

THE EFFECT OF INTERNAL AUDIT ON THE QUALITY OF FINANCIAL REPORTS AT PT PLN (PERSERO)

Ayi Astuti

Universitas Langlangbuana, Indonesia

ayivhuvhu@gmail.com

Abstract: This research is aim to know influence of assessment of internal audit performance to internal control system, influence of applying of internal audit to internal control system, and influence of assessment of performance and applying of internal audit both of internal control system. The research has been done by questionnaires internal auditor. The respondent are auditor's who worked in company of bankings residing in Bandung 45 responders. To analyze data researcher used SPSS 20 Version. Partially, internal audit performance and internal audit applying variable have influence significance of internal control system.

Keywords: applying of internal audit, auditing standard, internal control system.

INTRODUCTION

In this modern era, the role of internal audit is indispensable for the development of organizational management, especially in companies. Internal audit is used to support the running of company management as a controlling function that ensures the company runs according to plan and leads to goals. Internal auditors themselves are bodies or people who carry out internal audit tasks in a company. The main function of the internal auditor is to ensure that the company's goals are achieved. According to Jusup (2015: 18) the notion of an internal auditor is an auditor who works for an entity (company) and therefore has the status of an employee of that entity. The audit tasks he performs are primarily intended to assist the management of the entity where he works.

Audit activities are not only carried out by external parties of the organization, but also carried out by internal parties such as in terms of achieving company goals. Almost all large companies implement an internal audit function to see how far each part of the company complies with the policies and procedures set by the company's leadership. Even though internal auditors and external auditors are both independent in carrying out their service activities, internal auditors are still an integral (inseparable) part of the company's organizational structure where their role is to provide continuous monitoring and evaluation.

In this study, in the Ciumbuleuit Village, Cidadap District, Bandung City, DS (60) felt intimidated by the threat made by PLN through a network termination notice on the grounds that the monthly electricity bill was considered in arrears. This is considered to be able to result in something inappropriate and unprofessional as well as hurting the feelings of consumers. According to DS, PT PLN (Persero) has the potential to violate one of the articles of Law Number 8 of 1999 concerning Consumer Protection. This is related to electricity bills experienced by a number of customers in the area. Therefore, researchers took the title The Influence of Internal Audit on the Quality of Financial Statements at PT PLN (Persero) which was carried out at ULP North Rayon, Bandung City.

From the research that has been done previously, it has provided concrete evidence that internal auditor information has an influence on stakeholder perceptions of the

reliability of financial reporting. Therefore, if the internal audit function plays an active role in supervising the accounting process, financial reports will be presented with better quality. Based on the description above, the author takes the title "The Influence of Internal Audit on the Quality of Financial Statements at PT PLN (Persero) (Case Study at Pln Ulp Rayon Utara, Bandung City).

FORMULATION OF THE MATTER

The descriptions above explain that an internal audit of financial statements is a systematic and disciplined approach in evaluating and improving the effectiveness of risk management, control and governance processes. With the effective influence of internal audit, it is certain that it will produce quality financial reports, especially at PT PLN (Persero) which is carried out at ULP North Rayon, Bandung City. Therefore, the author tries to examine How Internal Audit Influences the Quality of Financial Statements at PT PLN (Persero) which was carried out at ULP North Rayon, Bandung City.

RESEARCH PURPOSES

To the purposes the influence of internal audit on the quality of financial reports at PT PLN (Persero) which was carried out at ULP North Rayon, Bandung City.

BENEFITS OF RESEARCH

As an internal audit material that is very important on the quality of financial reports in companies.

THEORETICAL BASIS

Definition of Internal Audit

The definition of internal audit according to Suyono (2014: 7), is an independent assessment function that is applied in an organization that functions to test and evaluate organizational activities as services provided to the organization.

Internal audit is a form of audit service which is analogous to having a role like the eyes and ears of management because internal audit is not only focused on accounting and finance but also on the fields of other entities in management. In a career journey in the field of internal audit, an internal auditor often only focuses on compliance with regulations or policies.

Internal Audit Professionalism

According to Hiro Tugiman in the book Internal Audit Professional Standards (SPAI) (2016: 27- 29) internal audit professional abilities can be seen as follows: Compliance with professional standards, knowledge and skills, human relations and communication, continuing education and professional accuracy

Scope of Internal Audit

The scope of work of internal audit must follow the testing and evaluation of the adequacy and effectiveness of the organization's internal control system and the quality of the implementation of the responsibilities given (Hiro, 2016: 44) which includes: Information reliability, compliance with policies, plans, procedures, and laws and regulations, Protection of property, Economical and efficient use of resources, and Achievement of goals

Meaning Of Audit

The definition of auditing according to Islahuzzaman (2015: 47), namely collecting and evaluating evidence about information to determine and report the degree of conformity between that information and predetermined criteria. Auditing must be carried out by a competent and independent person.

The definition of audit according to ASOBAC or A Statement of Basic Auditing Concepts, is stated as a systematic process to collect and objectively evaluate evidence regarding assertions about various economic actions or events to determine the degree of conformity between these assertions.

Audits provide considerable benefits, here are some of them: Opening the door for the entry of sources of financing from outside parties, setting up monetary errors and irregularities in financial records, provide a more convincing basis for creditors or corporate partners to make credit granting decisions, provide a more convincing basis for insurance companies, investors, banks, etc. to determine the terms of sale, purchase or merger of companies, provide a better basis for convincing customers, and provide additional independent clarity regarding the accuracy and assurance of financial statements.

Understanding Financial Reports

In Fraser and Aileen (2018) financial reports are the output and final result of the accounting process. It is these financial reports that become information material for users as one of the ingredients in the decision-making process. Aside from serving as financial reporting information, it also serves as accountability and also describes an indicator of a company's success in achieving its goals.

METHODS

The type of research used is explanatory with a quantitative approach. According to Sugiyono (2016), explanatory research is research that explains the causal relationship between the variables that influence the hypothesis. In this study there are at least two variables that are connected and this research functions to explain, predict and control a symptom. The location was carried out by PT PLN ULP North Rayon Bandung City.

Population, Sample, and Sampling Technique

The population is a generalization area consisting of objects/subjects that have qualities and characteristics about what the researcher determines to be studied and then conclusions are drawn (Sugiyono, 2016: 148).

This population in the study research were the employees who worked at PT PLN (Persero) Nort Rayon, Bandung City

The technique used in sampling is the non-probability sampling technique (saturated sample), which is the technique of determining the sample when all members of the population are relatively small. A saturated sample is also commonly called a sample that has a maximum, plus any amount will not change the representativeness (Sugiyono, 2016: 156).

Analysis Techniques

a. Descriptive statistical analysis in research is basically a process of transforming research data in the form of tabulations, so that it is easy to understand and interpret. Tabulation presents a summary, arrangement or arrangement of data in the form of a numeric table. Descriptive statistics are generally used by researchers to provide information about the characteristics of the most important research variables and demographic data of respondents. (Ghozali, 2016).

b. The inferential analysis used to answer the problem and at the same time test the hypothesis:

- Instrument Test

The validity test is carried out to find out whether the measuring instruments that have been compiled actually measure what needs to be measured.

Validity test is calculated using the Pearson Product Moment correlation. With a significance value of $\alpha = 0.05$, the decision to test the validity is as follows:

If $r_{hit} > r_{table}$, then the data in question is valid, and vice versa if $r_{hit} < r_{table}$, then the data in question is not valid.

An instrument is said to have poor reliability if the Cronbach's Alpha coefficient is < 0.6 . And if an instrument has a Cronbach's Alpha coefficient of $0.6 - 0.79$ its reliability is acceptable, whereas if an instrument has a Cronbach's Alpha coefficient of 0.8 it can be said that its reliability is good (Sekaran, 2014).

- Classic assumption test

To be able to perform regression analysis, it is necessary to test the classical assumptions as a requirement in the analysis so that the data can be meaningful and useful. The classic assumption test in this study only includes the normality test and the heteroscedasticity test.

a. Data Normality Test

According to Umar (2018) the normality test is useful to find out whether the dependent, independent or both variables are normally distributed, close to normal or not.

b. Hypothesis testing

The data analysis method used in this study is a simple linear regression analysis used to determine the effect of internal audit on the quality of financial reports. Testing the research hypothesis was carried out with the help of the SPSS version 21.00 program.

In accordance with the problems, objectives, conceptual framework and hypotheses in this study, the following analytical models were developed:

$$Y = a + \beta X + e \dots (1)$$

informtion:

Y= Quality of Financial Reports

a = Constant

β = Regression Coefficient

X= Influence of Internal Auditors

e= Error (Residual Error)

RESULTS AND DISCUSSION

a. The Effect of Internal Audit on the Quality of Financial Statements

Based on partially all Internal Audit variables affect financial performance where the calculated t value is greater than t table at 0.05, namely 1.998 (result of interpolation). This means that the position of the point of the significance test and t count on the normal distribution curve is in the area of Ho rejection. Research results state that the influence of internal audit using internal audit program indicators, the authority and position of internal audit, the scope of internal audit, the implementation of internal audit activities.

b. Validity test

Validity test is used to measure whether the questionnaire is valid or not. A questionnaire is said to be valid if the question items are able to reveal something that the questionnaire wants to measure. Validity testing was carried out using the SPSS for Windows Version 22.0 program. Testing the validity (validity) of a research instrument requires the use of methods in testing each research instrument. The validity test is carried out to measure the legitimacy of indicators or questionnaires by comparing r counts. Based on the description above, the results of processed data regarding testing the validity of each research instrument can be presented which can be seen in the following table:

Table 1. Variable X Test Results

No. Instrument Items	Correlation coefficient	Correlation Limit Value	Information
X.1	0,5	0,3	Valid
X.2	0,64	0,3	Valid
X.3	0,79	0,3	Valid
X.4	0,68	0,3	Valid
X.5	0,8	0,3	Valid
X.6	0,58	0,3	Valid
X.7	0,72	0,3	Valid
X.8	0,7	0,3	Valid
X.9	0,79	0,3	Valid
X.10	0,35	0,3	Valid
X.11	0,87	0,3	Valid
X.12	0,86	0,3	Valid
X.13	0,73	0,3	Valid
X.14	0,77	0,3	Valid
X.15	0,73	0,3	Valid
X.16	0,9	0,3	Valid
X.17	0,64	0,3	Valid
X.18	0,63	0,3	Valid
X.19	0,77	0,3	Valid
X.20	0,44	0,3	Valid

X.21	0,65	0,3	Valid
X.22	0,48	0,3	Valid

Source: Data processing (2022)

Table 2. Variable Y Test Result

No. Instrument Items	Correlation coefficient	Correlation	Information
		Limit Value	
Y.1	0,43	0,3	Valid
Y.2	0,53	0,3	Valid
Y.3	0,72	0,3	Valid
Y.4	0,35	0,3	Valid
Y.5	0,47	0,3	Valid
Y.6	0,52	0,3	Valid
Y.7	0,74	0,3	Valid

Source: Data processing (2022)

Based on the table, namely the results of the validity test using the corrected item-total correlation which were processed with the SPSS version 22 program which shows that of the 22 question items on the role of internal audit variables that have been tested, they are declared valid or the correlation value is above 0.30.

Meanwhile, from the 9 question items on the quality of financial statements that have been tested, the question items are declared valid or the correlation value is above 0.30.

c. Reliability Test

There is a provisional value for measuring reliability with the Cronbach's alpha statistical test, where according to Sekaran (201) if the Cronbach's Alpha coefficient is <0.6. And if an instrument has a Cronbach's Alpha coefficient of 0.6 - 0.79 the reliability is acceptable, whereas if an instrument has a Cronbach's Alpha coefficient of 0.8 then it can be said that the reliability is good.

Table 3. Reliability test results

Research Variable	Cronbach'sAlpha	R	Information
		Standard	
The role of internal audit	0,75	0,6	Reliabel
Quality of financial reports	0,69	0,6	Reliabel

Research Variable	Cronbach'sAlpha	r standard	Information
The role of internal audit	0,81	0,7	Reliabel
Quality of financial reports	0,78	0,7	Reliabel

Source: Data processing (2022)

d. Classic assumption test

The normality test used is the normal P-P plot, the following is a picture of the results of the normal P-P plot test:

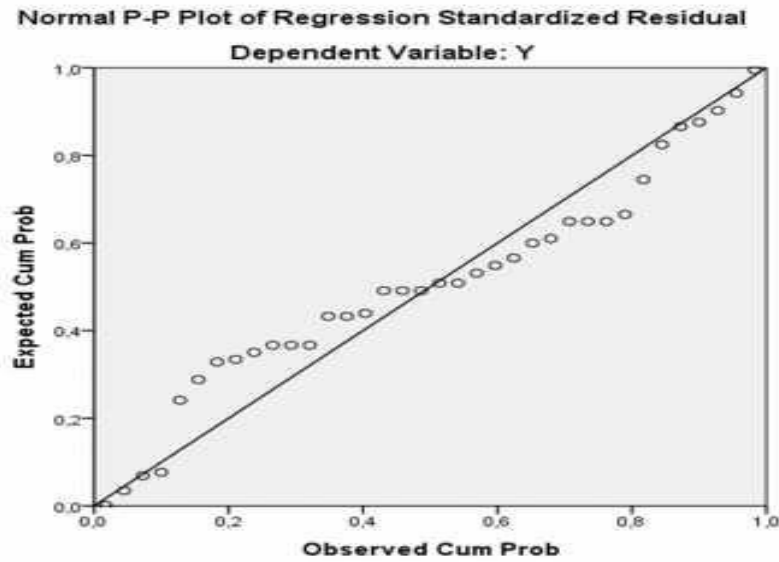


Figure 1. The results of the normality assumption test through the normal P-P plot

Source: Data processing (2022)

The results of the normality test using the Normal P-P Plot show that the dots (dots) spread around the diagonal line and follow the diagonal direction, this indicates that the model meets the normality assumption requirements. Thus the regression testing for the effect of the role of internal audit on the quality of financial statements can be continued.

e. Hypothesis test

1. Simple Regression Analysis

In the following, a regression and correlation analysis will be presented through the results of the SPSS release 22 program data processing which can be presented in the following table:

Table 4. Processed results of regression data using the SPSS program

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
1 (Constant)	25,237	3,606		6,996	0
The Role of Internal Audit	0,13	0,04	0,457	2,997	0,005

Source: Data processing (2022)

a. Dependent Variable: Quality of Financial Statements

then the regression explanation can be given as follows:

$a = 25.237$, is a fixed value, in other words that the role of a constant internal audit will improve the quality of financial reports.

$b = 0.130$, which means that if the respondents' responses regarding the role of internal audit increase, the quality of financial reports will increase by 0.130%.

2. Determination Analysis

The coefficient of determination shows the influence of the independent variables on the dependent variable. A coefficient value of 1 indicates that the independent variable used is 100% precise (perfect) in explaining the variation that occurs in the dependent variable.

Table 5. The coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,467 ^a	0,229	0,186	2,7621

Source: Data processing (2022)

a. Predictors: (Constant), The Role of Internal Audit

b. Dependent Variable: Quality of Financial Statements

Then to see the relationship between the role and the quality of financial reports, the value of $R = 0.467$ is obtained which indicates the role of internal audit has a fairly strong relationship, besides that the R square value or coefficient of determination is 0.229 which indicates that 30.9% variation in report quality finances can be explained by variations in the role of internal audit, while the remaining 77.1%.

DISCUSSION

In running its business, company leaders need tools that have a role in directing and controlling every activity of the company. Internal auditors have an important role in helping management achieve good company performance and are intended to help improve company performance. Internal auditors help management achieve good performance by introducing a systematic approach to evaluate and improve the effectiveness of internal controls and provide notes on deficiencies found during the evaluation.

The need for internal auditors mainly arises because companies are growing tremendously. Therefore, it very important for a company to have a team of specialists who review the procedures and operations of various units and report on non-compliance, inefficiency, and lack of clear control that the task cannot be assigned to an external auditor whose primary purpose is assess whether the financial statements fairly reflect the operating results and financial condition of a company. Because of that internal audit has become a service provider that not only has accounting expertise but also expertise in organizational or corporate behavior and other functional areas.

CONCLUSION

Based on the results of the analysis and discussion regarding the effect of internal audit on the quality of financial reports at PT. PLN (Persero) ULP Rayon Bandung City, it can be concluded from the results of the analysis, namely as follows: The results of the analysis regarding the influence of internal audit on PT. PLN (Persero) ULP Rayon Kota Bandung, which shows that internal audit has a significant effect on the quality of financial reports at PT. PLN (Persero) ULP Rayon Bandung City, this can be seen from the prob value <0.05 .

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