

Factors Affecting the Quality of Regional Financial Statements in RAO (Regional Apparatus Organization) of Deli Serdang Regency with the Governmental Internal Control System as a Moderating Variable

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ABSTRACT

The aim of this study was to test and analyze the effect of Accrual-based Government Accounting Standard, competency of Human Resources, Asset Administration, and role of Internal Audit on the quality of Regional Financial Statement in RAO (Regional Apparatus Organization) of Deli Serdang Regency with Government Internal Control System as a moderating variable. The study used associative causative method and primary data. The population was 112 RAO officials and Expenditure Treasurers of RAO at 56 RAOs of Deli Serdang Regency. Hypothesis was tested by using multiple linear regression analysis with coefficient determination, F-test and t-test, and interaction test at moderating variable. The result of the research showed that the variables of Accrual-based Government Accounting Standard, Competency of Human Resources, Asset Administration, and role of Internal Audit had positive and significant effect on the quality of Regional Financial Statement of Deli Serdang Regency. Meanwhile, Government Internal Control System could not moderate the influence of Accrual-based Government Accounting Standard, competency of Human Resources, Asset Administration, and role of Internal Audit on the quality of Regional Financial Statement of Deli Serdang Regency.

Keywords: *Quality of Regional Financial Statement, Accrual-Based Government Accounting Standard, Human Resources, Asset Administration, Internal Audit, Government Internal Control System*

INTRODUCTION

Government Financial Statements are a form of government accountability to the people in managing public funds, whether from taxes, retributions or other transactions (Silviana, 2013). Quality Financial Statements are very important to compare the realization of income, expenditure, transfer, and financing with a predetermined budget, assess financial conditions, evaluate the effectiveness and

efficiency of a reporting entity, and help determine compliance with the legislation. Financial reports are also the basis for decision making and to show the accountability of the entity reporting on the resources entrusted to it.

The local government financial report is called high quality if the information contained in the report meets the criteria for qualitative characteristics as required by the Government Regulation No.

71 year 2010. Phenomena that indicate the Local Government Financial Statements (LGFS) should be obtained Unqualified Opinion (UO) were relatively low (Sudiarianti, 2015). The lack of LGFSs that obtain Unqualified Opinion in Indonesia is important to be analyzed, including the Regional Government Financial Statements (LGFS) of Deli Serdang Regency, which have not received an Unqualified Opinion (UO) since 2012-2016.

The following table of audit shows the results provided by the financial examining body to the government of Deli Serdang Regency from 2012 to 2016.

No.	Year	Opinion
1	2012	Advers
2	2013	Disclaimer
3	2014	Qualified Opinion
4	2015	Disclaimer
5	2016	Qualified Opinion

Based on the table above, the Deli Serdang Regency Government has received a disclaimer opinion, twice in received an Unqualified Opinion and even had an advers opinion in 2012. In 2012 Deli Serdang Regency received an advers (unreasonable) opinion because of a state loss, then in 2013 Deli Serdang Regency received a disclaimer opinion because the Deli Serdang District Government conducted an activity which budget was not available in the Regional Expenditure Budget (REB) (medan.bpk.go.id, 2017).

In the year of 2014 the quality of the financial statements of Deli Serdang Regency began to improve and received an Unqualified Opinion (UO) (www.bpkp.go.id, 2017). Although it has received a UO opinion, the financial statements of Deli Serdang Regency have several findings by the Audit Board, the issue was about the procurement assets and the poor performance of clean water supply that are not in accordance with Government Accounting Standards amounting to 1.70% and 3.82%.

In 2015 the financial reports of Deli Serdang Regency have not met the required quality. Regional assets were not managed

properly, bank account was unclear, PBB receivables (Land and Building Taxes) have not been validated and there are differences in transaction dates between the bank account and the cashier (www.medanbisnisdaily.com, 2017) finally Deli Serdang received a disclaimer opinion from the financial examining body. Considered the quality of the report is declining. The quality of financial statements must meet four characteristics, those are; relevant, reliable, comparable and understandable. Deli Serdang has not been able to meet these criteria because there are several problems in the preparation of its financial statements. Then in 2016 the report received a "Qualified Opinion (QO)", this was a progress from the previous year. With this year's QO, it is hoped that it can motivate the local government to be better in compiling its annual financial statements.

Based on the opinion of the Deli Serdang Regency Government's financial statements above, the author believed that this was caused by several factors, including the weak implementation of Accrual-Based Government Accounting Standards (AGAS), lack of Human Resource Competence (HR), Unoptimal Asset Administration, the lack of Internal Audit role and ineffective Government's Internal Control System (GICS).

This study's aims is to determine the effect of Accrual-based Government Accounting Standards applications, HR competencies, Asset Administration and Internal Audit roles. then the next eight alternative hypotheses are as proposed below:

- a. The implementation of Accrual-based Government Accounting Standards, had a positive effect on the quality of Regional Financial Reports.
- b. The competence of Human Resources had a positive effect on the quality of Regional Financial Reports.
- c. Asset Administration had a positive effect on the quality of Regional Financial Reports.

- d. The role of Internal Audit had a positive effect on the quality of Regional Financial Reports.
- e. The Government's Internal Control System can moderate the effect between the implementation of Accrual-based Government Accounting Standards on the quality of Regional Financial Statements.
- f. The Government's Internal Control System can moderate the effect of Human Resource Competence on the quality of Regional Financial Reports.
- g. The Government's Internal Control System can moderate the effect between Asset Administration on the quality of Regional Financial Reports.
- h. The Government's Internal Control System can moderate the effect of the role of internal audit on the quality of financial statements.

This type of research is causality research, which aims to determine the effect of independent variables on the dependent variables (Lubis, 2016: 9). This study will examine the effect of the application of Accrual-based Government Accounting Standards, Human Resource Competencies, Asset Administration and the Role of Internal Audit on the quality of Regional Government Financial Reports in Deli Serdang Regency.

Data collection methods were based on research data sources. Data sources in this study were primary data. Research data was obtained directly from original sources. Data collection was done in the form of a questionnaire. This research was conducted at Deli Serdang District Regional Organization (DRO). The populations in this study were Regional Financial Administration (RFA) and Expenditure Treasurer of Deli Serdang Regency, totaling 112 people from 56 DRO. In this study the sampling technique used census method, that is, all members of the population were used as research samples.

Dependent Variable

The quality of financial statements is to provide information that is useful for decision making. the information presented can be useful if the financial statements show relevant and reliable economic realities. The quality of financial reports is well reflected in their qualitative characteristics. The following four characteristics are the normative prerequisites that are needed so that government financial statements can meet the desired quality that is relevant, reliable, comparable, and understandable (PP No. 71, 2010).

Independent Variable

Government Accounting Standards are the legal basis for the central and regional government apparatus in managing the receipt and use of funds in a transparent, efficient and accountable manner so that the aim of realizing transparency and accountability can be achieved. (Nordiawan & Hertianti, 2010). Competency of Human Resources in local government is the ability that must be possessed by an officer in the form of knowledge, skills, attitudes and behaviors needed in carrying out their duties, (Aruan, 2003).

Regional Asset Administration is a series of activities which include bookkeeping, inventory and reporting of regional property in accordance with applicable regulations. In the administration of regional property, 3 activities are carried out which include bookkeeping, inventory and reporting which aims to provide the correctness of the data obtained in knowing the certainty of value, law, number, and condition of the property belonging to the region under its control.

Internal audit is an assessment of confidence, independence, objectivity and consultation activities designed to add value and improve the organization's operations. with a commitment to achieve integrity and accountability, an internal audit that gives value to senior bodies and management as an objective to deliver independent advice. Professional auditors are used by

organizations to conduct internal audit activities.

Moderating Variable

The Government Internal Control System (GICS) is an integral process for actions and activities carried out continuously by the leadership and all employees to achieve organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and structuring legislation. GICS is a controlling activity

mainly on the management of information systems that aims to ensure the accuracy and completeness of information. (Government Regulation No. 60, 2008).

RESULT

Data analysis method used in this research is multiple linear regression analysis and moderating interaction test. The multiple regression equation model and the interaction test equation used to test the hypotheses are:

Variable	N	Min	Max	Mean	Std. Deviation	Category
QRFS (Y)	88	1	5	3,99	4.576	High
GAS (X1)	88	2	5	3,85	4.019	High
CHR (X2)	88	1	5	3,94	7.350	High
AA (X3)	88	1	5	3,91	5.790	High
IA (X4)	88	2	5	3,92	3.935	High
GICS (Z)	88	1	5	3,91	5.165	High
Valid N (listwise)	88					

The results of data normality testing on the Accrual-based GAS Implementation variable, HR Competency, Asset Administration and the role of Internal Audit, then obtained the results of normal tests with the One-Sample Kolmogorov-Smirnov test. The data has been distributed with the norm, proved by the Asymp number. Sig. (2-tailed) = 0.612 greater than 0.05. The results of multicollinearity testing aim was to examine the effect of independent variables on the dependent variable. Testing using the VIF and Tolerance showed that there was no tolerance value that was less than 0.10 and

there was no VIF value that was more than 10. Thus it could be concluded that there was no multicollinearity in the regression model. It means both of these variables had a good regression model of the entire data. Heteroscedasticity test aims to test whether in one regression model has residual variance inequality from one observation to another observation. From the SPSS Output (Scatterplott) picture there was no clear pattern, and the points spread above and below the number 0 on the Y axis, then in the multiple regression model there was no heteroscedasticity.

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.058	1.556		-1.965	.053
	X ₁	.201	.089	.177	2.263	.026
	X ₂	.181	.056	.290	3.199	.002
	X ₃	.201	.061	.233	3.324	.001
	X ₄	.369	.112	.318	3.311	.001

Statistical test results in the table above showed that the application of Accrual-based Government Accounting Standards, Human Resource Competencies, Asset Administration and the role of Internal Audit had a significant positive effect on the quality of Regional Financial Reports

partially with a significance value of each variable of 0.026; 0.002; 0.001; 0.001 less than $\alpha = 5\%$.

DISCUSSION

Hypothesis testing results showed the probability value of Z₁ negative with a

significance value of 0.305 which is greater than 0.05. Thus the Government Internal Control System was not able to moderate the effect between the application of Accrual-Based Government Accounting Standards on the quality of Regional Financial Reports. The result of testing the sixth hypothesis showed the prob value of the negative $X_2 Z$ with a significance level of 0.713 which is greater than 0.05. Thus GICS is not able to moderate the influence between HR competencies and LGFS quality. The result of the seventh hypothesis testing shows the prob value of $X_3 Z$ significance value of 0.545 which is greater than 0.05. Thus GICS is not able to moderate the influence of Asset Administration on the quality of LGFS. The results of testing the eighth hypothesis shows the prob value of $X_4 Z$ significance value 0.849 which is greater than 0.05. GICS is not able to moderate the influence of the Role of Internal Audit on the quality of LGFS.

The Effect of Government Accounting Standards on the Quality of Regional Financial Reports of Deli Serdang Regency.

The result showed that the Accrual-Based GAS Application variable had a positive and significant effect on the quality of local government financial reports. Positive effect showed that Accrual-Based GAS Application was in line with the quality of local government Financial Reports. The results of this study indicated conformity with the decision usefulness theory in which this theory explained the purpose of the accounting process carried out by the local government. Users can use the information as a source to take decisions and policies in the future.

The Effect of HR Competence on the Quality of Regional Financial Reports of Deli Serdang Regency.

The test result showed that the Governmental Apparatus competence variable had a significant effect on the quality of the LGFS. These results were supported by

Decision Usefulness Theory. The decision was to complete the task in presenting Regional Financial Reports conducted by the apparatus/HR which by mobilizing all the competencies that match their expertise can improve the quality of the LGFS.

The Effect of Asset Administration on the Quality of Regional Financial Reports of Deli Serdang Regency.

The test results showed that the Asset Administration variable had a positive and significant effect on the quality of the financial statements of local governments. Positive effect showed that Asset Administration was in line with the quality of local government Financial Reports, where the increase in Asset Administration would also increase the quality of the financial statements.

The Effect of Internal Control on the Quality of Regional Financial Reports of Deli Serdang Regency.

The test results showed that the Internal Control variable had a positive and significant effect on the quality of the financial statements of local governments. The decision of the Inspectorate that upholds objectivity and professionalism was able to improve the quality of the LGFS. The role of internal auditors or the role of the inspectorate as supervisor would help the regional government in preparing quality and reliable financial reports. To determine the reliability of financial information produced by DRO, the inspectorate conducted a review of its financial statements. The review process of the financial statements determined whether the financial statements had been presented in accordance with applicable regulations or not.

The GICS was not able to Moderate the Effect of Government Accounting Standards on the Quality of Regional Financial Reports of Deli Serdang Regency.

The results showed that GICS was unable to moderate the effect of Accrual-based GAS application on the quality of regional Financial Reports. This research was in line with the research conducted by (Syarifuddin, 2017) which makes GICS as its moderating variable and GAS Application as an independent variable that conducts research on the Binjai City Government. As a result, the Government's Internal Control System was not able to strengthen the effect between the implementation of GAS on the quality of regional financial reports. In addition this study showed incompatibility with decision usefulness theory (decision usefulness theory) where this theory explained the purpose of the accounting process carried out by the local government to users of information as a material for making decisions and policies in the future. Due to a good internal control system will create a whole process of good activities and will support the quality of the financial statements. This discrepancy is also caused by the leaders of internal control parties in the DRO who have not fully implemented the principles as stated in the Government Regulation Number 60 of 2008 concerning the Government's Internal Control System (GICS).

The GICS was not able to Moderate the Effect of HR Competence on the Quality of Regional Financial Reports of Deli Serdang Regency.

The test results showed that GICS was not able to moderate the effect of HR competency on the quality of regional financial reports. Government regulation No. 60 of 2008 explains that the government must trace the background of prospective employees in the recruitment process so that it is placed in accordance with their respective fields. Furthermore, they will be given training and coaching to improve competence in their fields. Local government financial management must place human resources in accordance with their educational background. Training must

also be carried out by the local government to improve competence. Therefore the government needs an adequate control system. the government's internal control system is not able to moderate the relationship between competency of human resources to the quality of financial reports because the government's internal control system is an integrated action on activities carried out by the leadership of an organization to achieve its goals. When the leader of an organization is not someone who is competent, the control system will not be able to direct, monitor, and measure human resources as they should.

The GICS was not able to Moderate the Effect of Asset Administration on the Quality of Regional Financial Reports of Deli Serdang Regency.

GICS was not able to moderate the effect of Asset Administration on the Quality of Regional Financial Reports. This research was not in line with Anggareini's (2015) research with the title of the study An Analysis of the Effect of Asset Administration on the Quality of Padang Raya District Government Financial Reports with GICS as a Moderating Variable. The result of her research explained that GICS was able to moderate the correlation of asset administration to the quality of financial statements. This was because Deli Serdang DRO has not fulfilled the regulations on Asset Administration according to Act No. 6 of 2006 and the Minister of Home Affairs Regulation No. 17 of 2007 which includes: bookkeeping, inventory and reporting of regional property in accordance with applicable regulations, for reporting the regional property of Deli Serdang Regency is still relatively low as well as asset bookkeeping and inventory management are not optimal.

The GICS was not able to Moderate the Effect of the Role of Internal Audit on the Quality of Regional Financial Reports of Deli Serdang Regency.

The results of this study indicated that GICS was not able to moderate the influence of the role of internal audit on the quality of regional financial reports. The Government's Internal Control System weakens the influence between the role of internal audits on the quality of regional financial reports. These results are not in line with the Decision Usefulness theory which states that GICS can assist the role of internal audit. the role of the inspectorate as the government's internal supervisor in preparing quality and reliable government financial reports. To determine the reliability of financial information generated by DRO, the inspectorate reviews its financial statements. The review process of the financial statements determines whether the financial statements have been presented in accordance with applicable regulations or not. This discrepancy was caused by the weakness of the Government's Internal Control System in handling the role of internal audit in Deli Serdang DRO, and the inspectorate is still less effective and efficient in reviewing its financial statements, and there is still a lack of honesty in Deli Serdang District HR in conducting internal audits.

CONCLUSION

The results of the research and discussion provided the following conclusions: (1) the application of Accrual based Government Accounting Standards had a positive effect on the quality of Regional Financial Statements; (2) competence of Human Resources had a positive effect on the quality of Regional Financial Reports; (3) Asset Administration has a positive effect on the quality of Regional Financial Reports; (4) the role of Internal Audit had a positive effect on the quality of Regional Financial Reports; (5) the Government Internal Control System was not able to moderate the effect between the implementation of Accrual-based Government Accounting Standards on the quality of Regional Financial Reports; (6) the Government Internal Control System

was not able to moderate the effect of the competence of Human Resource on the quality of Regional Financial Reports; (7) the Government's Internal Control System was not able to moderate the effect of Asset Administration on the quality of Regional Financial Reports, and (8) the Government Internal Control System was not able to moderate the effect of the role of internal audit on the quality of Regional Financial Reports.

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