



**THE EFFECT OF COMPETENCE OF HUMAN RESOURCES AND THE
INTERNAL AUDIT ROLE OF THE QUALITY OF FINANCIAL
STATEMENTS
(Study in the Provincial and Regency / City Governments of North
Sumatra)**

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Abstract

Research this aiming to (1) testing and analyzing the effect of HR competencies on the quality of financial statements, (2) testing and analyzing the effect of the role of internal audit on the quality of financial statements, (3) testing and analyzing the effect of HR competencies and the role of internal audit on the quality of financial statements.

Object research this is all o u h provincial and district / city - northern Sumatra. Samp el on research this is 34 (thirty four) . Data collection is done with way method questionnaire , documentation and interview . Method The analysis is path analysis by using the SPSS program.

Results research this to show that (1) HR competencies and the role of internal audit do not partially

affect the success of the application of SIKD (2) HR competencies, Internal Audit Roles have no effect simultaneously to Success Application SIKD (3) the competence of human resources and the role of internal audit partial effect on the quality of the financial report.

Keywords: Human Resource Competence, Role of Internal Audit, Quality of Financial Statements.



A. Introduction

The phenomenon that occurs in Indonesia in the current era of public sector reform is the strengthening of the demand for transparency and public accountability of all bureaucratic activities until the reporting stage as a form of government accountability to the public. transparent as a form of government accountability to the community . In line with the demands of reform, the Government and BPK -RI have issued Law Number 22 of 1999 (replaced by Law No. 32/2004) concerning regional government and Law No. 25 of 1999 (replaced by Law No.33/2004) concerning financial balance between the central and regional governments .

One form of accountability in governance is regulated in Law Number 17 of 2003 concerning State Finance and Law Number 32 of 2004 concerning Regional Government. Concrete efforts to realize transparency and accountability in government financial management, both the central government and regional governments are by submitting accountability reports in the form of financial statements. The financial statements will be used by interested parties as a basis for decision making. Therefore, the information contained in the Financial Report must be of quality so that it is useful and in accordance with the needs of users. Information will be useful if the information has value. These values include Quality (Arfianti, 2011) in (Nazaruddin, 2017).

Preparation of quality financial reports must meet accounting standards, which have reliable and relevant quality. Thus the information on financial statements has value for the benefit of its readers. In addition, the same treatment of the recognition and measurement of financial transactions will make the information in the financial statements comparable. The accounting standard will also be a criterion for assessing the performance of government financial performance.

Quality is an important element of information value related to various parties' decision making. Reliability is the ability of information to give confidence that the information is true or valid while timeliness is the availability of information for decision makers when needed before the



information loses the power to influence decisions. Financial statements are said to be of quality if they are in accordance with the Government Accounting Standards (SAP) that have been set. One of them is to fulfill qualitative characteristics. In PP No. 71 of 2010 stated that the characteristics of financial statements are: relevant, reliable, comparable and understandable. The form of financial statements consists of Budget Realization Reports, Balance Sheets, Cash Flow Reports, and Notes to Financial Statements.

The Government Financial Report is examined every year and received an assessment in the form of an opinion from the Indonesian Financial Supervisory Board (BPK). The opinion given on the financial statements is a reflection of the quality of financial accountability for the implementation of the Government's budget. The change in the increase in the opinion of government financial statements, for example from WDP to PAPs in general has illustrated the improvement of financial accountability by the government in presenting financial reports in accordance with applicable principles. Efforts to improve the quality of Financial Statements are also in line with (Inpres No. 4 of 2011, 2011) concerning the Acceleration of Improving the Quality of State Financial Accountability.

Based on the graph above, when compared with the attainment of opinion in 2016, the quality of LKPD 2017 experienced a slight increase as indicated by an increase in WTP opinion by 6 points, ie from 70% in LKPD 2016 to 76% in LKPD 2017. On LKPD 2016 , as many as 378 out of 542 LKPDs obtained WTP opinions (70%), while in LKPD 2017 there were 411 of 542 LKPDs obtained WTP opinions (76%). In addition to the increase in the number of WTP opinions, there was also an increase in opinion from TMP opinions to 7 LKPD WDP opinions and from WDP opinions to as many as 45 LKPD.

If seen in the last 4 years (2014-2017), LKPD opinion has improved. During this period, LKPDs that obtained WTP opinions rose by 29 percentage points, from 47% in 2014 LKPD to 76% in 2017 LKPD.



From the explanation above, it can be concluded that the internal auditor is in charge of overseeing the SPI in an organization, if there are still findings about the SPI in the financial statements, it shows that the auditor has less role in overseeing the SPI to produce quality financial reports.

B. Method

This research is associative research using quantitative descriptive method which emphasizes the theory testing through measuring variables in the form of numbers which are then analyzed using statistical procedures. The study was conducted to find out how the influence of Human Resource Competence and the role of Internal Audit on quality of financial statements. The study was conducted in 34 Provincial Governments and Regency/City Governments in the Province of North Sumatra consisting of 1 Province and 33 Regencies /cities.

The process of collecting data through the distribution of questionnaires with respondents of the BPKD Kelapa and Inspectorates of each district / city government in North Sumatra. Data testing uses validity and reliability tests. The analysis technique uses path path analysis and descriptive statistics.

C. Research Finding

Based on the results of testing the data, the following hypothesis results are obtained.

1. Human resource competency influences the quality of financial statements.
2. The role of internal audit influences the quality of financial statements.
3. Human resource competency, the role of internal audit has an effect on the quality of financial statements

Human Resources

Competence Competency is also knowledge, skills and abilities related to work. McClelland in Rivai (2011: 299) in (Putriasri, 2017) defines



competency as a fundamental characteristic possessed by someone, who has direct influence, or can predict excellent performance.

According to BKN Head Decree No. 46A of 2007 the competencies are:

"The ability and characteristics possessed by a civil servant are in the form of knowledge, skills, and behavioral attitudes needed in carrying out his job duties, so that the Civil Servants can carry out their duties professionally, effectively and efficiently."

According to Nawawi (2001: 57) human resources, namely: "Humans or people who work or become members of an organization called personnel, employees, employees, labor, and others ". According to Fathoni (2006: 8) in (Asril, 2017) Human Resources is the most important capital and wealth of every human activity. Humans as the absolute most important element are analyzed and developed in this way.

Thus it can be formulated that human resource competency is the ability possessed by an employee related to knowledge, skills and attitudes that directly affect the performance that can achieve the desired goals.

Role of Internal Audit

According to Hiro Tugiman (2006: 11) "Internal auditing or internal examination is an independent assessment function in an organization to test and evaluate the activities of the organization carried out". The Internal Auditors carry out the internal audit function as described in the Indonesian Government Internal Audit Standards (2014: 3) below:

Internal audit is an independent and objective activity in the form of assurance activities and consulting activities designed to provide added value and improve the operations of an organization (auditi). This activity helps an organization (auditee) to achieve its objectives by using a systematic and orderly approach to assess and improve the effectiveness of risk management, control (control), and governance (public sector).

The role of the internal auditor as quality assurance (quality assurance) is very important in "helping the commitment of the Regional



Head to realize the optimization of the oversight function of the implementation of regional government" (AAIPI Audit Standards, 2014: 3).

Government Regulation Number 8 of 2006 concerning Financial Reporting and Government Agency Performance states that:

APIP (internal auditor) at the state ministry / institution / regional government to do review of financial statements and performance in order to ensure the reliability of information presented before be delivered by the minister / institution leader / governor/ regent / mayor to related parties. Reviuatas LKPD aims to provide limited confidence that the financial statements of local governments are prepared based on an adequate internal control system and are presented in accordance with government accounting standards.

In accordance with Government Regulation Number 60 of 2008 concerning the Government's Internal Control System (SPIP), APIP is mandated for "audit tasks, review, evaluation, monitoring and mentoring". Implementation is done by APIP is also required to understand core business every OPD who will used as the assignment object. APIP is also required to meet a comprehensive capability for an auditor where in addition to being able to detect weaknesses, the auditor must also be able to provide solutions to overcome existing weaknesses. The regional APIP is also responsible for providing adequate guarantees that financial management by the local government has been carried out in accordance with SAP through the results of a review of the LKPD before being audited by an external supervisory apparatus. Changes in the role of the APIP as accommodated in PP Number 60 of 2008 which also become an important expectation to APIP are :

Provide adequate confidence in obedience, economics, efficiency and effectiveness in achieving the objectives of carrying out tasks and functions of Government Agencies, providing early warning systems and improving risk management in the implementation of duties and functions of government agencies and maintaining and improving the quality of governance and function of government agencies.



The function of internal auditors is carried out by APIP by prioritizing the code of ethics that has been regulated in the Regulation of the Minister of State for Administrative Reform Number: PER / 04 / M.PAN / 03/2008 concerning the Code of Ethics for Government Internal Supervisory Apparatus.

Quality of financial statements

Understanding of quality according to Imam Mulyana (2010: 96) is: "Quality is defined as conformity with standards, measured based on levels of non-conformity, and achieved through examination". Financial statements according to Mahmudi (2003: 77) "is a form of government accountability to the people for the management of public funds both from taxes, levies or other transactions".

According to the Indonesian Institute of Accountants (IAI) (2007: 7): Financial statements are part of financial reporting. Complete financial statements usually include balance sheets, income statements, changes in financial position reports (which are presented in various ways such as cash flow statements, or fund flow reports), notes and other reports as well as explanatory material that is an integral part of financial statements".

According to Government Regulation No. 71 of 2010 the definition of financial statements is a structured report regarding financial position and transactions carried out by a reporting entity. The definition of regional financial statements according to Baridwan (2000: 17), namely: "Regional Financial Reports are a summary of a recording process, a summary of financial transactions that occur during the financial year concerned".

Government financial statements are intended to meet the general objectives of financial reporting, but not to meet the specific needs of their use. Besides the preparation of general purpose financial statements, reporting entities are possible to produce financial statements prepared for special needs. According to Mardiasmo (2001: 160):

Government institutions are required to be able to make external financial reports that include formal financial reports such as surplus



deficit reports, budget realization reports, cash flow reports, and balance sheets and performance expressed in financial and non-financial measures. Financial reporting is generated from the financial accounting process and is a medium for communicating financial information to external parties who pay attention to reporting bodies or organizations and activities.

According to (Government Regulation No. 71 of 2010, nd) concerning Government Accounting Standards that quality government financial reports are government financial reports that meet the desired quality, namely relevant, reliable, comparable and understandable.

Based on the description above, the quality of financial statements is defined as a statement of the reporting entity contained in the financial statement component which is used as the accountability of state / regional financial management for a period and has a reliable value so that it can be compared and understood by the users of financial statements.

According to (Cohen, 2011) in (Eka, 2015) states that financial statements that are said to be quality do not have to be in accordance with established accounting standards, but must be accompanied by an external audit report that contains opinions or opinions on reliability and compliance in preparing reports the finance. The audit opinion provides assurance that the financial statements have been prepared in accordance with accounting standards, and that the financial position, results of operations and the amount of surplus or deficit have been fairly stated from the audited organization. In addition, audit reports also play an important role as a deterrent to the emergence of low-quality information.

D. Discussion

1. Competence Human resources affect the quality of financial statements.

Based on the output results used by researchers in managing data through SPSS. The results of variable x1 have a value of t count $2.145 > t$ table $1,668$ with a significant level of 0.036 smaller than 0.05 so that it



rejects H_0 and accepts H_1 . This means that there is an influence of HR Competence on the Quality of Financial Statements.

When viewed from respondents' responses regarding the competence of human resources, there are about 28 respondents who agree that the information generated from financial statements is clear so that it can be understood by users. This proves that the financial statements provided by the local government already have quality values. In managing financial statements are not spared from users of the system that input and output the results, so that the output issued is an information called financial statements. The presentation of financial statements that can be understood by its users shows that these financial statements have fulfilled one of the characteristics of the quality of financial statements. This is explained by . RI Government Regulation Number 71 of 2010, concerning SAP. The government accounting conceptual framework section in paragraph 35 states that there are four qualitative characteristics of financial reporting, namely: Relevant, reliable, comparable, understandable .

Competent Human Resources are one of the quality factors of the Financial Report. Competence can be seen from the educational background, training, and skills stated in the implementation of the task. Competence is a characteristic of someone who has skills (knowledge), knowledge, and abilities to carry out work (Havesi, 2005 in Celviana 2010) in (Septiana, 2017).

In the process of preparing and preparing financial reports, the government requires competent human resources, mastering government accounting (Ministry of Finance, 2018: 96).

Several previous studies that supported this study were examined by (Kadek et al, 2015) which stated that the competence of human resources had a significant effect on the Quality of Financial Statements. This is because the competitiveness of human resources is good so the quality of regional financial statements will also be good so as to meet the qualitative characteristics of financial statements.

Research (Lilis et al, 2016) also said that competency has a significant effect on the quality of LKPD, this is due to the condition that



the financial staff has supported and balanced by including employees in training related to accounting and regional financial management.

2. Effect of the role of internal audit on the Quality of Financial Statements

Based on the output of the SPSS program used by the author in processing data, the x^2 variable value obtained has a value of 3.082 $\text{count} > t$ table 1,668 with a significant level of 0.003 smaller than 0.05 so it rejects H_0 and accepts H_1 . This means that there is an influence of the Internal Audit Role variable on the Quality of Financial Statements.

In the results of this study explain the role of Internal Audit has an effect on the Quality of Financial Reports. Judging from the responses of respondents with the number of respondents 28 people who approve the subject matter of internal auditors continuously improve professional proficiency, effectiveness and quality of work results, so that an auditor is proficient in his profession, it further strengthens the supervision system in the preparation of financial statements. An internal audi who has proficiency in his field will produce effective employment value, therefore the value of financial statements will increase if his internal audit plays a role in accordance with his code of ethics.

3. Effect of human resource competency and the role of internal audit on the quality of financial statements

Based on the output of the data entered into SPSS, the obtained value f calculated at 9393 $> f$ table at 3:14 and significance of 0.000 < 0.05 . This shows that simultaneously HR Competency variables, Internal Audit Roles affect the quality of financial statements or accept H_1 .

If seen from the responses of the respondents regarding the competency of an ASN with the highest number of respondents as many as 30 people who agreed that the training material attended by the ASNs had been given according to the needs as a function of financial managers, so it did not require much time in training. If seen from the respondent's response regarding the role of the internal audit with the highest number of respondents as many as 28 people who agree that an internal auditor has continuously increased professional proficiency,



effectiveness and quality of work, so that in the process of inspection and supervision of OPD in each district can be run in accordance with the provisions. And if seen from the responses respondents respond to the success of the implementation of regional financial information systems that have the highest responses of respondents as many as 28 people who agree on the subject of financial information to produce information that is in accordance with the needs in work, so that the resulting financial statements are more accurate and accountable.

In the process of preparing Financial Statements, Human Resources are the first part that must be considered, because those who will use and operate the system used in the process of preparing financial statements are human. If human resources are competent in operating the system, the process of preparing financial statements will be carried out in accordance with the time specified, so that the delivery of financial reporting time will be on time. Likewise with the role of internal audit and financial information systems, it is theoretically very influential because a system is able to control the functions carried out by internal audits.

To achieve a quality financial report, the government establishes an accrual-based accounting system for all central and regional governments. In the success of applying accrual-based accounting, Human Resources is one of the challenges that must be considered.

Competent HR is a factor that influences the success of the application of an accrual-based accounting system. Through the socialization / training integration program stakeholders are expected to understand and support the application of accrual accounting bases and jointly strive to improve the quality of accountability and transparency in financial reporting can be realized. (Ministry of Finance, 2018: 84).

In accordance with the results of this study HR Competencies and the Role of Internal Audit affect the Quality of Financial Statements. This is supported by research (Lilis et al., 2016) saying that competency and internal audit have a significant effect on the quality of LKPD, this is due to the condition that the financial staff has supported and balanced by



including employees in training related to accounting and regional financial management.

The results of this study support previous research (Silviana, 2014) which shows the Application of Regional Financial Information Systems affect the quality of LKPD because SIKD is a system that has been integrated based on accounting standards in producing financial statements.

E. Conclusion

Based on the results of the research and conclusions stated earlier, conclusions can be drawn from the research on the influence of human resource competencies and the role of the internal audit on the quality of financial statements with the successful implementation of regional financial information systems into intervening variables (study of provincial and district / city governments North Sumatra) are as follows:

1. HR Competence affects the Quality of Financial Statements. This is evidenced from the responses of respondents regarding the competence of human resources, there are about 28 respondents who agree that the information generated from financial statements is clear so that it can be understood by users. This proves that the financial statements provided by the local government already have quality values.
2. The role of Internal Audit influences the Quality of Financial Statements. This is evidenced from the responses of respondents with the number of respondents 28 people who agree on the subject of internal auditors constantly increasing professional proficiency, effectiveness and quality of work results, so that an auditor is proficient in his profession, further strengthening the supervision system in the preparation of financial statements.
3. Human resource competencies, the role of internal audit, affect the quality of financial statements. This can be evidenced from the responses of the respondents regarding the competency of an ASN with the highest number of respondents as many as 30 people who agree that the training material followed by ASNs has been given



according to their needs as a financial management function, so it does not require much time in training. If seen from the respondent's response regarding the role of the internal audit with the highest number of respondents as many as 28 people who agree that an internal auditor has continuously increased professional proficiency, effectiveness and quality of work, so that in the process of inspection and supervision of OPD in each district can be run in accordance with the provisions.

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