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# Determinants of Financial Report Review Quality with Review Judgment as Moderating Variable

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## Abstract

*Internal audit function in sector public is still receives poor attention in research field. This research aims to extend previous study and examine the determinants of good internal audit in local government. Sampling technique used in this study is purposive sampling. Using WarpPLS 7.0 data that gathered from respondent consist of 132 Government Internal Supervisory Apparatus from Ex. Residency Kediri is processed. The results show that accounting competency and professional skepticism affect review quality of LKPD from local government. On the other hand, independence, time pressure, religiosity, and moderating variable (review judgment) are not statistically supported.*

**Keywords:** Review quality; review judgment; local government.

## Introduction

Audit quality has received many interests in the past years that we can see from plethora researches regarding this topic (Broberg, 2017; Amiruddin, 2019; Gundry and Liyanarachchi, 2007; Kusumawati and Syamsuddin; 2018; Mardijuwono and Subianto; 2018; Salehi et al., 2019; Samelson et al., 2006; Svanberg and Öhman; 2013). These researches examine audit quality (external audit) in private and public sector setting. Most studies focus on the quality of audits performed by external auditors. Only a few studies have examined the function of internal auditors, especially in the public sector. This paper extends previous studies by examine determinants of internal audit function in Indonesia local government. This internal audit function is known as review instead of audit, because of that for the remainder of this paper we use the term of “review” to point out internal audit function in public sector.

Based on the Audit Result Summary in first semester of 2019, BPK has conducted audit of 542 LKPDs in 2018. From the audit, 443 LKPDs received an Unqualified Opinion (WTP), 86 LKPD received a Modified Unqualified Opinion (WDP) and 13 LKPD received a Disclaimer of Opinion (TMP) (BPK, 2019). This indicates that the quality of local government LKPD is still low. In other hand, there are still cases of fraud in several local governments, one of which occurred in the Nganjuk District (Gabrillin, 2017). Nganjuk District is part of the ex. Residency Kediri which got a bad opinion on their LKPDs. Internal review from Government Internal Supervisory Apparatus (APIP) is one of solution to enhance the quality of LKPDs from local government.

Topic regarding determinants of review quality is still scarce. From conceptual aspect, review quality is similar with audit quality. So, for this paper previous research is based on audit

quality. Attribution theory is used as a basis for explaining the effects of independent variable to dependent variable and moderating effect. Some of previous studies obtain result inconsistency so current study add moderating variable to lessen the inconsistency. This study uses review judgment as moderating variable because from Popova (2013) study, skepticism is an antecedent of review judgment and review judgment will affect review quality in return.

This study found that accounting competency and professional skepticism affect review quality but the rest of variable and moderating effect is not supported statistically. This result can be used by future research to use different variable that more suitable for public sector, because this research adopt variable from audit in private sector. The remaining of this paper consists of theory and hypothesis development, methodology, result and discussion, and the last is conclusion.

## **Literature Review and Hypothesis Development**

### **Attribution Theory**

Attribution theory is a theory that studies and explains the process of how a person determines the causes and reasons behind behavior or good actions by others of themselves (Luthans, 1998). Riyunti et al. (2019) define attribution theory as a theory that explain the understanding of a person's behavior towards the events around them, by knowing their reasons for taking action on the events they experienced. A person's behavior can be influenced by personal / internal attributes or situational / external attributes or a combination of both (Hudayati, 2002). From the explanation above, we can conclude that someone actions are an interplay of attribute, such as personal and situational attribute that determine the result of something. Attribution theory gives basis that good review quality is driven by some factors or determinants. In this study the determinants that researchers use is accounting competency, independence, time pressure, professional skepticism, religiosity, and review judgment.

### **Accounting Competency, Independence, and Review Quality**

Quality of review is determined by competency of APIP in accounting field to perform review for local government LKPD. Competence is a characteristic inherent in a person that can support the quality of the work. This indicates that competence has a very important role in achieving the expected goals. Quoted from Maulana et al. (2017), the Indonesian Government Internal Audit Standard (SAIPI) states that auditors must have education, knowledge, expertise and skills, experience and other competencies required in carrying out their duties. Several previous researchers such as Darayasa and Wisadh (2016), Husnianto et al. (2017), Idawati (2014), Kurnia et al. (2014), Lusy et al. (2017), Meidawati and Assidiqi (2019), Puspitasari et al. (2019) and Wardhani et al. (2014) have proven that competence has a positive effect on audit quality. Meanwhile, Maharany et al. (2016) stated that competence has no significant effect on audit quality.

Setyaningrum and Kuntadi (2019) state that disruption of involvement and intervention from other unauthorized parties will cause auditors and the internal audit unit to not be objective in providing opinions or conclusions about the conditions under consideration. Sometime auditee tries to sway auditor by giving false testimony or bribing them. This behavior can mitigate auditor independence and reduce review quality. Previous researchers stated that auditor independence has a positive effect on audit quality (Kurnia et al., Lusy et al., 2017; Rahmina and Agoes, 2014; Sarwoko and Agoes, 2014; Wardhani et al., 2014). Meanwhile, the findings of other researchers prove that auditor independence has no significant effect on

audit quality (Maharany et al., 2016; Mardijuwono and Subianto, 2018; Meidawati and Assidiqi, 2019; Puspitasari et al., 2019).

H1: Accounting competency affects review quality of LKPD from local government

H2: Independence affects review quality of LKPD from local government

### **Time Pressure and Review Quality**

Time pressure is a condition in which the reviewer feels pressure due to the deadline given to him to complete the review task. Elizabeth and Laksito (2017) argue that an increase in time budget pressure will result in pressure on auditors which can trigger them to take actions to reduce audit quality, such as ignoring several audit procedures / stages that should be carried out. Several studies have been conducted by Ariningsih and Mertha (2017), Broberg et al. (2017), Elizabeth & Laksito (2017), and Nirmala and Cahyonowati (2013) who prove that time pressure has a negative effect on audit quality. Meanwhile, Meidawati and Assidiqi (2019) have proven that time budget pressure has a positive effect on audit quality. Another study was conducted Pratomo (2016) and Sudrajat et al. (2015) which shows that time budget pressure has no effect on the quality of internal inspection results.

H3: Time pressure affects review quality of LKPD from local government

### **Professional Skepticism, Review Quality and Moderation of Review Judgment**

Professional skepticism is an attitude that reflected in the auditor's distrust and doubt in considering the fairness of the financial statements. This attitude will make the auditor more critical in questioning everything related to the fairness of the financial statements, including the validity of the audit evidence obtained. According to Popova (2013), skepticism could affect audit (review) judgment by giving basis for auditors to build up their hypothesis regarding the fairness of LKPD. The more skeptic the auditor's, the better their judgment, so they will likely to find fraud or material misstatement in LKPD. In conclusion, better judgment will produce better quality in review LKPD. Attribution theory also gives basis that review quality can become moderation variable between the effect of professional skepticism on review quality.

H4: Professional skepticism affects review quality of LKPD from local government

H6: Review judgment moderating the effect of professional skepticism on review quality of LKPD from local government

### **Religiosity and Review Quality**

Religiosity in this paper refers to Islamic religiosity. From attribution theory point of view, religiosity is classified as personal or internal attributes, so someone with high religiosity is expected to perform an act of kindness and avoid misconduct. He or she will strive to do the best so people with high religiosity especially auditor will perform audit well so they can gain good review quality.

H5: Religiosity affects review quality of LKPD from local government

### **Methodology**

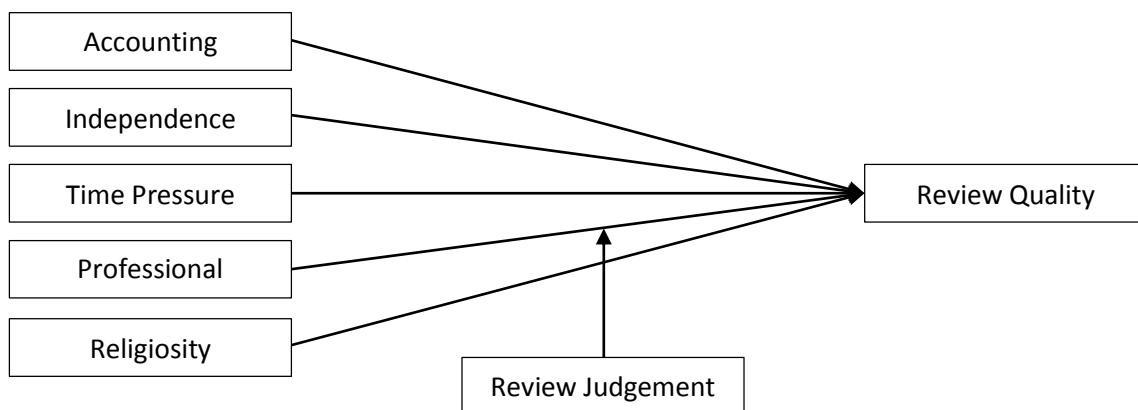
#### **Sample**

WarpPLS 7.0 is used to test the proposed hypotheses. The population of this study is 285 Government Internal Supervisory Apparatus in all District / City Inspectorates throughout the Ex Residency of Kediri. Purposive sampling is used to screening the sample of this study. From 281 questionnaires that have been sent, 132 questionnaires can be used as sample. Approximately 54 percent of the sample is male and 46 percent is female. Forty percent of the respondents have accounting background and the rest is have non-accounting background.

### Measures

The measures were based on a five-point scale from 1 (“disagree strongly”) to 5 (“agree strongly”). The indicators used to measure accounting competency are the modified results of the Minister of Finance Regulation Number: 8 / PMK.09 / 201 and Amirullah et al. (2010), namely: 1) understanding of SAP, 2) understanding of the Regional Government Accounting System (SAPD), 3) understanding of the main activities of the entity being reviewed, 4) mastery of the basics of auditing and 5) experience of reviewing. Independence is measured using indicators developed by Alim et al. (2007), namely: 1) providing facilities / gifts / rewards from other parties, 2) objectivity of reviewers, and 3) honesty during the review process.

The indicators used to measure time pressure are the result of adjustments from the indicators developed by Rusyanti (2010). The measurement of professional skepticism uses an indicator of adjustment results from Hurtt (2010) which is a characteristic / trait that forms professional skepticism itself. Religiosity is measured by using instrument from Said et al. (2018). To measure review quality, researchers used indicators that quoted from Widyarini (2015) which is a development and modification of the Minister of Finance Regulation Number: 8 / PMK.09 / 2015, namely: 1) review implementation time, 2) review competence, 3) process / stages implementation of reviews, 4) review working papers, and 5) review reports. The figure below is exhibit the framework of this study.



### Results and Discussion

The model from this study is already tested using WarpPLS 7.0 and fulfill outer and inner model such as convergence validity, discriminant validity, reliability, and R-square.

Hypotheses	Description	Coefficient	p Value	Finding
H1	Acc. Competency → Rev. Quality	0.245	0.002	Supported
H2	Independence → Rev. Quality	0.011	0.452	Rejected
H3	Time Pressure → Rev. Quality	0.027	0.380	Rejected
H4	Prof. Skepticism → Rev. Quality	0.570	<0.001	Supported
H5	Religiosity → Rev. Quality	-0.027	0.378	Rejected
H6	Rev. Judg.*Prof. Skept. → Rev. Qua.	0.129	0.064	Rejected

This result exhibits that only competency and skepticism that considered as determinants of good review quality. This result is supported the applicability of attribution theory and consistent with Darayasa and Wisadh (2016), Husnianto et al. (2017), Idawati (2014), Kurnia

et al. (2014), Lusy et al. (2017), Meidawati and Assidiqi (2019), Puspitasari et al. (2019) and Wardhani et al. (2014). Whereas, there are some variable that not supported statistically, such as independence, time pressure, religiosity, and review judgment as moderating variable. Independence is out of question because the relation of auditor and auditee in public sector is different with private sector. Auditee has poor control to sway the auditor because the fee is given by government in the form of salary.

For time pressure, this variable not significantly affects review quality because Government Internal Supervisory Apparatus or APIP is record the result of audit from previous year and has enough understanding of LKPD from the local government where they perform internal audit or financial statements review. Because of that time pressure is not determinant of good financial statements review. Religiosity in this study is focused in Islamic side so other religion in not covered in indicators. Maybe because Government Internal Supervisory Apparatus from other religion are also take part in filling the questionnaires so the result is not supported. Bias religion that caused by the religiosity indicator could be the cause.

### **Conclusion**

There is some part of audit that rarely gets attention from scholars, such as internal audit in public sector institution. This study tries to filling the gap from previous research by examine the determinants of good review quality in local government. The result of this study shows that only accounting competency and professionalism skepticism that statistically and significantly affect review quality. Whereas the other independent and moderating variable is not supported statistically. The result of this study indicates some interesting fact.

First, internal auditor in public sector is mainly focus in competence and skepticism to obtain good review quality before the LKPD is audited by BPK. Second, independence, time pressure, and religiosity are out of count from the determinant of good review quality because bias and difference characteristic between private and public sector institution. This result can be use as guidance by future study to focus on examining the factors or determinants that really matter in public sector institution.

This study should be interpreted with caution because of some limitations. First, this study focus on use Islamic indicator to measure religiosity that could trigger bias. Future research should use indicator that more holistic to capture religiosity in every religion to evade bias. Second, future study can use different point of view by perform case study regarding the determinant of good quality of use mix method to give comprehensive result.

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