

Determinants of Quality Review of Financial Statements

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Abstract

The purpose of this study examines the determinants of the quality of financial statements review, namely the procedure review, education level and time pressure on the quality of government financial statements reviews Jayapura City area. Goal Setting Theory is used to explain the relationship and influence of research variables.

The population of 110 employees is the Government Internal Supervisory Apparatus (APIP) Jayapura City. The sample in this study amounted to N = 55 officers and obtained through purposive sampling technique. The method of data analysis is multiple linear regression using survey data. The research findings indicate that the procedure reviews, the level of education is influential positive for the quality of the review of local government financial statements. While the time pressure has a negative effect on the quality of the review of the Jayapura city government financial statements.

Keywords: Quality review of financial statements; Review procedure; Education level; Time pressure.



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1. Introduction

The State Financial Reformation in Indonesia begins with the enactment of the three packages Law (Law) related to State Financial Management, namely Law No. 17 of 2003 concerning Finance State, Law No.1 of 2004 concerning State Treasury and Law No. 15 of 2004 concerning Management Check and Responsibility of State Finance. State finance is all state rights and obligations that can be valued with money, and everything good in the form of money or in the form of goods that can be used as state property in connection with the exercise of rights and these obligations. One manifestation of state financial management is the management of the Budget State Expenditures (APBN) and Regional Income Expenditure Budget (APBD). In order to assess the quality of financial management, the role of the supervisory institution needs to be improved in the framework of internal supervision and inspection of the management of state finances in order to create *good governance*.

According to Ramandei (2017), one of the units conducts supervision and examination of the implementation of regional government is the regional inspectorate. The office has the main task assisting the Regional Head in organizing the Regional Government in the field of supervision. The main tasks are to: first, formulate technical policies in the field supervision; second, develop plans and programs in the field of supervision; third, implement controlling operational technical supervision; and fourth, carry out supervision coordination and follow-up of supervision results. Therefore, understanding the importance of quality audits for the realization of an accountable government will be able to motivate the inspectorate apparatus to use and improve the competence and independence they have.

The Duties and Responsibilities of the Government Internal Supervisory Apparatus (APIP) are to review Financial Statements in accordance with the mandate of the [Minister of Finance Regulation of the Republic of Indonesia number 8/PMK.09 \(2015\)](#) Standard Review of Local Government Financial Reports and Republic of Indonesia Minister of Internal Affairs Regulation Indonesia Number 4 of 2018 concerning the Implementation of Review of Government Financial Statements Accrual Based Areas. The quality of the review of financial statements is a review of organizing accounting and presenting local government financial statements by the institution supervisor. The review process is intended to provide limited confidence that accounting has held based on the accounting system of the regional government and has been presented in accordance with government accounting standards. The review was carried out in an effort to help the regional head to produce quality financial reports. The purpose of the intended review is to help the implementation of accounting and presentation of financial statements and providing limited belief that the accounting process has been carried out based on the accounting system regional finance and has been presented in accordance with government accounting standards. According to Prasetyo and dan Pangemanan (2014) the implementation of the review by the inspectorate can produce financial reports quality. The role of the Inspectorate is very large and strategic in regional financial supervision to control and control regional financial policies.

The implementation of the review becomes very important in order to materialize governance efficient, effective, economical, transparent and accountable. The implementation of the review requires commitment agencies to carry out internal control and administration and accounting processes. Review the results of the accounting process will provide an evaluation of the implementation of the accounting process and the quality of financial statements. Evaluation is intended to correct the inaccuracy of presentation reporting so that corrective action can be taken.

Findings on the results of the examination with specific objectives by Audit Board of the Republic Indonesia (BPK) for Semester II 2016 on APIP's performance on the supervision and review of financial statements it was declared inadequate. Thing it is said that the quality of the audit and review of financial statements by the Government Internal Supervisory Apparatus (APIP) has not shown any continuous improvement. Audit activities and reviews financial statements have not been meticulous and are not in accordance with audit planning so that it has an impact on unreliable audit reporting. The causes are weaknesses in operating guidelines and human Resources.

According to the BPK Audit Results the problem of human resources is the amount and human resource competency Government Internal Supervisory Apparatus (APIP). This amount is still less than the amount needed. Likewise the duties of the Internal Supervisory Apparatus Government (APIP) to develop implementation guidelines in the form of technical guidelines and implementation guidelines which are the elaboration of audit standards / reviews to support audit / review activities in the field are not optimal.

The Inspectorate as the Government Internal Supervisory Apparatus (APIP) is authorized to carry out review has a big challenge to produce Local Government Financial Statements quality (LKPD). Support for competence human resources (HR) adequate infrastructure and facilities, budgetary costs, as well as the existence of technical instructions that load review implementation procedure. This condition is reasonable so that the results of the review can provide information that the Local Government Financial Statements (LKPD) have been prepared in accordance with the Standards Government Accounting (SAP).

2. Literature Review and Hypothesis Development

2.1. Goal Setting Theory

Goal setting theory is a determinant of behavior which is a cognitive process within build a goal. The high level of achievement will be generated when individuals realize and carry out these goals (Locke *et al.*, 1981). Furthermore, Locke *et al.* (1981) states that traits cognitive includes 4 (four) of the following: *goal specificity*, which is the specific goal associated with the level of quantitative precision of a goal; *goal difficulty*, which is the level of expertise needed in achieve a goal; *goal intensity*, namely the process of determining achievement of goals; and *goal commitment*, the existence of sufficient power and effort to achieve a goal. Setting goals provide clarity for individuals to do what should be done. Purpose of that specific will produce potential achievements better than general goals. On the other hand the level of difficulty of the goal, the goal that is increasingly difficult to believe in the level of achievement achieved will be even higher. This study uses *goal setting theory* as a basis for explain variations in the behavior of individuals or government internal supervisory apparatus regarding stipulations the goal is the achievement of a quality financial report review.

2.2. Review Procedure

According to Widyarini and dan Ratnadi (2015) the stages of the implementation of the review include searching numbers, information requests, and analytical procedures. This stage is a review procedure on review of government financial reports. Number search is done to get the belief that the presentation of numbers in the financial statements is correct and accurate in the presence search records document used. If in the search phase numbers are found problems and require verification, the inquiry is done to confirm to the Regional Finance Management Officer. Records that are not in accordance with Accounting Standards Government (SAP) is identified through analytical procedures. The stages referred to are assessment the fairness of the balance and details of the financial statements, the suitability and relationship between the components of the report finance (Arens and Loebbecke, 2003). The supervisor will arrange this analytical procedure with consider reviewing the internal control system so that there is conformity to the Standards Government Accounting (SAP) is directed at the components of financial statements and accounts control is weak. The supervisors will consider the necessary adjustments based on problems such as extraordinary events and changes in accounting policies (Amirullah and Darwanis, 2010).

The review procedure is the method or technique used to collect and evaluate sufficient and competent evidence. This was confirmed by Locke *et al.* (1981) determination theory goal (*goal setting theory*) is the intensity of the goal in the process of determining achievement aim. Review procedures are tracking numbers, information requests, and analytical procedures. The review procedure must be clearly disclosed so that the team members review the procedure that will be do. Without a review procedure, the results of the review cannot provide confidence in the report government finance has been prepared based on an adequate Internal Control System (SPI) and in accordance with Government Accounting Standards (SAP). Therefore based on theory and research previously, the research hypothesis could be proposed:

H1: *Review procedure has a positive effect on the quality of the financial statement review.*

2.3. Level of Education

Main level of education qualification Government Internal Supervisory Apparatus (APIP) as required in the Regulation of the Minister of State for Administrative Reform No. 05 / M.PAN / 03/2008 concerning Audit Standards Apparatus for Government Internal Supervision is minimal Bachelor. APIP is required to have the ability to plan audits, design techniques and audit method, identify the auditor's professional needs, according to the agency's business activities served so that it can achieve audit performance. Achievement of good APIP audit performance identification of the skills needed in the framework of the recruitment process to obtain is required competent apparatus resources. According to [Widyarini and dan Ratnadi \(2015\)](#) Inspection Standards State Finance (SPKN) states that financial audits must be carried out by examiners who have adequate accounting and auditing skills, as well as have an adequate understanding of the Generally Accepted Accounting Principles related to the entity checked. Understanding of accounting can be obtained through formal education as well as levels non-formal (such as training and courses). Increased competence through the education level of the apparatus the good ones will support their duties and responsibilities. Competence and independence are standards that must be met by an auditor to be able to audit well ([Ramandei, 2017](#)).

Goal Setting Theory states that to achieve a goal with difficulty certain skills are also needed ([Locke et al., 1981](#)). State Audit Standards (SPKN) states that the expertise in accounting and auditing must be owned by the examiner who carries out financial checks, and understands generally accepted accounting principles related to the entity being examined. However, in practice there is still a lack of resources human beings who are competent in the field of examination. Therefore the level of education other than accounting, auditing, communication and government administration cannot carry out tasks and functions as an official apparatus of government oversight. Research conducted by [Mulyono \(2009\)](#) and [Batubara \(2008\)](#) states that educational background influences performance inspectorate. Based on theory and previous research, the hypothesis is formulated:

H₂: Educational level has a positive effect on the quality of the financial statement review.

2.4. Time Pressure

The role of the Government Internal Supervisory Apparatus (APIP) to produce a report review quality finance with a limited time budget, of course this is pressure for APIP. The results of the study by [Coram et al. \(2004\)](#) state that audit quality will decrease if the auditor experiences pressure due to the limited budget for conducting the audit. Thing this was reinforced by [Widyarini and dan Ratnadi \(2015\)](#) that the time and budget pressures of the review could reduce the quality of the financial statement review. In line with that, the task pressure is very heavy affect the quality of one's performance ([Simanjuntak, 2008](#)). Therefore, the Government Internal Supervisory Apparatus (APIP) needs to prepare a time budget for review activities so that it can work in a manner optimal. The time budget serves as a reference for estimating audit costs, staff allocation to in the assignment of the audit team, and the foundation in evaluating the auditor's performance ([Basuki., 2006](#)). Likewise, the review activities, the time budget serves to determine the cost of review, allocation of team personnel review and as a basis for measuring the performance of the Supervisory Apparatus Government Intern.

Time pressure has two dimensions, namely *time deadline pressure*, namely the state of the auditor demanded to complete the audit work on time and *time budget pressure*, namely conditions auditors are required to be efficient by completing their tasks according to the time budget that has been prepared ([Heriningsih, 2001](#)). The time pressure factor can encourage government internal supervision to complete assignments on time. Time pressure is one of the influencing factors the purpose of achieving financial report quality review. Theoretically, goal setting theory [Locke et al. \(1981\)](#) states that specific goals are related to the level of quantitative precision of a goal. Time pressure has a significant negative effect on audit quality ([Prasita and dan Priyo, 2007](#)). [Coram \(2004\)](#), Shows that due to time pressure limited can have an impact on the ignition of audit quality. Based on theory and support the results of the research can be formulated as follows:

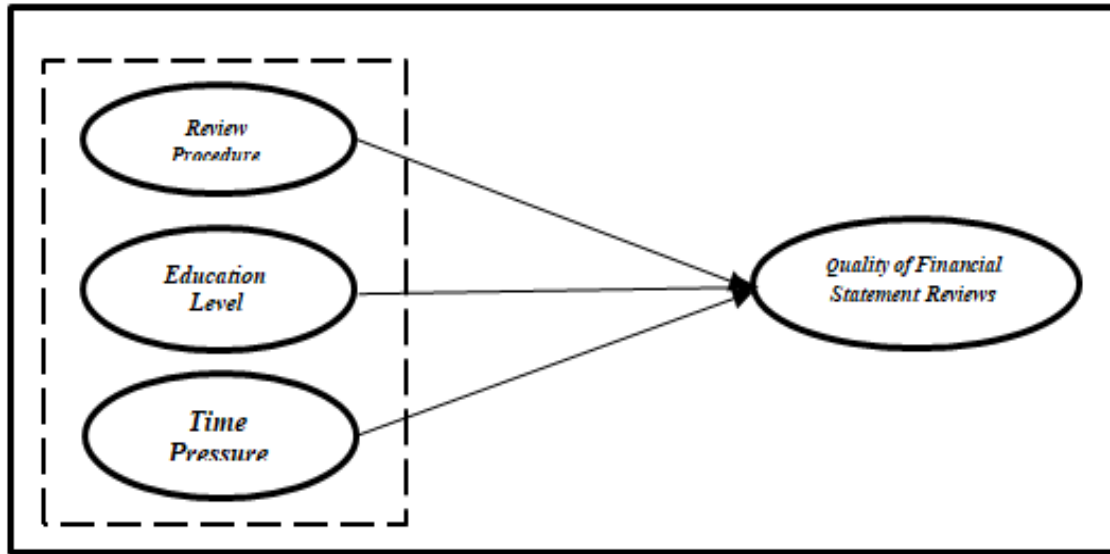
H₃: Time pressure has a negative effect on the quality of the financial statement review.

2.5. Quality of Financial Statement Review

According to [De Angelo \(1981\)](#) audit quality is the ability of the auditor to find and report irregularities in the accounting system with their knowledge and expertise. Quality review must show the ability of the Government Internal Supervisory Apparatus (APIP) to identifying and reporting violations in the accounting system with knowledge and his expertise ([Widyarini and dan Ratnadi, 2015](#)). The financial statement review is an analysis of the above organizing accounting and presenting local government financial statements (LKPD) by supervisory institution, to provide limited confidence that accounting has been held based on the regional government accounting system, and local government financial statements (LKPD) has been presented in accordance with Government Accounting Standards in an effort to assist regional heads to produce quality financial reports. The purpose of the intended review is to help the implementation of accounting and presentation of financial statements and providing limited belief that the accounting process has been carried out based on the accounting system regional finance and has been presented in accordance with government accounting standards. The review requires the commitment of agencies to carry out internal control and administration and accounting processes. Review of the results of the accounting process will provide evaluation of the implementation of the accounting process and the quality of financial statements. Evaluation intended to correct the inaccuracy of reporting presentation so that action can be taken repair. According to [Prasetyo and dan Pangemanan \(2014\)](#) the implementation of the review by the inspectorate can produce quality financial reports. Thus, the quality of the review must be demonstrate the ability of

the Government Internal Supervisory Apparatus (APIP) to identify and report errors in the accounting system with knowledge and the expertise he has.

Figure-1. Research Model



3. Research Method

The purpose of the study was to examine the effect of review procedure variables, education level, pressure time towards the quality of the financial statement review. Research location at the Device Work Unit Regions especially the Regional Inspectorates in the Regional Government of Jayapura City. Study population consists of 110 officers. Purposive sampling technique is used as a data collection this research. Sampling of 50 officers from a population of 110 Government Internal Supervisory Apparatus (APIP).

Test instrument validity test and reliability test are used to assess the level of validity and reliability of the instrument. Measurement of review procedure variables, education level, time pressure through questionnaires using a Likert scale. The instrument validity is carried out by looking at the index value product moment Pearson correlation at a significance level of 0.05. Test reliability using Cronbach Alpha analysis. The instrument is said to be reliable when it has a Cronbach Alpha value > 0.70 (Ghozali, 2013). The classic assumption test is conducted to assess the feasibility of the model through a normality test, multicollinearity test, and heteroscedasticity test. Normality Test to find out the residual value normally distributed. Normality is known through the Kolmogorof-Smirnov test (Ghozali, 2013). Multicollinearity test by looking at the tolerance value or Variance Inflation Factor (VIF). If the tolerance value is ≤ 0.10 or VIF ≥ 10, then there is muticolinierity (Ghozali, 2013). Test Heteroscedasticity performed to test there is no variance inequality between observations. The Glejser test is done by looking at the regression of the independent variable on the residual variable with a significance level of 0.05, if there is no statistical significance then the regression does not contain heteroskedasitas (Ghozali, 2013). Data analysis using the equation model multiple linear regression as follows:

$$\text{Quality Review} = \alpha + \beta 1 \text{ Proc} + \beta 2 \text{ Educ} + \beta 3 \text{ Press} + e \dots\dots\dots (1)$$

Notes :

- Quality Review = Quality of Financial Statement Reviews
- β 1, β 2, β 3 = Regression Coefficient
- Proc = Review Procedure
- Educ = Education Level
- Press = Time Pressure
- e = Error

4. Results and Discussion

4.1. Research Results

The use of data from a total sample of N = 55 respondents obtained in August-September 2017. The results of the subsequent questionnaire returns testing the validity and reliability of the instrument based on statistical calculations states that all statements on the research instrument are valid and reliable. This matter evidenced all the correlation coefficient values for the instrument validity review procedure variable level education, time pressure, and financial report review quality, with alpha < 0.05. Coefficient value Cronbach's Alpha for instrument reliability test was > 0.7.

Descriptive statistics testing shows the average value of respondents' answers to the procedure Review leads to the highest value with the meaning that respondents tend to have understanding a good review procedure. Respondents provide opinions with scores close to maximum, meaning that the indicator procedure variable review consists of tracking numbers, requests information, and good analytical procedures can affect the quality of the report review finance. The average value of the education level variable for all respondents is 0.4. This matter means

that the majority of respondents have a non-accounting education background than the apparatus with accounting education level. The average time pressure value indicates a time pressure on the review of financial statements. This is based on time pressure indicators including: limited time assignments, completion of tasks according to time requirements, fulfillment of time targets, Focus on tasks with limited time, efficiency of the audit process, performance appraisal. Value the average review report quality indicates that the respondent's understanding is very adequate for the quality of the financial statement review. The quality indicators of the financial statement review consist for: the timing of the review, the competency of the committee, the review stage, the review paper, the review report. The results show that the indicators used can improve the quality of report reviews finance.

The classic assumption test results have met the requirements for data analysis using linear regression multiple. The normality test is carried out by the *Kolmogorov-Smirnov test* on the residual value of the results regression equation. Residuals in the regression model have followed the assumption of residual normality. This matter can be seen from $p\text{ value} = 0.407 > \alpha (0.05)$. Multicollinearity test results show that *tolerance* number from review procedure variables, education level, Time pressure more than 0.10 and the result of calculating the value of the *Variance Inflation Factor (VIF)* is less than 10, Then this regression model is free from multicollinearity. The results of the heteroscedasticity test show that the probability of significance all independent variables above the confidence level > 0.05 , the regression model is free from heteroscedasticity, this shows that in the homogeneous data variation regression model occurs similarity of residual variance one observation to another observation. Regression model equations multiple linear formulated as follows:

$$\text{Review Quality} = 34,659 + 0,536 \text{ Proc} + 4,788 \text{ Educ} - 1,546 \text{ Press}$$

The results of simultaneous testing or F test produce a value of 28,682 with significance $< 0,000$. Probability $<$ significant value $< 0,05$, the model can predict the quality of report review finance with review procedures, level of education, time pressure together affect the quality of the financial statement review. While the *adjusted R²* value is 0.628 or 62.8 percent of the financial report review quality variables can be explained by the review variable procedure, education level, time pressure, while 37.2 percent is explained by other variables outside model.

Table-1. Correlation Matrix

Variable	Quality of Review	Review Procedure	Level Education	Time pressure
Quality of Review	1,000	0,000	0,002	0,008
Review Procedure	0,000	1,000	0,431	0,379
Level Education	0,002	0,431	1,000	0,342
Time pressure	0,008	0,379	0,342	1,000

Variable dependent: Quality of financial statement reviews; Note: $p < 0.005$

Table-2. Simultaneous Testing (F test) and Partial Testing (t test)

Variable	Unstandardized Coefficients		t	p = value	F	R-square
	B	Std.Error				
Constant	34,659	8,617	4,022	$p < 0,000$	28,682	0,628
Review Procedure	0,536	0,074	7,247	$p < 0,000$		
Level Education	4,788	1,134	4,221	$p < 0,000$		
Time pressure	-1,546	0,478	-3,236	$p < 0,002$		
F test						
Koefisien Determinasi						

Variable dependent: Quality of financial statement reviews. N = 55. Note : * $< 0,05$

Variable dependent: quality of financial statement review. N = 55 in table 2, the procedure coefficient value of the review is 0.536 with a significance level $p < 0,000$ this result indicates that the review procedure has a positive effect on the quality of the review financial statements. Thus it can be concluded that the first hypothesis (H1) is the procedure Review has a positive effect on the quality of the financial statement review, **is accepted**. Next value the regression coefficient of education level is 4,788 with a significance value of $p < 0,000$ this result indicates that the level of education has a positive effect on the quality of report review finance. Therefore it was concluded that the second hypothesis (H 2) is the level of education positive effect on the quality of the financial statement review, **is accepted**. Results of regression coefficient values time pressure of -1.546 with a significance value of $p < 0.002$. This result shows that time pressure has a negative effect on the quality of the financial statement review. This result supports the third hypothesis (H 3), namely the time pressure negatively affects the quality of the review, **is accepted**.

4.2. Discussion

Based on the results of the analysis of research data, then the effect of variables is further explained Review procedures, education level, time pressure on the quality of the financial statement review regional government at the Regional Inspectorate of Jayapura City.

4.2.1. Effect of Review Procedures on the Quality of Financial Statement Reviews

Based on the results of data analysis, the review procedure has a positive effect on the quality of the review financial statements. Thus, this indicates that the better the review procedure hence the better the results of the

review of the Jayapura City regional government financial report. This result show that Hypothesis 1, the review procedure influences the quality of the report review finance, **is accepted**. This is shown that the average respondent's answer to the procedure the review is quite high and indicates that APIP's understanding of the City Regional Government Jayapura regarding the review procedure was quite good. When associated with the respondent's profile data shows most of the APIP to the Regional Government of Jayapura City with an education level non-accounting. Therefore, it can be interpreted that the review procedure will be better if supported by the level of accounting education for the Government Internal Supervisory Apparatus (APIP). This result supports the *Goal Setting Theory* Locke *et al.* (1981) which states that it is necessary process to determine the achievement of a goal (*goal intensity*). Furthermore, this result also prove that the review includes tracking numbers, information requests, and analytical procedures needs to be done in order to produce better quality financial statements (Permendagri No. 4 of 2018). The financial reporting process made without a good review procedure can affect the quality of Reporting. Thus, the implementation of the review by the Supervisory Apparatus Internally, the Jayapura City Government through a review procedure before financial reporting can provide good information that financial statements have been prepared in accordance with the Standards Government Accounting (SAP). Therefore, in order to achieve the quality of the report review good local government finance, the implementation of review procedures by the Internal Supervisory Apparatus The Government (APIP) at the Regional Inspectorate of Jayapura City became important in the preparation and presentation of financial statements of the Jayapura city government.

4.2.2. Effect of Education Level on Quality of Financial Report Review

Based on the results of data analysis, the level of education has a positive effect on the quality of the review local government financial report (LKPD). Thus, this shows that the second hypothesis (H2) **is accepted** . If it is associated with the respondent's profile data, it shows that the Government Internal Supervisory Apparatus (APIP) at the Regional Inspectorate of Jayapura in part large level of non-accounting education. Based on the respondent's answers, it is shown that the apparatus that has an accounting education level is limited. Thus, if quantity of Government Internal Supervisory Apparatus with an adequate level of accounting education then the review of financial statements will be better so as to encourage achievement the quality of the review of the Jayapura City financial report. These results support the *Goal Setting Theory* Locke *et al.* (1981) which states that for achieving a goal with certain difficulties requires certain skills. Furthermore, Widyarini and dan Ratnadi (2015) stated that according to the State Financial Inspection Standards (SPKN) states that the financial audit must be carried out by the examiner who owns accounting and auditing competencies. This indicates that to achieve quality financial report review, APIP at the Jayapura Regional Inspectorate absolutely has expertise accounting and auditing and understanding generally accepted accounting principles, especially explanations related to the entity reviewed. Apparatus with an accounting level of education will be easier to understand government accounting and Government Accounting Standards (SAP) so that it will make it easier in carrying out the task of reviewing in order to achieve the quality of the Regional Government financial report review Jayapura City.

4.2.3. Effect of Time Pressure on Quality of Financial Report Review

Based on the results of data analysis, time pressure variables negatively affect the quality of the review local government financial statements. This indicates that the time is shorter the implementation of the review caused the quality of the review of local government financial reports to be increasingly downhill. Thus, Hypothesis 3 (H3) which states that the time pressure influences negative for the quality of the review of local government reports **is accepted**.

When associated with the respondent's average response to time pressure indicates that APIP feels it exists pressure due to the limited time of review activities. This result supports *Goal Settings Theory* Locke *et al.* (1981). Based on the results of theoretical analysis and support, time pressure can be obtained explained as one of the factors that influence specific *goals* (*goal specificity*), namely achievement of quality review. Thus, these results support Coram (2004) shows there is a decrease in audit quality in auditors who experience pressure due to limited audit time budget. Next, strengthen the Prasita and dan Priyo (2007) low audit quality is caused by the auditor's poor performance due to time pressure there is a violation of the audit standards and the behavior of unethical behavior carried out by the auditor itself. Furthermore, this result supports Widyarini and dan Ratnadi (2015) that time pressure negative effect on audit quality. Its application is in reviewing government financial reports Jayapura City area, in this case it is likely that the authorities will ignore the review procedure so that the quality of the review of local government financial statements is not achieved. Therefore, the time pressure in the review process will negatively affect the quality of the financial statement review local government by the Regional Inspectorate of Jayapura City.

5. Conclusions and Recommendations

Based on the results of the analysis it can be concluded that the review procedure has a positive effect on quality of reviews of local government financial reports. Education level has a positive effect on quality of financial report review. On the other hand, *time pressure* has a negative effect on quality of review of regional financial statements.

Based on the profile of the respondents, there was an inadequate level of education for government internal supervisors, most APIPs have a non-education level accounting. For this reason, the Jayapura City Inspectorate is expected to (1) compile and optimize assignment settings between the time budget and the complexity of the task so that the risk a reduction in the quality of the review can be minimized; (2) encourage APIP motivation in the

Regional Government Jayapura City to always take part in education and training in reviewing regional financial reports. (3) The Regional Inspectorate of Jayapura City needs to coordinate with the APIP development agency both Inspectorate General of the Ministry of Home Affairs and the Financial Supervisory Agency and Development (BPKP) to develop operational guidelines in the form of technical guidelines implementation which clearly contains the review procedure as a translation of the standard review for support the implementation of a review of local government financial statements.

6. Limitations and Future Research

Based on the conclusions of the research results, there are some limitations and research suggestions in the future: 1) the respondents used were the APIP Jayapura Regional Inspectorate, so that the results of this study cannot be generalized to government internal control institutions at Other Regencies / Cities. 2) Future research is recommended to examine internal institutions and other variables that have the potential to improve the quality of the financial statement review. 3) On the following research should be considered as independent variables and related variables APIP psychological factors are *psychological capital*.

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