

The Influence of Commitment of Local Head, Government Internal Auditor, Completion of Audit Findings toward Audit Quality and the Implication toward Financial Accountability

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Abstract: The government has been reformed financial management regulation. The study analyzed the effect of the head region commitment, the role of local financial statement quality, and its implication on the local financial performance accountability. The analysis used descriptive and explanatory methods. Analysis carries out at eight local governments in West Java. The data have been collected by using survey technique and distributing questionnaires to the local internal auditor and local external auditor – representative office of West Java. Path analysis applied for hypotheses testing. Finding research, the role of local external auditor has the most significant coefficient influence on the audit's findings. Audit internal function local government has a low contribution to audit quality. Accounting, auditing, and local financial management knowledge would have been improved to produce audit quality. Integrity and timeliness would improve financial performance accountability.

Keywords: internal audit, audit quality, financial reporting, accountability

1. Introduction

Law Number 17/2003 on State Finance mandates state finances managed in an orderly, law-abiding, efficient, economical, practical, transparent, and accountable manner with due regard to fairness and appropriateness. For that, it needs supervision and inspection by a professional and independent party.

In Article 33 of Government Regulation No. 8/2006, it states that the review of financial statements by Government Internal Auditor to ensure the reliability of the information presented in the financial statements. The review is intended to provide confidence in the accuracy. The accuracy measure by reliability and validity of the information presented in the financial statements before submitted by the financial management officer to the Local Head before the Local Head signs a statement of responsibility to the Local Government Financial Report and then submits the Local Government Financial Statement to Government External Auditor to be examined and given an opinion.

Financial accountability, audit quality, follow-up on audit findings, recommendations and opinions of Government External Auditor audit results and Government Internal Auditor review result require commitment from the Local Head. Commitment sees as a firm conviction and support from the Local Head to carry out, implement, and apply a commonly defined policy so that the objective of implementing the policy could be achieved. The policy can be in the form of presenting financial statements by generally accepted accounting principles, following-up on external audit findings, and carrying out effective internal controls for the achievement of predetermined objectives.

It recognizes that the relationship between auditors with the auditee is a relationship dilemma. On the one hand, the auditor provides services and serves the interests of the auditee under the contract and paid by the auditee; on the other hand, auditors in carrying out their profession are required to act professionally. The professional attitude that is based on openness, honesty, integrity, and fair practices upholds the moral and ethical standards set by profession.

Empirically, Alim (2007) has proved that independence has a significant effect on audit quality, while Susiana and Arleen Herawaty (2007) examined the effect of independence and audit quality on the integrity of financial statements. The results support the hypothesis that the independence of auditors positively affects the integrity of financial statements. Thus, it can be concluded that the independence of auditors can have a positive effect on audit quality.

Accountability and transparency of state finances is an essential goal of public sector reform considering the qualitatively of good governance. Financial accountability is the provision of information and disclosure on the activities and financial performance of the country to all interested parties (stakeholders), so that the rights of the public, namely the right to know, the right to be kept informed, and the right to be heard and to be listened to, can be met (Barton, 2006; Hove & Troskie, 2019).

2. Literature Review

Organizational commitment is introduced by Etzioni (1961). The term is becoming more popular since 1977 after being discussed by Staw and Salancik (1977), who filed two forms of commitment, which is attitudinal commitment and behavioral commitment. Behavioral commitment is a state in which an individual considers the extent to which his values and objectives are by the organization's values and objectives, and the extent of his desire to maintain membership within the organization. Behavioral commitment based on the extent to which the individual within the organization determines the decision to be tied to the organization in the event of a loss if it decides to make another alternative outside of its current job.

Theories about the symbolic role and active practice of coordination and control have been further developed in institutional theory. Institutional theory generally argues that the organizations for survival depend on external constituent support, to accept by social norms. This reason applies especially in government organizations (Scott, 2004).

Mauzt and Sharaf (1993) stated the origins of auditing and the prior auditing of accounting. Auditing requires because of the need for those who can help manage the property of others so that the owner should ask certain parties to check the loyalty of those who manage so that everything will be transparent.

The American Accountant Association Committee on Basic Auditing Concepts (Arens 2014; Boyton 2006; Louwers 2005) states that auditing is a procedure of collecting and evaluating evidence of measurable information about an economic entity conducted by a competent and independent person to determine and report on the suitability of the information, with defined criteria.

Decision usefulness theory includes the terms of the quality of accounting information useful in decisions to be taken by the user. The usefulness of accounting information decisions contains the components that accounting information providers need to consider for the scope to meet the needs of the decision makers who will use them.

3. Research Method

Collecting Data Method

The data in this study obtained from a list of the questionnaire that was sent to the respondent. Respondents of this study are Local Head, Chairman of Government Internal Auditor, Chairman of Government External Auditor, and Government External Auditors.

Data Analysis Method

This study used path analysis. Based on the relationship between exogenous and endogenous variables, it can be described as the path diagram illustrating the paradigm of the relationship between variables as shown in Figure 1.

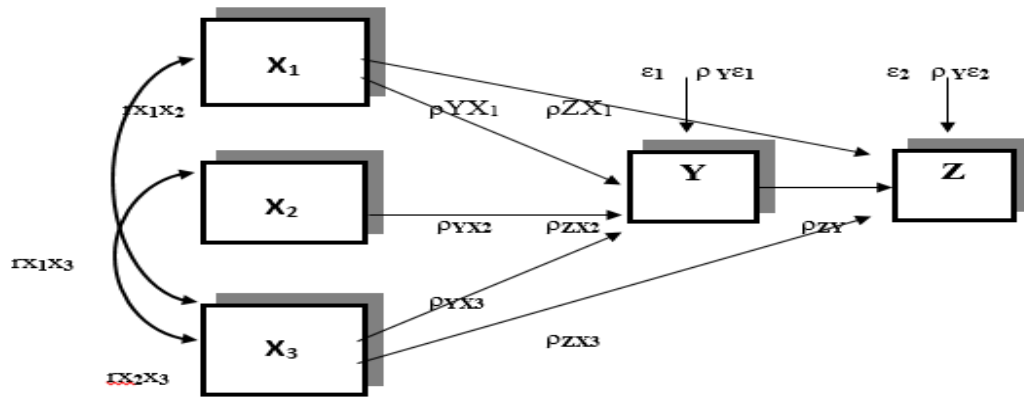


Figure 1. Path Analysis Structure

Information:

- X₁ = Commitment of Local Head
- X₂ = Review of Financial Statements by Government Internal Auditor
- X₃ = Completion of Audit Findings
- Y = Audit Quality
- Z = Financial Accountability
- ε₁ = Other variables affecting Y
- ε₂ = Other variables affecting Z

Research Hypothesis

Based on the above framework, the hypothesis formulation arranged as follows:

Hypothesis 1: Commitment of Local Head, Review Financial Statement by Government Internal Auditor, Completion of Audit Findings affect toward Audit Quality partially or simultaneously

Hypothesis 2: Commitment Local Head, Review Financial Statement by Government Internal Auditor, Completion of Audit Findings affect toward Audit Quality affect toward Financial Accountability either partially or simultaneously.

4. Analysis and Discussion

The Influence of Commitment of Local Head, Government Internal Auditor, and Completion of Audit Findings toward Audit Quality

The first hypothesis to be tested is the influence of the commitment of the regional head, the role of the Government Internal Apparatus and the completion of audit findings on audit quality. Based on the paradigm, the second sub-structure to be tested is formulated as follows:

$$Y_{X1} X1 Y = P + P + P_{YX3YX2} X2 X3 + \epsilon_1$$

In the structure of the equation shows that the quality of the audit by the symbol Y is the result of three independent variable changes by the symbol X₁ to X₃. From the results of data processing using the help of SPSS application program obtained path coefficient of each independent variable as described in Table 1.

Table 1
Independent Variable Path Coefficient toward Audit Quality

Variable	Path Coefficient
X ₁	0.272

X ₂	0.084
X ₃	0.635
R² = 0.9595	

Simultaneously the three independent variables (commitment of local head, government internal auditor, and completion of audit findings) contribute to or affect amounted to 95.95% (*R*² value) toward audit quality at provincial, district and city in West Java, while the rest of 4.05% influenced by other factors outside the three independent variables studied.

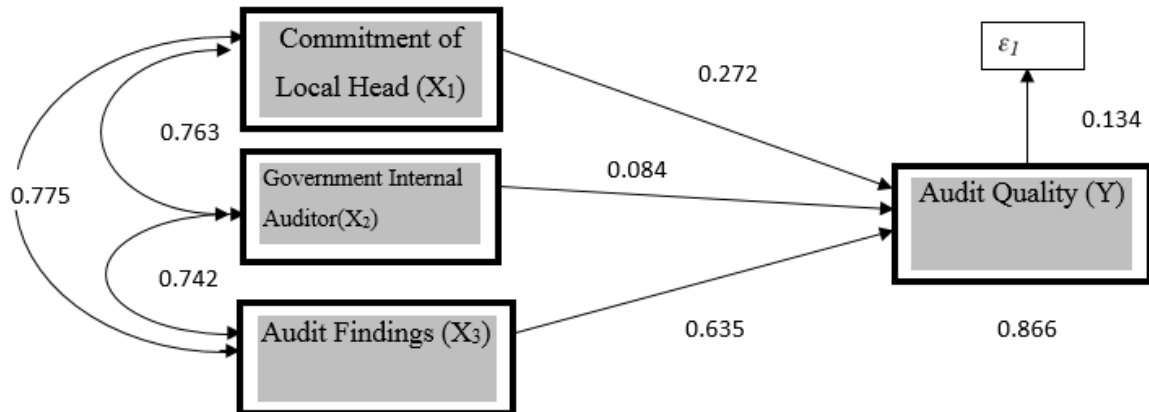


Figure 2. Path diagram - Sub-structure I

Through the values contained in Figure 2 can be calculated the influence of each independent variable (commitment of local head, internal government auditors, and completion of audit findings) toward audit quality.

Table 2

The Influence of Commitment Local Head, Government Internal, and Completion of Audit Findings toward Quality Audit

Su b Var	Path Coefficient	Direct Effect	Indirect Effect in%			Indirect Effect	Total (%)
			X ₁	X ₂	X ₃		
X ₁	.323	10.433%		0.39%	16.17%	16.57%	27.00%
X ₂	.016	0.026%	0.39%		0.77%	18.10%	1.19%
X ₃	.646	41.732%	16.17%	0.77%		16.938%	58.67%
Total		52.190%	16.565%	1.161%	16.938%	51.602%	86.85%

Simultaneously commitment of local head, Government Internal Auditor, and completion of audit findings was able to explain the changes occurring toward quality audit at provincial, district, and city governments in West Java by 86.85% and the remaining 13.15% is explained by other factors not examined. Among the three independent variables, the completion of audit findings contributed most significantly toward audit quality, while variable of Government Internal Auditor contributed the least to audit quality at provincial, district, and city governments in West Java.

The Influence of Audit Quality toward Accountability of Local Government Financial Accountability

The second hypothesis to be tested is the effect of audit quality toward local government financial accountability. Based on the research paradigm, the second sub-structure tested is formulated as follows:

$$Z = P_{ZY} Y + \epsilon_2$$

In the structural equation, it seems that the financial accountability of local government given the symbol Z is the result of changes in audit quality. From the results of data processing using SPSS application program obtained path coefficient of each independent variable as described in Table 3.

Table 3

Independent Variable Path Coefficient toward Local Government Financial Accountability

Variable	Path Coefficient
Y	0.920

*R² = 0.847

Partially audit quality variables contribute to or affect to 84.70% (R² value) toward local government financial accountability provincial, district and city in West Java, while the remaining 15.30% affected by other factors beyond the quality of audits.

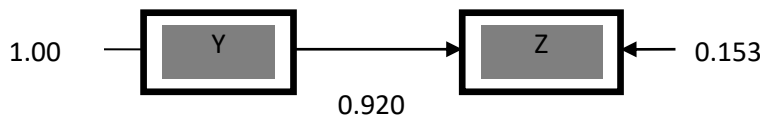


Figure 3. Path diagram – Sub-structure II

Based on the results of the processing as shown in Figure 3 obtained the value of path coefficient of audit quality variable toward local government financial accountability amounted to 0.920 ($\rho_{ZY} = 0.920$). If the coefficient value of the path is greater than zero, then it can be concluded that the audit quality partially affects local financial accountability at the provincial, district, and city governments in West Java.

5. Conclusion

1. The commitment of local head, the role of government internal auditor, and completion of audit findings simultaneously affect toward audit quality.
2. The commitment of local head affects audit quality, and the role of government internal auditor contributes the least effect toward audit quality. Some of the causes of influential contributions such as the supervisory function are not merely the responsibility of the locally elected head, the competence to the regions with the background of accounting education and the knowledge of regional heads in the area of local financial management is still minimal. Other variables not tested in this study may have a more significant impact, such as (a) apparatus competence (local government or parliament), (b) application of SPIP, and (c) SAP implementation.
3. The role of government internal auditor affects audit quality, and the role of government internal auditor gives the lowest contribution to audit quality. This condition is because government internal auditor is an extension of the local head to conduct supervision. Regarding individuals, the competence of local government internal auditor still has weaknesses. The insight of government internal auditor's understanding of local financial management is relatively low, as well as their small insight and understanding of the internal audit process so that internal audit has not carried out optimally. Other weaknesses include cash management, local financial administration, and weaknesses in the process of preparing financial statements, both Local Device Work Unit financial statements and consolidated financial statements that are local government financial reports. This weakness also supported by the minimal number of accounting graduates who work as internal auditors at the inspectorate. Mutation and rotation of employees who have competence and certification of expertise in the local government, especially in the inspectorate also be the cause of limited human resources.
4. Completion of audit findings affect audit quality, and variable of completion of audit findings contributes the most effect toward audit quality. In this case, Financial Controller Board found that integrated system in producing financial statements, although many factors that are still less than optimal of human resource competencies with an accounting education background is also still minimal in the financial sector and the Regional Device Work Unit. The low number of accounting graduates work in the local government (finance), because the recruitment of employees with accounting background is very little recently.
5. Audit quality affects toward local government accountability.

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