nagor, Darwanis, and Abdullah (2015) stated that the implementation of internal control systems partially affects the quality of regional financial statements.

Studies that do not support are Ichlas, Basri, and Arfan (2014) which state that the Implementation of the Government's Internal Control System does not affect the financial accountability of the Banda Aceh City Government. Likewise, this research is supported by Indriasih and Sofia K (2014) which state that the function of internal control does not have a positive effect on financial reporting quality and has implications for good governance. The research by Nurlis (21017) states that if Internal Control is not implemented effectively it will result in unsatisfactory financial reporting quality results. Research by Nagor, Darwanis, and Abdullah (2015) states that the implementation of the internal control system partially affects the quality of regional financial statements. In contrast, non-supportive research was conducted by Setiyawati (2013) who stated that the implementation of an internal control system did not affect the quality of financial reporting.

6. CONCLUSIONS AND SUGGESTIONS

6.1. Conclusion

Based on the results of the discussion presented in the previous chapters, the following can be concluded:

- 1) The effectiveness of the Internal control system does not affect the quality of the report finance.
- 2) The effectiveness of the internal control system has an effect on the quality of the financial statements after being moderated by the variables of internal audit implementation, so that it is known through this study that the internal audit is pure moderation because the first hypothesis has no effect after being moderated the results become influential.

6.2. Suggestion

In accordance with the results of the discussion and conclusions discussed earlier, to improve the quality of work unit reports in the Ministry of Maritime Affairs and Fisheries, the Inspectorate General of the Ministry of Maritime Affairs and Maritime Affairs not only conducts post audits, but also conducts audits during activities such as Probity Audit in the Procurement of Goods and Government Services in their entirety from planning to utilizing the proceeds of procurement.

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