

FACTORS THAT AFFECT THE QUALITY OF THE GOVERNMENT'S FINANCIAL STATEMENTS IN MEDAN

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Abstract: This study aims to determine and analyze the factors that affect the quality of the Medan city government's financial statements. The independent variables used in this study are the application of Government Accounting Standards, the use of Regional Financial Accounting Information System, internal audit roles and functions, HR competencies and compliance with laws and regulations. The population in this study was 64 local government work units in Medan city government using saturated sampling techniques. This research was conducted by distributing 128 questionnaires to Medan City Local government work unit. This study uses SmartPLS as a tool for testing data. The results showed that the application of Government Accounting Standards and compliance with laws and regulations had a significant negative effect on the quality of local government financial reports. HR competency has no significant positive effect on the quality of the Medan city government financial statements. While the use of Regional Financial Accounting Information System and the role and function of internal audit have a significant positive effect on the quality of the Medan municipal government financial reports.

Keywords: Quality of local government financial reports, Government Accounting Standards Implementation, Internal Audit, Regional Financial Accounting Information System, Compliance with laws and regulations.

1. INTRODUCTION

Indonesia is a developing country that manages State finances based on applicable laws. The form and contents of the financial accountability report are prepared and presented with government accounting standards established by government regulations. The law was implemented in conjunction with PP No. 71 of 2010 concerning Government Accounting Standards. An important objective of public sector accounting and administration reforms is the accountability and transparency of central and regional government financial management.

Based on the results of Audit Board's inspection in the first semester of 2018, the Audit Board conducted an examination of 542 local government financial statements in 2017. Based on the local government financial statements, the Medan City Government is one of the City Governments in North Sumatra Province who is demanded to conduct financial management properly. Opinions given to the Medan city local government financial statements from the audit results of the Audit Board (BPK) until 2017 can be seen in Table 1.

Table 1. List of Opinion Financial Statements of Medan City Government

No	Year	Audit Opinion
1	2013	Modified Unqualified Opinion
2	2014	Modified Unqualified Opinion
3	2015	Qualified Opinion
4	2016	Qualified Opinion
5	2017	Qualified Opinion
6	2018	Qualified Opinion

Based on Table 1, it can be seen that over the past four years the Medan city government has obtained a Qualified Opinion. One of the audit reports from the Audit Board at IHPS I in 2018 contained accounts that were presented not in accordance with Government Accounting Standards and were not supported by sufficient evidence including those in current assets, fixed assets, other assets, short-term liabilities, capital expenditure and operating expenses-LO. Furthermore, in the IHPS I of 2019 the same problem occurred, that there were still accounts that were presented not in accordance with Government Accounting Standards and were not supported by sufficient evidence. This is the cause of the acquisition of Qualified Opinion in Medan city government financial reports. The Qualified Opinion illustrates that the financial statements of local governments are still incompatible with the preparation based on Government Accounting Standards. Discrepancies in the quality of financial statements can occur due to improper financial governance. Financial management of Medan city government that is not carried out transparently without attaching sufficient evidence to produce a reasonable financial report, especially in the management of current assets, fixed assets, other assets, short-term liabilities, capital expenditure and operating expenses (IHPS II BPK RI, 2018) .

Government financial governance requires to follow certain principles of good management such as transparency, accountability, participation, justice and independence, so that the resources of the state government are well managed to achieve prosperity and progress of the country. The application of good governance principles in the country is inseparable from the issue of accountability and transparency in the management of state and regional finances (Cadbury, 1992). One of the most important functions of corporate governance is ensuring the quality of financial statement information (Cohen & Wright, 2004: 87).

The first factor that can affect the quality of regional financial statements is the implementation of Government Accounting Standards (GAS). Implementation of Government Accounting Standards (GAS) as a good factor in the quality of financial statement information must also be considered. Government Accounting Standards is a basic guideline in presenting regional government financial statements. Government Accounting Standards is an accounting principle that must be applied in preparing and presenting government financial reports in order to produce quality financial reports (Republic of Indonesia, 2010). In the application of Government Accounting Standards, it is necessary to have an understanding of the overall accounting standards that include how the recognition of income and expenses, assets, debt and equity in accrual-based financial reporting and

recognition of income and expenses in reporting the implementation of the budget in accordance with the State Budget / Local Budget (Yahya et al., 2018).

The second factor that can affect the quality of local government financial reports is the use of regional financial accounting information systems. PP No. 65 of 2010 which is a change in PP No. 56 of 2005 concerning the Regional Financial Information System states that the Regional Financial Information System is a system that documents, administers, and processes regional financial management data and other related data into information that is presented to the public and as material for decision making in planning, implementation and reporting of local government accountability. Utilization of financial accounting information systems can streamline the preparation of reporting and can optimize report users in decision making.

The third factor that can affect the quality of local government financial statements is the role and function of internal audit. Internal audit is an auditor who works within an entity / company whose duty is to find out whether the procedures and policies that have been prepared and established by management have been complied with, determine whether the safeguarding of the entity / organization's wealth is good or not, determine the effectiveness and efficiency of the procedure activities organization, and determine the reliability of information that has been generated by the parts of the entity / organization (Mulyadi, 2002). Indonesia Audit Board Regulation No. 1 of 2017 states that in examining reports, inspectors can use the work of the Government Internal Supervisory Apparatus, experts and or examiners outside the Audit Board to improve coordination and cooperation, and reduce the possibility of duplication of work. This is possible because in principle, both the examiner and the internal control apparatus of the government have the aim to encourage good governance. Previous research concluded that there was an influence of the role and function of internal audit on the quality of local government financial reports (Suherman. A, 2018).

The fourth factor that affects the quality of local government financial statements is the competence of human resources (HR). Improving financial governance to obtain the quality of financial statement information will not be far from the quality needs of its human resources. Competence in this case relates to the professionalism of financial managers, officers to compile and present financial information, then financial statements must be prepared by people who have competencies in the field of financial management and accounting systems (Tuasikal, 2007). Human resource competency is one of the factors that influences the quality of financial statements (Simon et al, 2016).

The fifth factor affecting the quality of local government financial reports is compliance with laws and regulations. Based on the summary of the results of the Audit Board examination in the second semester of 2018, there are still many findings obtained which are generally findings of non-compliance of local governments with laws and regulations. This has become one of the reasons for the acquisition of Qualified Opinion on the results of audits of audited financial statements by the Audit Board. Previous studies provide evidence that controls to maintain compliance with laws and regulations have a positive and significant

effect on the quality of financial statement information (Nalurita, 2015), (Manullang, 2016).

Based on the description of the phenomenon above, a study was conducted under the title “Factors Affecting the Quality of the Medan City Government Financial Statements”.

2. LITERATURE REVIEW

2.1 Decision Usefulness Theory

This study uses the theory of decision usefulness as a basis for research. Decision Use Theory includes the terms and quality of accounting information that is useful in making decisions for users of information. This theory is a reference from the preparation of the conceptual framework of Financial Accounting Standard Boards (FASB), which is the Statement of Financial Accounting Concepts (SFAC) applicable in the United States (Staubus, 2000). The ideas introduced by APB Statement 4 about the quality of useful financial information contain meaning relevant, understandable, verifiable, neutral, timely, comparable and complete. This is in accordance with the basic framework of the 1980 FASB and the theoretical features proposed by Staubus (1954). The FASB states that relevant value and reliability are the two main qualities that make accounting information useful in decision making (Staubus, 2000).

The components contained in the primary quality of the use of accounting information decisions include relevant values that are timely (timeliness), the value of feedback (feed-back value), and predictive value (predictive value), and components of the content of reliability, namely the real picture (real representational faithfulness), neutrality (neutrality), and can be checked (verifiability). In addition, there are also secondary qualities, as a link between primary quality, namely comparability and consistency (Pakarta, 2015). In SAP contained in PP No. 71 of 2010 adopted qualitative characteristics as stated in SFAC No. 2. It's just that SAP emphasizes four normative prerequisites namely: relevant, reliable, comparable, and understandable.

2.2 Quality of Financial Statements

Financial Statements are the results of an accounting process that contains financial information used by interested parties both internal and external (Mahsun, Sulistiyowati and Purwanugraha, 2011). Based on government regulation no. 8 of 2006 concerning financial reporting and the performance of government agencies, financial statements are a form of accountability for the management of state / regional finances for a period.

The purpose of financial statements can be fulfilled with the characteristics of the quality of financial statements in accordance with PP No. 71 of 2010. Characteristics of the quality of financial statements which are normative prerequisites in the preparation of local government financial reports as follows:

a. Relevant

Financial statements are said to be relevant if they contain information that can influence user decisions and help evaluate current or past events and can predict future events and can correct the results of evaluations in the

past. Thus the financial statement information can be connected with the intention of users of information.

b. Reliable

Financial statements are presented with information that is free from misleading notions and material errors, presented truthfully based on facts, and can be verified. The information presented may be relevant, but if the nature or presentation cannot be relied on then information users can potentially be misleading.

c. Can be compared

The information presented in the financial statements can be compared with the previous period's financial statements so that they can be more useful. Comparisons can be made internally or externally. Internal comparisons can be made if an entity applies the same accounting policy from year to year. Externally comparisons can be made if the entity being compared applies the same accounting policy. If a government entity adopts an accounting policy that is better than the current accounting, the changes are disclosed in the period in which the changes occur.

d. Can be understood

The information presented is easy to understand so that it can be useful for its users.

Users are assumed to have adequate quality and will to learn the information referred to in the report.

2.3 Government Accounting Standards (GAS) Implementation

Accounting standards are guidelines or principles governing accounting treatment in the preparation of financial statements for the purpose of reporting to users of the report. In Indonesia in 2010, Accrual-based Government Accounting Standards (GAS) were completely compiled by the Government Accounting Standards Committee and stipulated as Government Regulation in PP Number 71 Year 2010. Since the issuance of PP Number 71 Year 2010 concerning Government Accounting Standards, the accounting basis used is to use accrual basis.

Based on PP No. 71 of 2010 concerning Government Accounting Standards (GAS), the government applies the Accrual-based GAS stated in the PSAP form listed in annex I PP No. 71 of 2010. Appendix I referred to is Accrual Based GAS consisting of Conceptual Framework and PSAP Numbers 01 through PSAP Number 12.

Implementation of these regulations, the Central and Regional Government Financial Statements are gradually encouraged to apply accrual-based accounting. In 2015, all regional financial statements have adopted Accrual-based Government Accounting Standards. Based on several previous studies examining the effect of applying Government Accounting Standards (GAS) on the quality of GAS' local government financial reports, it has a positive influence on the quality of financial statements (Roni et al., 2015), (Evicahyani & Setiawina, 2016), (Karsana & Suaryana, 2017), (Manullang, 2016).

2.4 Utilization of Regional Financial Accounting Information Systems

The current financial accounting information system is needed by the government as a public sector organization so that the government runs more effectively, efficiently, cleanly and transparently. The use of financial information systems can also assist in controlling decisions. Utilization of regional financial accounting information systems in regional financial management utilizing information technology programs that support regional financial accounting information systems.

With the advancement of information technology that is developing so rapidly and the potential for its wide use, management and access to regional finances can be done more quickly and accurately. Based on previous research by (Evicahyani & Setiawina, 2016) the utilization of the regional financial information system has a positive effect on the quality of the financial statements of the Tabanan district government. Furthermore, (Surastiani & Handayani, 2015) (Yuliani et al., 2010), (Manullang, 2016) states that the use of information technology has a positive influence on the quality of financial statements.

2.5 Role and Function of Internal Audit

Based on Law Number 15 of 2004, that the examination of the management of state financial responsibility cannot be done solely in a short time, the Audit Board as a financial audit body utilizes the results of examinations by the government internal control apparatus to assist in making it easier to carry out regional government financial audits. This shows that the role and function of the internal audit is an important element in an adequate organizational control system.

Based on previous research (Yuliani et al., 2010) the role of internal audit has a positive effect on the quality of financial statements of the regional government in the city of Banda Aceh. Furthermore research (Inapty & Martiningsih, 2016), (Manullang, 2016), (Karsana & Suaryana, 2017), (Suherman, A., 2018) states that the role of internal audit has an influence on the quality of financial statements in local governments.

3 Human Resource Competencies

The ability of a person or individual in an organization (institutional) or system to carry out its functions or authorities to achieve goals effectively and efficiently is referred to as the performance of human resources (Winidyaningrum, 2010). Human resource capacity can be seen from its ability to produce the required outputs and outcomes. Human resources is very important, so it must be ensured that the management of human resources as well as possible in order to provide an optimal contribution in achieving organizational goals (Sukmaningrum, 2012).

Based on previous research (Evicahyani & Setiawina, 2016) states that HR competence has a positive and significant effect on the quality of Tabanan Regency local government financial statements. This indicates that HR competencies to improve the quality of local government financial statements have a high level. Competent HR will be able to understand accounting logic well.

2.5 Compliance with statutory regulations

Examination of financial statements based on the State Financial Examination Standards (SPKN) stipulated in Audit Board Regulation Number 1 of 2007. Inspection Report based on SPKN must disclose that testing of compliance with statutory provisions that directly and materially affect the provisions of the regulations legislation that has direct and material effect on the presentation of financial statements has been carried out by the examiner. As the executor of auditing financial statements, the auditor must prepare an audit report stating whether the financial statements presented are in accordance with generally accepted accounting principles in Indonesia or generally accepted accounting principles comprehensively (GAS statement number 03).

Based on previous research conducted by (Nalurita, 2015) states that non-compliance with laws and regulations affects the credibility of financial statements, the more the number of findings of non-compliance with legislation, the possibility of obtaining good opinions will be lower, thus affecting the credibility of financial statements local government because the contents of the financial statements cannot be trusted if they deviate significantly from the legislation.

2.6 Conceptual Framework

The conceptual framework will connect theoretically between research variables, namely between the independent variable and the dependent variable. In brief, the conceptual framework explains the application of SAP, the use of SIAKD, the role and function of internal audit, HR competence and compliance with laws and regulations affecting the quality of the Medan city government financial reports as shown in Figure 1.

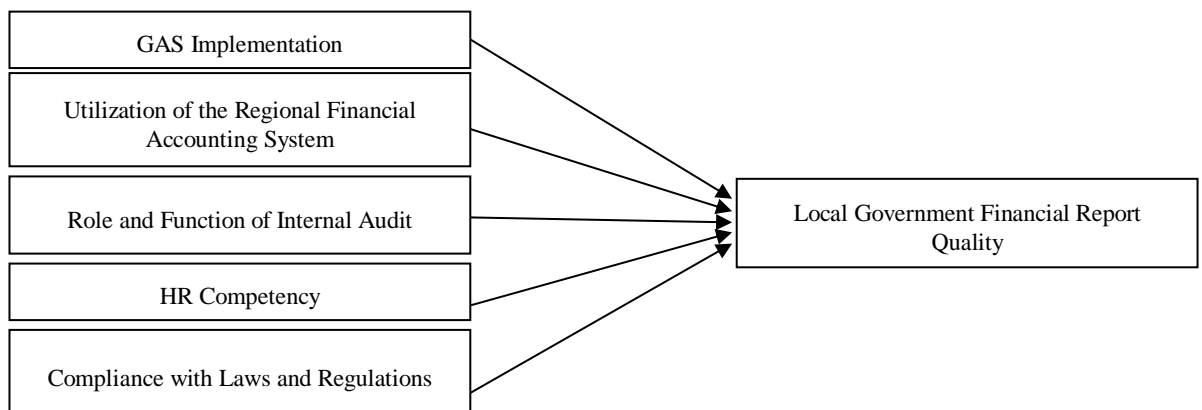


Figure 1. Conceptual Framework

2.7 Hypotheses

Based on the conceptual framework, the hypotheses of this study are as follows:

H1: Implementation of GAS has a positive effect on the quality of financial statements of the Medan city government

H2: The utilization of the regional financial accounting system has a positive effect on the quality of financial statements of the Medan city government

- H3: The role and function of internal audit has a positive effect on the quality of financial statements of the Medan city government
- H4: Competency of human resources has a positive effect on the quality of financial statements of the Medan city government
- H5: Compliance with laws and regulations has a positive effect on the quality of the financial statements of the Medan city government.

3. RESEARCH METHOD

This research uses associative research that aims to test hypotheses and is a research that explains phenomena in the form of relationships between variables with other variables (Erlina, 2011). This research is a quantitative study to test hypotheses in the form of influences between variables. In this research, the effects studied include the implementation of GAS, the utilization of regional financial accounting information systems, the role and function of internal audits, human resource competencies, compliance with laws and regulations and the quality of financial statements as the dependent variable.

In this study the population used was 64 local government work units in the city of Medan with a total of 8 Board / Inspectorate, 11 sections of the Regional Secretariat, 24 Departments and 21 Districts. The sample in this study used a saturated sample, where all members of the population were sampled. Every local government work unit will be given 2 questionnaires to Financial Administration Officer, namely officials who perform financial administration functions at local government work units / treasurer of expenditure.

4. RESULTS AND DISCUSSION

The results of validity testing based on the Average Variance Extracted (AVE) value and reliability testing based on the Cronbach's Alpha (CA) value and the Composite reliability (CR) value indicate that the overall research variable scores above 0.7 so that in this case the question indicators for each variable are stated valid and reliable.

Based on the value of the path coefficient and the value of P-Values for testing the significance of the independent variables GAS Implementation, HR Competency, utilization of Regional Financial Accounting Information Systems, Role and function of internal audit, compliance with laws and regulations on the dependent variable quality of local government financial statement.

The results of testing the coefficient of determination is that the adjusted R square value of the quality of local government financial statements is 0.863. This means that the GAS implementation variables, the use of Regional Financial Accounting Information Systems, internal audit roles and functions, HR competencies and compliance with laws and regulations can affect the quality of regional government financial reports by 86.3% while another 13.7% is influenced by other factors.

Based on the results of hypothesis testing, it can be concluded that the SAP implementation variables, the utilization of Regional Financial Accounting Information Systems, internal audit roles and functions, HR competencies, and

compliance with laws and regulations can simultaneously affect the quality of local government financial statements.

Partially, the implementation of GAS variables and compliance with laws and regulations have a significant negative effect on the quality of local government financial reports, HR competency variables have a significant positive effect on the quality of local government financial reports, and the utilization of Regional Financial Accounting Information Systems, Internal audit's role and function have a significant positive effect on quality of local government financial statements.

The Implementation of Government Accounting Standards has a Negative Effect on the Quality of Local Government Financial Statements

Test results in this study indicate that the application of GAS has a significant negative effect on the quality of the Medan city government financial statements. This can occur because of the lack of optimal implementation of PP 71 of 2010 on SAP and the lack of a good organizational structure in each local government work units of Medan city government. Based on IHPS I Indonesia Audit Board in 2018-2019 Medan city government report shows that there are still accounts that are presented not in accordance with GAS and there is not enough evidence in reporting. Asset accounts, short-term liabilities, operating expenses, capital expenditures and other accounts are accounts that each year have problems with the adequacy of reporting evidence and presentation discrepancies based on GAS.

The preparation of accrual-based financial statements that must be adjusted to PP No. 71 of 2010 concerning SAP is still not understood by local government work unit officials who served in the Medan city government. Though understanding of the records that are carried out in accordance with government accounting standards is needed to obtain quality financial reports. Recognition of income and expenses, assets, debt and equity are things that must be understood in accrual-based financial reporting in accordance with applicable GAS (Yahya et al., 2018). Another thing that is a factor causing the ineffectiveness of the implementation of accrual-based GAS in the Medan city environment because the application of the newly implemented GAS simultaneously in 2015 makes the regional apparatus need more time to adjust the rules used in making good financial statements in accordance with GAS.

This research is in line with research conducted by (Gamayuni, 2018) which states that the application of accrual-based government accounting standards cannot affect the quality of local government financial reports (relevant, reliable, comparable, and understandable) because accrual-based GAS has just been implemented with mandatory in 2015, so many officials have not yet understood this accrual-based GAS application. But contrary to research conducted by (Roni, Husnan & Fitriah, 2015), (Evicahyani & Setiawina, 2016), (Inapty & Martiningsih, 2016), (Karsana & Suaryana, 2017).

Utilization of Regional Financial Accounting Information Systems has a Positive Effect on the Quality of Local Government Financial Statements

Utilization of information systems in regional financial management is carried out by utilizing information technology programs to support the existing regional financial information systems. The information system is used to document, administer and process regional financial management data or other related data. Utilization of information systems will be useful information for the community that will be used as a basis for decision making in the framework of planning, implementing, and reporting the accountability of local governments (Evicahyani & Setiawina, 2016).

The results showed that the utilization of Regional Financial Accounting Information Systems had a significant positive effect on the quality of government financial statements. This shows that the utilization of Regional Financial Accounting Information Systems as well as the use of computers and networks, the process of inputting and processing data helps in preparing the report. the utilization of Regional Financial Accounting Information Systems in local government work units in Medan city makes it easy for the apparatus / officials so that they can carry out reporting. The results of this study are in line with research conducted by (Evicahyani & Setiawina, 2016), (Muda et al., 2017), (Roni Husnan & Fitriah, 2015), (Harlinda, 2016), (Sagara, 2015), which states the utilization local government financial information systems or the use of information technology affect the quality of local government financial reports.

The Role and Function of Internal Audit Has a Positive Effect on the Quality of Regional Government Financial Statements

Internal auditors are one of the professions that support the realization of GCG, which at present has developed into a major component in improving agencies effectively and efficiently. With the better process of monitoring or review activities carried out by the role of internal auditors to government agencies will certainly improve the quality of information on local government financial statements (Inapty & Martiningsih, 2016).

The results of this study indicate that the role and function of internal audit has a significant positive effect on the quality of local government financial reports. This can be interpreted that the better the involvement of the internal audit of supervision over the preparation of financial statements will improve the quality of financial statements. An effective internal audit function consisting of planning, communication and approval, resource management, policies and procedures, coordination, reporting to leaders, program development and quality control, and follow-up on public complaints affect the fairness of the financial statements presented (Gamayuni, 2018). The results of this study are in line with research conducted by (Gamayuni, 2018) which states that the role and function of internal audit has a significant effect on the quality of local government financial reports and is also supported by research (Afiah & Azwari, 2016), (Suherman, 2018), (Tambingon et al., 2018), (Indriasih, 2014).

HR Competency has a Positive Effect on the Quality of Local Government Financial Statements

The competence of the local government apparatus means the ability that must be possessed by a person in the form of knowledge, skills, attitudes and behaviors needed in carrying out their duties. The ability of competent human resources towards financial management will certainly improve the quality of local government work units' financial statements (Inapty & Martiningsih, 2016).

The results showed that HR competency had a significant positive effect on the quality of local government financial reports. This means that the better the competency of human resources, the better the quality of local government financial reports. The results of this study are in line with research conducted by (Simon et al., 2016), (Evicahyani & Setiawina, 2016), (Surastiani & Handayani, 2015), (Indriasih 2014), (Muda et al., 2017), (Anggreni, Windanaputra & Putri 2018), (Harlinda 2016), (Kiranayani & Erawati, 2016), (Karsana & Suaryana, 2017), (Sagara, 2015), (Sukiati & Pertami, 2017) which states that HR competencies affect the quality of reports regional government finance. While research conducted by (Roni, Husnan & Fitriah, 2015) states that HR competencies do not affect the quality of financial statements.

Compliance with Legislation and Negative Effects on the Quality of Regional Government Financial Statements

Legislation is a written regulation that is formed by a state agency or official and is generally binding (Act No. 10 of 2004). Based on this definition, compliance with statutory regulations is a compliant and obedient nature to written regulations established by state institutions or authorized and generally binding officials. Findings in Audit Board reports that result in regional losses include cases of goods and services spending that are not in accordance with regulatory requirements, cases of double duty travel costs and so on (BPK, 2018).

The results showed that compliance with statutory regulations did not have a significant negative effect on the quality of financial statements. This happens because there is an indication that the organizational structure of the Medan city is not good enough. The criteria for granting opinion in which the results of Audit Board's examination revealed non-compliance with statutory provisions occurred in the condition of regional losses and potential regional losses, lack of regional revenue and administrative irregularities (BPK, 2018). This research is in line with (Fatimah et al., 2014) which states that the more findings of compliance with laws and regulations will negatively affect the acceptance of the Unqualified Opinion.

5. CONCLUSIONS AND SUGGESTIONS

Based on data analysis and discussions that have been done partially the SAP implementation variables and compliance with laws and regulations have a significant negative effect on the quality of the Medan City Government's financial statements. Furthermore, partially the utilization of of Regional Financial Accounting Information Systems variables and the role and function of internal audit have a significant positive effect on the quality of the Medan City Government's financial statements. While the HR competency partially positive

effect is not significant to the quality of the Medan City Government's financial statements.

Based on the data analysis and discussion that has been done, the researcher's suggestion for the Medan city government is expected that the results of this study can provide an illustration to consider factors that need to be improved such as adjustments to the application of the applicable GAS in order to fully comply with applicable regulations, conduct stricter supervision for each human resource that carries out the implementation and reporting of the budget in each program that is carried out in accordance with applicable laws and regulations in order to improve the quality of the financial statements of the Medan city government. Furthermore, for further research, it is expected that the observation technique will not only use a questionnaire but also add techniques such as interviews and observations, this will provide a better answer about the circumstances in each local government work unit and look for other variables because in this study only obtained results of 86.3 % so there are still other factors that have an influence on the quality of financial statements.

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