

## The Effect of Financial Report Review with Auditor Competence on the Quality of Financial Reports

Dedy Priyadi Senopati Warga Dalam, Nurhastuty Kesumo Wardhani

*Magister of Accounting, Universitas Trisakti, Jakarta, Indonesia*

**ABSTRACT :** The Inspector General of the Ministry of Defense of the Republic of Indonesia is the Government Internal Audit Tool (APIP), whose task is to review the financial reports of the Ministry of Defense of the Republic of Indonesia. Audit The Ministry of Defense periodically conducts audits of financial reports every semester, the purpose of which is to provide limited assurance that the annual accounts of the Ministry of Defense of the Republic of Indonesia are prepared and presented in accordance with government regulations. Accounting standard requirements as the basis for issuing a statement of responsibility to the Minister of Defense. Based on the results of temporary observations made at this time, the implementation of financial status audits at the Ministry of Defense of the Republic of Indonesia is carried out in such a way that it is hoped that it will have a positive impact on quality improvement. review financial reports. This research was conducted by collecting basic information from respondents by distributing questionnaires. Questionnaires were distributed to selected respondents. The respondents to this research are auditors from the Ministry of Defense of the Republic of Indonesia. The aim of the survey was to determine the attitudes of the respondents as measured by a Likert scale (Likert-Rensis Method). The Likert scale used in this study consists of five scales, with each scale getting its own score. Multiple linear regression is used to determine the impact of each variable. The aim of this research is to see the relationship between the auditor's expertise in auditing financial statements and improving the quality of financial report assessment. The results of testing the hypothesis indicate that the quality of financial statements is influenced by the implementation of audits and auditor competence.

Keywords: Review Implementation, Auditor Competency, Financial Statement Review Quality

### I. PRELIMINARY

The auditor's profession is very important to users of financial statements because the accountant's role is to provide adequate assurance on the statements made in the auditor's report on the financial statements presented by management. To support the professionalism of the auditor, the auditor must follow the Auditing Standards of the Indonesian Institute of Certified Public Accountants (IAPI), namely, general standards, fieldwork standards, and reporting standards, in carrying out their audit duties. (Elfarini, 2007). The accountant's job is to carry out inspections. He is also responsible for filling out the annual accounts and for the internal oversight apparatus of the State Council of the Ministry of Defense (APIP) and LK K/L components (LRA, LO, LPE, LPE, Balance Sheet, CaLK). Financial reports are a means of communication and a statement of state responsibility to the public. Financial reports contain information used to (a) compare actual and budgeted financial results, (b) evaluate financial condition and business performance, (c) determine the level of compliance with financial laws and other regulations, and (d) assess the level of effectiveness and efficiency (Mardiasmo, 2005). The current phenomenon shows that the internal inspectors of the Ministry of Defense are not fully qualified to carry out LK inspections. The Audit Board of the Republic of Indonesia (BPK-RI) determined the value of a fair exception (WDP) in the 2016, 2017, and 2018 Ministry of Defense Financial Annual Reports, which are limited to acquisition transfer out registration (TKTM). concentration of goods and land (BMN) for the Ministry of Defense, whose use is still not important so that it has not yet reached the highest opinion, namely, "not qualified" (WTP). Mardiasmo (2013) states that the role of internal audit is very important in leading to an unqualified opinion (WTP) because it plays a role in the reliability of the internal control system, compliance with regulations, and compliance with the management system. The quality of the Ministry of Defense's financial reports can be improved by the role of internal audit (Imam Bastari, 2013). This document is expected to have several anticipated benefits, namely as a source of input to advise the Minister of Defense on improving the quality of financial report audit results and as a source of input for the Minister of Defense in program implementation. Financial reports inspection and expertise of an auditor so that LK Kemhan gets the highest rating.

### Literature Review and Hypothesis

The definition of an audit, according to Mahmud (2011: 320), is a review of government financial reports, numerical monitoring procedures, surveys, and analysis, which must provide a sufficient basis for audit institutions to provide limited guarantees for significant financial reports. Change is required. Prepare financial reports in such a way that financial reports are presented based on an adequate internal control system (SPI) and in accordance with national accounting standards (SAP).

definition of qualifications According to Amir Abadi Jusuf (2017:2), qualifications are as follows: Prerequisites for auditor qualifications are formal auditing and accounting training, sufficient practical experience for the work to be performed, and participation in ongoing professional activities. Fitrawansyah's educational (2019: 6) qualifications mean that the auditor must have an audit field and sufficient knowledge of the field being audited (Fitrawansyah, 2016). Definition of Audit Quality of Financial Statements In the book "Instructions for Conducting an Audit Using Audit Techniques," published by the Ministry of Defense's Education and Training Center, it is stated that an audit is carried out. Financial statement audit quality standards must be met. The quality of financial audits includes the following:

- a. Strategic quality, which means that the results of the evaluation can provide useful information to related parties about audit results in a timely manner.
- b. Technical quality refers to the presentation of error findings in figures and reports, conclusions, and/or suggestions for improvement, where the presentation must be clear, consistent, easily accessible, and objective.
- c. Process quality includes objectives related to the inspection process itself, where the evaluation process must be comprehensive, efficient, effective, and can be evaluated by other parties and obtain formal quality assurance.

The Importance of Auditor Qualifications in Auditing Financial Statements by Rizki Septidiany The effect of auditor qualifications on internal audit performance and its effect on the quality of financial statements The Ministry of Defense audit uses the Republic of Indonesia Ministry of Defense Regulation No. February 10, 2016 concerning the Accounting and Financial Reporting System of the Ministry of Defense Agency in its LK audit. the Indonesian National Armed Forces, which was ratified by Regulation of the Minister of Finance of the Republic of Indonesia, Number 13/Pmk.05/2018, dated October 31, 2018, concerning Procedures for Implementing the State Budget in the Ministry of Defense. Indonesian national army.

### Conceptual framework

From the theoretical basis report on the competence of inspectors to carry out inspections of LK, it can also be concluded that during the inspection, all work steps carried out by APIP during the inspection task are documented. The correct and consistent implementation of the auditor's review can improve the quality of the financial statement review. This also shows that the implementation of the inspection is in accordance with applicable regulations. If it is possible to apply and maintain the competence of the auditor in carrying out an LK audit properly and permanently, it can be expected that the quality of the audit of financial reports carried out by the appraiser will be of value.

Based on this research, it is expected to prove the hypothesis that the implementation of an audit of the annual report and the qualifications of the auditor can improve the quality of the audit of the annual report, which initially has many deficiencies, namely, that the evaluation process cannot be carried out effectively and efficiently. This resulted in the audit results not being able to provide quality assurance that the annual calculations had been prepared in accordance with the provisions. Obstacles to the audit quality of financial statements were overcome by enforcing auditing standards, particularly by implementing auditor qualifications in conducting audits of the financial statements of the Ministry of Defense of the Republic of Indonesia.

A hypothesis is an initial assumption about something that is later proven correct through research. The task of the researcher is to verify the truth or relevance of the hypothesis. Hypotheses can be derived and developed from several sources. You don't have hair. Ke (2007:15) states that: "Researchers often have initial ideas about information relationships based on research objectives." These ideas come from previous research, theory, and/or the current business situation and are usually called hypotheses. Based on the definition provided by Hair, the research hypothesis is more likely to originate from the current organizational situation in the Ministry of Defense of the Republic of Indonesia. This hypothesis is a tentative response to the research problem formulation, where the research problem formulation is presented in the form of a question. Based on the description above, the writer tries to explain the research hypothesis as follows:

H1: The implementation of financial report audits has an effect on the quality of financial reports.

H2: The auditor qualifications affect the implementation of the financial reports Examination.

## II. RESEARCH METHODS

According to Sugiyono (2018: 13), the object of research is a scientific object whose purpose is to obtain data (the primary data used in this study) and use something that is more objective, valid, and reliable (certain variables). The objects of this work are auditor qualifications, FI audit performance, and financial report audit quality.

The causality method is used in this study. The form of association in this study is cause and effect. Example: X (an independent variable) affects Y (a dependent variable). In this study, the application of financial statement assessment (X1) and auditor competence (X2) are the independent variables (the independent variable), while the quality of financial statement assessment (Y) is the dependent variable (the dependent variable). This research was conducted through a spread of interviewees who collected basic information from respondents, and the time dimension used in this study was cross-sectional. Based on Sugiyono's (2017) explanation, the primary data of this study is obtained from respondents' answers to a questionnaire containing questions about the problems of this research. This research questionnaire uses structured statements with alternative answers. Respondents were asked to answer these questions on an interval scale that measures their attitudes toward the statements presented. This information comes from a questionnaire sent to the Indonesian Ministry of Defense. According to Sugiyono (2018), the sample is part of the population and its characteristics. Samples were taken using the random sampling technique. In this study, raw data was used, and data collection was carried out through a closed questionnaire according to the Likert scale for all respondents. The partial least squares (PLS) method was used for data analysis.

## III. RESULTS AND DISCUSSION

### Research Result

#### Outer Model Evaluation

In this study, external model tests were used to test the validity and reliability tests. The validity test includes a convergent validity test and a discriminant validity test. While the reliability test includes the combined reliability test, Cronbach's alpha test, and AVE test,

#### Test of Convergent Validity

A single reflective measure is high if it correlates more than 0.70 with the construct being measured. However, a loading value of 0.70 is considered sufficient for a study in the early stages of developing a scale (Ghozali, 2018). Based on the results of the convergent validity test, the following table is shown:

Table 1. Outer Loading Test

Variable	Item	Outer Loading Value	Decision
Review Implementation	X1.1	0.829	Valid
	X1.2	0.846	Valid
	X1.3	0.907	Valid
Auditor Competency	X2.1	0.847	Valid
	X2.2	0.985	Valid
	X2.3	0.841	Valid
Quality of financial report review	Y.1	0.958	Valid
	Y.2	0.872	Valid
	Y.3	0.785	Valid

After processing the failed data, according to the table above, it is known that all the variable indicators studied received a loading factor value greater than 0.70, so that the data was recognized as significant and met the requirements for convergent validity.

#### Discriminant Validity

Another criterion for achieving discriminant validity is to test the correlation value of one construct with another construct. The reference value for each construct is the square root of the construct's AVE value. In this study, discriminant validity was determined by the use of the Fornell-Lacker criterion, in which the construct's AVE square root value must be greater than its correlation value with other constructs. The following table summarizes the proposed Fornell-Lacker criteria.

Table 2. Fornell-Larcker Criterion

Variable	Review Implementation (X1)	Auditor Competency (X2)	Quality of financial report review (Y)
Review Implementation (X1)	0.783		
Auditor Competency (X2)	0.763	0.912	
Quality of financial report review (Y)	0.719	0.862	0.981

Based on the results of the Fornell-Larcker criterion test, it can be seen that the correlation value of each variable is higher than the other variables. Thus, it can be concluded that the qualification requirements for the separation of all variables are met.

**Reliability Test**

Another test to check the quality of the data is the combined reliability test of the indicator block that measures the construct. A building is said to be reliable if the composite reliability value is greater than 0.60 (Ghozali, 2018). The combined reliability test results are shown in the following table.

Table 3: Composite Reliability Test and Cronbach's Alpha

Variable	Composite Reliability	Cronbach's Alpha	Decision
Review Implementation (X1)	0.819	0.822	Reliable
Auditor Competency (X2)	0.762	0.857	Reliable
Quality of financial report review (Y)	0.763	0.891	Reliable

Source: data processed with SPL

Based on the table above, it can be explained in terms of composite reliability and Cronbach's alpha, so it can be concluded that all the constructs studied met the predetermined criteria. Thus, each construct can be positioned as a research variable. This implies that, when all variables are considered together, they have sufficient internal consistency in measuring latent or construct variables for future use.

**Estimating Internal Models**

To estimate the model using PLS, we must first look at the R-square of each dependent latent variable. Changes in the R-squared value can be used to assess whether the effect of certain independent latent variables on the dependent latent variable has a significant effect. For the structural model's endogenous latent variables, the score of R2 is 0.67, indicating that the model is "good." The R2 result of 0.33 indicates a "moderate" model, and an R2 of 0.19 indicates a "weak" model (Ghozali, 2018). The R-squared value for this research can be seen as:

Table 4. R-Square Value

Variable	R-Square
Kualitas reuiu laporan keuangan (Y)	0.863

Source: data processed with SPL

Based on the results of R2 in the table above, it can be concluded that the model built in this study is good. In addition, this study also shows that 86.3% of the variable quality of financial statement audits can be predicted by audit performance and auditor skills. However, 8.533% is another factor that was not investigated in this study.

**Q-Square**

In the PLS model, a good fit assessment is known as the Q2 value. The Q2 value has the same meaning as the coefficient of determination (R-squared) in the regression analysis, where the higher the R-squared, the better the model fits the data. The application of the structural model can be seen in Q2 as follows:

Q <sup>2</sup> =	1 - [(1 - R1) (1 - R2)]
	1 - [(1 - 0,863) (1 - 0,842)]
	1 - [(0,137) (0,158)]
	1 - [0,021]
	0.979

Source: data processed with SPL

The Q2 result achieved was 0.979, meaning that the Q2 value was above 0.19, where this research model was considered to have a relevant predictive value.

### Collinearity Testing (VIF)

Table 5. VIF

Variable	VIF Value
Review Implementation (X1)	2.873
Auditor Competency (X2)	3.212
Quality of financial report review (Y)	1.981

Source: data processed with SPL

Based on the results of the analysis of collinearity statistics (VIF) in the table above, the value of the audit implementation variable is in the VIF value of all indicators, auditor qualifications, and overall financial statement audit quality. less than 5 (Hair et al., 2017), so it can be concluded that all indicator points from the variables of audit implementation, auditor competency, and quality of financial statement review are free from multicollinearity.

### Hypothesis test

After completing the steps for evaluating the external model and the internal model, the next step for testing the hypothesis is bootstrapping. To answer the research hypothesis, we can see from the following table:

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics ( O/STDEV )</i>	<i>P Values</i>	Decision
Review Implementation (X1)-> Quality of financial report review (Y)	0.312	0.347	0.981	3.621	0.010	Hypothesis Supported
Auditor Competency (X2)-> Quality of financial report review (Y)	0.783	0.619	0.571	3.981	0.001	Hypothesis Supported

Source: data processed with SPL

### Discussion

1. The effect of the implementation of the review on the quality of the review of financial statements  
 The review implementation variable shows a significance value of 0.010, where the value is less than 0.05 so that the hypothesis is accepted. This shows that the implementation of the review has an influence on the quality of the financial statement review.  
 A review of the financial reports of OPD is indispensable to improving the quality of the financial reports. The scope of the review includes a limited assessment of the reliability of the internal control system and compliance with government accounting standards. In other words, the LKPD review is to provide limited assurance that local government financial reports are prepared based on an adequate internal control system and are presented in accordance with government accounting standards. This is in line with research (Maulana, 2017), which indicates that the review process affects the quality of regional government financial reports. A quality review that is in accordance with the Review Standards will produce the right recommendations so that it can assist in the preparation of a quality LKPD, and research (Kalumata et al., 2016) on the North Sulawesi Provincial Government shows that the local government financial report review has a significant influence on the quality of local government financial reports. This means that the high or low quality of financial reports is influenced by the LKPD review process by the Inspectorate. This is in line with research conducted by Putra (2022) that shows the implementation of the review has an effect on financial reports.
2. The effect of auditor competence on the quality of financial statement reviews  
 The auditor competence variable shows a significance value of 0.001, where the value is less than 0.05, so the hypothesis is accepted. This shows that the competence of the auditor has an influence on the quality of the financial statement review.  
 This is in line with research conducted by Agytri Wardhatul (2019) which shows that competence has a positive effect on reviewing financial statements. By continuing to broaden the knowledge possessed and add more experience, this will result in high-quality and reliable financial report reviews. Competence refers to the professional expertise possessed by auditors as a result of formal education,

professional exams, or involvement in training, seminars, and symposiums. (Haryanto & Susilawati, 2018) shows that auditor independence has a positive effect on stating that auditor competence has a positive and significant effect on the resulting audit quality; the higher the competence of an auditor, the better the quality of the resulting audit.

## CLOSING

### Conclusion

Based on the analysis that has been done, several conclusions can be drawn, including:

1. The implementation of the review affects the quality of the financial report review.
2. Auditor competence influences the quality of financial statement reviews.

### Suggestion

Based on the conclusions above, several suggestions can be put forward that are expected to be useful for the Ministry of Defense of the Republic of Indonesia or for further researchers, in the form of:

1. It is hoped that the Ministry of Defense of the Republic of Indonesia will continue to conduct auditor competency training and development in order to support performance when reviewing financial reports and produce quality financial reports.
2. For future researchers, it is better to expand the scope of research by adding research objects, namely, conducting research by adding other variables that affect the quality of financial statement reviews.

## BIBLIOGRAPHY

- [1]. Bekaiang dkk. 2017. *Pengaruh prosedur revidi terhadap kualitas revidi laporan keuangan pemerintah daerah di kabupaten minahasa utara*. Jurnal EMBA Vol.5 No.2, Hal. 847 – 856.
- [2]. Burgin, Burhan. 2008. *Penelitian Kualitatif*. Jakarta: Kencana Media Group.
- [3]. Budi S. Prianto. 2013. *Manajemen Perpajakan - Sebuah Pendekatan Komprehensif Empirik dan Praktis*. PT Pratama Indomitra Konsultan. Jakarta.
- [4]. Herdiansyah, Haris. 2012. *Metodologi Penelitian Kualitatif untuk ilmu-ilmu Sosial*. Jakarta: Salemba Empat
- [5]. Hayu, Hastari. 2012. PPh Badan, (Online), (<http://hastari-hayu.blogspot.com/2012/01/pph-badan.html>), diakses 26 Februari 2020)
- [6]. Mardiasmo. 2013. *Perpajakan. Edisi revisi 2013*. Yogyakarta : Andi.
- [7]. Pohan. Chairil Anwar. 2013. *Manajemen Perpajakan Strategi Perencanaan dan Bisnis*. PT Gramedia Pustaka Utama. Jakarta.
- [8]. *Pedoman Penulisan Skripsi*. 2020. Medan: Fakultas Ekonomi Universitas Darma Agung.
- [9]. Putri, 2022. *Reviu laporan keuangan dan penerapan sap berbasis akrual terhadap kualitas laporan keuangan*. Journal of Innovation Research and Knowledge, Vol.2 No. 1.
- [10]. Rori, Handri. 2013. *Analisis Penarapan Tax Planning Atas Pajak Penghasilan Badan*. Jurnal EMBA, Vol.1 No. 3 : 410 – 418.
- [11]. Suandy, Erly. 2016. *Perencanaan Pajak*, Edisi 6. Jakarta : Salemba Empat.
- [12]. Sugiyono. 2018. *Metode Penelitian Kuantitatif Kualitatif dan R&D*. Alfabeta. Bandung.
- [13]. Undang-Undang No 6 tahun 1983 tentang Ketentuan Umum Dan Tata Cara Perpajakan sebagaimana yang telah beberapa kali diubah terakhir dengan UU No 28 tahun 2007.
- [14]. Undang-Undang Nomor 36 Pasal 4 Tahun 2008 tentang Perubahan keempat atas Undang-Undang Nomor 7 Tahun 1983 tentang Pajak Penghasilan.
- [15]. Undang-Undang Republik Indonesia. UU No. 36 Tahun 2008 tentang Perubahan Keempat Atas Undang-Undang No. 7 Tahun 1983 Tentang Pajak Penghasilan. 2008. Jakarta : Sekretariat Negara Republik Indonesia.
- [16]. Waluyo. 2013. *Perpajakan Indonesia*. Salemba Empat. Jakarta.
- [17]. Yuriski dan kuntadi, 2022. *Pengaruh independensi, kompetensi, dan implementasi teknik audit berbantuan komputer terhadap kualitas audit*, Jurnal Multidisiplin Indonesia, Volume 1 No. 3.