

THE INFLUENCE OF AUDITOR INDEPENDENCE, THE QUALITY OF VILLAGE  
HUMAN RESOURCES ON THE AUDIT QUALITY OF VILLAGE FUNDS WITH THE  
ROLE OF COMMUNITY AS A MODERATION VARIABLE

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**ABSTRACT**

The effectiveness of using village funds, which still has not had an overall impact on improving the welfare of village communities and the rise of cases of misuse of village funds, has made researchers focus on the audit quality of village funds. This research analyzed internal and external factors influencing the quality of village fund audits using a quantitative approach. The auditor independence variable is the internal factor of the auditor, and the external factor is the quality of human resources (HR) of village officials and the role of the community as a moderating variable. The research population is internal auditors in the district governments of North Sumatra Province. The data were obtained from the questionnaire results through the Google form and processed using the Structural Equation Modeling (SEM) technique with the Partial Least Square (PLS) method using SmartPLS software. The results of this study indicate that the Independence of the auditor directly and indirectly through the moderation of the community's role has a positive and significant effect on the audit quality of village funds. The community's role also strengthens the auditor's Independence in improving the audit quality of village funds. Auditor independence is an attitude that is owned and applied in carrying out village fund audit tasks. Auditors face various conditions and situations of different auditees, organizational support, leadership firmness, and work pressure so that consistency in their attitude of Independence through the quality output of village fund audits will determine the success of managing village funds appropriately on target. The quality of village apparatus human resources directly has a negative effect on the quality of village fund audits. Furthermore, the results of moderating the role of the community with the quality of village apparatus human resources have a positive and insignificant effect on the quality of village fund audits. The role of the community is urgently needed to strengthen the human resources of village officials in managing village funds to improve audit quality.

Keywords: Auditor Independence, Quality of Human Resources for Village Officials, Community Role, and Quality of Village Fund Audit.

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**INTRODUCTION**

One manifestation of the Government's decentralization policy is a policy of equitable distribution of development directly to villages spread throughout Indonesia, totalling 74,961 villages (Abdul Halim Iskandar, 2022). From 2015 to 2022, the Government has allocated funds from the State Revenue and Expenditure Budget (APBN) with a sizable portion to the Village Fund (DD) post of IDR 400.1 trillion (Abdul Halim Iskandar, 2022) for the welfare of the community, namely creating jobs, overcoming inequalities, and alleviating poverty, (Andriyanto, 2021). The results of the implementation of DD management found several problems that required regulatory improvements, improved management and supervision (Aziz, 2016; Mondale et al., 2017; Kementerian Keuangan, 2017; Awang Yudhihana & Suranto, 2019), including (a) Use of village funds



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outside of priority areas; (b) Expenditure of village funds, is not supported by sufficient evidence; (c) Work that is prioritized on a self-managed basis is carried out by a third party; (d) The collection and payment of taxes are not following the provisions of laws and regulations; (e) The village is not yet familiar with the money supply mechanism so that funds that have been distributed to the Village Cash Account (RKDesa) are withdrawn and stored outside the RKDesa; (f) Expenditure outside of the budgeted APBDesa. Furthermore, researchers from Indonesia Corruption Watch (ICW) released data on the five most corrupted sectors throughout 2018, the most corrupted sector being village funds (Gabrillin, 2019).

Based on the phenomena that occur above raise questions about the role and results of monitoring the implementation of DD. What is the quality of the audit on village funds issued regularly by the Inspectorate auditor because it is an institution that directly has the authority to examine and test evidence of the use of village funds? This condition requires strengthening institutional capacity and human resources, both village government officials and the Government Internal Supervisory Apparatus (APIP).

The quality of the audit produced by the Inspectorate auditor becomes a matter of question, influencing the perception of stakeholders, especially users of financial statements, as a basis for decision-making (Hardiningsih, 2010; Saerang & Sondakh, 2016). Audit quality is a measurement of the auditor's performance in finding and reporting fraud that occurs (Ariningsih & Martha, 2017; Rejeki, 2021). Supervision and evaluation of DD are mandated in Government Regulation of the Republic of Indonesia Number 60 of 2014 concerning Village Funds Sourced from the State Revenue and Expenditure Budget that the Government monitors and evaluates the allocation, distribution, and use of Village Funds. Therefore, the realization of DD must be monitored and evaluated to oversee the progress following applicable regulations. Of course, no less important is to prevent and avoid abuse and wrong targets and provide confidence to stakeholders (both from the village head and his apparatus, executives at central and regions, members of the legislature and the community) that the management of village funds has been carried out following the provisions, especially regarding the right location, proper terms, right channel, the right amount, and correct use, (Adrian Sutedi, 2012; Hasyim Adnan, 2013; Gunawan, 2018; Ratih Setyo Rini, Puji Yuniarti, 2021).

Attracting the attention of all parties to find out the accountability of village fund management, the Inspectorate auditor is responsible for providing financial report information for his examination of accountability for the use of village fund budgets in detail according to the authority he has through the above laws and regulations so that the community and the central Government as stakeholders obtain reliable financial information as a basis for making decisions and conducting evaluations.

The Inspectorate Auditor produces an audit report (LHP), or regular audit reports quarterly, semesterly, and annually. An audit report is a tool the auditor uses to communicate the audit results to the public. Great trust from users of audited financial statements and other services the auditor provides requires them to pay attention to the quality of the audit they produce (Kusuma & Arini, 2020). This is associated with auditor failure, threatens the credibility of financial reporting accountability, and affects public perceptions, especially of users of financial reports, on audit quality. Audit quality is essential because it will produce financial reports that can be trusted as a basis for stakeholder decision-making.

The Inspectorate Auditor must adhere to professional principles with fellow members and the general public in carrying out their duties. Stakeholders expect the auditor to report truthfully and truthfully about existing conditions. It is believed that financial reports that auditors have examined are more acceptable and can be trusted for the fairness of management when compared to financial reports that are not audited, with the expectation that they are free from material misstatement and are following generally accepted accounting principles in Indonesia and laws and regulations valid invitation, (Sari & Tiara, 2020).

The possibility that the auditor will find misstatements depends on the quality of the auditor's understanding, while the act of reporting misstatements depends on the auditor's Independence (Hardiningsih, 2010). The audit process can be said to have met the quality assurance requirements if the process undertaken follows the standards, among others: *standard for the professional practice, internal audit charter*, internal audit code of ethics, policies, objectives, and audit procedures, as well as audit work plans,

(Pramono, 2003). An auditor must have Independence in conducting an audit so that he can provide an opinion or conclusion as it is without any influence from interested parties (Tjahjono, 2011). An independent auditor can work freely without conflict and pressure and from anywhere and is objective (Sukriyah et al., 2009).

The result of the research that has been conducted on the factors that positively and significantly influence audit quality is auditor independence (Saerang & Sondakh, 2016; Ariningsih & Martha, 2017; Fauziah, 2017; Murti & Firmansyah, 2017; Budiandru, Sarah Qonita, 2019; Situmorang et al., 2020; Lamba et al., 2020; Wakil et al., 2020; Sari & Tiara, 2020; Rejeki, 2021; Astakoni et al., 2021; Yaumi, 2021). While the research results of (Sukriyah et al., 2009; Queena & Rohman, 2012; Tawakkal, 2019) showed that auditor independence has no significant effect on audit quality.

Furthermore, human resources who manage village funds are one of the organizational elements that are very important for the success of village development; therefore, it must be ensured that the human resources of village officials must be able to make an optimal contribution in efforts to achieve organizational goals (Wardani, 2018). In good village financial management, the village head and apparatus associated with the financial reporting accountability system must have quality resources. The quality of human resources is often an obstacle in managing village funds. This happens because they need to be supported by adequate education and training backgrounds and have experience in finance, but they need to learn and understand what to do. Unscrupulous village officials used the poor quality of human resources to misuse village funds.

Research conducted by Atmadja & Saputra (2017) stated that the competence of personnel with a lack of understanding of accounting led to unprofessional financial management, so there was the potential for fraud. This indicates that the internal control system and apparatus competency must synergize to prevent fraud. Fraud can result in village development not being carried out correctly. The build quality and volume did not meet the expected standards. The development objective of village funds is to even out development and improve the quality of people's welfare in the village. The results of other studies show that the variable quality of human resources has a positive and significant effect on the effectiveness of the use of village financial system applications (Deva et al., 2017); and further Wardani & Andriyani, 2017; Marlinawati & Wardani, 2018 that the results of his research that the Quality of Human Resources and Internal Control Systems have a significant positive effect on the Reliability of Village Government Financial Reporting. Then the research results of Pangestu & Hastuti, 2021 show that the level of education affects the quality of financial reports in cooperatives, and understanding of accounting affects the quality of financial reports in cooperatives. The other variable is that training does not affect the quality of financial reports in cooperatives.

The role of the community is very much needed in supervising and overseeing development in the village. Of course, this helps the auditor carry out his duties in the field and will ultimately affect the quality of the audit (Deva et al., 2017; Wijayanti et al., 2020). Furthermore, the results of other studies found the causes of weak management of Village Funds or a tendency to abuse Village Funds, namely the lack of functioning of the BPD oversight, weak community participation in supervising Village Funds, and incompetence of human resources (HR) managing Village Funds and Village Heads, (Wibisono, 2017).

This phenomenon affects the quality of the audit results because when the auditors carry out their duties, they have to examine dealing with human resources, in this case, incompetent village officials. The provision of funds to villages that are relatively large in value, the number of reports that are not the same for each village, and the existence of critical posts in managing village finances, which are easy to misappropriate, demand such great responsibility on the village government apparatus. Therefore the village government must be able to apply the principle of accountability in managing village finances, which can be accountable to the community following laws and regulations to realize good village governance.

Based on the description of the problems and some of the phenomena mentioned above, the researchers conducted research by testing and analyzing the influence of auditor independence, the quality of village apparatus human resources, which are factors that influence audit quality strengthened by the role of the community in guarding and supervising the management of village funds so that in the end product



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development that prospers the village community. This research is a development of previous research conducted by Tepalagul & Lin (2015), Mondale et al. (2017), Awang Yudhihana (2019), Wakil et al. (2020), who conducted a review of several articles on management oversight and audit quality of village funds that attracted the attention of stakeholders to develop further general research to improve and implement policies and regulations in achieving more effective and efficient organizational goals. Furthermore, Lamba et al. (2020) and Wardani (2018), recommend adding other variables that are thought to influence the reliability and timeliness of village government financial reporting so that they can add variation in further research, for example, human resource capacity, resource competency human beings, accounting information systems, organizational commitment, leadership style, level of education, and village government financial supervision to be studied. The difference is that previous research emphasized the quality of human resources, the use of information technology, and the internal control system for the timeliness of financial reporting. Meanwhile, this study focuses on the audit quality of village funds. The researcher raised the novelty that auditor independence as an internal factor, the quality of village apparatus human resources as an external factor, and the role of the community as a moderating variable can affect the quality of village fund audits produced by auditors. Researchers consider this variable an essential factor to fix and strengthen because in an activity with substantial funds without strict supervision, auditor independence and the quality of the human resources who manage it, the output will be deviated and not follow previously set expectations.

Therefore, this research is expected to have the most valuable contribution for the central and regional governments to adopt appropriate policies in supervising the management of village funds. A more critical and primary contribution to the village community is obtaining quality development and the welfare of the village community. The role of the auditor, the community through the Village Consultative Body (BPD) can carry out its functions and duties to the fullest without the intervention of various parties with full responsibility for overseeing the management of village funds following an effective and efficient budget formulation.

## 1. Literature Review

### 2.1. Agency Theory

In government organizations, Agency Theory can explain the agency relationship to be an important concept because the routine activities of each organization are always related to the delegation of authority, as studies conducted by previous researchers (Christensen, 1992; Fozzard, 2001; Lupia, 2015) by grouping the linkages of public sector accounting to agency relations into supervisory systems, budget manipulation, information asymmetry, and incentive systems between the executive and legislature. Therefore, the community and the central Government are principal because they provide the delegation of authority in managing village funds to the village government as an agent.

*Agency Theory* is a fundamental approach to analyzing public policy commitments (Moe, 1984). It can be applied in public organizations that carry out governance with a democratic system, where principal-agent relations occur, namely the community as principal and government officials as agents (Lane, 2000). Agency theory provides indications that in carrying out their respective duties and responsibilities between the owner (principal) and management (agent), an independent auditor's services are needed along with the development of each entity's activities that are getting bigger so that it is inevitable that there is a conflict between the principal and the agent. It is predicted and even sure to happen that the agents involved in carrying out their duties will always try to achieve the maximum targets stated in the work contract, but the results are only sometimes fulfilled. Facts in the field, the agent has a personal interest that is not following the interests of the principal, causing a problem called the agency problem due to asymmetric information so; as to reduce agency problems, it is necessary to have an independent party who can mediate in handling the conflict, namely *Auditor's Independent*, (Jensen & Meckling, 1976; Eisenhardt, 1989; Konrath, 2002; Lelly & Afiah, 2017).



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In this study, agency theory is associated with audit quality produced by auditors. An auditor who is considered a professional in his field of work is expected to be able to bridge the interests of the principal and the agent in carrying out the financial management process (Widiastuty & Febrianto, 2010). The auditor is given full access to test the management's control mechanisms in presenting financial information reliably and free from fraud. The auditor is responsible for providing an independent assessment of the fairness of the financial statements presented by management. Audit quality obtained from the auditor's assessment of the fairness of financial statements can improve the quality of the information provided by the agent to the principal. Audit quality can be seen from the findings, opinions, and recommendations in the audit report to be used as a reference for principals in the decision-making process. The principal's trust and expectations in the audit quality produced by the auditor must be relevant, valid, reliable, and accountable so as not to mislead and cause bias in the interpretation (Ariningsih & Mertha, 2017).

## **2.2. Stewardship Theory**

In this study, Stewardship Theory implies that principals and stewards cannot be separated from personal conflicts of interest in carrying out their duties and responsibilities. Therefore, principals need to monitor, control and evaluate the performance of stewards through the role of auditors and other parties to strictly supervised the use and management of village funds for the welfare and prosperity of the village community. Then the village fund management apparatus (as stewards) work as best they can suitable for the benefit of the village community. In supporting audit quality, of course, the role of the community is to help monitor and oversee the results of the village development program that has been set so that it has a very positive impact on the progress of the village.

## **2.3 Village Fund Audit Quality**

Audit quality is the implementation of audits carried out following standards so that the auditor can disclose and report in the audited report if there are violations and material misstatements committed by clients in managing their business and financial reports (De Angelo, 1981; Rosnidah et al., 2011; Hadiyarroyan & Urumsah, 2019; Herawati & Selfia, 2019; Layli & Arifin, 2020; Xiao et al., 2020; Astakoni et al., 2021). In order for the auditor to achieve audit quality as expected, the auditor must carry out his duties following predetermined professional standards (Bobek et al., 2012; Pertiwi, 2013; Iryani, 2017; Herawati & Selfia, 2019; Situmorang et al., 2020; Aryani & Muliati, 2020). The quality of the audit results referred to in this case is the examination of village fund management by the Inspectorate auditor in an accountable manner by fulfilling several high-quality criteria and standards.

In general, in Indonesia, the audit standards that the auditor must own as a basis for measuring the personal quality of the auditor so that his performance in producing a quality audit is competence, Independence (Widiastuty & Febrianto, 2010), experience, right to professional treatment, integrity, ty, and ethics, (Handayani, 2009; Marwa et al., 2019). Audit quality is influenced by several components, which include expertise, response to clients, professional rigour and thoroughness, understanding of the client's accounting system, understanding of the internal control system, and the attitude of auditor scepticism (Samelson et al., 2006; Knechel et al., 2012; Apriliyani et al., 2013), auditors' commitment, (Li et al., 2005; Achyarsyah, 2015). Furthermore, audit quality can be measured from the accuracy of the information reported by the auditor in the audited report (Titman & Trueman, 1986); and auditing capabilities to reduce noise and bias and increase the fineness of accounting data (Watkins et al., 2004).

Audit quality is expected to provide high assurance and trust to stakeholders in managers' decisions as agents in managing finances for their investments. Therefore, audit quality can be seen and measured from several dimensions, including K. L. Jensen & Payne (2005); Tandiontong (2015) identify dimensions of audit quality, which consist of personal credibility, auditor independence, openness in reporting to creditors and shareholders, knowledge of the client's industry, loyalty to minority shareholders, auditor's scepticism towards



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the auditee. Meanwhile, De Angelo (1981); Duff (2004); Rosnidah (2018) mentions four dimensions of audit quality, namely: technical quality, service quality, auditor-auditee relationship, and Independence.

Furthermore, Donald R. Deis (1992); Herrbach (2010); D. H. and D. Davis (2004); Tandiontong (2015); Achyarsyah (2015) state that there are three dimensions of the quality of audit results, namely technical quality, service quality, and Independence. It was further explained that technical quality indicators are reputation, capability, assurance, and auditor-client relationship. Then indicators of the dimensions of service quality are empathy, responsiveness, and non-audit services; Indicators of the dimensions of the auditor-client relationship are expertise, experience, and status; and an indicator of the independence dimension, namely objectivity Wooten, (2003) using audit quality indicators include (1) misstatement detection; (2) Compliance with applicable general standards; (3) Compliance with Standard Operating Procedures. Tjun et al. (2012) used audit quality indicators which include (1) Reporting all client errors; (2) Understanding the client's AIS; (3) Commitment to complete the audit; (4) Guided by accounting principles and auditing principles; (5) Do not blindly believe the client's statement; (6) Careful attitude in decision making.

Lamba et al. (2020), in the results of their research explaining the factors that influence audit quality are (1) auditor independence (Ariningsih & Mertha, 2017; Fauziah, 2017; Murti & Firmansyah, 2017; Budiandru, Sarah Qonita, 2019; Situmorang et al., 2020; Wakil et al., 2020; Sari & Tiara, 2020; Rejeki, 2021; Astakoni et al., 2021; Yaumi, 2021) has a positive and significant effect on audit quality and indicates that the higher the level of Independence an auditor has, the higher the quality of the audit produced by the auditor.

Research has been done by Sukriyah et al. (2009), Queena & Rohman (2012), and Tawakkal (2019) that auditor independence has no significant effect on audit quality. Research results from Sukriyah et al. (2009) explaining the reasons for not having a significant effect on the auditor's independence variable on audit quality are (1) During the preparation of the inspection program, there is still leadership intervention to determine, eliminate or modify certain parts to be examined as well as intervene in the procedures selected by the auditor; (2) At the time the audit was carried out, it was still not free from managerial efforts (objects of inspection) to determine or designate the activities to be examined so that there were still auditors who felt they did not need to cooperate with management; (3) During the preparation of reports, language or terms are often used which give rise to multiple interpretations. Queena & Rohman (2012) explain that the causes of Auditor independence do not have a significant effect on audit quality; namely, there is still interference from the leadership/inspector to determine, eliminate or modify certain parts to be examined, and there is intervention on the procedures chosen by the auditor. Whereas Tawakkal (2019) explains the cause, the auditor independence variable on audit quality has a positive but insignificant effect. Namely, there is still interference and intervention by the leadership in preparing audit reports.

## 2.4 Auditor Independence

Auditor independence is an attitude that is not easily influenced, carries out his work for the public interest, is not justified in favouring the interests of anyone, and maintains freedom of opinion (Statement of Auditing Standards No. 04 SA Section 220; Christian, 2002; Tepalagul & Lin, 2015; Arifin, 2016; Astuti, 2018; Minh Duc et al., 2019; Budiandru, Sarah Qonita, 2019; Mulyati; Nurul Hayat, 2021). Meanwhile, according to the Regulation of the Supreme Audit Board of the Republic of Indonesia Number 1 of 2017 concerning State Financial Audit Standards (2017), Independence is an attitude and action in carrying out an audit to be impartial to anyone and not influenced by anyone. Examiners must be objective and free from conflicts of interest in their professional responsibilities. Auditors must also be responsible for continuing to maintain Independence in thought and Independence in appearance.

Auditor independence is classified into three aspects, Mautz & Sharaf (1961); (Arens et al., (2014); Tandiontong, (2015); Iryani (2017) that is: (1) Independence in fact (independent in fact) is a situation where the auditor has high honesty and conducts audits objectively, (Arnold Schneider, Bryan K. Church, 2006); (2) Independence in appearance, namely the view of external parties to the auditor himself in connection with the audit, (Nguyen & Nguyen, 2020); (3) Independence from the point of view of expertise or competence, this is



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closely related to the competence or ability of the auditor to carry out and complete his duties, (Sukriyah et al., 2009; Kurnia et al., 2014; Tawakkal, 2019). In accepting an audit engagement and maintaining an independent mental attitude of an auditor, it is better to avoid accepting jobs auditing clients who have a very close and familial relationship between an auditor and his client because it can cause his thoughts and decisions to be influenced psychologically in the audit report, thus affecting his Independence.

Tandiontong (2015) measured auditor independence based on the stages of the audit process: planning and designing audit approaches, implementation, and completion. Mautz & Sharaf (1961) use the dimensions of auditor independence. (1) Independence from control or undesired influence in the selection of audit techniques and procedures and the extent of their application; (2) Independence from control or undesired influence in the selection of areas, activities, personal relationships, and organizational policies to be tested; (3) Independence from control or unanticipated influence in conveying the facts found from a test or in conveying recommendations or opinions as a result of a test.

Arens (2008); Tjun et al. (2012); Iryani (2017) using indicators of auditor independence are (1) Length of relationship with clients (stipulated in Minister of Finance Decree No.423/KMK.06/2002 concerning Public Accountant Services that the maximum auditor's tenure is three years for the same client, while for Accounting Firms Public (KAP) may be up to 5 years); (2) Pressure from the client (The auditor must have integrity and objectivity in carrying out his duties by being honest, firm and fair, without being influenced by pressure from any party to fulfil his interests); (3) Review from fellow auditors (to maintain KAP compliance, a quality control system is carried out by conducting peer reviews by public accountants); and (4) Non-audit services (Apart from providing attestation services, KAP also provides non-attestation services in the form of management and tax consulting services and accounting services such as financial statement preparation services). Arifin (2016) measures Independence with indicators consisting of (1) Independence in the audit program; (2) Independence in verification; and (3) Independence in reporting.

Usman et al. (2014). Arifin (2016), Iryani (2017), and Fauziah (2017), in their research results, that auditor independence has a significant influence on audit quality. The better the level of auditor independence, the better the audit quality will be. Independence is an auditor's attitude that is not influenced and controlled by outsiders. A high altitude of Independence is not only applied by the auditor, but all professions apply this attitude of Independence because the auditor's quality is produced if an auditor has implemented an attitude of Independence.

Research results from Erlina et al. (2020) and Astuti (2018) indicate that an auditor with high Independence will be more able to detect fraud and vice versa if an auditor with low Independence will be less able to detect fraud. An auditor must be independent in carrying out duties, meaning he is not easily influenced because he is doing his work in the public interest. In this case, it is distinguished from an auditor who practices as an internal auditor. Thus, he is not justified in taking sides with anyone's interests because no matter how perfect his technical expertise is, he will lose the impartiality attitude, which is very important to maintain the freedom of his opinion.

## **2.5 The Quality of Human Resources for Village Officials**

The quality of human resources is a person's ability to do his job with very satisfactory results with an educational background, training, and adequate experience (Mason, 1984; Bonner & Warker, 1994; Ariesta, 2013; Wardani & Andriyani, 2017; Sitohang, 2017; Labu, 2018; Maharani & Agustin, (2021). The human resources (HR) referred to in this study are village officials in charge of managing village finances who are supported by an educational and training background and have experience in the financial sector so that they can understand the accounting and reporting system properly, which in turn affects the quality of audits conducted and conducted by auditors. Human resources need to be proficient in accounting and reporting systems, and the quality of accounting information will be low due to the accounting system (Ariesta, 2013).



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According to the President of the Republic of Indonesia, Jokowi stated that the criteria for the quality of human resources are (1) must be competitive at the regional and global levels, namely hard workers, honest, collaborative, solutive and entrepreneurship and (2) must be competitive in mastering knowledge and skills mastering the emerging skills capable of filling the emerging jobs, being innovative and building the emerging business, (Husaini, 2019). Meanwhile, the Minister of Finance of the Republic of Indonesia, Sri Mulyani, stated that the criterion for the quality of human resources is to have adequate complex skill and soft skill competencies (Kurniawan, 2018). Hard skills are produced through a solid and healthy competitive education system to prepare ready-to-use human resources to enter the increasingly flexible and tight labour market. Meanwhile, soft skills are built by building character, integrity, communication, and the ability to work together or synergize with others. Furthermore (Leuken, 2021) states that some of the characteristics of quality human resources are tenacious, diligent, innovative, honest, and dedicated.

The quality of human resources reflects the ability of an organization to produce the best solutions by using the knowledge possessed by existing human resources in the organization. The quality of human resources is not only determined by aspects of skill or physical strength but also by education or the level of knowledge, experience, maturity, and attitudes and values they have (Erlina et al., 2019). The quality of skilled human resources is needed in using a system. Considering that the village financial system application is an accounting information system that must be used for villages that receive village funds and is computerized, the village apparatus, in this case, the village secretary is the person in charge of managing village administration. As the responsible village financial report, the village treasurer is required to master accounting and computer science so that accountability reporting on village funds through the village financial system applications application is better and more effective. This goes hand in hand with Adelia Pramita Sari and Dwi Martani (2015), which state that the ability of village officials to manage finances positively affects audit opinion through the level of disclosure of financial statements.

Research results from Deva et al. (2017) show that the variable quality of human resources positively and significantly affects the effectiveness of village financial system applications. This research was conducted through direct field observations of the quality of human resources, in this case, village officials, in terms of their ability to use and operate village financial system applications in planning activities to make village fund accountability reports. The condition of the human resources of village officials using the village financial system applications smoothly or without obstacles means that the quality of human resources can be sufficient so that the effectiveness of using village financial system applications is high. Conversely, the condition of the human resources of the village apparatus in using the village financial system applications cannot operate it, so it has an impact on making village fund accountability reports inappropriate or insufficient. The quality of human resources could be better, and of course, the effectiveness of using village financial system applications could be low. The results of this study align with the research conducted by Wardani & Andriyani (2017); Wardani (2018) that the quality of human resources and internal control systems have a significant positive effect on the reliability of village government financial reporting. It was explained in his research that several factors could affect the reliability and timeliness of financial reports, including: (1) An educational background supports the quality of talented human resources and has the skills, knowledge, and ability to carry out a job; (2) Adequate information technology support; and (3) exemplary organizational commitment. The results of this study are supported by Maharani & Agustin (2021), that quality resources will save time in preparing financial reports. Human resources who have a common understanding of completing their duties and responsibilities, and have difficulty processing data with computer technology tools and applications, will impact the presentation of financial statements.

The results of other studies conducted by Pangestu & Hastuti (2021) showed that the level of education affects the quality of financial reports in cooperatives, and understanding of accounting affects the quality of financial reports in cooperatives. Another variable is that training does not affect the quality of financial reports in cooperatives. The training variable means that the quality of the training attended by the cooperative's financial manager differs from the needs in preparing financial reports. Another cause is that the

intensity of the training that has been attended has yet to be maximized so that each individual has different competency training outcomes.

Atmadja & Saputra (2017), in their research results, that the competency of the apparatus affects the prevention of fraud in village financial management. This is due to the ability of the village apparatus to have an essential role in managing village finances to achieve the common goal of increasing community welfare through improving the village economy, society, culture, and other fields. Moreover, the apparatus will be supervised and in direct contact with an appointed independent financial supervisory body, the Central Government, to oversee the use of village funds and be accountable for them.

## **2.6 Community Role**

According to the Law of the Republic of Indonesia Number 6 of 2014 concerning Villages in article 82 states that (1) Village Communities have the right to receive information regarding plans and implementation of Village Development; (2) Village Communities have the right to monitor the implementation of Village Development; (3) The Village Community reports the results of monitoring and various complaints regarding the implementation of Village Development to the Village Government and the Village Consultative Body; (4) The Village Government is obliged to inform the planning and implementation of the Village Mid-Term Development Plan, the Village Government Work Plan, and the Village Revenue and Expenditure Budget to the Village community through information services to the public and report this in the Village Conference at least once a year; (5) Village Communities participate in Village Consultations to respond to Village Development implementation reports. The elucidation of article 82 has confirmed that the community must be actively involved in all stages of village development, namely the initial preparation of plans, budgeting, implementation, monitoring, and reporting. In addition, the community must also be involved in several activities, which include: (1) education through training, (2) active participation in gathering information, and (3) participation in providing alternative plans and suggestions to the Government.

Communities are given the authority to organize themselves independently and can, resist various adverse tendencies and struggle to overcome problems in the dynamics of development (Yudarwati, 2013). Furthermore, Ndraha (1990); Paembonan (2017) expressed their view that community participation in village development can be described as a desire to succeed in the success of each development program according to the ability of every member of the village community itself without sacrificing their interests. Furthermore, it was explained that in the ideal situation, community participation in the development process in their village is a measure of the level of people's participation. The greater the community's contribution to self-determination, the greater is expected of its contribution to the development of its village environment.

The village community can also help supervise and monitor the development and management of the village budget in three stages. The first is the planning stage, then the implementation stage, and the reporting and accountability stage (Ebrahim, 2003; Ompusunggu, 2017). Through the participation of village communities in supervising and monitoring village development and APBDesa, when it is linked to agency theory and GONE theory, selfish desires, greed, and opportunities to commit fraud can be prevented (Wijayanti et al., 2020). This supervision is in line with the results of Ompusunggu's research (2017) which states that community participation in development must be able to resist various adverse tendencies and help the success of each development program.

The results of research by Fikri et al. (2015) state that the competence of personnel with a lack of understanding of accounting causes unprofessional financial management, so there is a potential for fraud. This condition is not only sufficient for auditors who can supervise the management of village funds but the role of the community, which the mandate of laws and regulations has guaranteed, must be carried out by an internal control system. The competence of the apparatus must synergize so that they can prevent fraud so that the state's goal is to create a just society. Furthermore, prosperity can be adequately achieved.

Mada et al. (2017). Putra & Rasmini (2019), in their research results, that community participation has a positive and significant effect on the accountability of fund management. These results indicate that the more



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active the community's participation in overseeing development in their village, the more accountable the management of village funds. The results of this study are consistent with research conducted by Rahmanurrasjid (2008); Zeyn (2011); Suwondo (2013); Kurrohman (2014); Aziz (2016), Fajri (2017) that the role of the community in participating in the planning, implementing, controlling and supervising development can improve government performance in an effective, efficient, transparent and accountable manner.

The results of the study (Gunawan, 2018) showed that based on their function and position, the supervision carried out by the BPD is the most effective because the BPD is the closest body to the management of village funds and is given special authority by law, besides that the BPD carries out active supervision and oversight passive. However, the BPD has many weaknesses that must be corrected in the future, such as forming members with elements of village politics, individual quality, and protection. Furthermore, Wibisono (2017) found the causes of weak management of Village Funds or a tendency to abuse Village Funds, namely the non-functioning role of village communities, weak elements of guidance and supervision from the Camat, Weak elements of guidance and supervision by the Government and Development Security Escort Team (TP4), weak supervision by BPD, weak community participation in supervising Village Funds, high non-budgetary costs, and incompetent human resources (HR) managing Village Funds and Village Heads.

### 3. Research Hypothesis

#### 3.1 Auditor Independence Affects The Audit Quality of Village Funds

Auditor independence means a mental attitude free from influence, not controlled by other parties, and not dependent on other people. Auditor independence also means the auditor is honest in considering facts, and there are objective, impartial considerations within the auditor in formulating and expressing his opinion. Integrity is an element of character to maintain public trust. Meanwhile, objectivity is a guarantee to be impartial, to do work honestly and intellectually, and to be free from conflicts of interest. This standard requires the auditor to be independent, meaning he is not easily influenced because he works in the public interest (Tandiontong, 2015). The stronger the auditor's firm's quality control and review procedures and the stronger the auditor's perception of penalties for violating audit quality rules, the decrease in audit quality behaviour will decrease (Malone & Roberts, 1996). Some research results support the theory that Independence positively and significantly affects audit quality. However, researchers focus more on the audit results of village funds conducted by auditors whose examination is carried out separately from funds by the local Government so that the hypothesis can be formulated as follows:

**H1: Auditor independence has a positive and significant effect on the audit quality of village funds.**

#### 3.2 The Quality of Village Officials' Human Resources Influences The Quality of Village Fund Audits

Human resources (HR) of village officials who have the duties and responsibilities of managing village finances are supported by educational and training backgrounds and have experience in finance so that they can understand the accounting and reporting system properly, which ultimately affects the quality of audits conducted by auditors. Human resources need to be proficient in accounting and reporting systems. The quality of accounting information results in the accounting system being low quality (Ariesta, 2013). This certainly impacts the quality of the audit results because the auditor team deals with village apparatus human resources who can understand and carry out their duties properly. The opposite occurs when the auditor deals with village apparatus human resources who need help understanding their duties, especially those with a solid and authoritarian character. Where the auditor experiences extraordinary difficulties obtaining valid and correct data, the auditor may even receive a threat to life safety in carrying out their duties. The auditors produce the audit results rather than the village apparatus's human resources. However, the performance of the village apparatus' human resources influences the quality of village fund audits. Therefore, from the auditor's perception, the researcher can formulate the hypothesis that:

**H2: The quality of village apparatus human resources positively and significantly affects the quality of village fund audits.**



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### 3.3 Community Role Moderation with Auditor Independence Affects the Quality of Village Fund Audits

The role theory by Kahn et al. (1964) and the accountability theory by Bovens (2007) underlie the community's role in assisting in the supervisory task of managing village funds so that it will have a positive impact on audit quality. The role of the community can also be used by the auditor in obtaining and validating accurate information about actual conditions in the field for managing village funds which is the scope of the audit. The attitude of auditor independence is a fundamental and primary requirement in carrying out audit tasks that cannot be influenced and controlled by other parties to produce good audit quality. However, in carrying out audit tasks, the auditor can use other parties to obtain information in supervising the management of village funds, namely the village community itself (Serra, 2012). The role of the community is highly expected to actively oversee the use of village funds for the benefit of regional development (Ompusunggu, 2017). Several previous studies have shown that vital information from the public can strengthen auditor independence in making decisions to impact audit quality positively. Therefore, it can be formulated that hypothesis:

**H3: Moderation between the role of the community and auditor independence has a positive and significant effect on the audit quality of village funds.**

### 3.4 Moderation of the Community's Role with the Quality of Human Resources for Village Officials Influences the Quality of Village Fund Audits

Quality resources can save time in preparing financial reports because they already know and understand what will be done well so that the presentation of financial reports can be timely. Human resources capable of carrying out their duties and responsibilities will positively impact the completion of work and performance achievements (Maharani & Agustin, 2021). The faster the presentation of financial reports, the better it will be for decision-making (Mardiasmo, 2021). The active role of the community in the process and supervision of village development will positively contribute to human resources, especially village officials, in understanding and carrying out their main tasks and functions, producing good quality performance. This can illustrate that strengthening the quality of village apparatus human resources will have a positive impact on audit quality, so the hypothesis in this study is:

**H4: Moderation between the role of the community and the quality of village apparatus human resources has a positive and significant effect on the quality of village fund audits.**

## 2. Research Methods

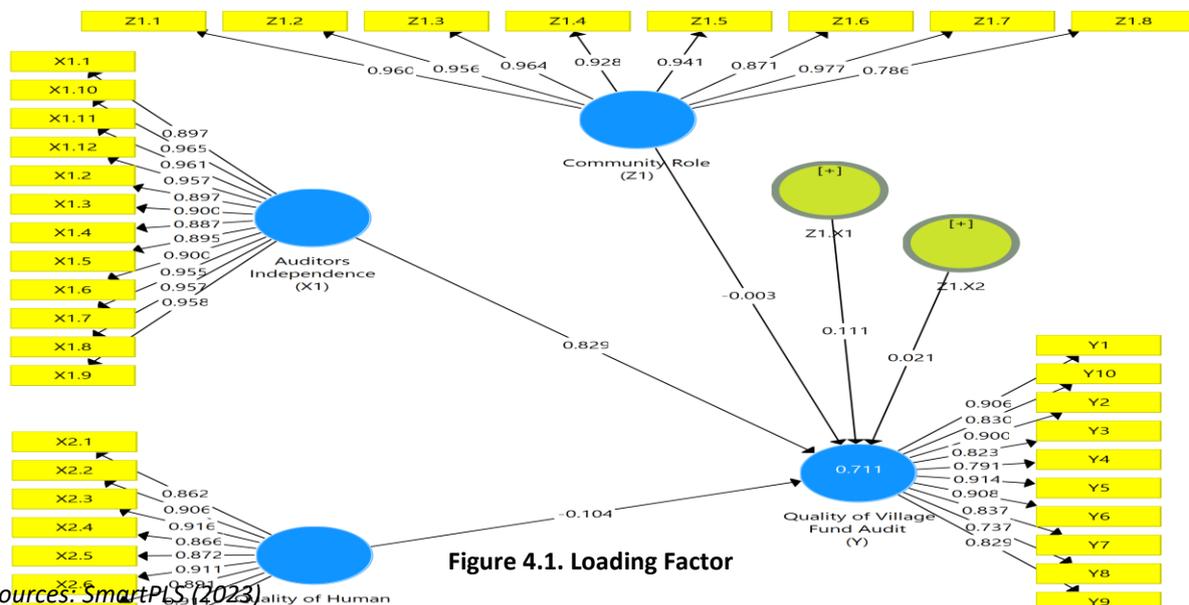
This quantitative study aims to analyze and test hypotheses that affect the quality of village fund audits produced by the inspectorate auditor (Government Internal Supervisory Apparatus). The population used is all auditors from the Inspectorate of each Regency in North Sumatra Province, which are included in the functional auditors (PFA), namely those consisting of foremost, middle, young, first, skilled auditors, supervisors, advanced executors, and executors of 304 people and the sample is 161 people according to the formula according to Isaac and Michael at the error rate used is 5%. The sampling technique uses Probability Sampling with the Simple Random Sampling technique, which is done randomly without regard to the existing strata in the population. The data collection technique uses a questionnaire through Google Forms. The variable measurement uses a Likert scale with five alternative answers that are given a score of 1-5.

This study uses analysis with the Structural Equation Modeling Partial Least Square (SEM-PLS) technique using SmartPLS software. The hypothesis testing analysis technique is carried out using two models, namely: (1) Inner model or structural model, which describes the relationship between the latent dependent variable and the independent latent variable; and (2) Outer model or measurement model, which describes the relationship between latent variables and indicator variables.

### 3. Research Results and Discussion

#### 5.1 Research Result

A convergent validity test is done by looking at the value of the loading factor in each construct. The test results on the loading factor value in this study were that only indicators above 0.7 were used to declare it an ideal or valid measure as an indicator in measuring constructs, while values below 0.7 were eliminated. Based on data calculations using the PLS algorithm method, the loading factor value for each variable indicator can be seen in Figure 4.1 below:



**Figure 4.1. Loading Factor**

Sources: SmartPLS (2023)

In addition to the loading factor value, it is necessary to know the Average Variance Extracted (AVE) value to fulfill convergent validity. The Average Variance Extracted (AVE) value must be greater than 0.5. Provisions regarding the measurement parameters (rule of thumb) of the measurement model (outer model) that AVE is considered to have met convergent validity if the AVE value is more significant than 0.50 (Ghozali & Latan, 2015). From the results of the AVE value, it can be seen that the AVE value of each construct is > 0.5, so the construct meets convergent validity. Furthermore, the value of Cronbach's alpha and composite reliability for each variable above 0.7 means that all latent variables are reliable. These results can be seen in Table 4.1. the following:

**Table 4.1. Construct Validity and Reliability**

Variable	Cronbach's Alpha	rho_A	Reliability Test	The Average Variance The Average Variance Extracted (AVE)
Auditors Independence_(X1)	0,985	0,986	0,987	0,861
Quality of Human Resources of Village Officials_(X2)	0,969	0,972	0,973	0,799
Quality of Village Fund Audit_(Y)	0,958	0,968	0,963	0,721
Community Role_(Z1)	0,976	0,987	0,979	0,855

Sources: SmartPLS (2023)

Hypothesis testing looks at the t-statistics values resulting from the bootstrapping process. According to Abdillah, W., & Jogiyanto (2015) that the hypothesis is accepted (supported) if the t-statistics value is more significant than 1.96 with a significance level of 5% (two-tailed). This research resulted in a bootstrapping process for the Smart PLS program with a value above 1.96, as seen in Table 4.2. the following:

**Table 4.2. t statistic**

Variable	Original Sample (O)	Standard Deviasi (STDEV)	T Statistik (  O/STDEV  )	P Values
Auditors Independence_(X1) -> Quality of Village Fund Audit_(Y)	0,829	0,042	19,545	<b>0,000</b>
Quality of Human Resources of Village Officials_(X2) -> Quality of Village Fund Audit_(Y)	-0,104	0,061	1,712	<b>0,088</b>
Community Role_(Z1) -> Quality of Village Fund Audit_(Y)	-0,003	0,050	0,057	<b>0,955</b>
Z1.X1 -> Quality of Village Fund Audit_(Y)	0,111	0,049	2,257	<b>0,024</b>
Z1.X2 -> Quality of Village Fund Audit_(Y)	0,021	0,070	0,300	<b>0,764</b>

Sources: SmartPLS (2023)

## 5.2 Discussion

The study results concluded that auditor independence has a positive and significant effect on the audit quality of village funds. This means that the hypothesis proposed by the researcher is accepted ( $H_a$  is accepted). The results of this study support some of the results of previous studies Usman et al., (2014); Saerang & Sondakh, (2016); Arifin, (2016); Wiratmaja, (2016); Ariningsih & Martha, (2017); Iryani (2017); Fauziah, (2017); Murti & Firmansyah, (2017); Astuti, (2018); Hafizhah & Abdurahim, (2017), Budiandru, Sarah Qonita, (2019); Primasari et al., (2019); Lamba et al., 2020; Situmorang et al., (2020); Wakil et al., (2020); Sari & Tiara, (2020); Rejeki, (2021); Astakoni et al., (2021); Yaumi, (2021) that is, auditor independence has a positive and significant effect on audit quality and the auditor's ability to detect fraud. Instead reject the results of research conducted by Sukriyah et al. (2009); Hardiningsih (2010); Al-Ajmi & Saudagaran (2011); Queena & Rohman (2012); Tjun et al. (2012); Salawu, (2017); Tawakkal, (2019); Nguyen & Nguyen, (2020) that auditor independence does not have a positive and significant effect on audit quality because there is still interference from structural leaders (Inspector, Assistant Inspector) in determining, eliminating or designing certain account items to be examined. There is intervention in the procedures chosen by the auditor.

The results of this study provide certainty for the auditor's independence variable that the information generated by the auditors in auditing village funds, and the results are contained in an audited report whose quality can be trusted and used in making the right policies and decisions. The auditor's Independence in carrying out his duties is a significant standard. It must be complied with so that any factors that interfere with him will not be affected by his performance which is reflected in the adequate and reasonable audit quality of village funds. In line with the results of research conducted by Malone & Roberts (1996); Arnold Schneider, Bryan K. Church (2006); Tandiontong (2015) confirms the strengthening of the results of this study that the stronger the quality control and review procedures of the auditor's firm and the stronger the auditor's perception of punishment for violating audit quality rules, the decrease in audit quality



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behaviour will decrease. The results of this study also confirm that auditor independence is needed so that the quality of village fund audit results increases.

The results of this study support the Agency Theory, which is used to analyze public policy commitments, where principal-agent relationships occur, namely the community as principals and village government officials as agents. Auditors, considered professionals in their field, can bridge the interests of the principal and the agent in carrying out the village financial management process. Audit quality obtained from the auditor's assessment of the fairness of financial statements can improve the quality of the information provided by the agent to the principal. Audit quality can be seen from the findings, opinions, and recommendations in the audit report to be used as a reference for principals in the decision-making process. The principal's trust and expectations in the audit quality produced by the auditor must be relevant, valid, reliable and accountable so as not to mislead and cause bias in the interpretation.

The results of the moderation study between the community's role and auditor independence have a positive and significant effect on the audit quality of village funds. The results of this study illustrate that the higher the community's role, the higher the possibility that the auditor will have confidence and strengthen his Independence in carrying out his duties which will further increase the quality of the audit.

Another result of this study that needs to be hypothesized is to test the direct effect of the community's role variable on the audit quality of village funds. The results show a negative and insignificant effect. In line with research conducted by Aprilia & Shauki (2020) that the implementation of community supervision in villages is still not optimal due to access to information that is still limited and not timely, especially information on realization reports and the low level of public understanding and concern for managing and monitoring funds village.

Furthermore, the variable quality of village officials' human resources has a negative effect on the quality of village fund audit results. The positive effect on the hypothesis contradicts the results of the t-statistic test; namely, the effect is negative. The results of this study illustrate that the current conditions regarding the human resources of village officials could be more adequate in their ability to manage village funds in a transparent and accountable manner. In line with some of the results of previous research conducted by Mondale et al. (2017); Trisnawati & Wiratmaja (2018); Awang Yudhiana (2019) states that the quality of human resources for village officials is inadequate, so it is necessary to improve the quality of human resources through training with materials that are under regulations in preparing financial reports. The results of this study are not in line with some of the results of previous studies conducted by Atmadja & Saputra (2017); Deva et al. (2017); Wardani & Andriyani (2017); Marlinawati & Wardani (2018); Pangestu & Hastuti, (2021) that the quality of human resources and internal control systems have a significant positive effect on the reliability of village government financial reporting. Furthermore, Gholamhossein (2021), in his research on the effect of human resources on audit quality, shows that training, promotion, and KAP remuneration are significantly related to the level of audit quality.

The results of this study support the Stewardship Theory, which describes the relationship between the Principal (Village Community) and the Steward (HR management apparatus for village funds). Stewards behave according to the interests of the principal. The implication of Stewardship Theory in this study is that principals require monitoring, control and evaluation of steward performance through the role of auditors and other parties to strictly supervise the use and management of village funds for the welfare and prosperity of the village community. Then stewards work as well as possible for the benefit of society village. In supporting audit quality, of course, the role of the community is to help monitor and supervise the results of the village development program that has been set so that it has a very positive impact on the progress of the village.

The results of observations and interviews with researchers in the field also provide an obvious picture to the auditor when carrying out audit assignments and dealing directly with incompetent village officials. There were several difficulties in explaining evidence of village fund spending transactions, so sufficient data verification and validation could not be carried out and adequate. Of course, this will impact reducing the quality of village fund audits. Conversely, when the auditor is dealing with highly competent



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village officials, it is straightforward to carry out the audit process in carrying out their duties with an evident, detailed, and adequate level of satisfaction to positively impact the quality of the village fund audit. One of the duties and responsibilities of the state is to prosper and prosper its people. Therefore, firmness, commitment, and consistency are urgently needed in implementing appropriate and fair law enforcement. Apart from that, it is essential to strengthen the human resources of honest and responsible village officials to assist APIP in carrying out their duties. Ultimately, the resulting audit results can be high quality, trusted, and accepted by the community.

The results of the moderation between the community's role and the quality of the village apparatus' human resources have a positive and insignificant effect on the quality of village fund audits. This study's results illustrate that the community's role can strengthen the variable quality of village apparatus human resources on the quality of village fund audits. This condition shows proof that the community can make a very significant contribution to village development. In line with K. Davis (1989), Ndraha (1990), and Paembonan (2017), community participation in the development of their village will contribute to the spirit, make the success of each development program successful and take responsibility for the common welfare. One of the duties and responsibilities of the state is to prosper and prosper its people. Therefore, firmness, leadership commitment, and consistency in applying appropriate and fair law enforcement are urgently needed. In addition, it needs to strengthen the human resources of honest and responsible village officials so that they can assist APIP in carrying out their duties. Ultimately, the resulting audit results can be highly qualified, trusted, and accepted by the community.

#### 4. Conclusions and Suggestions

This research confirms that auditor independence is a condition and priority factor that auditors must meet in carrying out their audit duties. This is evidenced by the test results in this study that auditor independence has a very positive and significant effect on the audit quality of village funds. During the process of carrying out the audit, the auditor is faced with a variety of different conditions and situations of the auditee, organizational support, firmness and commitment from the leadership, and work pressure so that the consistency of the attitude of Independence through the quality output of the village fund audit will determine the success of managing village funds appropriately and right on target. The community as village fund stakeholders must be active in overseeing the supervision of village fund management by helping to provide valid information to APIP as a guard for the totality of village fund management because the mandate of the applicable regulations gives full authority and responsibility to examine the use of village funds comprehensively and sustainably.

In addition, the quality of human resources for village officials as an external factor in the performance of auditors who produce audit reports negatively influences the quality of village fund audits. The results of this study prove that the auditor's performance has yet to be supported by the human resources of village officials in carrying out their work. The quality of the human resources of village officials as auditees is expected to be able to provide access to data and explain the results of village fund management in detail and clarity to the auditor in order to obtain information and adequately validate the audit evidence examined to improve the quality of village fund audits. Modifying the community's role can also strengthen the quality of village apparatus human resources to improve the quality of village fund audits.

The results of this study serve as a reference for the central, regional and community governments to strengthen their oversight capacity over the management of village funds by village heads and village officials. APIP's good Independence in carrying out its duties will positively impact the success of development in each village. Likewise, special attention is paid to the quality of human resources for village officials who still do not have adequate competence in managing village funds, so there is a high potential for fraud and indications of corruption. Therefore, it is essential to strengthening the human resources of village officials with training and education in village financial management; then, it is also essential to report and audit the assets of each village head every year to avoid the accumulation of wealth originating from village funds. Giving severe



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sanctions without favouritism to village fund corruptors is a priority for the central and regional governments to provide a deterrent effect so that village fund allocations can bring prosperity and prosperity to village communities.

This study has relatively small research variables, and the respondents are only based on auditor perceptions. Considering that the village fund allocation from the state budget is quite large, the audit quality of village funds has become the focus of attention for further researchers to prevent mismanagement. Therefore it is suggested that further researchers in the future add the number of variables from internal auditor factors, namely audit risk, job pressure, and educational background and from external auditor factors, namely the use of information technology by village apparatus human resources, culture and environmental characteristics of the auditee, and adding intervening or moderating variables, namely the availability of audit budgets, organizational commitment. Another suggestion for the Regional Government is to strengthen human resources in the field of auditors (Government Internal Supervisory Apparatus-APIP) and active supervision from the Village Consultative Body (BPD) and the community so that the use of village funds can be effective and on target.

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