(Survey on SKPD of Cianjur Regency)

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ABSTRACT: This study aims to obtain empirical evidence about the Effect of the Application of Internal Control System on the Implementation of Internal Audit and Its Effects on the Financial Statements Quality. The sample of this study is the SKPD of the Cianjur Regency Area. Data analysis using path analysis. The PLS application is used to test the hypothesis. The results of the study state that the Internal Control System has an effect on the Implementation of Internal Audit. The implementation of Internal Audit affects the Financial Statements Quality. The Internal Control System affects the Financial Statements Quality.

KEYWORDS: Application of the Internal Control System; Implementation of Internal Audit; Financial Statements Quality

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I. INTRODUCTION

In order to improve transparency and accountability of the management of state funds, the reformation era government has conducted a full scale reform. One of the efforts that was done was to draft the State Finance Acts: Law Number 17 of 2003 Regarding State Finance, Law Number 01 of 2004 Regarding State Treasury and Law Number 15 of 2004 Regarding State Finance Audit and Accountability.

This is in line with the demands of the public so that public sector organizations improve the quality, professionalism and accountability of the public in carrying out financial management activities at the central / regional government. The government began to make changes in managing state finances which began with the practices of corruption, collusion and nepotism that occurred during the new order that lasted for years. Corruption that occurred during this period has undermined the country's finances and caused the collapse of the country's economy. Good management of government finances must be supported by a good internal control system with the support of the internal auditors of each local government.

Lately, from several statements of the State Audit Board, in several of its media in June 2016 "the State Audit Board (BPK) gave Qualified Opinion (WDP) to the Central Government Financial Statements (LKPP) 2015. This Qualified Opinion is given because the BPK has found several incorrect materials in the LKPP 2015 in the form inconsistencies with the state accounting standards, weaknesses in the internal control system and incompliance with the legislation. In order to attain the Unqualified Opinion (WTP) in the future, the best predicate for a financial statement, the central government must implement a number of measures".

Researchers have also quoted from the State Audit Board’s (BPK) media statement in April 2017 which states that they "have found weaknesses in the internal control system and incompliance with legislations with a total of Rp 19.48 trillion. This value covers 5,810 findings including 1,393 weaknesses in the Internal Control System (SPI) and 6,210 cases of incompliance with the legislation that occurs in the central government, regional government, BUMN (State-Owned Enterprises) and other bodies". Head of the BPK in his statement in ANTARA News media (Yogyakarta) in December says that mostly the quality of financial statements of the local government is still poor, based on the fact that it is rare for local governments to achieve the unqualified opinion.

Other than the phenomena above, there are previous studies regarding financial statements qualities. Research results from Nagor, Darwanis and Abudllah (2015) about the Financial Statements Quality of the West Aceh Government show that the Application of the Partial Internal Control System has affected the quality of the local financial statements. This research results are in line with the report done by Tuti Herawati (2104) that states that there is a significant effects caused by the Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring on the Financial Statements Quality simultaneously. Research conducted by Susilawati and Riana (2014) states that changes that occur on the Application of the Government
Accounting Standard and the Internal Control System will affect the Local Government Financial Statements Quality. The Implementation of the Government Accounting standard has had, in part, an insignificant positive effect on the Financial Statements Quality of the Local Government, while the Internal Control System has had, in part, a significant financial effect on the Local Government Financial Statements Quality.

Research conducted by Kewo and Afiah (2017) state that the internal control and internal audit system has partially affected the financial statements positively and also had effects on the financial statements quality. So has the report from Hari Setiyawati (2018) which states that the Application of the Internal Control System can affect the achievement of the BPK RI Opinion. If the weakness of the Application of the Internal Control System deteriorates, then acquisition of the unqualified opinion increases; conversely, if the weakness of the Application of the Internal Control System increases, then the acquisition of the unqualified opinion deteriorates. Meanwhile, research conducted by Nurlis (21017) state that government internal control has not yet been effectively implemented, causing an unsatisfactory financial Statements.

Based on the description of the background above, the researcher hopes to find out which factors cause the financial statements of the local government to be better so that it obtains Unqualified Opinion (WTP) from the State Audit Board (BPK), the researcher also wants to find out whether the internal control system and the implementation of an effective internal audit have a significant effect on the financial statements quality. The researcher will conduct a research through a Thesis entitled: "Effect of the Application of Internal Control System on the Implementation of Internal Audit and Its Effects on the Financial Statements Quality".

II. LITERATURE REVIEW

Internal Control System

According to Warren and Reeve (2014:372), Internal control – integrated framework is the standard by which companies design, analyze, and evaluate internal control. In this section, the objectives of internal control are described, followed by a discussion on how these objectives can be achieved through the integrated framework’s five elements of internal control. The definition of internal control based on the State Financial Audit Standard (SPKN) 2017 is the process designed, implemented and monitored by management and personnel of the entity responsible for the governance of the entity to give adequate trust on the achievement of the entity’s objectives.

Implementation of Internal Audit

Definition of internal supervisors as outlined in PP No. 60 of 2008 and PER / 05 / M.PAN / 03/2008 are as follows: "Internal Supervision is the entire process of audit activities, review, evaluation, monitoring, and other supervisory activities on the organization of tasks and functions of the organization in order to provide adequate confidence that activities have been carried out in accordance with established and effective benchmarks for the benefit of the leadership in realizing good governance ".

Definition of internal audit according to Suwanda, Wiratmoko and Santoso in his book (2018: 70): "Internal audit is an independent and objective activity in the form of giving assurance (assurance activities) and consultation (consulting activities) designed to add value and improve operational organization (audit). This activity helps the organization achieve its objectives by using a systematic and orderly approach to assess and improve the effectiveness of the risk management process, control (control), and governance (public sector) ".

Financial Statements Quality

According to Kieso (2011:5), The financial statement most frequently provided are (1) the statement of financial statements position, (2) the income statement or statement of comprehensive income, (3) the statement of cash flows, and (4) the statement of change in equity. Note disclosures are an integral part of each financial statement. Government Regulation Number 71 of 2010 state that the qualitative characteristics of a government financial statement, amongst others are:

1. Relevant, whether the information included in it can affect the decision of users by helping them evaluate past or present events and predict the future, along with correcting evaluation results of the past.
2. Reliable, the information in the financial statement is free from misleading definitions and material mistakes while presenting honest and verifiable facts.
3. Comparable, meaning that the information included in the financial statements will be useful if compared to the financial statements of the previous period or the financial statements of another reporting entity in general.
Effect of the Application of Internal Control System on the Implementation of Internal Audit

Theoretical Framework
The frame of mind can be seen in Figure 1 below:

![Figure 1 Model Thinking Framework](image_url)

**Hypothesis Development:**
According to Mahmudah and Riyanto (2016), the Internal Control System has a positive effect on the effectiveness of the internal audit.

H1: There is an effect caused by the Internal Control System on the Implementation of Internal Audit.

According to Rahmatika (2014), the internal audit function has a positive effect on the financial statements quality and has implications on good governance.

H2: There is an effect caused by the Internal Audit on the Financial Statements Quality.

According to Tuti Herawati (2014), there is a significant effect of the Control Environment, Risk Assessment, Control Activities, Information and Communication and Supervision on the Financial Statements Quality simultaneously.

H3: There is an effect caused by the Internal Control System on the Financial Statements Quality.

III. RESEARCH METHOD

**Types of research**
This research uses the causal research type that is aimed to find out about the causal relationship between an independent variable (free variable) and a dependent variable (bound variable).

**Population and Samples**
The population of the research includes all the Regional Work Unit Personnel (SKPD) within the Governance Area of Cianjur, with a total of 63 SKPD. In this research, the researcher uses the purposive sampling method, sample designation is taken is adapted to certain criteria based on the research objective. The population sample consists of 38 (thirty eight) SKPD, 28 (twenty eight) being Work Service SKPD and 10 (ten) being Sub-District SKPD.

IV. RESULTS AND DISCUSSION

**Description of Research Object**
There are more male respondents than female respondents, with the male respondents totaling to 22 people (57.89%) while the females totaling to 16 people (42.11%). Based on the work period, respondents with a work period of 1-5 years are the group with the least number of people filling the questionnaire, with a total of 9 people (23.68%), the respondents who filled out the questionnaire the most are those with a 5-10 year work period, which consists of 15 people (39.48%), the respondents with a work period of more than 10 years total to 14 people (36.84%). From this data, it can be concluded that almost all respondents being studied have enough experience.

**Data analysis**

**Statistics Description**

**Description of Variables Effect of Internal Control System.**
This variable is measured by 5 dimensions that are reflective, which are described in the table as follows:
Effect of the Application of Internal Control System on the Implementation of Internal Audit

### Variable Description of the Implementation of Internal Audit

This variable is measured by 7 dimensions that are reflective, which are described in the table as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Dimension</th>
<th>Score</th>
<th>Deviation Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Planning</td>
<td>3.98</td>
<td>0.41</td>
</tr>
<tr>
<td>2.</td>
<td>Communication and Agreement</td>
<td>4.01</td>
<td>0.50</td>
</tr>
<tr>
<td>3.</td>
<td>Resource</td>
<td>3.65</td>
<td>0.57</td>
</tr>
<tr>
<td>4.</td>
<td>Policies and Procedures</td>
<td>4.00</td>
<td>0.61</td>
</tr>
<tr>
<td>5.</td>
<td>Coordination</td>
<td>3.84</td>
<td>0.49</td>
</tr>
<tr>
<td>6.</td>
<td>Reporting</td>
<td>3.94</td>
<td>0.52</td>
</tr>
<tr>
<td>7.</td>
<td>Monitoring</td>
<td>4.05</td>
<td>0.56</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>27.97</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>3.92</td>
<td></td>
</tr>
</tbody>
</table>

Source: Output Statistics, 2018

Based on the table above, it can be seen that the Implementation of the Internal Audit is composed of 7 research dimensions, which has an average score of 3.92. The dimension with the lowest score is Coordination, with an average score of 3.84 and with an average deviation of 0.49, meaning that the perception of regional government personnel in regards to the distribution of information and coordination of the activity with all personnel in the SPKD is still poor. The dimension with the highest score is monitoring, with a score of 4.05 with an average deviation of 0.56. This means that the perception of the regional government personnel in implementing follow up and corrective action in accordance with the agreement results during the consultation regarding the internal audit result is relatively good.

### Description of Quality Variables in Financial Statements

This variable is measured by 4 dimensions that are reflective, which are described in the table as follows:

<table>
<thead>
<tr>
<th>No.</th>
<th>Dimension</th>
<th>Score</th>
<th>Deviation Standard</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Relevan</td>
<td>4.32</td>
<td>0.54</td>
</tr>
<tr>
<td>2.</td>
<td>Andal</td>
<td>4.12</td>
<td>0.48</td>
</tr>
<tr>
<td>3.</td>
<td>Dapat dibandingkan</td>
<td>4.18</td>
<td>0.45</td>
</tr>
<tr>
<td>4.</td>
<td>Dapat dipahami</td>
<td>4.21</td>
<td>0.41</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>16.83</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td>4.21</td>
<td></td>
</tr>
</tbody>
</table>

Source: Output Statistics, 2018
Based on the Table above, it can be seen that the Financial Statements Quality is composed of 4 research dimensions with an average score of 4.21. The dimension with the lowest score is reliability, with a score of 4.12 and with an average deviation of 0.48, meaning that the perception of the regional government personnel regarding financial statements information that is presented reasonably, honestly, impartially and that is able to be tested by different parties with similar results has is relatively good. The dimension with the highest score is the relevance dimension with a score of 4.32 and an average deviation of 0.54, meaning that the perception of regional government personnel regarding information of financial statements in regards to punctuality, prediction of the future, correction of past expectation in order to make better decision in the future is relatively well.

Validity Test
Based on the output from the PLS, factor loading for the second order has fulfilled convergent validity, with an indicator value above 0.5. All loading factor on the second order or first order is significant, on a 5% level.

Reliability Test
Based on the reliability output of the PLS, all variables have a Cronbach’s Alpha above 0.6 and Composite Reliability above 0.7 so that it can be concluded that that the indicators used on each dimension have relatively good reliability or is able to measure its construct.

Evaluation of Goodness Of Fit Structural Models (Inner Model)
Evaluation of Goodness Of Fit Structural models are measured using predictive-relevance (Q2) values. Predictive-relevance value (Q2) is calculated using the following formula:

\[
Q^2 = 1 - \left( 1 - R^2_1 \right) \left( 1 - R^2_2 \right) \ldots \left( 1 - R^2_n \right)
\]

\[
Q^2 = 1 - \left( 1 - 0.161 \right) \left( 1 - 0.586 \right)
\]

\[
Q^2 = 1 - 0.839 \times 0.414
\]

\[
Q^2 = 1 - 0.347
\]

\[
Q^2 = 0.653
\]

R² is the determinant coefficient that is a part of the total variance in a dependent variable which is explained by the variation in the independent variable. Table 4 explains the analysis result of the determinant coefficient of the research variables:

<table>
<thead>
<tr>
<th>Variable</th>
<th>R Square</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of Internal Audit (Y)</td>
<td>0.161</td>
</tr>
<tr>
<td>Quality of Financial Statements (Z)</td>
<td>0.586</td>
</tr>
<tr>
<td>Predictive-Reliability (Q²)</td>
<td>0.653</td>
</tr>
</tbody>
</table>

Evaluation of the inner model is satisfactory in terms of explaining the Internal Audit Implementation variable and the Financial Statements Quality. Meanwhile, the predictive-relevance value for the structural model in this research amounts to 0.653 or 65.3%, meaning that the model can sufficiently explain the phenomenon of the Internal Audit Implementation in connection with the Financial Statements Variable.

Hypothesis testing
In order to test the connection between variables (hypothesis test), the statistic values from the Smart PLS output that is compared with the Table value. The hypothesis test is explained as follows. In order to find out the significance of the Implementation of the Internal Audit, see table 5 as follows:

<table>
<thead>
<tr>
<th>Connection Between Variables</th>
<th>Parameter Coefficient</th>
<th>T Statistics</th>
<th>P Values</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPI =&gt; Implementation of Internal Audit</td>
<td>0.401</td>
<td>1.968</td>
<td>0.025</td>
<td>Effective</td>
</tr>
</tbody>
</table>

Remarks: Significance level on 5%
The path coefficient is 0.401 with a T statistic value of 1.968 > 1.660 at the significance level $\alpha = 0.05$ (5%) which states that there is an influence of the Implementation of the Internal Control System on the Implementation of Internal Audit.

To find out the significance of the influence of the Internal Audit Implementation on the Quality of Financial Statements by looking at table 6 as follows:

### Table 6 Path Coefficients

<table>
<thead>
<tr>
<th>Connection Between Variables</th>
<th>Parameter Coefficient</th>
<th>T Statistic</th>
<th>P Values</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of Internal Audit -&gt; Financial Statements Quality</td>
<td>0.218</td>
<td>1.801</td>
<td>0.036</td>
<td>Effective</td>
</tr>
</tbody>
</table>

Note.: Significant at the level of 5%

The path coefficient is at 0.218 with a T statistic value of 1.801 < 1.660 on a significance level of $\alpha=0.05$ (5%) which states that there is an effect of the Internal Audit Implementation on the Financial Statements Quality.

In order to find out the significance of the Application of Internal Control System on the Financial Statements Quality, see table 7 as follows:

### Table 7 Path Coefficients

<table>
<thead>
<tr>
<th>Connection Between Variables</th>
<th>Parameter Coefficient</th>
<th>T Statistic</th>
<th>P Values</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPI Effect -&gt; Financial Statements Quality</td>
<td>0.651</td>
<td>5.935</td>
<td>0.000</td>
<td>Effective</td>
</tr>
</tbody>
</table>

Note.: Significant at the level of 5%

The path coefficient is at 0.651 with a T statistic value of 5.935 > 1.660 on a significance level of 0.05 (5%) which states that there is an effect of the application of Internal Control System on the Financial Statements Quality.

## V. DISCUSSION

### 1. Application of the Internal Control System on Internal Audit Implementation.

Based on the statistic test results and the significance of the Application of Internal Control System have an effect on the Implementation of Internal Audit. This shows that the application of the internal control system has gone through an integral process on the actions and activities that are done continuously by the management and all employees that are involved in order to give adequate assurance for the achievement of the organizational objectives, which in this case the regional government who has applied an internal control system that is in accordance with the existing regulations and it has a positive effect on the performance of the internal supervisor personnel in carrying out their duties which is to conduct internal audits, reviews, evaluations, monitoring and other supervisory actions.

This research results are in line with the research conducted by Mahmudah and Riyanto (2016) which states that the Application of Internal Control System has a positive effect on the effectiveness of internal audit. This research is also supported by Shanszadeh & Zolfaghari (2015) which states that effective internal control provides a positive direction on improving audit quality.

### 2. Effects of the Implementation of Internal Audit on the Financial Statements.

Based on the results of the statistic tests and significance, the Internal Audit Implementation has an effect on the Financial Statements Quality. This shows that the application of the internal control system has functioned well, which in turns affects the process and effectiveness of the audit. The availability of accurate information for auditors results in the auditing process being more focused and guided through the auditing, review, evaluation, monitoring and other supervisory processes that is done in order to actualize good governance. In addition, the function of internal audit is also focused on the improvement of financial statements quality through the compliance rate to the government accounting standards. These results in making the long processes that the internal supervisor personnel has gone through have a positive effect on the financial statements quality of the regional government.
These research results are in line with the research conducted by Rahmatika (2014) which states that the internal audit function has a positive effect on the financial statements quality and it has implications on good governance. This research is also supported by Riani Tanjung (2012) which states that the application of internal audits has an influence on financial performance. Whereas the research by Rosma Simangunsong (2015) states that the effectiveness of internal controls and the role of internal audit both partially and simultaneously affect government performance is better, as well as the variable effectiveness of internal control and the role of direct and indirect internal audit also affect the performance of local government well. Research conducted by Kewo and Afiah (2017) also states that the internal control system and internal audit partially have a positive effect on the quality of financial statements and also affect the quality of financial statements. Only research by Syarifudin (2014) that does not support by stating that the role of internal audit does not have a significant effect on the quality of local government financial reports, meaning that the role of financial supervisors has no significant effect in improving the quality of local government financial reports.


Based on the statistic test results and significance, the Application of the Internal Control System affects the Financial Statements Quality. This shows that the application of the internal control system that has been well applied and effectively has a positive effect on the Financial Statements Quality. The implementation of the control system is crucial, since the objectives of the institution can be achieved if all elements apply internal control system. In the Government Internal Control System (SPIP), it aims to give adequate assurance to the achievement of effectiveness and efficiency in reaching the regional government objectives, reliability of financial statements, security of regional assets and compliance with regulations.

These research results are in line with the research conducted by TutiHerawati (2014) entitled "Effectsof Internal Control System on the Financial Statements Quality” (Survey on Regional Government of Cianjur Organizations) which states that internal control is composed of Control Environment (X1), Risk Assessment (X2), Control Activities (X3), Information and Communication (X4) and Monitoring (X5) has significant and positive effect on the Regional Government Financial Statements Quality. This research is also supported by Rokhlinasari and Hidayat (2016) which states that the internal control system has 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 but has not reached the expected maximum level. 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) The implementation of the internal control system partially influences the quality of regional financial statements. While other supporting studies are Ichlas, Basri, and Arfan (2014) which state that the Government's Internal Control System has an effect on the financial accountability of the Banda Aceh City Government.

VI. CLOSING

Conclusion

Based on the discussion results presented in the previous chapters, it can be concluded that:

1. The Application of the Internal Control System has an effect on the Implementation of Internal Audit. This means that the application of internal control system has been conducted well and continuously by the management and all employees that are involved.

2. The Implementation of Internal Audit Affects the Financial Statements Quality. This means that the application of the internal control system has an effect on the effectiveness of the audit in which the components of the internal control system has functioned well, has a positive effect on the financial statements quality.

3. The Application of the Internal Control System affects the Financial Statements Quality. This means that the internal control system that has been well and effectively applied positively affects the Financial Statements Quality.

Recommendation

Based on the discussion and conclusion above, the researcher can give the following suggestion: The SKPD management of the Cianjur Regency should continue to improve the human resources through effective training, be more disciplined in carrying out the SPIP and have faster response in making corrections to the findings of the internal audit team (the regional supervisory personnel) so that the Financial Statements Quality, which is already satisfactory, may be maintained or even improved.
Effect of the Application of Internal Control System on the Implementation of Internal Audit

BIBLIOGRAPHY


