

## THE QUALITY OF LOCAL GOVERNMENT FINANCIAL REPORT

Marcus R. Maspaitella<sup>1</sup>, Mona Permatasari Mokodompit<sup>2\*</sup>

<sup>1</sup> Faculty of Economic and Business, University of Papua, Manokwari, Indonesia

\* Corresponding Author: m.mokodompit@unipa.ac.id

### ABSTRACT

**Purpose** - This study aims to analyze the influence of human resource competence, regional financial accounting information system, use of information technology and government internal control systems on the quality of local government financial report at the Regional Financial and Asset Management Agency (BPKAD) of Manokwari Regency.

**Research Method** - The research data was collected by giving questionnaires to the employees at BPKAD office of Manokwari regency who carry out tasks in the accounting and finance functions. The data was then analyzed using multiple linear regression analysis.

**Findings** - The results showed only the government internal control system factor that have influence on the quality of local government financial reports of BPKAD of Manokwari regency.

**Implication** - This study provides information that can be used as a consideration in making policies in order to improve the quality of local government financial report by the local government in Manokwari Regency, particularly BPKAD.

**Keywords:** Financial Report Quality, Human Resource, Information Technology, Internal Control, Accounting Information

**JEL Code:** M41, G18

### INTRODUCTION

The government system that has shifted from centralized to decentralized has made the demands for accountability on public institutions in the regions even greater. This has implications for government management (public sector) to provide better information to the public, one of which is in the form of financial reports.

Financial reports are a tool for local governments to account for their financial performance to the public and are also used by several interested parties as a basis for decision making. According to (Bastian, 2005) local government financial reports are part of the financial reporting process in local governments that present in a structured way the financial position of transactions carried out by a local government entity. In principle, the Regional Government Financial Report (LKDP) is the result of a combination or consolidation of the Financial Statements of Regional Apparatus Organizations (OPD).

Therefore, financial reports must be of high quality and managed in a transparent and accountable manner based on good governance. The four characteristics of the quality of financial reports according to Government Regulation Number 71 of 2010 concerning Government Accounting Standards are (1) relevant, (2) reliable, (3) comparable, and (4) understandable. This requires that the financial statements presented are free from misleading notions and material errors, are objective and verifiable.

The District or City Regional Government Financial Reports (LKPD) are annually assessed by the Financial Supervisory Agency (BPK). In Manokwari Regency, since the

Regional Financial and Asset Management Agency (BPKAD) existed, from 2009 to 2017 the Manokwari Regency LKPD always received a disclaimer of opinion from BPK. Disclaimer of opinion is an opinion issued if BPK refuses to give an opinion due to the fairness of the financial statements is doubtful. Then in 2018, BPKAD finally managed to get out of the disclaimer zone and obtained a Qualified Opinion, where this opinion is issued by BPK if most of the information in the financial statements is free from material misstatement, except for certain parts that are exceptions, such as accounts. However, this does not affect the fairness of the financial statements as a whole. For the 2019 fiscal year, the Manokwari Regency BPKAD finally succeeded in obtaining an Unqualified Opinion (Kabar Timur, 2020). Obtaining the results of an examination of the performance of local governments with the predicate of unqualified opinion from BPK is a special prestige for the region. This predicate indicates that the regional government's financial performance reports are in accordance with the accountability principle (Hidayah *et al.*, 2019).

According to Tausikal (2019) financial reports can be useful for users when the report is prepared by human resources who have competence in the layers of regional financial management and accounting systems. This is supported by the results of research from (Hadi *et al.*, 2017) which states that human resources have a positive effect on the quality of preparing financial statements. Human resource competence includes its capacity, namely the ability of a person or individual of an organization or a system to carry out its functions or authority to achieve its goals effectively and efficiently (Hariandja, 2002).

The Regional Financial Accounting Information System (SIKAD) also plays an important role in producing quality financial reports, where SIKAD is the system used in producing financial reports (Yuliani *et al.*, 2010). Rohmah *et al.* (2020) in their research results also state that SIKAD has an influence on the quality of financial reports. In addition to the competence of human resources and SIKAD, the use of information technology is also one of the factors that can affect the quality of financial reports. (Jurnali & Supomo, 2002) stated that the use of information technology is the level of integration of information technology in the implementation of accounting tasks. The obligation to use information technology by the government and local governments has been regulated in Government Regulation no. 56 of 2015 concerning the Regional Financial Information System which replaces Government Regulation No. 11 of 2001 with regional financial information. The use of computer hardware and software can support the implementation of activities or work including in the presentation of local government financial reports (Wibawa *et al.*, 2017).

Government Internal Control System (SPIP) factors can also affect the quality of financial reports. In Government Regulation NO. 8 of 2006 stated that the objectives of SPIP are, among others, to provide adequate assurance for the achievement of the following: (1) effectiveness and efficiency in achieving the objectives of state government administration, (2) reliability in financial reports, (3) safeguarding state assets, and (4) compliance with laws and regulations. (Firmasnyah & Sinambela, 2020) suggested that the existence of SPIP will be able to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets and compliance with laws and regulations.

The importance of the quality of local government financial reports and the increase in the level of opinion obtained by the BKAD of Manokwari Regency from 2009 to 2019 from the BPK, becomes the motivation to conduct this research. The effort to achieve and maintain the unqualified opinion from the BPK becomes a fundamental benchmark of government financial management performance. Therefore, this research will analyze the factors that affect the quality of local government financial reports at the Manokwari Regency BPKAD. Thus, the research objective is to analyze whether the competence of human resources, regional financial accounting information systems, utilization of information technology and

government internal control systems affect the quality of local government financial reports. This research is expected to be taken into consideration by the local government, especially BPKAD Manokwari Regency in making policies to improve the quality of LKPD. In addition, it is hoped that this research can also contribute to the development of accounting science.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

The grand theory that underlies this research is part of agency theory, namely stewardship theory. It is a theory that describes a situation in which managers are not motivated by individuals goals but rather are aimed at their main outcome goals for the benefit of the organization (Sari & Fadli, 2017). Stewardship theory has a psychological and sociological basis that has been designed where executives as stewards are motivated to act according to their principal's wishes. The theory is designed for researchers to examine situations where executives in the company as servants can be motivated to act in the best way for their principals (Donaldson & Davis, 2019).

Government cooperates with the management (steward) in order to achieve organizational goals without prioritize individual interest, one of which is about accountability. In public sector accounting, accountability demands are required because it is carried out for the public welfare. Therefore, higher accountability demands leads to higher difficulties of government in carrying out its good governance management functions. This relates to the quality of regional financial report.

According to the Government Accounting Standards Committee (KSAP) (2011), a financial report can be said to be of high quality if it can meet the following qualitative characteristics: Firstly, relevant. Financial statements are said to be relevant if the information contained in them can influence users' decisions by helping them evaluate past or present events and predict the future as well as confirming or correcting the results of their evaluations in the past. Thus, the relevant financial statement information can be related to the user's intentions. Secondly, reliable. Financial statements are said to be reliable if the information contained in the financial statements is free from misleading understanding and material errors, presents every fact honestly, and can be verified. Information may be relevant, but if its nature or presentation is unreliable then users of the information can potentially be misleading. Thirdly, comparable. The information contained in the financial statements will be more useful if it can be compared with the financial statements of the previous period, the entity's financial statements, and other reporting in general. Comparisons can be made internally and externally. Internal comparisons can be made when an entity applies the same accounting policies from year to year. External comparisons can be made if the entities being compared apply the same accounting policies. Lastly, understandable. The information presented in the financial statements can be understood by users and is stated in forms and terms that are adjusted to the limits of understanding of the users. For this reason, users are assumed to have adequate knowledge of the activities and operating environment of the reporting entity, as well as the willingness of users to learn the information in question.

However prior research have found there are several factors that can influence the quality of financial report, particularly the quality of local government financial report, namely human resource competence, regional financial accounting information system, the use of information technology and government internal control system (Fachry & Mediaty, 2019; Bame *et al.*, 2021) . Human resource competence includes its capacity, namely the ability of a person or individual in an organization or a system to carry out their functions or authorities to achieve their goals effectively and efficiently (Hariandja, 2002). As for Regional Financial Accounting Information System, according to (Yuliani et al, 2010) the Regional Financial Accounting Information System (SIAKD) can be defined as a system of grouping, classifying, recording and processing local government financial activities into a financial report as

information that can be used by certain parties in decision making. The indicator used in measuring SIAKD is financial reporting accountability. For the use of information technology is the level of integration of information technology in the implementation of accounting tasks (Jurnali & Supomo, 2002). The indicators used to measure the use of information technology are computers and internet networks. Furthermore for government internal control system, according to Government Regulation No. 60 of 2008, the internal control system is an integral process for activities that are carried out continuously by the leadership and all employees to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets and compliance with regulations. legislation. The indicators used in measuring SPIP are control environment, risk assessment, control activities, information and communication and monitoring.

Based on the explanation above, the hypotheses of this research are as follows:

- H<sub>1</sub>: Human resources competence have significant influence on the quality of local government financial statement.
- H<sub>2</sub>: Regional financial accounting information system have significant influence on the quality of local government financial statement.
- H<sub>3</sub>: Use of information technology have significant influence on the quality of local government financial statement.
- H<sub>4</sub>: Government internal control system have significant influence on the quality of local government financial statement.

## RESEARCH METHODOLOGY

This research was conducted at the Regional Financial and Asset Management Agency (BPKAD) of Manokwari Regency. The population of this research are 62 employees who carry out tasks in the accounting and finance functions. The sampling technique in this study uses a saturated sampling technique where all members of the population are used as samples. This is done because the population is relatively small (Sugiyono, 2015). However, only 53 out of 62 (85%) questionnaires were successfully collected and complete to be further analyzed. Validity and reliability tests were then carried out to test the quality of the research data. The validity test is carried out to measure the validity or validity of a questionnaire, while the reliability test is to measure whether a questionnaire is reliable or unreliable (Ghozali, 2011). The variable measurement is presented in the following Table 1.

**Table 1.** Variabel Measurement

Variable	Indicator	Scale
Quality of Local Government Financial Report	Relevant Reliable Comparable Understandable	Likert
Human Resource Competence	Responsibility Training Experience	Likert
Regional Financial Accounting Information System	Financial reporting accountability	Likert
Use of Information Technology	Computer and internet networks	Likert
Government Internal Control System	Control environment Risk assessment Control activities Information and communication Monitoring	Likert

Furthermore, after testing the data quality, a classical assumption (normality test, multicollinearity test, and heteroscedasticity test) is conducted before the data is being analyzed using multiple regression analysis (F test, t test and coefficient of determination test). The regression model of this study is as follows:

$$Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon \dots\dots\dots(1)$$

Note:

Y = Quality of Local Government Financial Reports

$\alpha$  = Constant

1-4 = Regression Coefficient

X1 = Human Resources Competence

X2 = Regional Financial Accounting Information System

X3 = Use of Information Technology

X4 = Government Internal Control System

$\varepsilon$  = Error

**RESULTS AND DISCUSSION**

The results of the research data quality test showed that the research data was valid and reliable with a significance value of less than 0.05 (valid) and a cronbach alpha value of more than 0.60 (reliable). Then the classical assumption test also shows that the data is normally distributed (significance value > 0.05), there is no multicollinearity (VIF value < 10 and tolerance value > 0.10) and there is also no heteroscedasticity (significance value > 0.05). The data were then analyzed using multiple regression analysis with the following regression equation:

$$Y = 7,958 - 0,045X_1 - 0,166X_2 + 0,348X_3 + 0,587X_4 + \varepsilon \dots\dots\dots(2)$$

The results of hypothesis testing can be seen in the table below:

**Table 2.** Results of Hypothesis Test

Model	t	Sig.	Hasil
(Constant)	1.171	0.250	
Human Resource Competence (X <sub>1</sub> )	-0.278	0.782	H <sub>1</sub> Rejected
Regional Financial Accounting Information System (X <sub>2</sub> )	-0.713	0.481	H <sub>2</sub> Rejected
Use of Information Technology (X <sub>3</sub> )	1.930	0.062	H <sub>3</sub> Rejected
Government Internal Control System (X <sub>4</sub> )	3.457	0.002	H <sub>4</sub> Accepted
F-Test	7.046	0.000	
Coefficient of Determination Test ( <i>Adjusted R2</i> )	0.395		

Source: Data Analyzed

Based on the data in the table above, it can be seen that the results of the F test obtained a significance value smaller than 0.05, i.e. 0.000, which means that the independent variables (human resource competence, regional financial accounting information systems, utilization of information technology and government internal control systems) have a significant effect. together or simultaneously on the dependent variable (quality of local government financial reports). So it can be said that the model used in this study is feasible to use.

The t-test results show that only the government's internal control system variable has a significant effect on the quality of local government financial reports because it has a significance value (0.002) smaller than 0.05. Therefore H4 is accepted. This shows that the government's internal control system implemented by the Manokwari Regency BPKAD has

been maximized so that it can effectively lead to quality financial statement information. This is in accordance with the WTP opinion given by the BPK on the LKDP of Manokwari Regency for the 2019 fiscal year. The results of this study are in line with the results of research from (Riandani, 2017) which also shows that there is an influence of the government's internal control system on the quality of financial reports.

Furthermore, for the variable of human resource competence (0.782), regional financial accounting information system (0.481) and the use of information technology (0.062) obtained a significance value of more than 0.05. This shows that the variables of human resource competence, regional financial information systems and the use of information technology have no partial significant effect on the quality of local government financial reports. Therefore H1, H2, and H3 are rejected.

The variable of human resource competence has no significant effect on the quality of local government financial reports, possibly because most BPKAD employees do not have an accounting education background, so they are not in accordance with the field of work they are doing. The results of this study are in line with research conducted by (Rangga, 2016) which also found that human resource competence has no effect on the quality of financial reports.

Regional financial accounting information system variables also have no significant effect on the quality of local government financial reports. This is because the application of the regional financial accounting information system at BPKAD Manokwari Regency has not been optimal. This result is contrary to research from (Yuliani *et al.*, 2010) which states that regional financial information systems have an effect on financial quality.

The variable utilization of information technology has no significant effect on the quality of regional financial reports. The function of the use of information technology should be to improve the quality of financial reports both in terms of accuracy and timeliness. However, the results obtained indicate that the use of information technology has no significant effect on the quality of regional financial reports. This is probably because employees at BPKAD Manokwari Regency have not been able to fully use and utilize information technology properly. In addition, the internet network is still an obstacle in accessing and transferring data. The results of this study are different from (Nurillah, 2014) which states that the use of information technology has a significant effect on the quality of financial reports.

Furthermore, for the coefficient of determination test, the adjusted R<sup>2</sup> value is 0.395 or 39.5%. This means that 39.5% of the variable quality of local government financial reports (variable Y) at BPKAD Manokwari Regency can be explained by the variables of human resource competence, regional financial accounting information systems, utilization of information technology and government internal control systems. While the remaining 60.5% is explained by other variables outside of this study.

## CONCLUSION AND SUGGESTION

Based on the results of the research that has been discussed previously, it can be concluded that of the four variables studied, there are three variables, namely the competence of human resources, regional financial accounting information systems and the use of information technology with a significance value of  $> 0.05$ . This shows that these three variables have no significant effect on the quality of local government financial reports. Meanwhile, the government's internal control system variable is the only variable that has a significance value of  $< 0.05$ . This means that the government's internal control system has a significant effect on the quality of local government financial reports.

Thus, the suggestion put forward in this study is that BPKAD employees of Manokwari Regency should be allocated according to the competence of each employee, especially in the field of accounting and finance functions related to the process of presenting local government financial statements. In addition, the application of regional financial accounting information

systems and the use of information technology can be carried out optimally so that they can assist in producing quality government financial reports. For the government's internal control system that has been implemented properly so that it can be maintained.

## REFERENCES

- Bastian, I. (2005). *Akuntansi Sektor Publik*. Erlangga. Jakarta.
- Bame, M., Mokodompit, M., & Wuriasih, A. (2021). Faktor-Faktor yang Mempengaruhi Kualitas Laporan Keuangan Pemerintah Daerah (Studi Kasus pada OPD Kabupaten Manokwari). *Lensa Ekonomi*, 15(02), 173-179. doi:10.30862/lensa.v15i02.162
- Donaldson, L. & Davis, J. (2019). Stewardship Theory or Agency Theory, *Australian Journal of Management*, 16, 49-64. <http://dx.doi.org/10.1177/031289629101600103>.
- Fachri, Z. & Mediaty. (2019). Analysis Using Region's Financial Accounting Information System on the Quality of Local Government Finance Reports, *Hasanuddin Economics and Business Review* 3(1), 13-19. doi: 10.26487/hebr.v%vi%i.1489.
- Firmansayah, I. & Sinambela, R. T. (2020). Pengaruh Sistem Pengendalian Internal Terhadap Kualitas Laporan Keuangan pada Badan Pengelolaan Keuangan dan Aset Daerah Provinsi Jawa Barat, *Land Journal*, 1(1), 1-11.
- Ghozali, I. (2011). *Aplikasi Analisis Multivariate dengan Program SPSS 19*. Universitas Diponegoro. Semarang.
- Hadi, H. & Darwanis, D. (2017). Pengaruh Kompetensi Sumber Daya Manusia, Pemanfaatan Teknologi Informasi, Komitmen Organisasi dan Penerapan Sistem Pengendalian Intern Pemerintah Terhadap Kualitas Penyusunan Laporan Keuangan. *Jurnal Telaah dan Riset Akuntansi*, 10(2).
- Hariandja, M. T. E. (2002). *Manajemen Sumber Daya Manusia*. Grasindo. Jakarta.
- Hidayah, K., Wismono, F. H., Kusumaningrum, M. & Amarullah, R. (2019). Peran Inspektorat Daerah Kota Samarinda Dalam Mempertahankan Opini Wajar Tanpa Pengecualian (WTP). *Jurnal Borneo Administrator*, 15(2), 221-236. <https://doi.org/https://doi.org/10.24258/jba.v15i2.538>.
- Jurnali, T. & Supomo, B. (2002). Pengaruh Faktor Kesesuaian Tugas Teknologi dan Pemanfaatan TI Terhadap Kinerja Akuntan Publik. *Jurnal Riset Akuntansi Indonesia*, 5(2).
- Kabar Timur. (2020). BPKAD: Keberhasilan Pemkab Manokwari Raih WTP Merupakan Hasil Kerja Keras Bersama. Website: <https://kabartimur.com/bpkad-keberhasilan-pemkab-manokwari-raih-wtp-merupakan-hasil-kerja-keras-bersama/>. Diakses pada tanggal 20 November 2020.
- Nurillah, A. (2014). Pengaruh Kompetensi Sumber Daya Manusia, Penerapan Sistem Akuntansi Keuangan Daerah (SAKD), Pemanfaatan Teknologi Informasi dan Sistem Pengendalian Intern Terhadap Kualitas Laporan Keuangan. Website: <http://eprints.undip.ac.id/42846/>. Diakses pada tanggal 1 Desember 2020
- Rangga, P. (2016). Pengaruh Kompetensi Sumber Daya Manusia, Pemanfaatan Sistem Informasi Akuntansi Keuangan Daerah dan Kepemimpinan Terhadap Kualitas Laporan Keuangan Pemerintah Daerah (Studi Empiris Pada SKPD Kota Payakumbuh). Website: <http://repository.unp.ac.id/17767/>. Diakses pada tanggal 1 Desember 2020.
- Riandani, R. (2017). Pengaruh Kompetensi SDM, Pemanfaatan Teknologi Informasi, dan Pengendalian Intern Terhadap Kualitas Laporan Keuangan (Studi Empiris pada SKPD Kab. Limapuluh Kota). Website: <http://ejournal.unp.ac.id/students/index.php/akt/akt/article/viewFile/2395/1904>. Diakses pada tanggal 20 November 2020
- Republik Indonesia. 2010. Peraturan Pemerintah No. 71 Tahun 2010. Standar Akuntansi Pemerintah.

- Republik Indonesia. 2008. Peraturan Pemerintah No. 60 Tahun 2008. Sistem Pengendalian Internal.
- Rohmah, L., Askandar, N. S., & Sari, A. F. K. (2020). Pengaruh Pemahaman Standar Akuntansi Pemerintah, Pemanfaatan Sistem Inforamsi Akuntansi Keuangan Derah dan Sistem Pengendalian Internal Terhadap Kualitas Laporan Keuangan Pemerintah Dearah Kota Malang, *Jurnal Ilmiah Riset Akuntansi*, 9(5), 43-51.
- Sari, F. I. & Fadli. (2017). Analisis Faktor-Faktor yneg Mempengaruhi Kualitas Laporan Keuangan Daerah, *Jurnal Akuntansi*, 7(3), 17-34.
- Sugiyono. (2015). Metode Penelitian Kombinasi (*Mix Methods*). Alfabeta. Bandung.
- Tuasikal, A. (2007). Pengaruh Pemahaman Sistem Akuntansi, Pengelolaan Keuangan Daerah Terhadap Kinerja Satuan Kerja Pemerintah Daerah (Studi Kasus Pada Kabupaten Maluku Tengah di Provinsi Maluku). *Jurnal Akuntansi dan Keuangan Sektor Publik*, 8(1).
- Wibawa, K. A.S., Sinarawati, Ni Kadek & Yuniarta, G.A. (2017). Faktor-Faktor yang Berpengaruh Terhadap Kualitas Laporan Keuangan Pemerintah Daerah Pada SKPD Kabupaten Buleleng. *E-Journal SI Ak. Universitas Pendidikan Ganesha*, 2(8).
- Yuliani, S., Nadirsyah & Bakar, U. 2010. Pengaruh Pemahaman Akuntansi, Pemanfaatan Sistem Informasi Akuntansi Keuangan Daerah dan Peran Internal Audit terhadap Kualitas Laporan Keuangan Pemerintah Daerah (Studi pada Pemerintah Kota Banda Aceh). *Jurnal Telaah & Riset Akuntansi*, 3(2).