

Factors Influencing the Audit Quality of Internal Supervisory Apparatus in the Binjai City Government

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Abstract: The quality of audits is a crucial measurement to determine how effectively an audit has been conducted and the extent to which it produces relevant, accurate, and reliable information. High-quality audit outcomes are typically assessed based on how well the audit team performs the planning process, ensures that the audit plan is relevant and effective, produces audit reports that meet stakeholders' needs, and adheres to ethical principles aligned with established auditing standards. This study aims to evaluate the extent to which several key factors—namely audit planning, audit implementation, audit reporting, and ethical principles—have a direct impact on the audit quality of the Government Internal Supervisory Apparatus (Aparat Pengawasan Intern Pemerintah, or APIP) in the Binjai City Government. The research employs a quantitative approach, utilizing primary data collected from a sample of 39 government auditors. Data analysis was performed using the SmartPLS (Partial Least Squares) application, which allows for the modeling of complex relationships between variables. The findings reveal that audit planning, audit implementation, and audit reporting all have a significant and direct influence on the quality of audit results. These components play a central role in enhancing the credibility, effectiveness, and usefulness of internal government audits. However, the study also finds that ethical principles, while essential in guiding professional conduct, do not have a statistically significant direct impact on audit quality in this specific context. The results underscore the importance of strengthening technical aspects of the audit process, such as planning and reporting, while also maintaining strong ethical foundations as complementary rather than primary determinants of audit quality. This research contributes to the ongoing efforts to improve the effectiveness and reliability of internal government audits in Indonesian public sector institutions.

Keywords: APIP, Audit Plan, Audit Report, Audit Results, Ethical Principles

1. Introduction

The Government Internal Supervisory Apparatus (APIP) plays a crucial role in creating an effective, efficient, and corrupt-free government. This strategic role is essential for realizing good governance and a clean government, ultimately supporting governance free from corruption, collusion, and nepotism. However, achieving this requires professional and competent auditors. Audit quality is a measure of the reliability of audit results in improving local government accountability and transparency. This study specifically examines the influence of audit planning, implementation, and reporting, as well as ethical principles, on audit quality in the APIP of the Binjai City Government.

Although the government has achieved several targets, such as the Unqualified Opinion (WTP) for the 2020 Central Government Financial Report (LKPP), fundamental problems remain. In 2021, the Supreme Audit Agency (BPK) revealed 8,483 findings covering 14,501 issues, consisting of weaknesses in the internal control system (SPI) and non-compliance with laws and regulations worth Rp8.26 trillion. This fact underscores the urgency of optimizing

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the supervisory role of APIPs throughout Indonesia, including the Binjai City Inspectorate, to prevent fraud and improve financial management. Furthermore, previous studies on audit quality have yielded mixed results, necessitating further study to comprehensively understand its determinants.

Audit planning is a fundamental stage that regulates the entire audit process to achieve objectives with quality, efficiency, and effectiveness. According to the Indonesian Government Internal Audit Standards (SAIPI), planning is the process of establishing objectives, allocating time, personnel, and audit methodology. Research by Evayanti (2021) confirms that thorough audit planning has a positive and significant impact on audit quality. After planning, the implementation phase becomes crucial. At this stage, auditors independently and objectively test, analyze, and evaluate evidence to assess the effectiveness of controls, risk management, and auditee governance. Implementation in accordance with standards will result in an audit that stakeholders can rely on.

The next stage is reporting, which serves as the primary means of communication between the Internal Auditor (APIP) and organizational leaders and other stakeholders. The audit report serves to convey findings, conclusions, and recommendations in writing. To be effective, the report must be presented accurately, objectively, timely, convincingly, and constructively. Good reporting not only communicates weaknesses but also encourages auditees to make improvements and facilitates follow-up monitoring, ultimately improving overall organizational performance.

The foundation of all audit stages is ethical principles, which serve as a benchmark for auditor behavior. According to the Indonesian Association of Government Internal Auditors (AAIPI), the ethical principles that auditors must adhere to include integrity, objectivity, confidentiality, competence, accountability, and professional conduct. Integrity and objectivity ensure auditors are honest and impartial, while competence ensures that auditors possess the knowledge and skills necessary to perform their duties. Adherence to these ethical principles builds trust and significantly improves the quality of audit results.

Overall, high audit quality is the result of a synergy between careful planning, disciplined execution, communicative reporting, and a solid ethical foundation. Each factor plays an interrelated and inseparable role in producing value-added audits for the government. Therefore, this study focuses on empirically demonstrating the influence of these four variables on the audit quality produced by the Auditor-General Accounting Apparatus (APIP) in the Binjai City Government. A deeper understanding of these dynamics is expected to provide input for strengthening transparency and accountability in financial management at the local government level.

2. Theoretical Basis

2.1. Agency Theory

This theory explains the relationship between the principal (government) and agent (auditor), as well as the importance of the independent auditor's role in reducing information asymmetry and improving audit quality (Jensen & Meckling, 1976). In the context of government, the government acts as the principal with authority and responsibility for managing public resources. On the other hand, auditors, both internal and external, act as agents tasked with examining and verifying the fairness of financial reports and compliance with applicable regulations. This relationship is essentially based on the delegation of authority from the principal to the agent to carry out certain tasks in the principal's interests.

The main problem that arises in this relationship is information asymmetry, a condition in which the agent (auditor) has more or better information about the object being audited than the principal (government) or even the public. The government may not have the technical expertise or full access to data to independently verify all the information presented. This information gap creates a potential risk that the agent may not always act entirely in the best interests of the principal, which can lead to suboptimal decisions or even undetected abuse of authority.

To bridge this information gap, the role of independent auditors is crucial. An independent auditor, who has no personal interests or affiliations with the audited entity, can provide an objective and impartial assessment. Their presence serves as an effective external oversight mechanism. With their expertise and independence, auditors can gather and evaluate evidence in depth, thereby reducing the level of information asymmetry between the audited entity's management and the government, as the principal, and other stakeholders.

Ultimately, the role of independent auditors directly contributes to improved audit quality. When information asymmetry is reduced, the resulting audit report becomes more reliable, credible, and trustworthy. High audit quality provides the government and the public with sufficient assurance that financial statements are fairly presented and operational activities are carried out in accordance with regulations. Thus, agency theory clearly emphasizes how auditor independence is not merely an ethical requirement but a key pillar in ensuring accountability, transparency, and good governance.

2.2. Attribution Theory

This theory is used to analyze the auditor's assessment of internal and external factors in the audit process, which influence audit quality (Thoha, 2008). This theory provides a framework for understanding how an auditor uses his or her professional judgment in evaluating various risk factors. In the audit process, the auditor systematically analyzes internal factors inherent to the client, such as weaknesses in the internal control system, questionable management integrity, or the complexity of the company's business transactions. Simultaneously, the auditor must also be sensitive to external factors beyond the company's

control, such as severe economic pressures, intense industry competition, or significant regulatory changes. This assessment is not a separate process, but rather an integrated analysis in which the auditor considers how the combination of these internal and external factors may create a risk of material misstatement in the financial statements.

A comprehensive assessment of these factors has a direct and crucial impact on the quality of the resulting audit. The results of this risk analysis will determine the overall audit strategy and approach, including the nature, timing, and extent of the audit procedures to be performed. For example, if auditors identify high risks due to a combination of weak internal controls (an internal factor) and the pressures of an economic recession (an external factor), they will design more in-depth and extensive audit procedures. Thus, the auditor's ability to accurately identify and respond to these influences, as emphasized by Thoha (2008), is a key determinant of whether the audit is able to detect material misstatements and ultimately provide reasonable assurance to users of the financial statements.

2.3. Audit Quality

According to the Indonesian Government Internal Audit Standards (SAIPI), audit quality can be measured based on several aspects, such as audit planning, implementation, and reporting that comply with the professional code of ethics and auditing standards (AAIPI, 2013). According to the Indonesian Government Internal Audit Standards (SAIPI), audit quality is not an abstract concept, but rather the result of a structured and disciplined process. The initial stage that forms the foundation of quality is careful audit planning . In this phase, government auditors are required to thoroughly understand the entity to be audited, identify high-risk areas, and establish clear audit objectives and scope. Furthermore, in the implementation phase , quality is realized through the collection of sufficient, relevant, and competent evidence and the application of appropriate audit procedures to test the effectiveness of internal controls and data reliability. Strict adherence to audit standards at both stages ensures that the audit process is carried out systematically, objectively, and responsibly, so that no crucial areas are overlooked.

The culmination of a quality audit process is the reporting stage and thorough adherence to a professional code of ethics . As stipulated by the Association of Indonesian Government Internal Auditors (AAIPI), audit reports must be presented accurately, objectively, clearly, concisely, and constructively. The report not only outlines findings but also provides actionable recommendations for improving governance, risk management, and control. Furthermore, the entire process, from planning to reporting, must be guided by ethical principles such as integrity, objectivity, confidentiality, and competence. Adherence to this code of ethics maintains public trust and ensures that auditors act in the public interest, making audits a credible and value-added oversight tool for the government.

3. Research Methods

This research was designed using a quantitative method with a survey approach. The quantitative approach was chosen because the purpose of this study was to test hypotheses and explain the causal relationships between predetermined variables. According to Sugiyono (2018), quantitative methods are very suitable for researching specific populations or samples, where data is collected using research instruments and analyzed statistically. The survey approach specifically allows researchers to collect primary data directly from respondents regarding perceptions, attitudes, or facts related to the phenomenon being studied in a broad yet efficient manner (Saunders et al., 2019; Sekaran & Bougie, 2022).

The population in this study was all 39 auditors assigned to the Binjai City Inspectorate. Given the relatively small and accessible population, the sampling technique used was saturated or census sampling, in which all members of the population served as research respondents (Etikan, 2020). The primary data collection technique was conducted by distributing structured questionnaires to all auditors. The questionnaire was used to obtain standardized data on the research variables, which were measured using a Likert scale to systematically quantify respondents' responses (Hair et al., 2021; Taherdoost, 2019). The data collected from the questionnaire were then analyzed using inferential statistical techniques with the help of the Smart-PLS (Partial Least Squares) application. The PLS analysis method was chosen because of its superior ability to process data with a relatively small sample size and does not require strict assumptions of data normality. According to Ghazali and Latan (2015), PLS is part of Structural Equation Modeling (SEM) which aims for prediction, so it is very relevant for testing models of relationships between complex variables. This analysis includes two main stages: evaluation of the measurement model (outer model) to test the validity and reliability of the instrument, and evaluation of the structural model (inner model) to test the research hypothesis.

4. Results and Discussion

Audit planning positively impacts audit quality, with thorough planning improving audit results (Evayanti, 2021). Thorough audit planning is a fundamental step that directly lays the foundation for the overall quality of the audit process. In this phase, the auditor goes beyond simply creating a work schedule but systematically identifies and assesses the risks of material misstatement by understanding the entity and its environment, including its internal controls. Effective planning involves establishing an appropriate materiality level, developing a comprehensive audit strategy, and designing audit procedures that are responsive to the identified risks. Thus, as emphasized by Evayanti (2021), planning serves as a roadmap that ensures audit resources are focused on the most crucial and high-risk areas, thus preventing any important audit areas from being overlooked.

The positive impact of sound audit planning is immediately felt during the implementation and reporting stages, ultimately improving audit results. A well-structured plan allows for more efficient resource allocation, the assignment of an audit team with appropriate expertise, and the optimal timing and scope of testing. This increases the auditor's likelihood of effectively detecting fraud or errors. High audit quality, born of careful planning, is reflected in the collection of sufficient and appropriate audit evidence, well-supported conclusions, and a reliable and credible audit report for stakeholders.

Audit implementation has also been shown to positively impact audit quality, with evaluation of the internal control system and risk management being key (Putri, 2020). The audit implementation phase is a crucial phase where the theoretically designed audit plan is implemented in practice. The positive impact of this phase on audit quality depends heavily on the auditor's acumen in carrying out audit procedures, particularly in evaluating the internal control system (ISC) . At this stage, the auditor actively tests whether the controls designed by management are truly operating effectively to prevent, detect, and correct errors. This in-depth evaluation provides auditors with crucial evidence regarding the extent to which they can rely on the client's internal systems, which in turn determines the nature and extent of substantive testing that needs to be performed. Furthermore, audit quality at the implementation phase is also determined by the auditor's ability to dynamically manage risks . As emphasized by Putri (2020), conducting a quality audit requires the auditor to not only strictly follow the plan but also apply professional skepticism to respond to identified risks. If the evaluation indicates a weak ISC, the auditor must increase the intensity of testing to gather stronger and more convincing evidence. The ability to manage risks effectively is the key to increasing the likelihood of detecting material misstatements, ultimately resulting in audit reports that are reliable, objective, and add value to stakeholders.

Audit reporting has a significant impact on audit quality, as clear and timely reports can enhance stakeholder confidence (Sukriah et al., 2009). Audit reporting is the culmination and final product of the entire audit process, and its quality directly reflects the auditor's competence and thoroughness. This stage's significant influence lies in its ability to effectively communicate audit results. A report deemed high quality must be clear , meaning it must be presented in clear, structured, and unambiguous language that is easily understood by various stakeholders, even those without a technical audit background. This clarity includes the objective presentation of findings, relevant supporting evidence, and the basis for drawing conclusions or audit opinions. As emphasized by Sukriah et al. (2009), a clear report ensures that the auditor's message is conveyed correctly and does not lead to misinterpretation.

On the other hand, the timeliness aspect of reporting is crucial because audit information has a highly time-bound value. Reports submitted promptly after fieldwork is completed enable management and the supervisory board to take necessary corrective actions quickly and relevantly. This combination of clear reporting and timely delivery ultimately builds and

enhances stakeholder trust . When stakeholders receive transparent and up-to-date reports, they feel confident that the oversight process is effective and accountability is upheld. Thus, reporting is not merely a formality, but a vital instrument for upholding good governance and maintaining the integrity of the audited entity.

Ethical principles , although important in carrying out auditor duties, did not show a significant influence on audit quality in the context of this study (Fau, 2021). Theoretically and normatively, ethical principles—including integrity, objectivity, competence, and independence—are considered the main foundation supporting the auditing profession. Compliance with a code of ethics is an absolute prerequisite that ensures that auditors are trusted by the public and other stakeholders. Without ethics, an auditor can easily be influenced by external pressures or personal interests, which will damage the credibility of the audit report. However, an interesting finding in the context of the study conducted by Fau (2021) presented a paradoxical result, where statistically, the ethical principles variable showed no significant influence on audit quality. This result does not necessarily negate the importance of ethics, but rather indicates the possibility of another interpretation within the scope of this study. One of the most likely explanations is that ethical principles have been considered as inherent basic standards (given) and are uniformly adhered to by all auditors in the study population. When a value or behavior (in this case, ethical compliance) has very little variation among respondents, it is difficult to statistically demonstrate its influence on other variables. In other words, ethics is not a distinguishing factor that causes audit quality to vary among auditors, but rather a foundation shared by all. Therefore, other, more technical factors such as audit planning or execution become more visible in explaining differences in audit quality levels in this study.

5. Conclusions

This study concluded that audit planning, implementation, and reporting directly impact audit quality, while ethical principles have no significant direct impact. Therefore, an increased focus on more structured audit planning and implementation is highly recommended to improve audit quality at the Binjai City Government's Internal Auditor General (APIP).

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