

# **Influence of Internal Control Activities And Characteristics Of Audit Committee On The Quality Of Audit Implementation By A Public Accounting Firm**

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**Abstract:** The purpose of this study is to examine the Influence of Internal Control Activities and The Characteristics of The Audit Committee on The Quality of Audit Performed by aPublic Accountant Firm by conducting a survey on General Insurance Companies in Indonesia. The method used is descriptive analysis. Our population is made of Internal Auditors and Audit Committee of General Insurance Companies in Indonesia registered on the Financial Services Authority as of October 2017. We found out that The Characteristics of an Audit Committee had a positive and significant effect on The Quality of Audit Performed by aPublic Accountant Firm on General Insurance Companies in Indonesia. We found also that Internal Control Activities and The Characteristics of the Audit Committee as a whole, have a positive and significant effect on The Quality of Audit Performed by aPublic Accountant Firm on General Insurance Companies in Indonesia.

**Keywords:** Internal Control Activities, The Characteristics of the Audit Committee, The Quality of Audit Performed by the Public Accountant Firm.

## **INTRODUCTION**

The Indonesian Financial Services Authority (OJK) on July 11, 2017, issued a Circular referenced as the Financial Services Authority Number 36 / SEOJK.03 / 2017 concerning the Procedures for the Use of Public Accountant Services and Public Accounting Firms in Financial Services Activities. The OJK in carrying out its supervisory duties on companies that offer financial service activities has the authority to conduct supervision, inspection, investigation, consumer protection, and other actions towards supporting financial service activities. The SEOJK, among others, regulates the appointment of a Public Accountant (AP) and or a Public Accounting Firm (KAP) that will provide services to parties that carry out financial service activities (SEOJK, 2017).

In May 2017 the Corruption Eradication Commission established the former Managing Director of PT Asuransi Jasa Indonesia (Persero) for the 2011-2016 period as a suspect of corruption in commission payments case for some fictitious activities of insurance agents in PT Asuransi Jasa Indonesia (Persero) in the procurement of oil and gas to The Oil and Gas Upstream Company (BP) Executing Agency (SKK Migas) and Cooperation Contract Contractors (KKKS) between 2010 to 2012 and 2011 to 2014 as well. As a result, the Indonesian State suffer a damage losses expected to be around Rp. 15 billion of value. Within the period of his tenure as President Director of PT. Indonesian

Service Insurance, namely from 2011 to 2016, the Financial Statements of PT. Indonesian Service Insurance successively received an unqualified opinion from an independent Public Accountant Office ([www.jasindo.co.id](http://www.jasindo.co.id)).

The Financial Services Authority Regulation (POJK) Number 13 / PJOK.03 / 2017 concerning the Use of Public Accountant Services (AP) and Public Accounting Firms (KAP) in Financial Services Activities, regulates how the Audit Committee's role in recommending the appointment of an AP and or a KAP submitted by the Board of Commissioners, as well as determines the role of the Audit Committee in evaluating the implementation of audit services for annual financial statements by an AP and or a KAP (OJK, 2017).

The Public Company Accounting Oversight Board (PCAOB), which is the Supervisory Board of the United States Public Accountant Company, issued a sanction called "an order institute disciplinary proceeding, making findings and imposing sanctions" related to the results of PCAOB's examination of the Accounting Firm. Public (KAP) Purwanto, Sungkoro & Surja (EY Indonesia) and several of its affiliated partners, and also imposed a fine of US \$ 1 million to two KAP partners Purwanto, Sungkoro & Surja (EY Indonesia) as a result of being convicted of failing to audit the financial statements of PT Indosat Tbk that year ended on December 31, 2011. EY Indonesia has agreed to pay a fine of US \$ 1 million or around Rp. 13.3 billion to US regulators (PCAOB, 2017). The findings began when the EY partner accountant office in the US conducted a study of the results of the audit of the accounting firm in Indonesia. PCAOB found that the audit results of the telecommunications company were not supported by accurate data, namely in terms of leasing more than 4 thousand cellular tower units. But the EY affiliate in Indonesia released an audit report with unqualified credit, based on inadequate evidence (PCAOB, 2017).

In 2016 the Financial Services Authority issued the Financial Services Authority Regulation number 73 / POJK.05 / 2016 concerning Good Corporate Governance for Insurance Companies and Financial Services Authority Regulations number 71 / POJK.05 / 2016 concerning Financial Health of Insurance Companies and Reinsurance Companies, which confirms that the Insurance Company is required to apply the principles of Good Corporate Governance in each of its business activities to all levels of the organization, to optimize the value of the Insurance Company for Stakeholders.

On August 28, 2015, the Supreme Court announced Decree Number 408 K / Pdt.Sus-Palit / 2015 concerning the application for a bankruptcy statement against PT. Asuransi Bumi Asih Jaya (Bankruptcy Respondent) by the Financial Services Authority (Bankruptcy Applicant). In the Decision, it was stated that the bankruptcy application from the Bankruptcy Applicant was granted and stated that PT. Bumi Asih Jaya Insurance is bankrupt. The Bankruptcy Respondent is unable to meet the required solvency and equity levels, so the Financial Services Authority revokes the Bankruptcy Respondent's business permit, with the Decision of the Financial Services Authority Board of Commissioners Decree: KEP-112 / D.05 / 2 013 dated October 18, 2013 (OJK, 2016)

In order to support the effectiveness of the implementation of the duties and responsibilities of the Board of Commissioners, each Insurance Company and Reinsurance Company must establish an Audit Committee and Risk Policy Committee. This rule is contained in Article 23 of the Minister of Finance Regulation Number 152 / PMK.010 / 2012 concerning Good Corporate Governance for Insurance Companies.

Based on the description of a number of phenomena above, the effectiveness of internal control activities and the role of the Audit Committee as a representative of the Board of Commissioners are questionable. The cases described in the above phenomenon will not occur if the activity of internal control is effective and Audit Committee optimal in carrying out its role and has a high competence in exercising oversight over the company's performance, me 'Review internal control system, ensuring the quality of financial statements and increase the effectiveness of the audit function.

Internal control is a very important part to be considered by any companies in their goals achievement process. Without the existence of internal control, acompany's goals cannot be achieved effectively and efficiently. The bigger acompany the more important the roleof an internal control. Internal control is part of each system that are used as procedures and operational guidelines for certain companies or organizations. Companies generally use the Internal Control System to direct the operations of the company and prevent the occurrence of misuse of the system. Internal control can only provide adequate confidence, not absolute desires. designed and operated, can only provide adequate confidence, cannot be fully effective in achieving the objectives of internal control. Although the internal controls have been designed and arranged ideally, success it is inseparable from various limitations.

Control Activities by COSO is defined actions through the policies and procedures that help ensure that management directives do to reduce the risks to the achievement of objectives. Control activities have a variety of objectives and are applied in various actions and functions of an organization, including different activities such as authorization, verification, reconciliation, analysis, work performance, maintaining the security of company assets and separation of functions. The essence of internal control activities lies in how the internal control activities are implemented by the Company. Because the activities of internal control are carried out at all levels in the entity, at various stages in the business process, including the technological environment.

**H<sub>1</sub>:** The better the Internal Control Activities, the better the Quality of Audit Implementation by aPublic Accountant Office.

The Audit Committee is one component of Good Corporate Governance (GCG) which is expected to make a large contribution to the company as part of the application of the principles of GCG in the form of high-quality internal company supervision to guarantee shareholders and corporate stakeholders. The position of the Audit Committee with its competencies is expected to optimize the function of external auditors for companies in providing accurate opinion whether the information submitted by management through financial statements, as a whole, reflects the financial position on a certain date, financial performance, and corporate cash flow during the period ending in that date. The duties of the Audit Committee are also closely related to reviewing the risks faced by the company, as well as compliance with regulations (IKAI, 2013). The Audit Committee should be involved in the appointment of external auditors, taking into account risks including the possibility of insufficient audit scope, external auditors who are not independent and/or the performance of external auditors not meeting the standards.

The Forum for Corporate Governance in Indonesia (2001) stated that the responsibilities of anAudit Committee in the field of financial reporting are to ensure that the financial statements made by management have provided a true picture of the financial

condition; results of business and plans and long-term commitment. While the role of the Audit Committee in the supervision of the company includes an understanding of the problem as well as things that have the potential to contain risks and an internal control system and monitor the supervision carried out by internal auditors (FCGI, 2001).

From the profession of Public Accountants, the public expects a free and impartial assessment of the information presented by company management in financial statements. The responsibility of the Public Accountant lies in the opinion or statement of opinion on the report or financial information, while the presentation of the report or financial information is the responsibility of management. Public Accounting has an important role in improving the quality and credibility of financial information or financial reports, through efforts to increase transparency and quality of information in the financial sector. But in practice, there are still deviations in the implementation of audit standards by external auditors. A Framework for Audit Quality in 2014 which provided a guide for IFAC members in order to encourage improvement in audit quality globally. IFAC also emphasizes that audit quality is influenced by interactions and the understanding of the importance of audit quality among various parties, namely: auditors, management, audit committees, parties responsible for governance, users, and regulators. These parties are expected to be able to encourage the improvement of audit quality through the roles and functions of each party (IFAC, 2014).

Professional Standards for Public Accountants explain the rules regarding communication between public accountants (external auditors) and audit committees. The responsibilities of the audit committee include: selecting an independent auditor, overseeing the audit process and ensuring the quality of financial statements. The existence of formal communication between the audit committee, internal auditors, and external auditors ensures that the internal and external audit processes are carried out properly, so as to improve the accuracy of financial statements and then increase confidence in financial statements (IAPI, 2011). An audit carried out by the auditor can be of quality if it meets the requirements or auditing standards which include the professional quality of an independent auditor, judgment used in conducting audits and preparing audit reports.

The number of Public Accounting Firms (KAP) and Public Accountants (AP) is the choice for a company in determining which KAP or AP will audit their company. But if the company does not consider the quality of auditors who will conduct an audit of their financial statements, then audit quality is a factor at stake when the audit is carried out.

In the Financial Services Authority Regulation (POJK) Number 13 / PJOK.03 / 2017 it is stated that the Audit Committee evaluates the implementation of audit services for annual historical financial information by the AP and or KAP. The evaluation of the implementation of said audit services is carried out through an assessment of the suitability of the audit conducted by the KAP with the applicable Audit Standards; assessment of the adequacy of fieldwork time; assessment of coverage of services provided and adequacy of quotation tests; and assessing recommendations for improvements provided by the AP and or KAP. While according to the Indonesian Audit Committee Association (2013), the things that need to be considered by the Audit Committee when assessing the performance of external auditors as a whole are, among others, evaluating the professional capabilities of KAPs, reviewed from the resources and personnel assigned to the audit assignment; audit approach ; the audit team's knowledge of

the company's industry ; and the availability of time, energy and quality when communicating with the Audit Committee.

**H2:** The better the Characteristics of the Audit Committee, the better the Quality of Audit Implementation by the Public Accountant Office.

Researches that discuss the influence of Internal Control Activities and Characteristics of the Audit Committee on the Quality of Audit Implementation by KAP are still very limited. (Lisic *et al.*, 2017) concluded that the Audit Committee's accounting expertise in companies with internal control weaknesses is material, greatly influencing the acquisition of unreasonable opinions, but low influences the occurrence of changes in auditors who have given unnatural opinions. (Zhang *et al.*, 2007) Quality of the Audit Committee, Auditor Independence, and Internal Control Weaknesses found that there is a relationship between the quality of the Audit Committee, Auditor Independence and internal control weaknesses. The company is more likely to identify its internal control weaknesses if its external auditor is more independent and the Audit Committee's accounting expertise is low.

(Indriasih, 2016) concluded that there were indirect effects between the characteristics of an Audit Committee and Internal Audit Competence on Good Corporate Governance through the Fraudulent Financial Reporting. In line with (Indriasih Mutmainnah *et al.*, 2013) to the conclusion that more and more members of the K Committee of the Audit who have expertise in the field of accounting and finance will affect the quality of financial statements better.

Whereas (Krishnan's, 2005) research suggests that the Audit Committee's independence and understanding of financial statements in depth are not related to the ability of the Audit Committee to resolve the company's internal control problems. It is different from the conclusion of (Mat Yasin *et al.*, 2012) who found a positive relationship between the number of Audit Committee members who are postgraduate qualified and the frequency of Audit Committee meetings with Audit Fee and Audit Quality. The Mat Yasin conclusion is in line with (Wedari, 2015) proving that the number of Audit Committee meetings and Audit Quality has a positive effect on Audit Costs. An also (Matari *et al.*, 2017) concludes the study that there is an influence between the effectiveness of the Audit Committee in the form of meeting frequency between the Audit Committee and Internal Audit with the quality of audit implementation related to company performance.

The growing development of corporate governance in Indonesia and the stringent regulations relating to corporate governance, issues regarding internal control activities and characteristics of the Audit Committee are interesting for further investigation. It is important to examine how the influence of the internal control activities and characteristics of the Audit Committee which is a fairly important part in the implementation corporate governance, with regard to the quality of the company's financial statement audit by Public Accountant.

In contrast to previous studies on Internal Control Activities as an independent variable, in this study, the variable dimensions of Internal Control Activities refer to 17 Principles of effective Internal Control according to COSO 2013, specifically regarding principles in organizations that support internal control activities. While the characteristics of the Audit Committee as an independent variable in this study include the role and competence of the Audit Committee which refers to Article 10 of POJK Number 55 /

POJK.04 / 2015. Both will be tested independent variables influence on the quality of the audit by the Office of Public Accounting as a variable dependent.

The dependent variable dimensions of the quality of audit implementation by the Public Accountant Office consist of two dimensions namely Audit Process Effectiveness and Auditor Capability, referring to SEOJK Number 36 / SE O J K.03 /2017, POJK Number 73 / POJK.05 / 2016, Committee Manual Audit (IKAI, 2013), A Guide for Audit Committees (EY, 2013) and A Framework for assessing the effectiveness of the external audit process (Deloitte, 2013).

## **THEORETICAL REVIEW**

**Agency Theory.** Agency Theory is a theory that explains the relationship between principals and agents, which is described as "Under the contract, the principal delegates some decision-making authority to the agent" (Jensen and Meckling, 1976).

**Theory of Accountability.** The theory of accountability (stewardship theory) is a theory used to test managerial behaviour and the suitability of goals between parties (Van Slyke, 2006). Accountability theory can examine relationships and behaviour within an organization, emphasizing collective, pro-organizational, contractual behaviour where higher values are placed higher than the agent's personal interests.

**Contract Theory.** Contracting theory or contract theory is very closely related to agency theory. This theory divides parties into two, namely the owner of the company (principal) and management or the recipient of the mandate to manage the company (agent). The owner of the company wants the company to be managed according to their interests.

**Internal Control Activities.** COSO Internal Control (2013) defines internal control as a process within an organization (entity) that is influenced by the Supervisory Board, Management and other personnel, which is designed to provide adequate assurance for the achievement of organizational goals, namely operation effectiveness and efficiency (operation); reliability of financial reporting (reporting) and compliance with applicable laws and regulations (compliance). Control activities according to IIA, are generally divided into the following five types: (1) Adequate separation of duties; (2) Appropriate authorization of transactions and activities; (3) Sufficient documents and records; (4) Physical control of assets and records; (5) Performance checks independently.

**Characteristics of the Audit Committee.** The Definition of characteristics according to experts is a certain quality or distinguishing feature of something, which is defined as quality or nature. An Audit Committee according to Arens *et al.*, (2014) is "a selected number of members of the company's board of directors whose responsibilities include the helping auditors remain independent of management".

According to the Indonesian Audit Committee Association (2013), an Audit Committee is a committee that works professionally and independently formed by the Board of Commissioners and thus the task is to assist and strengthen the functions of the Board of Commissioners (or the Supervisory Board) in overseeing the process. Financial reporting, risk management, conducting audits and implementing corporate governance in companies.

(Johnstone *et al.*, 2012) defined an Audit Committee as "A subcommittee of the board of directors responsible for monitoring audit activities and serving as a surrogate for the interests of shareholders; it should be outside members of the board, that is, members who are independent of the organizations. "

(Sarbanes, 2002) defines the Audit Committee as follows: "The Audit Committee is the Audit Committee." issuers and audits of the financial statement of the issuer; and if there is no issue for issuers, the entire board of directors of the issuers.

A Committee formed by the Board of Commissioners has the Audit Committee's Articles of Association. Audit Committee Membership Composition of at least three people consisting of independent Board of Commissioners from outside the organization. The Audit Committee has the task of ensuring that the internal audit process has been carried out properly, in addition to other roles listed in the Audit Committee Charter. The Audit Committee has the responsibility to supervise the company's financial policies and procedures, especially accounting policies, internal controls and the use of External Auditor services.

Based on the above understanding, it can be concluded that the Audit Committee is a committee formed by and under the responsibility of the Board of Commissioners in order to assist the duties and functions of the board of commissioners in carrying out supervision.

**Quality of Audit Implementation by the Public Accountant Office.** The purpose of the audit of the Financial Statements is to provide an opinion on whether the information submitted in a Financial Report reflects the financial position on a certain date, the company's financial performance, and cash flow during the period ending on that date. Quality is a component of professionalism that must be maintained by professional Public Accountants. Based on the Professional Standards of Public Accountants (2013), audits carried out by auditors can be of high quality if they meet the requirements or auditing standards that include professional quality of independent auditors, judgments used in conducting audits and preparing audit reports. The auditing professional regulatory body has responded to various things that might have a negative impact on the quality of guarantee services by establishing quality control standards contained in SA220. Provisions in SA220 (2012) regarding the quality control of engagement through review are standards to be implemented.

A Framework for Audit Quality, published by IFAC (International Federation of Accountants) in 2014, contains a guide for IFAC members in order to encourage improvement in audit quality globally. IFAC underlines that the key elements of audit quality lie in the level of engagement and level of KAP which includes input, process, and output. IFAC also emphasizes audit quality influenced by the pattern of relationships and understanding the importance of audit quality among various parties, namely: auditors, management, audit committees, parties responsible for governance, users, and regulators. These parties are expected to be able to encourage improvement in audit quality through the roles and functions of each party (IFAC, 2014).

## DISCUSSION

The sample chosen in this study was 50 insurance companies, all of which had been sent questionnaires as primary research data. from the total of 50 questionnaires were distributed just returned respectively to X1 and X2 and Y number of 30 questionnaires.

The whole questionnaire back deserves to analysed, so that the total number of samples are as many as 30 companies.

A research questionnaire variable Internal Control Activities (X1), a variable characteristic of the Audit Committee (X2) and variable Quality Audit by Public Accounting Firm (Y), each consisting of 20 items. The results of testing the validity of the questionnaire items indicate that all statement items in each variable have a correlation value above 0.3 as the boundary value of an item in the research questionnaire said to be used (acceptable). So that it can be said that the questionnaire item Activity Control Internal Variable (X1) is valid and can be used to measure the variables under study.

The research questionnaire consisted of 20 items. Validity test results of questionnaire items indicate that all statement items in each Variable (X2) have a correlation value above 0.3 as the boundary value of an item in a research questionnaire said to be used (acceptable). So that it can be said that the questionnaire item of the Internal Control Activity variable (X1), the Audit Committee Characteristic variable (X2) and the Quality Audit Implementation variable by the Public Accountant Office (Y) are valid and can be used to measure the variables under study.

H acyl reliability test with SPSS Statistics to the questionnaire item three variables in this study, as follows:

**Table 1.** Reliability Calculation Results Table Questionnaire Research

Variable	N of Items	Reliability Index	Critical Value	Conclusion
X1 Internal Control Activities	20	0.916	0.7	Reliable
X2 Characteristics of the Audit Committee	20	0.938	0.7	Reliable
Y Quality of Audit Implementation by the Public Accountant Office	20	0.948	0.7	Reliable

Based on the results of the reliability test, the Cronbach's Alpha value of 0.948 is greater than 0.70. This means that the data used in this study is reliable or reliable so that it can be continued in the next analysis.

The data described are dependent and independent variables in this study, namely Internal Control Activities (X1), Characteristics of the Audit Committee (X2) and Quality of Audit Implementation by the Public Accounting Office (Y). To make it easier to interpret the variables under study, conducted categorization to score respondents, in order to know how a condition and level of appropriateness of each variable. Categorization is done in the interval line.

The instrument of this research questionnaire uses a Likert ordinal scale, with the coding is: the choice of answer A is given a value of 5; choice of answer B will be given a value of 4; the choice of answer C will be worth 3; while the D answer choices will be given a value of 2 and response options E rated 1. In order to obtain the ideal score for each question is  $5 \times 30 = 150$ , and the smallest score for each question is  $1 \times 30 = 30$ . The maximum index value is  $= 5 \times 20 \times 30 = 3.000$  and the minimum index value is  $= 1 \times 20 \times 30 = 600$ .

The Internal Control Activity variable is measured by 3 dimensions, namely Risk Mitigation, Information Technology Control, and Physical Control. Of the 30 respondents



of the Internal Auditor who provided answers to the questionnaire on Internal Control Activities, a total score of 2 was obtained. 226 or 74.20% of the ideal score 3.000.

With the number of questions as many as 20 questions, then the average score is worth 111.30 or 74.20% of the ideal score per question of 150. Based on the score categorization on the continuum line, internal control activities are in a Good category. So it can be concluded that the activities of internal control in General Insurance Companies in Indonesia are already well implemented because in each dimension most are in good criteria.

Internal Auditor of 30 respondents who gave answers to the questionnaire Internal Control activities scores obtained from the response den PT.TPI highest with a score of 86 or 3.86% of the total score of 2,226. While the lowest score was obtained from respondents PT. AJT with a score of 61 or 2.74 % of the total score of 2,226. Ideally, the expected score for responses from 1 respondent to questions 1 (one) to 20 (twenty) is 100.

Audit Committee Characteristic variables measured by three dimensions Role of the Audit Committee, the Audit Committee Competencies, and the Outputs of the audit Committee. Based on the results of data processing calculations obtained a score of 2.364 or 78.80% of the ideal score of 3,000. Thus based on score categorization on the continuum line, the characteristics of the audit committee are in a Good category. With the number of questions by 20 questions, then the average score is worth 118.20 or 78.80% of the ideal score per question amounted to 150. It can be concluded that the characteristic of the audit committee is in either category, for each dimension is at good criteria.

The highest score based on the respondent's answer about the overall question of the characteristics of the audit committee was obtained from the respondents of PT. AJI with a score of 92 or 3.89 % of the total score of 2,364. While the lowest score is obtained from the answers of respondents PT. ASM with 69 scores or 2.91 % of the total score of 2.364.

Variable Quality of Implementation A audited by Public Accountant Office consists of Audit Effectiveness and Capability Auditor. Results of descriptive score distribution statistics based on respondents' responses regarding the Quality of Audit Implementation by the Public Accounting Firm, with the acquisition of a total score of 2.271 with a percentage of 75.70% of the total ideal score of 3.000. With the number of questions by 20 questions, then the average score is worth 113.55, or 75.70% of the ideal score per question amounted to 150 M aka the conclusion that the Quality Audit by the Public Accountant in the General Insurance Company in Indonesia has been done well, because every dimension is mostly in good criteria.

The highest score based on the respondent's answer about the overall question of the Quality of Audit Implementation by the Public Accountant Office was obtained from respondents PT.BGU with an average score of 92.50 or 4.07% of the total score of 2.271. While the lowest score is obtained from respondents PT. ASM with a score of 62 or 2.73% of the total score of the Quality Audit Implementation questionnaire answers by the Public Accountant Office which is equal to 2,271. Ideally, the expected score for responses from 1 respondent to questions 1 (one) to 20 (twenty) is 100.

The results of processing SPSS Statistics software for multiple regression analysis obtained the following forms of multiple linear regression equations:

$$Y = 16.305 + 0,828X_1 + 0.218 X_2 + e$$

The direct effect variable Activities Characteristics of Internal Control and Audit Committee on the Quality Audit by Public Accounting Firm:

- ⇒ Internal Control Activity =  $(X1)^2 = (0.828)^2 = 0.685$  or 68.5%
- ⇒ Characteristics of the Audit Committee =  $(X2)^2 = (0.218)^2 = 0.047$  or 4.7%

Influence through correlative relationships of other exogenous variables:

- ⇒ Internal Control Activities through the Characteristics of the Audit Committee =  $0.828 \times 0.344 \times 0.218 = 0.062$  or 6.2%
- ⇒ Characteristics of the Audit Committee through Internal Control Activities =  $0.218 \times 0.344 \times 0.828 = 0.062$  or 6.2%

Total Influence

- ⇒ The total effect of Internal Control Activities on the Quality of Audit Implementation by the Public Accountant Office =  $0.685 + 0.062 = 0.747$  or 74.7%
- ⇒ The total influence of the Characteristics of the Audit Committee on the Quality of Audit Implementation by the Public Accountant Office =  $0.047 + 0.062 = 0.109$  or 10.9%

Effect of other variables outside of research

=  $100 - R\text{-square} = 100 - 84.8 = 15.2\%$

**Tabel 1.** Results of Multiple Regression Outputs Coefficients <sup>a</sup>

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.
	B	Std. Error	Beta	t	
1 (Constant)	-16,305	7,771		-2,098	,045
FIRE	,957	,089	,828	10,727	.000
KKA	,233	,082	,218	2,827	,009

a. Dependent Variable: YKPA

**Table 2.** Coefficient of Determination

Model	R	R Square	Adjusted Square	R
1	,926 <sup>a</sup>	,858	,848	

N use values of determination coefficients or adjusted R<sup>2</sup> totalled 0,848 or 84.8%. This shows that the independent variables jointly affect the dependent variable of 84.8%. The influence amounted to 84.8%, of the independent variables can be said to be strong on the dependent variable, while the remaining 15,2% can be explained by other variables outside the regression model above.

The high Adjusted R<sup>2</sup> value is caused by a fairly high correlation between the Internal Control Activity variable (X1) and the Audit Committee Characteristic variable (X2), which is equal to 34.4%. This condition means that Internal Control Activities and Characteristics of the Audit Committee can simultaneously influence the Quality of Audit Implementation by the Public Accounting Firm.

**Table 3.** Summary of Test Results F Multiple Linear Regression

ANOVA <sup>a</sup>					
Model		Df	Mean Square	F	Sig.
1	Regression	2	3001,721	81,665	,000 <sup>b</sup>
	Residual	27	36,756		
	Total	29			

a. Dependent Variable : YKPA  
 b. Predictors: (Constant), KKA, API

N use values significance of 0.00 F 0 and F count amounted to 81.665 while the F table of 3.32. With a significance value less than 0.05 and the value of F count larger than F table it can be concluded that the hypothesis H<sub>0</sub> is rejected, which means that at a significance level of 5% there is significant influence of variables simultaneously active Internal Control ( X1) and Characteristics of the Audit Committee (X2). So it can be concluded that all variables X as a whole have a significant influence on the the Quality of Audit Implementation by aPublic Accountant Office.

**Table 4.** Structural Equations between Internal Control Activities (X1), and Characteristics of the Audit Committee (X2) Against the Quality of Audit Implementation by the Public Accountant Office (Y)

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-16,305	7,771		-2,098	,045
	FIRE	,957	,089	,828	10,727	.000
	KKA	,233	,082	,218	2,827	,009

a. Dependent Variable: YKPA

**Table 5.** Partial Test Testing

Coefficients <sup>a</sup>						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-16,305	7,771		-2,098	,045
	FIRE	,957	,089	,828	10,727	.000
	KKA	,233	,082	,218	2,827	,009

a. Dependent Variable: YKPA

With  $df = 30 - k - 1 = 30 - 2 - 1 = 27$  , then obtained t table of 1.073 . From 4:16 table known to the variable Activities of Internal Control (X1) has t arithmetic value of 10.727 compared with t table 1,073 then obtained  $t_{count} > t_{table} = 10.727 > 1.073$  . Meanwhile, the value of the significance of Activities of Internal Control is 0,000 when compared with  $\alpha = 5\%$ , the obtained  $0.000 < 0.05$ .

Thus  $H_01$  rejected, this means partially Activities know n dalian Internal have a significant effect on Quality Audit by the Public Accountant Hence the higher Activities of Internal Control the higher the Quality Audit by the Public Accountant . The beta coefficient Control Activities Internal amounted to 0.828, pointing k 's that the effect of the Internal Control Activities amounted to 82.8% of the Quality Audit by the Public Accountant.

The characteristics of the Audit Committee (X2) are known to have a value of t count of 2,287 when compared with the value of t table 1,073, it is obtained t count > t table = 2,287 > 1,073 . Meanwhile the significance value of the Audit Committee Characteristics (X2) is 0.009 when compared with  $\alpha = 5\%$ , it is obtained 0.009 < 0.05.

Thus  $H_02$  is rejected, this means that partially the Characteristics of the Audit Committee has a significant influence on the Quality of Audit Implementation by the Public Accountant Office. Therefore, the higher the Characteristics of the Audit Committee, the higher the Quality of Audit Implementation by the Public Accounting Firm. The beta coefficient characteristics of the Audit Committee of 0.218, pointing k 's that influence characteristics of the Audit Committee by 21.8% against the Quality Audit by the Public Accountant.

Value effect characteristic of the Audit Committee (X2) on the Quality Audit (Y) which is smaller than the value of influence Activities Internal Control (X1) on the Quality Audit (Y) due to the value of t arithmetic owned Characteristics of the Audit Committee (X2) only amounted to 2,287 with the value of t table is 1.073 and the value of s ignition is 0.009.

Based on the statistical test can be concluded that the activity know in dalian Internal positive and significant effect on Quality Audit by the public accounting firm, which means that the better Activities Internal Control the better the Quality Audit by the Public Accountant. The researchers' work an is in line with previous research which says that the Internal Control Activities has a positive and significant effect on Quality of A audited by the Public Accountant Office. This was stated by Zhang et al (2007) found that weaknesses in weaknesses in the Company's internal controls are more likely to be identified if the external auditor is more independent.

In internal control activities there is a condition where the internal auditor acts as a steward to carry out actions in accordance with the Principal's interests, namely monitoring and evaluating the adequacy of internal controls including the financial reporting process. The internal control activity shows the implementation of agency theory and accountability theory.

Based on the results of statistical tests it can be concluded that the characteristics of the Audit Committee have a positive and significant effect on the Quality of Audit Implementation by the Public Accountant Office, which means that the better the Audit Committee Characteristics, the better the Quality of Audit Implementation by the Public Accounting Firm.

The Audit Committee is one component of Good Corporate Governance (GCG) which is expected to make a large contribution to the company as part of the application of the principles of GCG in the form of high-quality internal company supervision to guarantee shareholders and corporate stakeholders. Position of the Au Committee dit which is part of the Board of Commissioners and with its competence is expected to optimize the function of external auditors for companies in providing accurate opinion

whether the information submitted by management through financial statements, as a whole, reflects the financial position on a certain date, financial performance, and cash flow companies during the period ending on that date (IKAI, 2013).

Our findings are in line with previous research that stipulates that the characteristics of Committee Audit influence positively and significantly to the Quality of Audit by Public Accountant. This was stated by (Indriasih, 2016), obtained the results of research that the Audit Committee has the effect of producing financial reports that are quality and free from financial manipulation. The results of this study are similar to the results of the (Mutmainnah *et al.*, 2013) study which concluded that the audit committee is proven to improve the quality of financial statements based on two of the three measurements used, namely earnings persistence and earnings predictability. The results of his research also show that more audit committee members who have expertise in accounting and finance will have an impact on the quality of financial statements better. Furthermore, (Mat Yasin *et al.*, 2012) found a positive relationship between the characteristics of the Audit Committee and the auditor's external audit quality.

The Audit Committee is a committee formed by and responsible to the Board of Commissioners in helping carry out the duties and functions of the Board of Commissioners, namely in monitoring and ensuring the effectiveness of the internal control system and the implementation of the duties of internal auditors and external auditors by monitoring and evaluating audit planning and implementation assess the adequacy of internal controls including the financial reporting process. The role of the Audit Committee shows the implementation of agency theory and contract theory.

The Board of Commissioners (Principal) gives a mandate to the Audit Committee (Agent) to carry out the oversight function of Corporate Control, Financial Reporting and Corporate Governance which is in the interests of the Board of Commissioners (Principal) to ensure the effectiveness of the internal control system. In carrying out this role, the Audit Committee is an independent party bound by a contract with the principal. The contract regulates uncertainty that can occur in the future and prevents conflicts of interest from occurring in conducting independent supervision.

Internal Control Activities and Characteristics of the Audit Committee simultaneously able to influence the Quality of Audit Implementation by the Public Accounting Firm. The most dominant variable is the Internal Control Activity (X1). This can be seen from the high  $\beta$  value of the other variables. Control Activity I external is a very important part so that the company's goals can be achieved. Without the existence of internal control, the company's goals cannot be achieved effectively and efficiently. The bigger the company the more important the meaning of internal control in the company. Internal control is part of each system which is used as a procedure and operational guidelines for a particular company or organization. Companies generally use the Internal Control System to direct the company's operations and prevent abuse of the system.

The Quality of Audit Implementation by the Public Accounting Firm is assessed from the dimensions of Audit Effectiveness and Auditor Capability. In relation to the Internal Control Activities and Characteristics of the Audit Committee, the most statements from the respondents included:

1. During the audit phase, KAP communicated with the Audit Committee and Internal Audit, among others, when identifying the later events. At that stage the External

Auditor reads the Meeting Risks that occur after the date of the Financial Report; and m request removal information Audit Committee and Internal Audit.

2. In the initial stages of the audit, KAP communicates the scope of the audit, which includes approaches to internal control;
3. KAP using audit tools in determining materiality and sampling values; test of control; test of transaction and test of detailed of balance; audit reporting.
4. KAP evaluates the control of information technology systems used by companies in the management and financial reporting process, by testing the reliability of the company's financial reporting information system by implementing: walkthrough and testing of physical security control and access control;
5. Recommendations for improvements provided by KAP are relevant to the latest developments in insurance company risk management, insurance company governance, and accounting standards. Recommendations submitted related to audit findings in the form of Fraud (fraud); Non-compliance with laws and regulations; Weaknesses of internal control; Inaccuracy in applying accounting standards;
6. KAP appointed by the GMS is always in accordance with the recommendations of the Audit Committee submitted by the Board of Commissioners.

## **CONCLUSION**

This research was conducted to find out how much the Internal Control Activity (X1) and Characteristics of the Audit Committee (X2) on the Quality of Audit Implementation by the Office of Public Accountants in General Insurance Companies in Indonesia. The conclusions that can be taken are as follows:

1. Internal Control Activities has positive and significant impact on the Quality Audit by the Public Accountant in the General Insurance Company in Indonesia. The better the Internal Control Activities, the better the Quality of Audit Implementation by the Office of Public Accountants in General Insurance Companies in Indonesia. Internal Control Activities are determined by the Risk Mitigation dimension, Information Technology Control and Physical Control.
2. Characteristics of the Audit Committee are determined by the dimensions Role of the Audit Committee, the Audit Committee and Output Competence Audit Committee, air positive and significant impact on the Quality Audit by the Public Accountant in the General Insurance Company in Indonesia. The better the characteristics of the Audit Committee, the better the Quality of Audit Implementation by the Office of Public Accountants in General Insurance Companies in Indonesia.
3. Internal Control Activities and Characteristics of the Audit Committee jointly have a positive and significant effect on the Quality of Audit Implementation by the Office of Public Accountants in General Insurance Companies in Indonesia. So that if the Internal Control Activities and Characteristics of the Audit Committee increase together, the Quality of Audit Implementation by the Office of Public Accountants will also increase in General Insurance Companies in Indonesia. The Quality of Audit Implementation by the Office of Public Accountants is determined by the dimensions of Audit Process Effectiveness and Auditor Capability.

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