



THE EFFECT OF INTERNAL AUDIT AND HUMAN RESOURCE COMPETENCY ON THE QUALITY OF FINANCIAL REPORTS IN THE GOVERNMENT OF NORTH TORAJA REGENCY

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Abstract:-

This study aims to analyze and explain the Effect of Internal Audit and Human Resource Competence on the Quality of Financial Reports in the North Toraja Regency Government. The method used in this study is the explanatory method with data collection techniques using a questionnaire with a sample of 40 auditors and inspecting officers/staff at the North Toraja Regency Inspectorate Office. The data analysis technique used is path analysis. The results of this study indicate that internal audit affects the quality of LKPD directly and indirectly through organizational commitment in North Toraja Regency and human resource competence affects the quality of LKPD directly and indirectly through organizational commitment in North Toraja Regency.

Keywords: Internal Audit, Auditor Competence, Organizational Commitment, and Quality of Financial Reports.

Introduction:-

The implementation of regional autonomy is one of the important focal points in order to improve people's welfare. Local governments can adjust the development of an area according to the potential and uniqueness of each region. Regional autonomy is enforced in Indonesia through Law Number 22 of 1999 concerning Regional Government. In 2004, Law Number 22 of 1999 concerning Regional Government was subsequently revised to become Law Number 32 of 2004 concerning Regional Government. Furthermore, Law Number 32 of 2004 concerning Regional Government has undergone a number of changes, the last time being Law Number 12 of 2008 concerning the Second Amendment to Law Number 32 of 2004 concerning Regional Government.

The importance of Internal Audit in an agency creates things that must be done by Internal Audit. Internal audit must also be free from obstacles in carrying out its duties. The job of internal audit is to help organizations improve the company's internal controls, including controls over sales, assist all members of management in carrying out their responsibilities, and provide an objective opinion on audited activities. The institute of international auditors (IIA) defines internal audit as follows:

Internal audit is an independent, objective assessment and consulting activity designed to add value and improve an organization's operations. The implementation of the internal audit is carried out independently and objectively, which means that it is not affected by the parties or in the audit.

Another factor that affects the quality of LKPD is the competence of human resources. According to Ratmono (2019), competence is a characteristic of someone who has the skills, knowledge and ability to carry out a job. Competent resources are able to understand the existing accounting logic, and can be more efficient and effective in preparing financial statements. Competent human resources are needed to carry out good management, have experience in finance and often attend education and training. According to (Ratmono, 2019), the lack of human resource competence affects the relevance of the resulting financial statements. (Azhar, 2010) defines human resources as the main supporting pillar as well as driving the wheels of the organization in an effort to realize the vision and mission as well as the goals of the organization.

One form of supervisory activity carried out by APIP, especially the Regency/City Inspectorate at this time is reviewing local government financial reports (LKPD, based on the provisions of government regulation number 8 of 2006 concerning financial reporting and performance of government agencies, article 33 paragraph (3) states that : The government internal supervisory apparatus (APIP) at the state ministry/institution/local government conducts a review of the financial and performance reports in order to ensure the reliability of the information presented before it is submitted by the minister/institutional leader/governor/regent/mayor to the parties as stipulated in article 8 and Article 11. With the supervision of the Inspectorate, it will produce good and quality government financial reports.

In recent years, North Toraja Regency has again received the WTP opinion title from the BPK RI representatives of South Sulawesi (see Rakyatku News, 2019). The opinion of the PAPs obtained by the local government of North Toraja Regency consistently for four (4) consecutive years has become an interesting phenomenon to study. Several previous studies such as (Ratmono, 2019; Tambingon et al., 2018; Anggriawan and Yudianto, 2018; Sudiaranti, 2015), Ristra Utami Budiyanto (2019) revealed that one of the factors that affect the quality of LKPD is the internal audit control system.

From these phenomena, the authors can conclude that the financial statements of the North Toraja Regency government receive an unqualified opinion according to the BPK. There are still many phenomena of government financial statements that do not present data in accordance with regulations and there are still many irregularities that have been found by the Supreme Audit Agency (BPK) in the audit of government financial statements. This has also encouraged the central government and local governments to implement public accountability. So, the role of internal audit is very important.

The phenomenon of the still high level of findings by BPK as an external auditor but not found by APIP as an internal auditor is the reason this research is important to do, the number of legal cases related to corruption issues that drag and involve local government officials which indicates that APIP's supervision is still weak, the level of APIP capabilities and the importance of APIP's role in this case district/city government auditors in supervising and overseeing local government administration, the researchers are interested in re-examining the factors that affect audit quality.

The rest of the findings that were not followed up were due to a long process such as financial findings such as social assistance grants or administrative findings such as unfinished certificates of government lands that had been acquired. North Toraja Regency is a newly developed area so that the level of mastery of auditors' knowledge in exploring findings is still relatively weak, compared to auditors in other regions who are more experienced.

In connection with this phenomenon, the Quality of Internal Audit carried out will be related to the competence and objectivity of the Internal Audit staff at the company. The purpose of the examination includes the development of effective supervision at a reasonable cost (Hiro Tugiman, 1997), several previous studies related to the influence of Internal Audit on the quality of financial reports have been carried out, including research conducted by (Teguh Erawati, 2019) entitled "the influence of the role of internal audit, understanding of PP No. 71 of 2010, the use of information technology, and regional financial supervision on the quality of financial reports. The results of the study were internal audit, the use of technology had a positive and significant effect on the quality of financial reporting in the Yogyakarta local government. The difference between this study and previous research is that there is an object of research and this research adds a human resource variable, the reason the researcher adds the

human resource variable and uses the organizational commitment variable as an intervening variable and then replicates because the researcher feels it is important to do this in the North Toraja Regency government. and to ensure that previous studies are consistent. Previous research was conducted on the local government of Yogyakarta, in this study the author conducted research on the North Toraja Regency Government.

Literature Review:-

Stewardship Theory

Stewardship Theory (Stewardship Theory) The grand theory that underlies this research is part of the agency theory, namely Stewardship Theory (Donaldson and Davis, 1991), which describes a situation where management is not motivated by individual goals but is more focused on their primary outcome goals for organizational interests. The theory assumes that there is a strong relationship between satisfaction and organizational success. Organizational success reflects the utility maximization of principals and management groups. Maximizing the utility of this group will ultimately maximize the interests of individuals in the organizational group.

Stewardship theory describes a situation where management is not motivated by individual goals but rather is aimed at their primary outcome goals for the benefit of the organization. The theory assumes a strong relationship between satisfaction and organizational success. Organizational success reflects the utility maximization of principals and management groups. Maximizing the utility of this group will ultimately maximize the interests of individuals in the organizational group.

Human Resources

Humans are an important component in organizations that will move and carry out activities to achieve goals. The success of an organization is determined by the quality of the people in it. HR will work optimally if the organization can support their career advancement by looking at what their competencies really are. Usually, competency-based HR development will increase employee productivity so that the quality of work is also higher and leads to customer satisfaction and the organization will benefit. Human Resources can be defined as all humans involved in an organization in seeking the realization of the organization's goals.

Nawawi divides the notion of HR into two, namely the understanding of macro and micro. The definition of human resources at a macro level is all humans as residents or citizens of a country or within certain territorial boundaries who have entered the age of the workforce, both those who have or have not obtained jobs (jobs). Understanding HR in a simple micro sense is a human or person who works or becomes a member of an organization called personnel, employees, employees, workers, labor and others.

Institutional Theory

In addition to using the Stewardship theory as described above, this study also refers to the institutional theory. Institutional theory is based on the idea (DiMaggio and Powell, 1983) that an organization (in this case a government entity) is shaped by the institutional context around it. Influential thoughts or ideas are institutionalized and then legalized and accepted as a method of operating the organization. The process of legitimacy is carried out by the organization because of the pressure of the institutional environment.

(DiMaggio & Powell, 1983) argues that an organization is formed because of forces from outside the organization through a process of imitation or compliance. Organizations will try to conform or is called isomorphism (adjustment process) due to external pressures. This isomorphism is also carried out in an effort to improve the quality of financial reports carried out by the government. The three processes of how an organization performs isomorphism according to (DiMaggio and Powell, 1983) including coercion, imitation and normative. The variables that determine the quality of financial reports such as compliance with finance, management regulations, internal control, human resource competence, and information technology are forms of isomorphism.

Internal Audit

Internal audit exists only in relatively large organizations. In this organization the leadership forms many departments. Section, section, or another organization and delegates its authority to the heads of the organizational unit. The definition of Internal Audit according to Hery (2017:238) is as follows: "Internal audit is an assessment function that is developed freely within an organization to test and evaluate activities as a form of service to the company's organization. Internal audits carry out independent appraisal activities within an organization to review activities in accounting, finance and other fields of operation as a basis for providing services to management.

From some of the definitions that have been stated above, it can be concluded that internal audit is a systematic process to obtain and evaluate evidence or information to assess an organization and ensure the achievement of goals and objectives of activities in the company and report the level of conformity with criteria that have been set to the parties concerned.

Human Resources Competence

According to (Zuliatr, 2012) human resource competence is the ability of a person or individual, an organization (institutional), or a system to carry out its functions or authority to achieve its goals effectively and efficiently. Competence is seen as the ability to achieve performance, to produce outputs and outcomes. Local governments desperately need professional human resources with broad insight, competence in their fields and a spirit of sporting competence. Professional human resources will be able to complete their tasks and work completely, based on their main duties and functions. Qualified and competent human resources in the field of accounting (finance) are the main support for the preparation of quality financial reports.

(Azhar, 2010) defines human resources as the main supporting pillar as well as driving the wheels of the organization in an effort to realize the vision and mission as well as the goals of the organization. Human resources are one of the most important organizational elements, therefore it must be ensured that the management of human resources is carried out as well as possible in order to be able to contribute optimally in efforts to achieve organizational goals. In managing regional finances, local governments must have competent human resources, who are supported by an accounting education background, often attend education and training, and have experience in the financial sector.

Organizational Commitment

Organizational commitment shows the strength of individuals in identifying their involvement in the organization (Mowday et al., 1989). (Meyer et al., 1997) presents three components of organizational commitment, namely affective commitment, continuance commitment and normative commitment. These three components describe the individual's determination to achieve the predetermined goals.

Commitment to budget objectives in the organization is defined as the determination to provide quality financial reports and carried out in a sustainable manner (see Locke and Latham, 1990). This definition is used by previous studies such as (Maiga and Jacob, 2005) to describe the importance of the organizational commitment variable in financial reporting. This shows that individual performance is determined by commitment to the goals to be achieved. According to (Locke et al., 1988) organizational commitment is influenced by three things, including (1) external factors consisting of authority, peer factors, and external rewards, (2) interactive factors consisting of participation and competition and (3) internal factors consisting of internal expectations and rewards.

Quality of Local Government Financial Reports

Quality has many meanings for everyone so that the notion of quality can be different, this is because quality has many criteria and is highly dependent on the context. Understanding the quality of local government financial reports According to Indra Bastian (2010:9) the notion of quality financial reports is the end result of the accounting process that presents useful and quality information for decision making by various interested parties. A financial report is said to be of good quality if it meets the

characteristics of being relevant, reliable, comparable and understandable (see Ratmono and Sutrisno, 2019).

Based on the above understanding, it can be concluded that the quality of financial statements is the final result of the accounting process that provides useful information for decision making so that it reflects an accurate picture of the company's financial condition.

Research Methods:-

This study aims to analyze and explain the Effect of Internal Audit and Human Resource Competence on the Quality of Financial Reports in the North Toraja Regency Government. The method used in this study is the explanatory method with data collection techniques using a questionnaire with a sample of 40 auditors and inspecting officers/staff at the North Toraja Regency Inspectorate Office. The data analysis technique used is path analysis. The variables used in this study are internal audit, HR competence, organizational commitment and LKPD quality

Results:-

Description of Research Results

Path Analysis

Path analysis is defined as a technique used to test or analyze causal relationships in multiple regression if the independent variables affect the dependent variable not only directly, but also indirectly. The tool used for statistical calculation of path analysis is regression analysis and using SPSS 25 program.

1. Equation $Y_1 = \rho_{Y1}X_1 + \rho_{Y1}X_2 + Pe_1$

The first equation in this study is to examine the relationship between Internal Audit (X1) and Competency (X2) variables on organizational commitment (Y1) which will be explained in the following table:

Table 1 Path Analysis (Equation Y1)

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig
	B	Std. Error	Beta		
1 (Constant)	9.548	2.106		4.533	.000
Internal Audit (X1)	.252	.089	.383	2.818	.008
Competency (X2)	.253	.089	.386	2.841	.007

a. Dependent Variable: organizational commitment (Y1)

Source: SPSS 25 output, 2021

Based on table 1 above, it can be seen that the Standardized Coefficients beta value shows the contribution of the Internal Audit variable to organizational commitment of 0.252 and is declared to have a significant effect with a value of 0.008 which is smaller than the standard value of 0.05. Meanwhile, for the competency variable, the Standardized Coefficients beta value is 0.253 and a significant value is $0.007 < 0.05$, which means it has a significant effect.

2. Equation $Y_2 = \rho_{yx1}X_1 + \rho_{yx2}X_2 + \rho_{yy1}Y_1 + P\epsilon_2$

The second equation in this study is to examine and analyze the relationship between the variables of Internal Audit (X1), Competence (X2) and organizational commitment (Y1) on the Quality of Financial Statements (Y2). The following is a table of the Y2 equation:

Table 2 Path Analysis (Equation Y2)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
1 (Constant)	1.680	4.264		.394	.696
Internal Audit (X1)	.429	.160	.321	2.684	.011
Competency (X2)	.727	.159	.547	4.561	.000
organizational commitment (Y1)	.207	.267	.102	2.777	.042

a. Dependent Variable: Financial Report Quality (Y2)

Source: SPSS 25 output, 2021

Based on table 4.10 above, it can be seen that the Standardized Coefficients beta value shows the contribution of the Internal Audit variable (X1) to the Quality of Financial Reports (Y2) of 0.321 and is declared to have a significant effect with a value of 0.011 which is smaller than the standard value of 0.05. Variable Competence Standardized Coefficients beta value of 0.547 and a significant value of 0.000 < from 0.05, which means that Competence (X2) has a significant effect on the Quality of Financial Reports (Y2). The organizational commitment variable (Y1) has a Standardized Coefficients beta value of 0.102 with a significant value of 0.04 < 0.05, which means that it has a significant effect on the Quality of Financial Reports (Y).

Equation :

$$Y1 = 0,383 + 0,386 + 0,773 \quad Y2 = 0,321 + 0,547 + 0,102 + 0,609$$

From the above equation, it can be seen that the direct influence of the Internal Audit variables (X1), competence (X2), organizational commitment (Y1) and the quality of financial reports (Y2).

1. The direct effect of Internal Audit (X1) on organizational commitment (Y1) has a coefficient value of 0.383 with a significant value of 0.008. This shows that Internal Audit has a positive and significant effect on organizational commitment.
2. The direct effect of competence (X2) on organizational commitment (Y1) has a coefficient value of 0.386 and a significant value of 0.007. That is, competence has a positive and significant influence on organizational commitment.
3. The direct influence between Internal Audit (X1) and the quality of financial reports (Y2) has a coefficient value of 0.321 with a significant value of 0.011. That is, Internal Audit has a positive and significant effect on the quality of financial reports.
4. The direct effect of competence (X2) has a coefficient value of 0.547 on performance (Y2) and a significant value of 0.000. This shows that competence has a positive and significant effect on the quality of financial statements.
5. The direct effect of organizational commitment (Y1) has a value of 0.102 on the quality of financial reports (Y2) and a significant value of 0.042. That is, organizational commitment has a positive and significant effect on the quality of financial reports.

Path Model Calculation I	Path Model Calculation II
$Z = \frac{ab}{\sqrt{b^2SE^2 + a^2SE^2}}$ $Z = \frac{0,252 \times 0,207}{\sqrt{0,207^2 \times 0,089^2 + 0,252^2 \times 0,267^2}}$ $Z = \frac{0,052164}{0,022938}$ $Z = 2,2831$	$S_{ab} = \frac{ab}{\sqrt{b^2SE^2 + a^2SE^2}}$ $S_{ab} = \frac{0,253 \times 0,207}{\sqrt{0,207^2 \times 0,089^2 + 0,253^2 \times 0,267^2}}$ $S_{ab} = \frac{0,052371}{0,051449}$ $= 2,2795$

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The requirement to say that there is a mediating effect or indirect effect if the t-count value is greater than the t-table value (Sobel, 1982). Based on the above calculation results, the t_count value for the first equation is 2.2831 > 1.6883, which means it has a positive effect and for the second equation the t_count value is 2.2795 > 1.6883. Thus, the organizational commitment variable is able to mediate the relationship between internal audit and competence on the quality of financial reports.

Partial Testing (t-test)

Equation 2 = $\rho_{yx1}X1 + \rho_{yx2}X2 + \rho_{yy1}Y1 + \varepsilon2$

The second equation that will be tested in this study is the effect of internal audit (X1), Competence (X2) and organizational commitment (Y1) partially on the quality of financial statements (Y2). The following are the results of the path II t test which has been processed using the SPSS 25 statistical program according to **table 2** above.

Table 2 shows that Internal Audit has a significant value of 0.011 <0.05. This means that the Internal Audit (X1) has a partially significant effect on the quality of financial reports (Y2). Competency variable (X2) has a significant value of 0.000 <0.05. This means, competence partially has a significant effect on the quality of financial reports (Y2) with a value of , and for the organizational commitment variable it has a significant value of 0.042 <0.05. Thus, organizational commitment (Y1) also has a partially significant effect on the quality of financial reports (Y2) at the North Toraja Regency Inspectorate Office.

Discussion:

Internal Audit on Organizational Commitment

The results of testing this hypothesis indicate that internal audit has a positive and significant effect on employee organizational commitment. The results of data analysis in this study indicate that internal audit has a positive and significant effect on organizational commitment. This is evidenced by the path coefficient value of 0.383 and a significant value of 0.008 > 0.05 . These results indicate that the higher the organizational commitment, the higher the performance of the internal auditors. This happens because organizational commitment will create a sense of belonging for the auditor to the organization, so that the auditor will have the willingness to realize organizational goals, be loyal to the organization, feel happy at work.

Competence towards Organizational Commitment

The results of testing this hypothesis indicate that competence has a positive and significant effect on employee organizational commitment. The results of data analysis in this study indicate that competence has a positive and significant effect on organizational commitment. This is evidenced by the path coefficient value of 0.386 and a significant value of 0.007 > 0.05 . These results indicate that the higher the level of employee knowledge of their duties, the higher their organizational commitment.

The results of this study are in line with those carried out by Fakhrol Rozi (2017), with the research title The Effect of Compensation and Competence on Organizational Commitment and Its Implications on the Performance of Construction Service Company Experts in Jambi Province. The results of this study Partially, expert competence has a positive and significant effect on Organizational Commitment, meaning that an increase in expert competence will result in an increase in Organizational Commitment to Experts in Construction Service Companies in Jambi Province. Muhammad Irham Adam (2020), The Effect of Education and Training and Competence on Organizational Commitment and Employee Performance, while the results from this study indicate that the competency variable has a significant effect on organizational commitment.

Organizational Commitment to the Quality of Financial Reports

The results of testing this hypothesis indicate that Organizational Commitment has a positive and significant effect on the quality of employees' financial reports. The results of data analysis in this study indicate that organizational commitment has a positive and significant effect on the quality of financial reports. This is evidenced by the path coefficient value of 0.102 and a significant value of $0.042 > 0.05$. This shows that the higher the organizational commitment of the finance/accounting staff, the higher the reliability of the financial statements produced.

Mowday et al. (1982) stated that a strong commitment in the organization will be able to create confidence and support as well as employee loyalty to the values and goals to be achieved by the organization. This shows that organizational commitment is very important because it has a close relationship with employee performance, where every employee is required to have good performance in his work. This finding is in accordance with previous research conducted by Fransiska (2015) which states that organizational commitment has a significant positive effect on the reliability of financial reporting.

Internal Audit on the Quality of Financial Reports

The results of testing this hypothesis indicate that internal audit has a positive and significant effect on the quality of employees' financial reports. The results of data analysis in this study indicate that internal audit has a positive and significant effect on the quality of financial reports. This is evidenced by the path coefficient value of 0.321 and a significant value of $0.011 > 0.05$. This shows that the higher the role of internal audit in carrying out financial/accounting tasks, the higher the quality of the financial reports produced.

Yoki Dodopo (2017), with the title of his research *The Effect of Organizational Commitment, Accounting Internal Control, The Role of Internal Audit, Education, and Quality of Training on the Reliability of Financial Reports at the North Halmahera District Government Skpd*. The role of internal audit (X3) has a positive and significant effect on the reliability of local government financial reports (Y). This shows that the higher the role of internal audit, the higher the reliability of the financial statements produced.

Competence on the Quality of Financial Reports

The results of testing this hypothesis indicate that competence has a positive and significant effect on the quality of employees' financial reports. The results of data analysis in this study indicate that competence has a positive and significant effect on the quality of financial reports. This is evidenced by the path coefficient value of 0.547 and a significant value of $0.000 > 0.05$. This shows that the better the auditor's capacity, the better the quality of the financial statements produced by the government, and based on the results of the regression analysis above, it can be seen that the competency variable has the greatest influence from other variables in this study as evidenced by the standardized beta value of 0.547.

To strengthen the public accountability process, one aspect that must be carried out is the existence of a reliable and trustworthy public sector audit (Mahmudi, 2010:37). The audit must be carried out by an auditor who has competence, professionalism and independence so that the audit report produced is reliable and trustworthy (Mahmudi, 2010:37). In carrying out his duties, a public sector audit must of course meet the requirements of the ability or expertise as an auditor (Indra Bastian, 2014: 26).

This study is in line with that carried out by Lusi Novita Sari (2014) who examined the Effect of Human Resource Capacity and the Role of Government Internal Auditors on the Quality of Local Government Financial Reports (Empirical Study on the Kerinci Regional Work Unit), where the results of this study indicate that HR competence has a significant positive effect on the quality of financial reports in the local government of Kerinci Regency. Where, the better the capacity of human resources, the better the quality of financial reports produced by the government.

Internal audit of the Quality of Financial Statements through organizational commitment.

The results of this study indicate the Sobel test with a value of $2.283 > 1.688$. So, the internal

audit variable has an influence and can mediate on the quality of financial reports through organizational commitment. This research is in line with that conducted by Octarina Elizabet Manullang (2016) who researched the Analysis of Factors Affecting the Quality of Local Government Financial Reports at the Tebing Tinggi City Government. with Organizational Commitment as a Moderating Variable and the results in this study indicate that organizational commitment as a moderating variable can moderate the relationship between the implementation of government accounting standards, internal audit, quality of human resources, compliance with laws and regulations, and local government accounting systems with report quality. Tebing Tinggi City Government finances.

Competence on the Quality of Financial Reports through organizational commitment.

The results of this study indicate the Sobel test with a value of $2.2795 > 1.6883$. So, the competence variable has an influence and can be mediated on the quality of financial reports through organizational commitment. The relationship between organizational commitment and employee competence is that if an organization's ability to manage its employees well, it will lead to a strong commitment of its employees to the organization. Conditions like this are very good in order to achieve organizational goals. High commitment must also be supported by the competence of employees. This confirms the research of Elvira Zeyn (2008) which states that the better organizational commitment will encourage the success of public accountability. Financial reports are an important component in creating public sector accountability and are one of the tools for measuring the financial performance of local governments (Zeyn: 2008).

This research is in line with that conducted by Dito Aditia Darma Nasution (2019) which examines the Analysis of Factors Affecting the Quality of Financial Reports in the Tanjung Balai City Government with Organizational Commitment as a Moderating Variable. The results of this study indicate that the organizational commitment variable can mediate the relationship between HR competence and the quality of financial reports.

Conclusion:-

Based on the results of the analysis in this study, several conclusions can be drawn as follows:

1. Internal audit affects the quality of LKPD directly and indirectly through organizational commitment in North Toraja Regency. This shows that the increase in internal audit can affect the increase in the quality of LKPD directly or through organizational commitment.
2. Competence of human resources affects the quality of LKPD directly and indirectly through organizational commitment in North Toraja Regency. This shows that the increase in internal audit can affect the increase in the quality of LKPD directly or through organizational commitment.

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