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Can Internal Auditor's Function in Government Agencies Improve the Quality of Financial Reports

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The role of internal supervision on the performance of financial management through good governance has not been able to improve the performance of the entity's financial reporting. This is due to the law enforcement of independence, understanding the rules and the high level of partiality to superiors so that the task of internal supervision in reviewing and consulting financial reporting at Local Goverment Task Force and Local Goverment Financial Mangement Officer at various levels of the financial management structure has not been able to run optimally. Therefore this study aims to analyze and determine the effect of the independence of internal auditors as well as understanding the rules for the quality of financial statements.This type of research is quantitative using a survey approach. The study population was the local government Internal Auditors, in this case, the Provincial Inspectorate and Kendari City as many as 50 people as well as samples. The data source is the primary data. The data collection technique uses a questionnaire that is tested for its validity and reliability. The data analysis technique uses descriptive analysis and Partial Least Square analysis.The results of the study concluded that: (1) Independence of internal auditors and understanding of rules simultaneously had a positive and significant effect on the quality of financial statements. (2) The independence of internal auditors has a negative effect but not significant to the quality of financial statements. In this case, the quality of financial statements is generally good due to the lack of independence of internal auditors in carrying out audit tasks. (3) Understanding the rules has a positive and significant effect on the quality of financial statements. In this case, a better understanding of the rules of an internal auditor will produce quality financial reports. Nevertheless, this research has limitations, namely: (1) The assessment of the independence of internal auditors is self-assertion, giving rise to subjectivity. (2) The measurement of the quality of financial statements is limited to measurement based on perception. Therefore, direct observation is needed. (3) This study has not involved the regional government policy variables for sanctions for violations of independence in the audit, further research can involve these variables as moderating variables.

Key words: *Auditor Independence, Understanding of Rules, Financial Quality.*

Introduction

Based on the observation of the Government's Internal Control Unit in carrying out its supervisory duties, it has not consistently upheld the principle of independence and objectivity. Robert K. Elliott *at al.* (Tahun2006) explains: "*....objective of the audit improves the reliability of information used for investment and credit decision*." Lack of enforcement of independence and objective maximally when performing supervisory duties as reviewers, consultants, and evaluators. This is due to the understanding of regulations relating to the preparation of financial statements that have not been adequately controlled and conflicts of interest occur.

The Regional Government Inspectorate of Supervision in an organizational structure is directly responsible to the Governor/Mayor. The roles and responsibilities carried out caused a conflict of interest between internal auditors on the one hand and the interests of the Governor on the other, especially when financial management deviations involving local government officials were found.

Another phenomenon from the aspect of competency in several districts, the recruitment of Government Internal Control Units are appointed from employees who are going to retire, consequently, the motivation to study is very low. Some Government Internal Control Units do not have work experience as examiners, have never attended education and training as auditors. Such conditions then the expectation to carry out its functions and role as an auditor to provide adequate confidence in obedience, economics, efficiency, and effectiveness in achieving the objectives of carrying out tasks and functions of Government Agencies are less likely to be realized. Because the requirements for knowledge and expertise as a professional auditor are not owned. The requirement to become a professional auditor based on the professional standards of Public Accountants issued by the Indonesian Institute of Accountants in 2018 is to have knowledge and education in the field of accounting, having sufficient experience as an auditor.

Research conducted by Wawo (2012), shows that the role of internal supervision on the performance of financial managers through good governance has not been able to improve the performance of the entity's financial reporting.This is due to the law enforcement of independence, low competence and high partiality to superiors so that the task of internal supervision in reviewing and consulting financial reporting in the Regional Work Unit at various levels of the structure of financial managers has not been able to run optimally.

Dwi putrianti (2011) study examines the effectiveness of external examinations in the public sector resulting in recommendations as follows:1) strong independence enhancing the professionalism and competence of auditors, 2) improving training and education center facilities, 3) increasing follow-up of audit reports, 4) evaluating laws and regulations, 5) enforce the inspection. The results of interview researchers with internal supervision explained that the low quality of local government financial reports was partly due to the low quality of human resources, low understanding of rules relating to financial management, the appointment of financial managers not based on competence and the high transfer of financial management officials.

Based on these two empirical studies, it provides confidence for researchers to test the independence and objectivity of the auditors of the inspectorate and the Provincial Audit Board needs to be reviewed, at least because of changes in regulations and policies, changes in the way of thinking of leaders, auditors and the Audit Board Provinces must adapt to the paradigm of change to improve competencies and professionals by training.

Financial managers at the Local Goverment Management Financial Officer, these changes must be responded to by leaders, where financial managers must be given insight using including training. The impact of increasing the competence of auditors from the inspectorate and the Financial and Development Supervisory Agency by implementing financial independence and management at the level of Regional Apparatus Organizations and Local Goverment Financial Management Officer, will improve the quality of local government financial reports with unqualified opinions.

This research was conducted to reexamine the results of a 2012 study in Southeast Sulawesi Province, where the results of the study in that your opinion the financial statements of local governments had not yet obtained a reasonable opinion without exception. Based on these facts, it's interesting to re-analyze the factors that predominantly influence the improvement of thequality of the entity's financial statements viewed from two sides, namely: the internal auditor's side and understanding of the financial management rules of each regional unit.

Literature Review

Some literature has been studied to find a basic understanding of independence, namely: Arens *et al*. (1999) defined “independence in auditing" as taking an unbiased viewpoint in the performance of audit tests, the evaluations of the results and the issuance of audit reports. Independence includes the qualities of integrity, objectivity, and impartiality (Bakar*et al*., 2005).

Bakar *at al*.(2005) explains that there are two types of auditor independence; actual and perceived independence. Independence in fact (or actual independence) can be defined as the auditor's state of mind, his or her ability to make objective and unbiased audit decisions (Dyxhaoorn and Shinning,1982), it refers to the mental attitude of the auditor in terms of professional objectivity (Gul and Tsui, 1992). On the other hand, independence in appearance (or perceived independence) refers to the public's or others'perceptions of auditor’s independence.

An auditor in examining the financial statements of an entity's attitude of independence needs to be owned and maintained. Because it relates to the quality of reports produced, there is a correlation between audit reports produced by independent auditors and non-independent auditors. According to the FASB, the two most important characteristics that must be present in financial statements are relevant and reliable.

Both of these characteristics are very difficult to measure, so that information users need the services of third parties namely independent auditors to assure that the financial statements are relevant and reliable, to increase the trust of all parties with an interest in the information.Thus the government will further enhance its trust in the eyes of the public and will obtain facilities in carrying out overall governance.

However, in the current era of information globalization, the profession of auditors faces severe challenges, especially related to the presentation of information that has value in terms of information produced by independent auditors free of misleading information so that the use of financial statements can be used as valid information material, easy to understand and complete.

Auditors in conducting their checks cannot be influenced and affected by direct superiors in the Regional Government, while on the other hand they are bound to enforce independence and must refer to public accounting professional standards and government accounting standards as the main reference in carrying out their functions as reviewers in government entities.

According to Chow and Rice in Kawijaya (2002) company management tries to avoid fair opinions with exceptions because it can affect the market price of the company's shares and compensation obtained by managers.

This is where the auditor is in a dilemma situation, on the other hand, the auditor must be independent in giving opinions on the fairness of financial statements relating to the interests of many parties, but on the other hand, must also be able to meet the demands desired by stakeholders.

Corey *et al*., Pany and Reckers in Bakar (2009) provide an understanding of the meaning of independence as follows: “Independence is the primary justification of the existence, and thus the hallmark of the auditing profession. It is recognized as the primary attribute to be maintained by auditors in all circumstances.”

Furthermore, the meaning of auditor independence expressed by several opinions is: “Independence has been described as “avoidance of situations which would tend to impair objectivity or permit personal bias to influence delicate judgment” (Carey *et al*., 1966). Auditor independence, in particular, implies the "absence of influence or control in the matter of the auditor's conduct, action and opinion" (AAA, 1973). It simply refers to the auditor’s ability to express his conclusions honestly and impartially. In discussing the foundation of the concept of auditor independence, Pany and Reckers (1983) emphasize that the concept of auditor independence is closely originated from the reason for the existence of auditing itself. According to them, the rationale for the external auditor’s work (i.e.independent audit) - indeed a primary justification for the existence of the public accounting profession - arises from the need for reliable financial information.

Further explained in the same article that: According to the By-Law B-1.4 (1) issued by Malaysian Institute of Accountants (MIA), independence requires both (a) independence of mind and (b) independence in appearance (MIA, 2006). Independence in fact (actual independence) can be defined as the auditor’s state of mind and his/ her ability to maintain a proper attitude in the planning of his audit program, the performance of his verification work, and the preparation of his report (Mautz and Sharaf, 1961). On the other hand, independence in appearance (or perceived independence) refers to the public or others perceptions of the auditor’s independence. To be seen to be independent, an auditor should be able to demonstrate that there is no threat to his or her independence such that an outsider would not doubt the auditor’s objectivity (Messier and Boh, 2002). This notion of independence is one of the cornerstones of auditing theory and the sine qua non of auditing practice (Patel and Psaros, 2000). Both actual, as well as perceived auditor independence, are critical elements in the maintenance of public confidence in the auditing profession (PanyReckers, 1980). However, for this study, we will only focus on ‘independence in appearance’, since the actual independence of an auditor is unobservable.

Independence is an important factor in the provision of audit services (Bakar, 2009). Taylor *et al.* (2003) found that this revised framework requires three foundation elements to control subjectivity in auditors’ judgments and decisions: independence, integrity, and expertise. Each element is a necessary but not sufficient condition for maximizing objectivity. Objectivity, in turn, is a necessary and sufficient condition for achieving and maintaining reliability in fact appearance.

Craswell *et al*. (2002) concludes that the level of auditor fee dependence does not affect auditors propensity to issue unqualified audit opinions. The findings remain robust to several sensitivity tests including the analyses controlling for the effects of non-audit service fee dependence and other settings in which there is heightened pressure on auditors to confront the effects of fee dependence onexercising independent audit judgment.

Mohamed and Habib (2013) conclude that the problem of lack of auditor independence exists in Egypt due to many reasons. The main reason is the poor structure of corporations being closely held. It was also found that the voluntary switching of auditors is for purposes of improving the quality; for these reasons is the search for more reputable auditors and timelier audit opinions. Finally, auditor rotation was suggested by the practitioners to overcome the problems of lack of independence and that the mandatory firm rotation is suggested instead of the mandatory partner rotation.

Bakar (2009) said that it was evidenced from the survey that the size of audit fees is the most important factor, followed by competition, of the audit firm, tenure, provision of management advisory service and finally audit committee. More specifically, the study indicates that (1) larger size of audit fees, (2) audit firms operating in a higher level of competitive environments, (3) smaller audit firms, (4) audit firms serving a given client over a longer duration, (5) audit firms providing MAS, and, (6) the non-existence of an audit committee, are perceived as having a higher risk of losing independence. This study provides a basis for the profession to establish policies relating to auditor independence. Also, it may assist policymakers and other relevant international accounting agencies in their attempt towards the international harmonization of auditing standards. The major contribution of this paper is that it supplies recent evidence on factors influencing auditor independence from the viewpoint of Malaysian accountants.

Wines (2011) findings indicate a robust and stable single-factor cognitive structure with in which the research participants interpret the connotative meaning of the auditor independence concept. An analysis of the experimental cases finds similarities in connotations (interpretations) of an audit firm independence for the participant groups for most cases, except cases involving the joint provision of audit and non-audit (taxation) services.

Hudaib and Haniffa (2009) found that auditors construct the meanings of independence in appearance and fact through their social interactions at three levels: micro (personal self-reflexivity through ethical reasoning and reputation of individual auditor); meso (organizational culture through range of commercial activities and image management) and macro (through political, de jure, and socio-economic structure).

Jeong and Rho (2004) found that there is no significant difference between the discretionary accruals offirms with Big Six and non-Big six auditors. This holds for firms that switch from non-Big Sixto Big Six auditors and vice versa. These resources imply that there may be no difference in audio quality between Big Six and non-Big six auditors in Korea. This is consistent with other studies in Korea, while inconsistent with the findings of previous studies on audit quality in other countries.

Bakar *at al*., (2005) the results indicate that smaller audit firms, audit firms operating in a higher level of competitive environments, audit firm serving a given client over a longer duration, larger size of audit fees, audit firms providing management advisory services, and the non-existence of an audit committee, are perceived as having a higher risk of losing independence. Audit firm size appears to be the most important factor that affects the auditor independence, followed by tenure, competition, committee, audit firms providing management advisory services and size of the audit fee.

De Angelo (1981) concludes that the paper investigates the allegations of the Commission on Auditors' Responsibilities and the Securities and Exchange Commission that 'low paying' on initial audit engagements impairs auditor independence. We demonstrate that, contrary to these claims, 'low balling' does not impair independence; rather it is a competitive response to the expectation of future quasi-rents to incumbent auditors (due, e.g., to technological advantages of incumbency). 'Low balling' in the initial period is the process by which auditors compete for these advantages. Critically, initial fee reductions are sunk in future periods and therefore do not impair auditor independence. The implications for current regulation governing changes of auditor (Accounting Series Release No. 165 et al.) and audit fees (Accounting Series Release No. 250).

Brown *et al*. (2007) explain that the LO treatment group perceived the typical auditor to be less exemplary than both the ICand A-O treatments. There were no differences in perceptions between the A-O group and IC. Addition analysis revealed that auditors overrated the degree to which the public relied on financial statements. However, both public groups reported a reasonably high level of reliance on financial statements when making decisions.”

Mihret and Yismaw (2007) found that the internal audit effectiveness is strongly influenced by internal audit quality and management support, whereas organizational setting and auditee attributes do not have a strong impact on audit effectiveness.

Peecher *et al*. (2007) concludes that: one salient message is that SSA first emerged in the 1990s as an attempt to enhance quality in response to changes in the audit environment. Another salient message is that SSA continues to equilibrate, adapting to more recent environmental changes, especially society's demand for greater protection from financial-statement fraud. Such adaptation requires ongoing, significant intellectual investments by audit practitioners and audit scholars/educators.

Natawiria (2009) conclude that: 1) CAE is responsible for providing audit organizations that can provide assurance and advisory services needed by the company. 2) Of staff competencies is a means of reducing risk audits. 3) The use of internal assessors helps reduce bias. 4) The required basic standard used as a reference for staff competency assessment. 5) Competency of staff determines the internal audit group competency in general; therefore every gap needs to be followed up immediately.

Copley (1991) found that more complete disclosures enhance the reputation of an independent auditing firm and that an independent auditor, seeking to maintain a reputation of higher quality, positively influence the level of financial disclosures appearing in their clients' financial statements. Specifically, a variable indicating the presence of a (then) Big Eight auditor and regression residuals from a model of audit fees were used as surrogates of audit quality. These were included in a model designed to explain variation in an index representing financial disclosures required under generally accepted accounting principles for local governments. The results provide evidence to support the hypothetical relationship between audit quality and attitude.

Soltani (2002) results reported here are encouraging with regards to the improvement of reporting behavior of French corporate and audit reports. However, some limitations should be noted. First, the period of 180 days legal requirement for reporting may be superfluous, at least for listed companies, given that most listed firms can report well within this time. Moreover, 180 days is relatively long, especially when compared to requirements in certain English-speaking countries (e.g., Australia and the US). Second, any reduction in legal reporting delay might incur extra cost, related to the preparation of more up-to-date accounting and financial data, and, therefore, this would have to be assessed against the benefits of more timely disclosure of audited annual and consolidated financial statements.
Ahmad *et al*. (2009) concluded that the internal audit function in the public sector in Malaysia is curtailed by understaffing and hampered by inadequate support from top management while the auditors seldom extend their full cooperation. The auditors themselves lack appropriate knowledge and training on effective auditing approaches. The negative perception accorded to internal audit led to inaction by management on recommended remedies which only serve to nullify the positive contribution internal audit potentially holds to elevate the service delivery quality of the public sector.

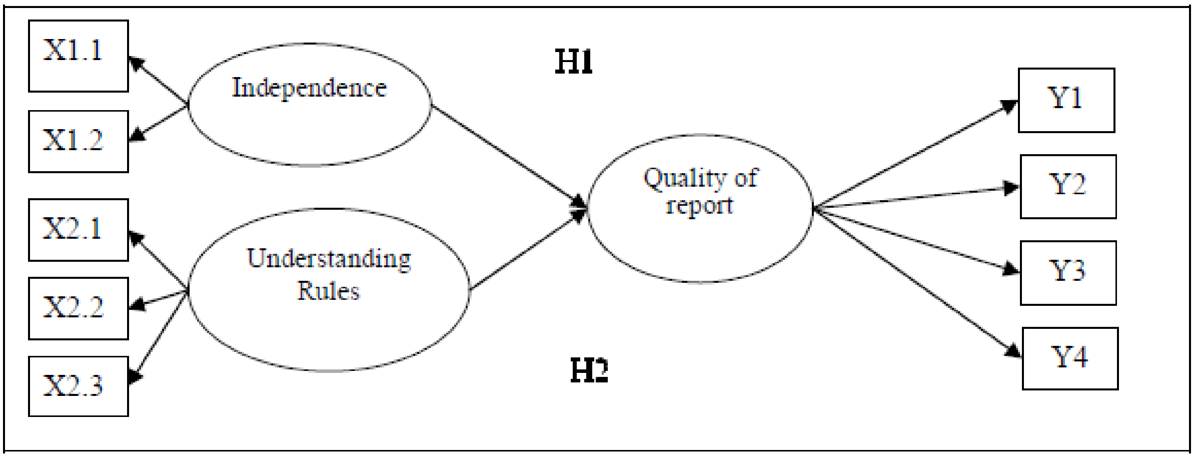
Daniels and Daniels (1991) explain that "Legislative/oversight subjects felt that the consolidated format with accrual provided more adequate information on cost of services and was significantly more useful in assessing overall financial condition. The format did not affect the accuracy in ranking the cities by financial condition for any user group. Comments indicate that each group wants different changes in municipal reporting. Citizens prefer information in easy to understand written form; investors/creditors want additional information (e.g., five-year trends); legislative/oversight officials favor additional information and the consolidated format with accrual accounting."

Rubin (1992) results suggest that, in Ohio, private-sector auditors systematically charge higher fees and are associated with more timely audits. Cities requesting and using external auditors (thereby receiving a faster but more expensive audit) are more likely to be associated with modified audit opinions and new debt issues. Requested private-sector auditors are less likely to be associated with manager-headed municipalities.

Research Concept Framework

The relationship between the dependent variable and the independent variable is shown by the path diagram in Figure 1 as follows

Figure 1. Diagram path of the relationship between the dependent variable and the independent variable



Research Hypothesis

Based on the research conceptual framework, the hypothesis proposed in this study is as follows:

H1: Internal supervision capabilities are independent and objective and understanding the rules will improve the Quality of Financial Reporting of the Provincial and Kendari City Governments

The quality of local government financial reporting can be improved if internal auditors are independent and objective in carrying out supervisory duties in the local government, understand the regulations well related to regional financial management accountability regulations, it can be ascertained that the local government financial statements are free of misstatements. Improve the quality of financial statements as a form of accountability of the governor and mayor of Kendari to the House of Representatives.

H2: Independent internal oversight will improve the financial reporting quality of local governments

The Central and Regional Inspectorates are tasked with assisting local governments to oversee the implementation of programs and activities carried out by the government. The Inspectorate helps review the financial statements of the Local Government before being submitted to the Supreme Audit Agency. The task of review is the functional oversight task of the Inspectorate based on Government Accounting Standards. So the internal supervision in question is the auditor of the Inspectorate at the local government level who conducts checks in each unit of the government organization, such as in Financial Management Officer Unit-Local Goverment Task Force and Local goverment Management Official at the end of each budget.

H3: The ability to understand regulations properly will improve the quality of financial reporting of local governments

Review of local government financial reports carried out by the internal supervision inspectorate reinforces in terms of the presentation of reports and regulatory conformity to local governments so that errors can be minimized before being examined by external auditors. Understanding the regulations intended in this study is the understanding of internal auditors and financial managers in Local Goverment Task Force and Local Goverment Financial Management Officer in applying regulations and laws into the preparation of financial reports as the government's responsibility to the public.

Methods

This research is quantitative research using a field survey approach (Sugiono, 2012: 55). The population of this study is the Internal Auditor of the local government, in this case, the provincial Inspectorate and Kendari City as many as 50 people, as well as respondents. The data source in this study is primary data. The data collection technique uses a questionnaire that has been tested for validity and reliability. The data analysis technique uses descriptive analysis and Partial Least Square analysis.

Results

Description of Research Variables

The variables of this study are the independence of internal auditors, understanding the rules and the quality of financial statements. Respondents' perceptions of the three variables are shown in Table 1. Table 1 shows that the independence of Internal auditors in appearance is perceived to be good in its implementation even though independence in mental attitude requires attention. Furthermore, the understanding of Regulation No. 71 of 2010 and Permendagri No. 64 of 2013 is perceived as good in its implementation. Nevertheless, the understanding of the Minister of Home Affairs Regulation No. 21 of 2011 still needs to be improved. Then for the quality of financial statements, indicators are relevant and can be compared to perceived good in implementation. Nevertheless, reliable indicators and indicators can be understood still need to be improved.

Table 1: Independence of Internal Auditors, Understanding of Rules and Quality of Financial Statements

No.	Variable	Indicator	Average Perception
1.	Independence of Internal Auditors	Independence in Appearance	4.2
		Independence in Mental Attitudes	4.1
2.	Understanding Rules	Understanding of domestic ministerial regulations No. 21 of 2011	4.0
		Understanding of RegulationNo. 71 of 2010	4.1
		Understanding of Minister of Home Affairs Regulation No. 64 of 2013	4.1
3.	Quality of Financial Statements	Relevant	4.0
		Reliable	3.9
		Comparable	4.0
		Can be understood	3.9

Source: Primary data, 2019

Test Partial Least Square Assumptions

Assumption of linearity

Testing the linearity assumption in this study, using the curve of the fit method. The results are presented in Table 2.

Table 2: Test Results for Linearity Assumptions

No	Inter-Variable Influence	Linearity Testing			
		R2	F	Sig.	Results
1.	Auditors' independence regarding the quality of financial statements	0,269	17,636	0,000	Linear
2.	Understanding the rules for the quality of financial statements	0,484	45,066	0,000	Linear

Source: Primary data, processed 2019

Evaluation of the Measurement Model
Discriminant Validity Using Cross Loading Values

The results of discriminant validity calculations using cross loading values are presented in Table 3. Table 3 shows that the value of cross loading indicators from the variables of auditor independence, understanding of rules and quality of financial statements meet the criteria of discriminant validity.

Table 3: Discriminant validity

Cross Loadings	Independency Auditor Internal	Understanding Rules	Quality of Financial Statements
Independence in appearance	0.931	0.510	0.797
Independence in Mental Attitudes	0.919	0.470	0.582
Understanding financial management rules	0.752	0.834	0.465
Understanding of SAP Application	0.723	0.901	0.553
Understanding the Rules for applying the Accrual concept	0.571	0.902	0.887
Relevant	0.532	0.829	0.958
Reliable	0.467	0.768	0.945
Comparable	0.492	0.677	0.960
Can be understood	0.531	0.730	0.954

Source: Primary data, processed 2019

Discriminant Validity by Using the Square Root of Average Variance Extracted (√AVE)

If the square root of average variance extracted (√AVE) value of each variable is greater than the correlation between these latent variables and other latent variables, then the instrument of the said variable is said to fulfill discrete validity (Solimun, 2010: 195). The calculation results of the square root of average variance extracted values are shown in Table 4.

Table 4: Average Variance Extracted and Root AVE

Average Variance Extracted (AVE)	Original Sample (O)	T -Statistics (|O/STDEV|)	p-values	Root AVE
Independence of Internal Auditors	0.856	18.064	0.000	0.925
Understanding Rules	0.911	39.087	0.000	0.954
Quality of Financial Statements	0.765	12.581	0.000	0.875

Source: Primary data, processed 2019

Table 4 shows that the AVE root value of the overall variable is above 0.50 (tolerance limit). This means that the Internal Auditor Independence variable, Understanding of Financial Report Rules and Quality has good discriminant validity.

Convergent Validity

Convergent validityis measuring the validity of the indicator as a measure of the construct, which can be seen from outer loading.Outer loading is intended to determine the role of each indicator in forming variables. Based on the results of the study, the resulting outer loading is displayed in Table 5.

Table 5: Outer Loading

Variable	Indicator	Outer Loading	t-Statistic	p-value	Cut of	Note
Independence of auditors	Independence of appearance	0.931	33.753	0.000	0.05	Sig
	Independence of Mental attitude	0.919	22.917	0.000	0.05	Sig
Understanding of regulation	Understand of Regulation No. 21 of 2011	0.834	10.895	0.000	0.05	Sig
	Understand of Regulation No. 71 of 2010	0.901	20.099	0.000	0.05	Sig
	Understand of Regulation No. Of 2013	0.887	60.474	0.000	0.05	Sig
Quality of financial report	Relevant	0.958	81.352	0.000	0.05	Sig
	Reliable	0.945	46.992	0.000	0.05	Sig
	Comparable	0.96	68.453	0.000	0.05	Sig
	Can be understood	0.954	63.985	0.000	0.05	Sig

Source: Primary data, 2019

Data Processing and Hypothesis Testing

Figure 2. Full PLS model of the effect of internal auditor independence, understanding the rules and quality of financial statements

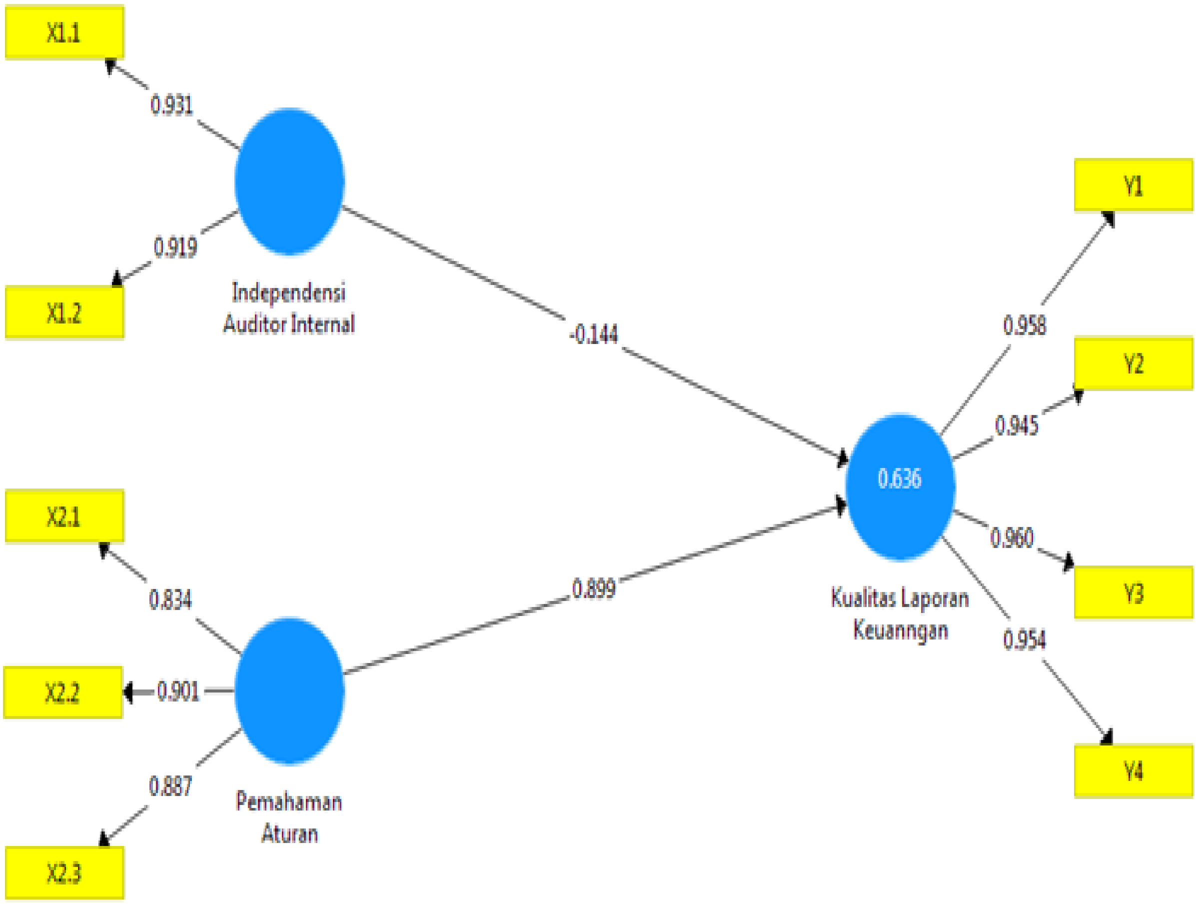


Table 6: Inter Variable Influence

No	Inter-Variable Influence	Coefficient	t-statistic	p-value	Cut of	Hypotesis	Note
1.	Simultaneous Influence	0,636	11,085	0,000	0,05	H1	acceptance
2.	Independence of Internal Auditors on the quality of financial statements	-0,144	0,849	0,396	0,05	H2	reject
3.	Understanding the rules for the quality of financial statements	0,899	6,555	0,000	0,05	H3	acceptance

Source: Primary data, 2019

Discussion

Simultaneous Effect of Independence of Internal Auditors and Understanding of Rules for the Quality of Financial Statements

Based on the results of the study, the simultaneous effect of internal auditor independence and understanding of rules on financial quality is positive and significant which is indicated by the relevant predictive coefficient of 0.636 or 63.6 percent with an at-statistic value of 11.085 or p-value = 0,000 <0.05. It means that the independence of internal auditors and understanding good rules will produce quality financial reports. In this case, the more independent the internal auditor in appearance and mental attitude will produce relevant financial reports (on time, have the benefits of feedback, complete and have predictive benefits). Also reliable, comparable and understandable. Besides that, a good understanding of rules, namely the Minister of Home Affairs Regulation No. 21 of 2011, Understanding of Regulation No. 71 of 2010, Understanding of Minister of Home Affairs Regulation No. 64 of 2013 can produce quality financial reports, namely relevant, reliable, comparable financial statements and can be understood.

If seen from the relevant predictive value of 63.6 percent, it means that there is still 36.4 percent of the influence of other variables that can be included in this study, for example, the regional government policy variable to impose strict sanctions on auditors who are not independent in carrying out audit tasks.

The results of this study reinforce Mayangsari (2003) research that independent auditors provide opinions that are more appropriate than non-independent auditors. The results of this study also strengthen the results of the study (Bakar, 2009) that independence is an important factor in providing audit services.

The Effect of Internal Auditor Independence on the Quality of Financial Statements

Based on the results of the auditor's independence research, it has a negative effect, but not significant to the quality of financial statements. This means that the more independent the internal auditor is, the better the quality of financial statements, or the more independent the internal auditor is, the financial statements will get worse.

The results of these research findings can be interpreted that the more independent the internal auditor in examining internal financial statements, the more the tendency of the findings, each finding illustrates the weaknesses inherent in financial statements. Any weaknesses can certainly reduce the quality of the presentation of financial statements, both from the relevant, reliable and comparable side. If it is observed that the internal auditor's function as a reviewer and its nature directs local government entities in the preparation of the entity's financial statements by the regulations, then any findings by the internal auditor are recommended for repairs and adjustments. Recommendations from the internal auditor must be immediately followed up by Local Goverment Financial Management Officer so that the presentation of local government financial statements as a form of regional head accountability by the laws and regulations before being audited by the external auditor.

Descriptively the independence of Internal auditors is perceived to be good in its implementation if observed from indicators of independence in appearance and independence in mental attitude. Independence indicators in appearance are perceived to be good in their implementation. This means that internal supervision in carrying out an honest examination in considering the various facts found in the audit, has sufficient experience and expertise in conducting audits in the Regional Work Unit, has honesty, ethics, and possesses high integrity in considering every fact found in the audit, impartial and cannot be influenced by Acting Budget Users in considering all the facts found in the audit, having no direct interest with regional financial management officials, competent in understanding the rules related to regional financial management, have never been legally involved in engaging in criminal acts related to examinations such as accepting bribes, collusion, and nepotism.

Indicators of independence in mental attitude are also perceived to be good in its implementation. This means that Internal Oversight has the freedom to prepare inspection programs at Local Goverment Task force, has the freedom to apply inspection standards in general, has professional competence in carrying out audit assignments in each local goverment task forces, has objectivity and acts decisively without retention in every audit assignment in Local Goverment Task force, has freedom in implementing audit quality control standards, have the freedom to carry out their checks without being limited by the officials of regional financial management (space and time), free to verify bookkeeping evidence (receipts and expenses) related to auditing regional financial management, having freedom of communication with officials regional financial manager if needed.

The effect of these conditions on the quality of financial statements is good if observed from relevant, reliable, comparable and understandable indicators.In relevant indicators, it means that internal supervision in carrying out inspections is honest in considering the various facts found in the audit, has sufficient experience and expertise in conducting audits in Local Goverment Task Force, has honesty, ethics, and has high integrity in considering every fact found in the audit, impartiality and may be influenced by Acting Budget Users or regional financial managers in considering all facts found in the audit, do not have direct interests or have a kinship with regional financial managers, can understand the rules related to regional financial management, has never been legally involved in committing a criminal act related to examinations such as accepting bribes, collusion, and nepotism.

The consolidated financial statements compiled by the Local Goverment Financial Management Officer can be used as information for feedback by the Governor on the receipt and use of the Regional Revenue and Expenditures Budget for one year, the consolidated Local Goverment Finacial Reports is the responsibility of implementing the regional government budget for a year, The Recipient Treasurer always organizes the administration of cash receipts regularly, supporting documents for financial transactions are filed neatly and regularly.

Treasurer of Financial Management Unit-Local Goverment Task Force administratively takes responsibility for managing money to Financial Management Officer Unit-Local Goverment Task Force 10 days the following month, Recipient treasurer-Local Goverment Task force is functionally responsible for managing money to the 10-day General Trasurer Of Local Goverment the following month, Local Goverment Financial Management Officer-general treasures of Local Goverment verifies, evaluates, analyzes and reconciles the receipt of money accounted for by Recipient treasurer-Local Goverment Task force. Current Local Government Financial Reports can be used as material for the following year's budget analysis, Local Goverment Financial Management Officer can be used as a material for analyzing last year's and current year's budget, containing information on the receipt and use of the Regional Budget for one fiscal year, containing information about the implementation of programs and activities of the Regional Government for one fiscal year.

Indicators are reliable both in their implementation, this means that the supporting evidence of the transaction on cash disbursement with Local goverment of Expenditures and Revenues Budget burden is accompanied by supporting evidence in full, supporting documents for the publication of Warranty of dibursement funds accompanied by supporters in full. Supporting documents on expenditure and Warranty of Disbursement Funds are made based on facts, transactions can be verified and tested truthfully convincingly, the information presented in financial statements is intended for public purposes, can be used by users of financial statements as a basis for decision making.

Indicators can be compared both in implementation. This means that local government financial statements are prepared based on Government Accounting Standards, every element in Local Goverment Financial Reports such as Budget Realization Report receipts and shopping can be traced to the supporting evidence of each, the numbers are well presented on the balance sheet, the budget realization report and cash flow report, can be compared with the previous financial statements, presented based on the structure of the Local Goverment Financial Report.

Indicators are understood to be perceived well in its implementation. This means that the language used in local government financial statements is a language that is easily understood by report users. In the financial statements of the local government presents data that is easily understood by users of the report, financial information that is presented in local government financial statements, clear and easy to read by users of the report.

The results of this study do not strengthen the Mayangsari (2003) study that independent audits provide opinions that are more appropriate than non-independent audits. Nevertheless, the results of this study strengthen the research (Bakar, 2009) that independence is an important factor in providing audit services.

The results of this study reinforce Hendriksen (2005) theory that accounting systems are needed to ensure consistency in financial reporting and can be used as a guide in presenting information needed by various parties, because the accounting system provides a basis for appropriate procedures, techniques, and methods for recording all events important local government activities.

Effect of Understanding of Rules on Financial Quality

Based on the results of the study, understanding the rules has a positive and significant effect on the quality of financial statements. This means that the more internal auditors understand the rules, the better the quality of financial statements. Descriptively understanding the rules is perceived well, if observed from the Understanding of Permendagri No. 21 of 2011, Understanding of Regulation No. 71 of 2010, Understanding of Permendagri No 64 of 2013.
Understanding of Regulation No. 21 of 2011 is good in its implementation. This means that internal supervision in verifying evidence of expenditure and receipts understands the rules of Minister of Home Affairs No. 21 of 2011, understand the vision and mission of Southeast Sulawesi province, understand the mechanism of public services through the regional income and expenditure budget in accordance with government regulations No. 21 of 2011, understand the translation of the budget in the form of programs and activities, understand the objectives of each program and activities compiled by the regional apparatus organization.
Understanding of Regulation No. 71 of 2010 is also good in its implementation. This means that internal supervisors understand the standards of financial reporting of government agencies, are able to provide consultation and problem solving related to financial management and regional assets in order to enforce clean governance, able to understand local government financial reporting standards based on local government regulation No 71 of 2010, able to understand the role and objectives of financial reporting of local governments and understand Statement of Goverment Accounting Standard No. 13 concerning the presentation of financial statements at the Public Service Agency.

Understanding of Regulation No 64 of 2013 is good in its implementation. This means that internal auditors understand the components of local government financial statements based on Permendagri No. 64 of 2013, understanding the structure of the application of the Budget

Realization Reports, Summary of Expenditures and Revenues Report, balance sheet, equity and calculation, understand well the relationship between each component of the local government financial report based on Permendagri No. 64 of 2013, able to understand the definition of accrual-based accounting in local governments, able to understand the budget structure and accounts in the components of financial statements of local governments, understand well the sources of revenue and expenditure of local governments, able to provide consultation on issues related to the preparation of financial reports.

The effect of these conditions on the quality of financial statements is good if observed from relevant, reliable, comparable, understandable indicators.In relevant indicators, it means that the auditor in carrying out an honest examination in considering various facts found in the audit have sufficient experience and expertise in conducting inspections at the Regional Work Unit, have honesty, ethics, and possess high integrity in considering every fact found in the audit, impartial and cannot be influenced by the acting Regional Budget User in considering all the facts found in the audit, does not have a direct interest or is there a kinship with the acting regional financial manager, competent to understand the rules related to regional financial management, have never been legally involved in committing criminal acts related to examinations such as accepting bribes, collusion, and nepotism.

The consolidated financial statements prepared by Local Goverment Financial Management Officer can be used as information on feedback by the Governor on the receipt and use of the Local Govermnent Budget for one year, Consolidated Local Goverment Financial Management Officer is the responsibility of implementing a regional government budget for a year, the consolidated Local Goverment Financial Management Officer is the responsibility of implementing a year-long local government budget. The recipient treasurer always organizes administration of cash receipts on a regular basis, supporting documents for financial transactions are filed neatly and regularly, administratively takes responsibility for managing money to Finacial Manegement Official Unit 10 days the following month, Finacial Manegement Official Unit is functionally responsible for the management of money to Local Goverment Financial Management Officer-general treasures of Local Goverment 10 days the following month, Local Goverment Financial Management Officer-general treasures of Local Goverment verifies, evaluates, analyzes and reconciles the receipt of money accounted for by Finacial Manegement Official Unit. Current Local Government Financial Reports can be used as material for the following year's budget analysis. Local Goverment Financial Management Officer can be used as an analysis material for the last year and current year Budget, containing information on the receipt and use of the Regional Budget for one fiscal year, containing information about the implementation of programs and activities of the Regional Government for one fiscal year.

Indicators are reliable both in their implementation. This means that the supporting evidence of the transaction on cash disbursement with the Local Goverment of Revenues and expenditures budget burden, supporting documents for the issuance of Warranty of dibursement funds is accompanied by supporters in full. Supporting documents on expenditures and Warranty of dibursement funds are made based on facts, transactions can be verified and tested verifiably, the information presented in financial statements is not intended for specific purposes but public purposes can be used by users of financial statements as a basis for decision making.

Indicators can be compared both in implementation. This means that local government financial statements are prepared based on Government Accounting Standards, each element in the Local government financial reports such as in Budget Realization Reports receipts and shopping can be traced to supporting evidence of each, figures presented both on the balance sheet, budget realization reports and cash flow statements, can be compared with the previous financial statements, presented based on the Local government financial reports reporting structure.

Indicators are understood to be perceived well in its implementation. This means that the language used in Local government financial reports is a language that is easily understood by report users, Local government financial reports presents data that is easily understood by report users, financial information presented in local government financial statements is clear and easy to read by report users.

The results of this study reinforce Hendriksen's (2005) theory that accounting systems are needed to ensure consistency in financial reporting and can be used as a guide in presenting information needed by various parties for various purposes, because the accounting system provides a basis for appropriate procedures, techniques, and methods to record all important events of government activities.
The results of this study also support Rahman's (2009) research, that the implementation of government accounting systems provides benefits and conveniences for local governments in realizing transparency and accountability in regional financial management.

Limitations

This research has limitations, namely: (1) The assessment of the independence of internal auditors is self-assessment, allowing subjectivity. Therefore, further research needs to conduct an assessment using direct observation. (2) The measurement of the quality of financial statements is limited to measurement based on perception. Therefore, it is necessary to do a direct observation of the financial statements produced. (3) This study has not involved a variable of sanctions for violations of independence in the audit. Therefore, further research can involve auditor sanctions as a moderating variable.

Conclusion

Based on the results of the research, conclusions are taken as follows: (1) The independence of internal auditors has a negative effect but not significant to the quality of financial statements. In this case, the quality of financial statements is generally good, caused by lack of independence of internal auditors, (2) Understanding of rules has a positive and significant effect on the quality of financial statements. In this case, the better understanding of the rules of an internal auditor will produce quality financial reports.

Based on these conclusions, we suggest several things as follows: (1) We recommend that the internal auditor be more independent in carrying out checks on financial statements. In this case, paying more attention to the mental attitude in carrying out its independent duties as an internal auditor; (2) It is advisable for internal auditors to pay more attention to the understanding of domestic ministerial regulation number 21 of 2011. (3) It is better to pay more attention to the quality of financial statements in terms of reliability, and easy to understand in preparing financial statements. (4) For further research, this research can be developed by direct observation of the independence of internal auditors and their understanding of the rules. Besides that, it can add regional government policy variables on sanctions for violations of independence in the audit.

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