

Impact of the Quality of Financial Statements on the Performance Accountability of Local Governments

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ABSTRACT : This research was conducted based on the phenomenon that local government financial reports have quality, namely obtaining an Unqualified Opinion (WTP) given by the Supreme Audit Agency (BPK), but the facts on the ground show that the accounts presented are not in accordance with the Accrual-Based Government Accounting Standards (SAP) in the 2018 local government financial report (LKPD) according to the Supreme Audit Agency (BPK). This study aims to examine the effect of the implementation of accrual based government accounting standards, the implementation of internal control systems, and regional financial accounting systems on the quality of financial reports and their impact on performance accountability. Researchers conducted a survey of 35 Regional Work Units (SKPD) in the DKI Jakarta Provincial Government as research samples. This study uses primary data with a questionnaire instrument and analyzed by SEM PLS (Structural Equation Model - Partial Least Square). The results showed that the implementation of accrual based government accounting standards, and the implementation internal control system has a positive and significant impact on the quality of financial statements on the performance accountability of the regions, but the regional financial accounting system has no effect on the quality of financial statements.

KEYWORDS : Accrual Based Government Accounting Standards, Internal Control Systems, Regional Financial Accounting Systems, Quality of Financial Statements, Performance Accountability.

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I. INTRODUCTION

Based on the book Summary of Semester Examination Results (IHPS) I of 2019 the opinion of the Supreme Audit Agency (BPK) on the Financial Statements of 542 LKPD 2018. BPK gave 443 WTP opinions (82%), 86 WDP opinions (16%) and 13 TMP opinions (2 %). The phenomenon regarding local government financial reporting in Indonesia BPK gives 443 WTP opinions (82%) is an interesting thing to study further, because the facts on the ground show that the accounts presented are not in accordance with the Government Accounting Standards (SAP) on the 2018 LKPD according to the Examining Body Finance (BPK) [1] namely current assets account 19%, fixed asset account 31%, other asset account 9%, income account 3%, operating expenditure account 14%, capital expenditure account 14% and other accounts 10%.

The Supreme Audit Agency (BPK) provides an Unqualified Opinion on the Financial Statements of the DKI Jakarta Provincial Government, but BPK still discloses a number of findings to the DKI Jakarta Provincial Government, namely the two aspects that became the source of the findings, namely the problem of weaknesses in the internal control system and the problem of compliance with statutory provisions. For the internal control aspect, the DKI Jakarta Provincial Government is still considered necessary to carry out an asset inventory with a fixed asset information system. Then there are still social facility assets and facilities in the form of land that are still managed by the developer and have not been handed over to the DKI Jakarta Provincial Government [2].

RI Government Regulation No. 71 of 2010 article 1 paragraph (8) [3] states that the accrual-based Government Accounting Standard (SAP) is a government standard that recognizes income, expenses, debt and equity in accrual-based financial reporting and recognizes expenditure and financing income in reporting the implementation of the budget set out in the APBN/APBD. Previous research Setiyawati et al., 2018 [4] states that the application of accrual-based government accounting standards can improve the quality of financial reporting. The results of research that are different from those carried out by Gamayuni 2018 [5] proves that there is no significant effect of the application of government accounting standards on the quality of financial reporting due to weaknesses in the application of accrual-based government accounting standards related to the

presentation of components of financial statements, recognition and measurement, corrections and consolidated financial statements. Local governments need to overcome deficiencies in order to improve the quality of local government financial reporting, so this still needs to be developed.

Internal Control is a process that is influenced by the board of management, management and other personnel of an entity, designed to provide satisfaction for objectives related to operations, reporting, and compliance with applicable regulations [6]. Donelson et.al, 2015 [7] shows that companies with weak controls can provide managers with a greater opportunity to increase the risk of fraudulent financial reporting. The objectives of the internal control system can be achieved by identifying management characteristics that emphasize the quality and integrity of reporting. Research by Kasim 2015 [8] and supported by research conducted by research Kewo & Afiah 2017 [9] which states that the implementation of the internal control system has a positive effect on the quality of financial statements.

Theory Donaldson dan Davis [10] *stewardship describes the role of local governments as parties who are trusted or mandated to carry out their functions and duties*, one of them is in carrying out the regional financial accounting system. Synthia 2017 [11] from the results of hypothesis testing, it was found that the application of the regional financial accounting system has a positive and significant effect on the quality of financial statements. Unlike the research conducted by Rahmah & Zulkifli 2018 [12] the results of his research stated that the variable of the application of regional financial accounting systems had no significant effect on the quality of regional government financial statements.

Presidential Regulation No. 29 of 2014 concerning the Performance Accountability System for Government Agencies states it is an obligation of a government agency to account for the success/failure of implementing programs and activities that have been mandated by stakeholders in order to achieve the organization's mission in a measurable manner with performance goals/targets that have been set through agency performance statements. government which is compiled periodically [13]. Agung, 2020 [14] shows that improving the system of control and supervision of agencies (Regional Inspectorates) must be more effective in their development activities, including routine control and monitoring of regional governments can improve the quality of Regional Government Financial Statements. Susilawati & Sudarno 2014 [15] states that the quality of government financial reports has a significant effect on performance accountability.

The purpose of this research is to test and analyze: (1) The Effect of the Implementation Accrual Based Government Accounting System on the Quality of Financial Statements, (2) The Effect of the Implementation of the Internal Control System on the Quality of Financial Statements, (3) The Effect of Regional Financial Accounting Systems on the Quality of Financial Statements, (4) The Effect Of The Quality Of Financial Statements On the Performance Accountability.

II. RESEARCH METHODS

In this study using a quantitative approach with the type of research used is causality research. The population in this study is the Regional Apparatus Work Unit (SKPD) located in the DKI Jakarta Provincial Government, totaling 724 SKPD combined into 43 merging accounting entities using purposive sampling technique by determining criteria. The criteria used as research samples are the SKPD accounting entities that combine the 2018 Sub-department and Technical Service Units which have been checked by the BPK RI Representatives of the DKI Jakarta Provincial Government, so the number of samples is 35 SKPD. Respondents in this study were the Head of Section and Finance/Accounting Staff. This study uses primary data with a questionnaire instrument and measurement technique using a Likert scale which is analyzed by descriptive statistics using SEM PLS (Structural Equation Model - Partial Least Square) with Test of Validity and Reliability (outer model), Evaluation of Goodness of Fit of Structural Models (Inner Model) and Hypothesis Test.

III. RESULTS AND DISCUSSION

Descriptive Statistical Analysis

Table 1. presents a description of the average variable application of accrual-based government accounting standards measured by 7 reflective dimensions, the implementation of internal control systems is measured by 5 reflective dimensions, regional financial accounting systems are measured by 4 reflective dimensions, the quality of financial statements is measured by 4 reflective dimensions and performance accountability as measured by 1 reflective dimension.

Table 1. Description Of The Application Of Accrual-Based Government Accounting Standards, Implementation Of Internal Control Systems, Regional Financial Accounting Systems On The Quality Of Financial Statements And Their Impact On Performance Accountability

No	Variables	Average	Standard Deviation
1	Implementation of accrual based government accounting standards	4.44	0.71
2	Implementation of internal control system	4.39	0.63
3	Regional financial accounting system	4.44	0.82
4	Quality of financial statements	4.56	0.80
5	Performance accountability	4.51	0.80

Source: Processed Primary Data

The average value of the accrual based government accounting standard application variable is 4.44 with a very high category, the average value of the research variable on the application of the internal control system is 4.39 with a very high category, that the average value of research on the regional financial accounting system variable is 4.44 with the category very high, the average value of research on the quality of financial statements variable is 4.56 with very high category, the average value of research on performance accountability variable is 4.51 with high category.

Test of Validity and Reliability (outer model)

The following figure 1. is the result of the output construct variable outer loading on the Implementation of Accrual Based Government Accounting Standards, Implementation of Internal Control Systems, Regional Financial Accounting Systems on the quality of financial statements and performance accountability.

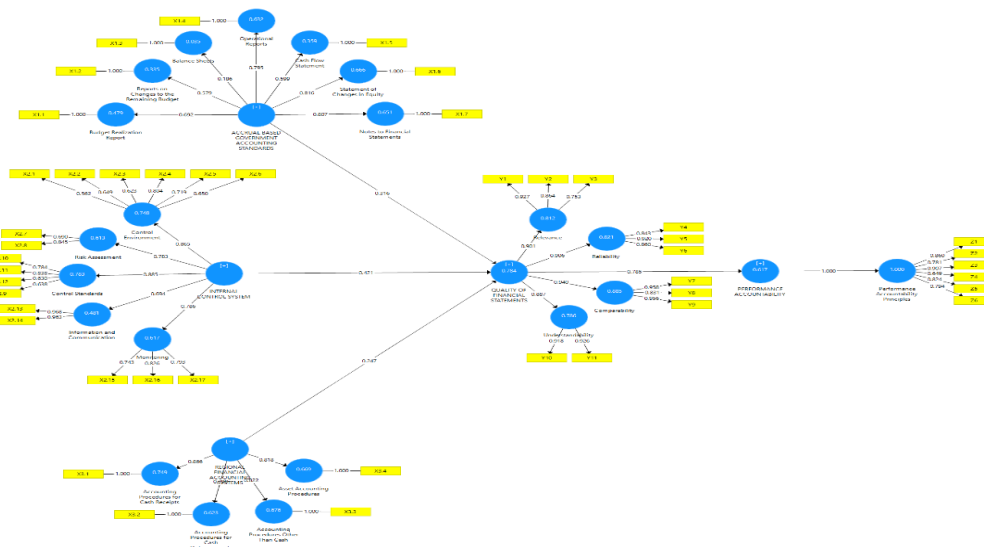


Figure 1. Inner Model Output

The results of factor loading construct second order Implementation of Accrual Based Government Accounting Standards, Implementation of Internal Control Systems, Regional Financial Accounting Systems on the Quality of Financial Statements and their impact on Performance Accountability on Smart PLS have met convergent validity, namely the indicator value above 0.5. All loading factors on the second and first orders are significant at the 5% level, so the indicator is valid.

Table 2. Convergent Validity Test Results

Variables	Dimension	Indicator	Loading Factor	Description
Accrual Based Government Accounting Standards	Budget Realization Report (Lra)	X.1.1	0.692	Valid
	Reports On Changes To The Remaining Budget (LSAL)	X.1.2	0.579	Valid
	Operational Report (LO)	X.1.4	0.795	Valid
	Cash Flow Statement	X.1.5	0.599	Valid
	Statement Of Changes In Equity	X.1.6	0.816	Valid
	Notes To Financial Statements	X.1.7	0.807	Valid

Internal Control System	Control Environment	X.2.1	0.549	Valid
		X.2.2	0.563	Valid
		X.2.4	0.734	Valid
		X.2.5	0.530	Valid
		X.2.6	0.625	Valid
	Risk Assessment	X.2.8	0.687	Valid
	Control Activities	X.2.9	0.562	Valid
		X.2.10	0.700	Valid
		X.2.11	0.649	Valid
		X.2.12	0.646	Valid
	Information And Communication	X.2.13	0.692	Valid
		X.2.14	0.645	Valid
	Monitoring	X.2.16	0.668	Valid
X.2.17		0.684	Valid	
X.2.17		0.684	Valid	
Regional Financial Accounting System	Accounting Procedures for Cash Receipts	X.3.1	0.866	Valid
	Accounting Procedures for Cash Disbursements	X.3.2	0.790	Valid
	Accounting Procedures Other Than Cash	X.3.3	0.822	Valid
	Asset Accounting Procedures	X.3.4	0.818	Valid
Quality Of Financial Statements	Relevance	Y.1	0.890	Valid
		Y.2	0.775	Valid
		Y.3	0.601	Valid
	Reliability	Y.4	0.754	Valid
		Y.5	0.855	Valid
		Y.6	0.765	Valid
		Y.7	0.896	Valid
	Comparability	Y.8	0.754	Valid
		Y.9	0.927	Valid
		Y.10	0.796	Valid
		Y.11	0.836	Valid
Understandability	Y.10	0.796	Valid	
	Y.11	0.836	Valid	
Performance Accountability	Performance Accountability Principles	Z.1	0.862	Valid
		Z.2	0.786	Valid
		Z.3	0.907	Valid
		Z.4	0.635	Valid
		Z.5	0.820	Valid
		Z.6	0.801	Valid

Source: Results of smart PLS data processing. 2020

Based on table , the results of the variable reliability of the implementation of accrual based government accounting standards, implementation of internal control systems, and regional financial accounting systems have composite reliability above 0.6. The indicators in each variable have good reliability or are able to measure the construct.

Table 3. Reliability Test Results

Variable	Cronbach's Alpha	Composite Reliability	AVE	Description
Accrual Based Government Accounting System (X1)	0.811	0.865	0.522	Reliabel
Internal Control System (X2)	0.893	0.909	0.404	Reliabel
Regional Financial Accounting System (X3)	0.842	0.894	0.679	Reliabel
Quality Of Financial Statement (Y)	0.946	0.954	0.655	Reliabel
Performance Accountability (Z)	0.890	0.917	0.650	Reliabel

Sumber: Hasil pengolahan data Smart PLS, 2020

Evaluation of Goodness of Fit of Structural Models (Inner Model)

Table 3. Results of R-Square

Variable	R-Square
Quality Of Financial Statement	0.789
Predictive-Relevance (Q ²)	0.211

Based on the coefficient of determination in table 3, the value of the tendency variable for the quality of financial statements is 0.789, which means that this value indicates that the Implementation of Accrual Based Government Accounting Standards, Implementation of Internal Control Systems, Regional Financial Accounting Systems is 78.9% while the remaining 21.1% is influenced by other variables not included in the research model.

Hypothesis test

The following is the output of the inner model of the Smart PLS software Version 3.2.8. The following is an image explaining the path diagram for testing the hypothesis:

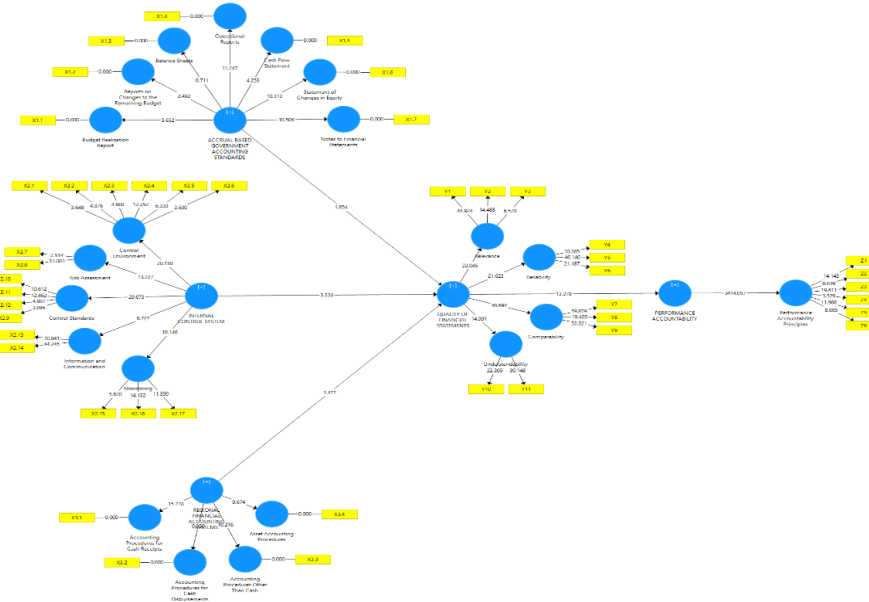


Figure 2. Output Inner Model

Based on the test results above, it shows that the T-statistic value of each variable is greater than the T table. This means that the dimensions of each variable are able to measure each construct. To find out the significance of each variable by looking at the parameter coefficient values and statistical significance values can be seen in table 4 as follows:

Table 4. Hypothesis Testing Results

Inter Variable Relationships	Parameter coefficient	T Statistic (IO/STDEVI)	P Values	Description
Implementation of accrual based government accounting standards → Quality Of Financial Statement	0.307	1.854	0.066	Significant effect
Implementation of internal control system → Quality Of Financial Statement	0.431	3.289	0.001	Significant effect
Regional Financial Accounting System → Quality Of Financial Statement	0.243	1.477	0.094	Not significant effect
Quality Of Financial Statement → Performance Accountability	0.785	13.278	0.000	Significant effect

Description: * Significant at 5% level

Source: Smart PLS data processing results, 2020

The implementation of accrual-based government accounting standards to the quality of financial statements is 0.307 with a t-statistic value of 1.854 < 1.689 with a significance level of = 0.05 (5%) then the t-statistical value is greater than t-table. This means that the implementation of accrual based government accounting standards has a significant and positive effect on the quality of financial statements. The implementation of the internal control system on the quality of financial reports is 0.431 with a t-statistical value of 3.289 < 1.689 with a significance level of = 0.05 (5%), then the t-statistical value is greater than t-table. This means that the implementation of the Internal Control System has a significant and positive effect on the Quality of Financial Statements. The regional financial accounting system on the quality of financial reports is 0.243 with a t-statistical value of 1.477 < 1.689 with a significance level of = 0.05 (5%) then the t-statistical value is smaller than t-table. This means that the Regional Financial Accounting System does not affect the Quality of

Financial Statements. The quality of financial statements that have an impact on performance accountability is 0.785 with a t-statistic value of $13,278 < 1.689$ with a significance level of $= 0.05$ (5%) then the t-statistical value is greater than t-table. This means that the quality of financial statements has a significant and positive effect on the quality of financial statements.

IV. DISCUSSION

The implementation of accrual based government accounting standards has a significant and positive effect on the quality of financial statements. This means that the higher the implementation of accrual based government accounting standards of an agency, the better the quality of financial statements. Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, the implementation of the accrual based accounting system of the DKI Jakarta Provincial Government has implemented it since 2014. The results of the descriptive statistical test show that respondents gave large answers to the variable of applying accrual-based government accounting standards, which means that the DKI Jakarta Provincial government has implemented accrual based government accounting standards optimally in preparing financial statements. Based on the 2018 IHPS I BPK RI, that there were no BPK findings related to weaknesses in the application of government accounting standards in the DKI Jakarta Province financial statements so that BPK gave an Unqualified Opinion from 2017–2019. The results of this study are in line with Setiyawati et al., 2018 [4], Muraina & Dandago, 2020 [16], Zulvia et al., 2020 [17] which states that the implementation of accrual based government accounting standards has a positive and significant effect on the quality of financial reports. Different results obtained from research Gamayuni, 2018 [5] which states that the implementation of government accounting standards has no positive and significant effect on the quality of financial statements because of weaknesses in the application of accrual based government accounting standards related to the presentation of components of financial statements, recognition and measurement, corrections and reports consolidated finance. Local governments need to overcome deficiencies in order to improve the quality of local government financial reporting, so this still needs to be developed.

The implementation of the Internal Control System has a significant and positive effect on the Quality of Financial Statements. This means that the higher the implementation of an agency's internal control system, the better the quality of financial statements. The results of the descriptive statistical test show that the respondents gave large answers to the variables of the application of the internal control system, which means that the DKI Jakarta Provincial government has implemented an optimal internal control system in preparing financial statements. This is evidenced that the DKI Jakarta Provincial Government has increased the maturity rating of the Government Internal Control System (SPIP) from the previous 2018 only getting level 2 in 2018 to level 3 from a scale of 1-3 or entered the good category in 2019. The results of this study are in line with research Kewo & Afiah, 2017 [9], Kasim, 2015 [8] dan Dewi & Hoesada, 2020 [18] which states that the implementation of the internal control system has a positive and significant effect on the quality of financial statements.

The Regional Financial Accounting System does not affect the Quality of Financial Statements. This means that the implementation of the Regional Financial Accounting System in this research institution has not been able to improve the quality of financial statements that are getting better. The results of the descriptive statistical test show that the respondents gave large answers to the regional financial accounting system variables, which means that the DKI Jakarta provincial government has implemented the regional financial accounting system optimally in preparing financial statements. This is contrary to the results of research which says that the regional financial accounting system has no effect on the quality of financial reports, this shows that although the preparation of financial statements is good, it is not a benchmark for determining the good or bad quality of financial reports, however, based on the answers to the questionnaire, there are still records that are not chronologically carried out, this can also affect the quality of financial statements because if all the components are done well then it can improve the quality of financial statements. Based on the description above, The implementation of the regional financial accounting system in the DKI Jakarta Province is not in line with the implications of the stewardship theory in this study which explains the role of local governments as parties who are entrusted with or mandated to carry out their functions and duties, for example measurement of fixed assets, still not able to identify costs that can be capitalized in fixed assets. The results of this study are in line with research Rahmah & Zulkifli, 2018 [12] and Nasution et al., 2020 [19] which states that the implementation of the regional financial accounting system has no significant effect on the quality of financial statements. Different results are obtained from research results Thenikusuma & Muis, 2019 [20] and Synthia, 2017 [11] which states that the implementation of the regional financial accounting system has a positive and significant effect on the quality of financial statements.

The quality of financial statements has a significant and positive effect on Performance Accountability. So it means that the higher the application of the quality of an agency's financial statements, the better the impact on Performance Accountability. Based on the 2019 BPK RI IHPS I, from 2016–2019 BPK gave an Unqualified

Opinion on the DKI Jakarta Provincial Government LKPD. This shows that the financial statements of the DKI Jakarta Provincial Government are very good or of high quality. The results of the descriptive statistical test show that the respondents gave great answers to the variable quality of financial statements, which means that the DKI Jakarta Provincial government has implemented the quality of financial statements optimally, the better the impact on improving performance accountability. The results of this study are in line with research Susilawati & Sudarno, 2014 [15], Idward et al., 2018 [21] and Dashtbayaz et al., 2019 [22] which states that the quality of government financial statements has a positive and significant effect on performance accountability.

V. CONCLUSION

The implementation of accrual-based government accounting standards has a significant and positive effect on the quality of financial statements. The implementation of the internal control system has a significant and positive effect on the quality of financial statements. The application of the regional financial accounting system does not affect the quality of financial statements. The quality of financial statements has a significant and positive effect on performance accountability. DKI Jakarta Provincial Government is expected to implement accrual based government accounting standards, internal control system, regional financial accounting system, even better so that the quality of financial statements continues to improve. This means that the better the quality of the financial statements, the better the performance accountability.

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