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Audit Quality in Soes Based on The Internal Control of Company Aspect

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ABSTRACT

Public accountants, a profession highly respected by society, instill confidence in business owners by ensuring a thorough audit process and providing expert opinions on their financial statements. This study intends to examine the effect of understanding internal control on audit quality in state-owned companies in Indonesia. The research approach chosen is quantitative, using a causal associative research design. This research will cover all State-Owned Enterprises in Indonesia in 2023, consisting of 30 companies with a financial reporting period of 2022. The data analysis technique used is Logistic Regression. The findings of this study indicate that audit quality is influenced by the level of understanding of internal control through monitoring. The level of internal control involving the control environment, risk assessment, control activities, and information and communication has little impact on Audit Quality in SOEs in Indonesia.

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1. INTRODUCTION

Economic globalization refers to any type of economic activity that leads to the integration of markets between countries worldwide. This notion has a significant impact on trade, finance, investment, production, and international relations. This results in frequent errors on the part of both the sender and the recipient. Hence, it is imperative for management to validate their assumptions in order to prevent any information asymmetry among the relevant stakeholders. Hence, it is imperative to conduct audits on financial accounts.

Public accounting, a profession held in high respect by the public, instills confidence in business owners by offering assurance on the procedures and audit judgments made on their financial accounts. Arens (2015: 168) asserts that doing an audit is of utmost significance as the auditor aims to prove to the recipients of financial statements if the accounts are presented in a just and compliant manner with the relevant financial accounting framework. The reason for this is that financial statements are valuable for both internal and external stakeholders(Aditya & Surjono, 2017).

External auditors have the duty to protect the confidentiality of the information they gather throughout their work and to ensure that their professional tasks are carried out correctly (Mulyani & Munthe, 2019). Hence, it is imperative to conduct systematic, effective, and efficient checks throughout the audit process to guarantee a high standard of audit quality. Hence, the quality of audits holds significant importance for public accountants. Pradana's research (Pradana, 2016) identifies three factors that contribute to the determination of audit quality: 1) Characteristics of the customer or auditor, 2) Characteristics of the auditor, and 3) Characteristics of the agreement. In this study, examines the characteristics of clients, auditors, and engagements. The author will analyze certain attributes identified by (Hay, 2010) as a benchmark for conducting company assessments.

Despite undergoing audits by Public Accounting Firms, some state-owned enterprises remain implicated in financial statement problems. This demonstrates that numerous reputable Public Accounting Firms are unable of detecting fraud or inaccuracies in the financial accounts of State-Owned Enterprises (SOEs), suggesting that the KAP audit falls short in terms of effectiveness. Garuda Indonesia encountered revenue recognition problems in June 2019, which had a direct impact on the company's Income Statement. The finance ministry has granted approval for the disciplinary action against Public Accountant Kasner Sirumapea and Public Accounting Firm (KAP) Tanubrata, Sutanto, Fahmi, Bambang, and Partners as a result of identified auditing errors in the financial statements of PT Garuda Indonesia Tbk for the fiscal year 2018. The Garuda case is considered the trigger for the disclosure of more occurrences involving state-owned businesses (SOEs), such as allegations of corruption at Krakatau Steel, Waskita, and the State Savings Bank (BTN), as well as the Jiwasraya Insurance default.

Agus Rahjardjo, the Chairman of the Corruption Eradication Committee, claims that certain State-Owned Enterprises (SOEs) have not complied with the principle of transparency, and the Special Investigation Unit (SPI) lacks effectiveness. and responsibility, similar to fraudulent agreements (Sikumbang, 2019). SPI has a limited amount of staff and is required to report any violations to the auditors' superiors. Therefore, SPI does not have the ability to investigate violations committed against Indonesian state-owned businesses (SOEs). The Ministry of State-Owned businesses (SOEs) has issued Regulation of the Minister of SOEs Number PER-5/MBU/09/2022, with the objective of strengthening risk management and internal control mechanisms to reduce violations inside state-owned businesses.

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Pursuant to Law No. 19/2003, the members of the Board of Directors are obligated to comply with regulations pertaining to public businesses, business practices, and the law. In addition, they are required to exhibit professionalism, effectiveness, openness, autonomy, accountability, and fairness. Furthermore, Article 26 of the stated Act states that state-owned companies (SOEs) must carry out meticulous accounting operations in line with the principles of internal control. This involves the assignment of responsibilities for management, record-keeping, conservation, and supervision. As per Article 22 of the Decree issued by the Minister of the Ministry of State-Owned Enterprises of the Republic of Indonesia, with reference number Kep-117/M-MBU./2002, it is mandatory for all state-owned firms in Indonesia to implement an internal control system that is aligned with the COSO framework. This is a component in the implementation of effective governance in government-owned enterprises. Hence, the management of state-owned enterprise (SOE) companies must strictly comply with this regulation. State-owned multinational firms (SOEs) are widely acknowledged to play an active role in driving economic growth in Indonesia and have a prominent place within its framework. Effective internal control is essential for state-owned enterprises to maintain governance that is consistent with their functions.

Currently, State-Owned Enterprises (SOEs) consist of two separate categories of economic clusters: industry and services. The industries included include healthcare, manufacturing, minerals and coal, food and fertilizers, plantations and forests, energy, oil, and gas. The services cluster include banking, telecommunications, media, infrastructure, and logistical sectors. Previous research has overlooked the assessment of the audit level of state-owned firms in Indonesia, mostly due to the diverse nature of their internal control procedures. Hence, the research is being carried out under the given title. " Audit Quality In SOEs Based On The Internal Control of Company Aspect "

2. RESEARCH METHODS

2.1 Data and Research Methods

The selected research methodology is quatitative and a causal associative study design. The objective of this design is to ascertain the correlation between two or more variables (Umar, 2010) This study utilizes the control environment, risk assessment, control activities, information and communication, and supervision as independent variables to examine aspects of internal control. The study considers audit quality as the dependent variable, which is referred to as variable X.

2.2 Variable Operations

The Control Environment (X1) shows how the board of directors / management prevents fraud. In this study using the presence or absence of Integrity Facts on each BUMN Website (Nominal Scale). Risk Assessment (X2) where the assessed business risk assessment is related to the business entity environment related to financial statements. In this study refers to (Alamsyah, 2023) where the indicator uses Litigation Risk (Ratio Scale). This study uses litigation risk indicators, which are assessed with Dummy Variables: Companies that are facing court cases get a value of 1, and companies that are not facing court cases get a value of 0 (Nominal Scale). Control Activities (X3) where auditors must understand the company's control activities. In this study, the indicator uses the Natural Logarithm of Total Intangible Assets (Ratio Scale). Information and Communication (X4) where the auditor must know what information system is in the company, because in the system there will be different

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recognition, measurement, and presentation and discloser. In this study, the indicator uses the Number of Board of Directors Meetings (Ratio Scale). Monitoring (X5) in this study the indicator uses the number of human resources of the Internal Control / Internal Audit Unit (Scale Ratio).The selected research methodology is quatitative and a causal associative study design. The objective of this design is to ascertain the correlation between two or more variables (Umar, 2010: 214). This study utilizes the control environment, risk assessment,

2.3 Population and Sample

This study will cover all Indonesian State-Owned Enterprises in 2023, consisting of 41 companies, consisting of public companies and companies, in 12 industrial and service clusters: tourism, telecommunications and media, oil and gas energy, health, manufacturing, food and fertilizer, plantations, minerals, insurance, finance, infrastructure, and logistics services. This research uses purposive sampling technique. For this study, the sample criteria to be used are as follows:

a. Indonesian state-owned enterprises in 2023;

b. SOEs that publish their financial statements in 2022.

So that a sample of companies that meet the criteria is obtained as many as 30 with a financial report period of 2022, so the total research sample is 30The selected research methodology is quatitative and a causal associative study design. The objective of this design is to ascertain the correlation between two or more variables (Umar, 2010) This study utilizes the control environment, risk assessment,

2.4 Data Collection Technique

As per the source, the data utilized in this study is categorized as secondary data. The data sources utilized in this study comprise of yearly financial reports acquired from the official website of the Indonesia Stock Exchange (IDX) as well as from the individual websites of each company.

2.5 Data Analysis Technique

a. Descriptive Statistical Analysis

b. Logistic Regression Analysis

According to Sekaran & Bougie (2016) logistic regression is used if the dependent variable has only two possibilities, or commonly referred to as a dummy variable.The logistic regression equation model in this study is stated as follows:

$$\log \frac{P}{1-P} = a + \beta1(FI) + \beta2(RL) + \beta3(LNInt) + \beta4(RD) + \beta5(SPI) + e$$

Description:

Y = Subject in the predicted dependent variable (Audit Quality = Reputation of Auditor).

a = Y magnitude when X is equal to 0 (constant value),

$\beta1$ $\beta2$ $\beta3$ $\beta4$ $\beta5$ = Coefficient of Determination

FI = Integrity Fact (Control Environment)

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RL = Litigation Risk (Risk Assessment)

LNInt = Natural Logarithm of Intangible Asset (Control Activity)

RD = Number of Board of Directors Meetings (Information and Communication)

SPI = Number of SPI Human Resources (Monitoring)

e = Error term / remainder.

According to Ghozali (2018) there are several stages of assessment in logistic regression analysis, including the following.

1) Assessing the Overall Fit Model: This test determines whether the current model fits the data.
2) Parameter Estimation and Interpretation (Nagelkerke R Square): Ghozali (2018) states that the Nagelkerke R Square test is a modification of the Cox and Snell R Square coefficient.
3) Evaluation of the Suitability of the Regression Model: Logistic regression analysis employs the Hosmer and Lemeshow fit test to determine the viability of the model.

c. Hypothesis Testing

The Wald test is applicable for evaluating specific hypotheses in logistic regression. The purpose of this is to ascertain whether the independent variable has a direct or partial impact on the dependent variable (Ghozali, 2018).The selected research methodology is quatitative and a causal associative study design. The objective of this design is to ascertain the correlation between two or more variables (Umar, 2010: 214). This study utilizes the control environment, risk assessment, Control Activity, Information and Communication, and then Monitoring.

3. RESULTS AND DISCUSSIONS

3.1 Descriptive Statistics Analysis

Table 1: Descriptive Statistics Result

		Integrity Fact	Litigation Risk	Intagible Asset	Number of Board of Directors Meetings	Number of SPI Human Resource	Audit Quality
N	Valid	30	30	30	30	30	30
	Missing	0	0	0	0	0	0
Mean		.53	.70	8211771293306.00	43.00	88.57	.50
Mode		1 (53.3)	1 (70.)	133000000[a]	12[a]	13	0[a]
Minimum		0	0	133.000.000	12	3	0
Maximum		1	1	85.449.857.717.000	156	666	1
Sum		16	21	246353138799180	1290	2657	15

Source: Secondary data processed by the author (2023)

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The results of descriptive statistical data are presented in Table 1, indicating that there are a total of 30 valid data points for each variable. Out of the 30 data samples, the Control Environment variable evaluated by Integrity Facts indicates that the mode, or up to 53.3%, which is equivalent to 16 companies out of the BUMN companies, exhibit integrity facts on their company website.

Out of the 30 data samples, the Litigation Risk assessment variable determined that the mode, or the most frequently occurring value, for BUMN companies is 70%, which corresponds to 21 companies that have litigation risk or are involved in a legal dispute during the financial reporting year.

The analysis of the Control Activity variable, assessed by the Natural Logarithm of Intangible Assets, reveals that the minimum value of intangible assets in BUMN companies is Rp 133,000,000, owned by PT Bank Tabungan Negara Tbk. On the other hand, the maximum value is Rp 85,449,857,717,000, indicating that PT Waskita Karya Tbk possesses the largest amount of intangible assets among BUMN companies.

The indicator utilized for the information and communication variable is the number of board of directors meetings. The analysis utilizing descriptive information reveals that PT Bank Tabungan Negara Tbk holds 156 board of directors meetings annually, while PT Reasuransi Indonesia holds 12 board of directors meetings per year.

An assessment was conducted on the audit quality characteristics of Big 4 KAP and Non Big 4 KAP using a sample of 30 data points. The findings indicate that in the 2023 financial reporting year, both KAP Big 4 and KAP Non Big 4 audited an equal number of SOE enterprises, specifically 15 companies each, making up 50% of the total audited companies.

3.2 Logistic Regression Analysis

Prior to conducting hypothesis testing, three model tests must be executed: overall model testing, coefficient of determination testing (Nagelkerke R'Square), and regression model fit testing (Hosmer and Lemeshow's goodness of fit).

a. Overall Model Testing

Table 2: K -2 Log Likehood Testing Result

Iteration History	-2 Log Likehood
Block Number 0	41.589
Block Number 1	24.881

Source: Secondary data processed by the author (2023)

The -2 Log Likelihood statistic is employed to assess if the inclusion of an independent variable enhances the fitness of the model. To evaluate the whole model, we can compare the -2 Log Likelihood value at the start (Block Number = 0) with the -2 Log Likelihood value at the conclusion (Block Number = 1). Table 2 presents the feasibility test, specifically focusing on the value of -2 Log Likelihood Block Number 0, which is 41.589. Block Number 0 displays a model that lacks the inclusion of five independent variables. The value at -2 Log Likelihood Block Number 1 is 24.881. Block Number 1 displays a model that includes the incorporation of five distinct variables. The value decreases by 16,708 from Block Number 0 to Block Number 1, suggesting that the model will improve in accuracy with the addition of five independent variables.

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b. Parameter Estimation and Interpretation (Nagelkerke R'Square Test)

Table 3: Nagelkerke R'Square Test Result

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	24.881[a]	.427	.569

Source: Secondary data processed by the author (2023)

The Nagelkerke R'Square value in logistic regression can be interpreted similarly to the R2 value in multiple regression. The Nagelkerke R'Square test is utilized to quantify the extent to which the independent factors, specifically stimulation, capability, collusion, opportunity, rationalization, and ego, may account for the variation in the dependent variable, namely corruption. The SPSS output reveals a Nagelkerke R'Square value of 0.569, indicating that 56.9% of the variation in audit quality can be accounted for by the five independent variables. The remaining 43.1% can be attributed to other factors that were not considered in the research model.

c. Testing the Feasibility of the Regression Model (Hosmer and Lemeshow's Godness of fit)

Table 4: Hosmer and Lemeshow's Godness of fit Test Result

Hosmer and Lemeshow Test			
Step	**Chi-square**	**df**	**Sig.**
1	7.400	8	.494

Source: Secondary data processed by the author (2023)

Furthermore, the Hosmer and Lemeshow accuracy test can be employed to assess the adequacy of the model's fit with real-world data. The Hosmer and Lemeshow accuracy test value should be ≤ 0.05, indicating a significant disparity between the model's predicted and observed values. If the value exceeds 0.05, the null hypothesis is not rejected. Table 4 shows that the Hosmer Leshow Test has a statistically significant value of 0.494, which is more than the threshold of 0.05. Therefore, we accept the null hypothesis. According to this, the regression model employed in this study is appropriate for further examination, as it has the capability to forecast the value of the observations.

3.3 Hypothesis Test Analysis

The Wald test is employed in logistic regression to conduct partial tests. Its purpose is to ascertain the extent to which the independent variable influences the dependent variable, either individually or partially (Ghozali, 2018). During this test, the process of making decisions relies on comparing the Wald statistical value (t count) with the t table value. The decision-making criteria for the Wald test are as follows:

If the calculated t value is smaller than the critical t value from the t table, the alternative hypothesis (H1) is rejected, indicating that there is no significant effect of the independent variable on the dependent variable.

If the computed t-value exceeds the critical t-value from the t-table, the alternative hypothesis (H1) is accepted, indicating that the independent variable has a significant effect on the dependent variable.

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a. Wald Test Result

Table 5: Wald Test Result

							95% C.I.for EXP(B)	
		B	S.E.	Wald	df	Sig.	Exp(B)	Lower	Upper
Step 1[a]	Integrity Fact	-.144	1.146	.016	1	.900	.866	.092	8.193
	Litigation Risk	-.611	1.098	.309	1	.578	.543	.063	4.673
	Natural Logarithm of Intangible Asset	-.145	.206	.493	1	.483	.865	.577	1.297
	Number of Board of Directors Meetings	-.032	.025	1.589	1	.207	.969	.922	1.018
	Number of SPI Human Resources	.064	.030	4.612	1	.032	1.066	1.006	1.130
	Constant	3.495	6.154	.322	1	.570	32.936		

a. Variable(s) entered on step 1: FI = Integrity Fact (Control Environment), RL = Litigation Risk (Risk Assessment), LNInt = Natural Logarithm of Intangible Asset (Control Activity), RD = Number of Board of Directors Meetings (Information and Communication), SPI = Number of SPI Human Resources (Monitoring)

Source: Secondary data processed by the author (2023)

Table 5 shows the results of logistic regression hypothesis testing at a significance level of 5%. From the hypothesis testing results, the logistic regression equation model can be obtained as follows:

$\log \frac{P}{1-P}$ = 3.495 + -0.144(FI) + -0.611(RL) + -0.145(LNInt) + -0.064(RD) + 0.064(SPI) + e

From the logistic regression equation and analysis result table provided, some conclusions can be drawn. The constant value of 3,495 indicates that while all independent variables remain at zero, there is a consistent increase in the tendency for good audit quality by 3,495.

The Control Environment variable, represented by the Integrity Fact (FI), has a coefficient of -0.144. This indicates that the presence of integrity facts on the BUMN Company website decreases the probability of producing good audit quality by a factor of 0.144, assuming other factors are cost-effective. The Wald statistic for this variable is 0.016, which is less than the critical value from the t-table. The p-value exceeds the threshold of 0.05. From this, it may be inferred that the Control Environment does not exert a substantial positive impact on audit quality.

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The variable representing Risk Assessment, specifically Litigation Risk (RL), has a value of -0.611. This indicates that when taking into account other variables, the presence of disputes or legal cases in BUMN enterprises decreases the likelihood of producing good audit quality by a factor of 0.611. The Wald statistic for this variable is 0.309, which is less than the critical value from the t-table. The p-value exceeds the threshold of 0.05. Therefore, it may be inferred that Risk Assessment does not exert a substantial positive impact on audit quality.

The Control Activity variable, represented by the Logarithm of Natural Intangible Asset (LNInt), has a coefficient of -0.145. This indicates that for every unit increase in the value of Intangible Assets of BUMN Companies, the likelihood of good audit quality decreases by 0.145 times, assuming other variables are held constant and have a significant cost. The Wald statistic for this variable is 0.493, which is less than the critical value from the t-table. The p-value exceeds the threshold of 0.05. Based on this analysis, it can be inferred that Control Activities do not exert a substantial positive impact on the quality of audits.

The coefficient of the Information and Communication variable, as proxied by the Number of Board of Directors Meetings (RD), is -0.032. This indicates that, when taking other variables into account, a higher frequency of board of directors meetings in BUMN companies decreases the likelihood of producing good audit quality by a factor of 0.032. The Wald statistic for this variable is 1.589, which exceeds the critical value from the t-table. The p-value exceeds the threshold of 0.05. Therefore, it can be inferred that Information and Communication do not exert a substantial positive impact on audit quality.

The coefficient of the Monitoring variable, represented by the number of human resources in the Internal Audit Unit (SPI), is 0.064. This indicates that, when all other variables are held constant, each additional member in the Internal Audit Unit (SPI) will result in a 0.064 times increase in audit quality. The Wald statistic for this variable is 4.612, which exceeds the critical value from the t-table (0.68485). Therefore, the alternative hypothesis is validated, indicating that monitoring has a beneficial impact on audit quality. The p-value is less than 0.05. Therefore, it can be inferred that surveillance has a substantial beneficial impact on the quality of audits.

3.4 Discussion of Research Result

a. The Effect of the Control Environment on Audit Quality

The partial Wald test results indicate that there is no substantial impact of the control environment on audit quality, as seen by the negligible results and negative coefficient. These findings suggest that the auditors' comprehension of the company's control environment has no impact on the caliber of the audits they conduct. The study utilizes the factual information regarding the integrity of the company's website to assess the control environment.

The presence of integrity facts, which include information about anti-bribery or gratuities, on the company's website does not affect the risk of litigation. The company as a whole adheres to ISO 37001: 2016 Anti Bribery standards. Furthermore, the Ministry of State-Owned Enterprises (SOEs) has implemented a range of legal measures, including Circulars and Regulations issued by the Minister of SOEs, to govern and ensure effective corporate governance. An instance is the Regulation of the Minister of State-Owned Enterprises Number PER-9/MBU/06/2021 of 2021 on Gratification Reporting Within the Ministry of State-Owned Enterprises. This regulation forbids gratuities, business transactions that suggest deceit, conflicts of interest, and establishes whistleblower procedures.

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b. The Effect of Risk Assessment on Audit Quality

The partial Wald test indicates that the Company's Risk Assessment has no substantial impact on audit quality, as seen by the negligible results and negative coefficient. These findings suggest that the Company's Risk Appraisal has no impact on the audit's quality conducted by the auditor. Hence, it is comprehended that Enterprise Risk Assessment can be quantified by evaluating the presence of lawsuit risk.

A State-Owned Enterprise (SOE) can be exposed to the possibility of legal action due to a range of factors, including infractions of the law, failure to adhere to regulations, or conflicts with other entities. These elements have the potential to impact the company's reputation and pose a risk to its long-term viability (Sawitri, 2022) The Ministry of State-Owned Enterprises (SOEs) released Regulation Per-5/MBU/09/2022 on Risk Management in SOEs in September 2022. This rule mandates that state-owned enterprises (SOEs) shall establish and implement comprehensive risk management practices, ensuring the sufficiency of policies, processes, and internal control systems (Sawitri, 2022)

The national risk management standards, SNI ISO 31000:2018 and SNI ISO 8848:2019, can aid state-owned enterprises (SOEs) in effectively managing the risk of litigation. Both standards prioritize the significance of integrated and consolidated risk management, and encompass hazards at all levels of the company (Sawitri, 2022).Thus, by implementing effective litigation risk management strategies, state-owned enterprises (SOEs) can successfully navigate legal cases and maintain a high level of audit quality. The presence of lawsuit risk does not impact the quality of audits conducted at state-owned enterprises (BUMN) in Indonesia.

c. The Effect of Control Activities on Audit Quality

The partial Wald test results indicate that control actions have no meaningful impact on audit quality, as seen by the negligible results and negative coefficient. These findings suggest that control actions have little impact on the quality of audits conducted by auditors. Therefore, the auditors' ability to conduct high-quality audits is not influenced by their comprehension of the company's control activities, as indicated by the logarithm of intangible assets. The outcomes of this study are consistent with the previous research (Yuliana, 2019)

d. The Effect of Information and Communication on Audit Quality

The partial Wald test indicates that there is no substantial impact of Information and Communication on audit quality, as seen by the negligible results and positive coefficient. These data suggest that the frequency of board of directors meetings, as a measure of understanding the Company's Information and Communication, has no impact on the quality of audits conducted by auditors. The outcomes of this study are consistent with the previous research (Yuliana, 2019).

e. The Effect of Monitoring on Audit Quality

The findings of the partial Wald test indicate that there is a significant and favorable effect of the level of understanding of internal control, namely monitoring, on audit quality. Increasing the quantity of human resources or people in the internal supervisory unit (SPI) will positively impact the quality of audits conducted by auditors, as indicated by the monitoring or supervision measures. The findings of this study align with previous research (Zarlis, 2018), indicating that regular monitoring and evaluation can effectively deter fraud and identify areas in need of improvement. Efficient surveillance can also enhance the caliber of the next audit.

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4. CONCLUSIONS

This study investigates how understanding internal controls impacts audit quality in Indonesian state-owned companies. There are two conclusions from the analysis and discussion; Internal control level understanding of the control environment, risk assessment, activities environmental, information and communication does not affect audit quality; and Internal control level understanding of the monitoring does have affect audit quality at State-Owned Enterpresis in Indonesia

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