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Determinant Factors Influencing the Quality of Financial Reporting Local Government in Indonesia

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ABSTRACT

The purpose of this study to determine factors influencing the quality of financial reporting local government in Indonesia. The factor studied consist of commitment apparatus, role of internal audit, and accounting information system. The sample is picked up randomly by a random sample technique. The data collected is then tested for its validity and reliability so that the data is valid to be processed. The unit of analysis in this study is 66 unit tool of regency/city Indonesian local government. Hypothesis to be tested by a statistical t test: Ho is rejected if tcount > tcritical, $\alpha = 0.05$ level. The results showed that the commitment apparatus, role of internal audit have a significant effect on the quality of accounting information systems. Furthermore it was found that the quality of accounting information system has implications for the quality of financial reporting.

Keywords: Apparatus Commitment, Role of Internal Audit, Quality of Accounting Information System, Financial Reporting
JEL Classifications: M41, H70, G38

1. INTRODUCTION

Although Indonesia has made much progress in the management and financial responsibility of the state, but there are still many irregularities are found. It can be seen in the corruption perception index which Indonesia is still ranked 107 out of countries in Asia. Therefore, there should be joint measures to improve the accountability of state finance in Indonesia in order to realize the people's welfare (Hadi, 2014).

Phenomenon indicates that the head of regional commitment to improve the quality of financial reporting through the completion of follow up findings can be seen from the recapitulation of the results of the supreme audit agency (BPK). Transparency International Indonesia's (TII) survey results in its report that the annual report of the distribution of data surveyed throughout Indonesia to determine the factors that trigger the occurrence of fraud. Transparency International Indonesia's (2010) stated that the higher level of corruption indicates that accountability is not going well.

The effectiveness of supervision reflects the level of commitment and management awareness of the importance of the full support of the leadership (Seneathen et al., 2005). Thus it is necessary that an effective internal audit function in order to create quality financial reporting, transparent and accountable. This is consistent with results of previous studies, that the internal audit function can improve the quality of financial reporting (Schneider and Wilner, 1990; Godwin and Seow, 2002; Gramling et al., 2011).

One form of activities conducted by the inspectorate at both provincial and district/city currently is reviewing the financial statements of local government (LKPD), based on Government Regulation Art. 8 of 2006 on Financial Reporting and Performance Government Agencies. Reviews the financial statements to improve the quality of financial statements of the entity concerned. Reviews the financial statements is undertaken to ensure the reliability of information. The quality of financial statements produce useful information to users, information that meets the qualitative characteristics of information or characteristics of financial information quality (IPSAS, 2010; Belkaoui, 2004; Jonas and dan Blanchet, 2000).

Another factor that supports the quality of financial statements is an accounting information system, in which the financial statements resulting from a process that is based on good input, process and output are both good. These three aspects must be integrated and sustainable as the foundation of good financial reporting systems. The same thing was stated by Indra Bastian (2010) which says that during these public sector organizations in Indonesia in general produce quality accounting information that has not been good, unreliable, and can only be used as a consideration of decision making for the period after the reporting period. This means that the accounting information generated by the government until now has not qualified. The condition of our government today tends to be inefficient and ineffective in governance.

Machfudz (2000) states that important factors to support the management took the right decision is to utilize the accounting information provided and presented with baik. Phenomenon depicting weakness Internal Control System (SPI) relating to the application of accounting information systems in local government, based on the results of BPK 2015 found many weaknesses accounting and reporting systems, which are caused by the recording does not/has not done accurately; the preparation process is not in accordance with provisions; late entities to submit reports; accounting information and reporting systems are inadequate; accounting information and reporting systems are not yet supported adequate human resources. Accountability practices in Indonesia is still far from expected as the mechanism of procurement of goods and services. The results of the examination of the state audit board (BPK) found many cases related to the procurement of goods and services whose value is significant (Hadi, 2014).

Indonesian audit supreme (BPK) revealed that 10,198 findings contained 15,568 issues, including 7,661 (49%) weaknesses of the internal control system and 7,907 (51%) non-compliance with regulatory requirements of Rp44.68 trillion. From the issue of non-compliance, as many as 4762 (60%) is a financial impact problem worth Rp30, 62 trillion. The details are as follows: State losses of 3,163 (66%) issues worth Rp1.92 trillion. Potential losses state as much as 421 (9%) issues worth Rp1, 67 trillion. Lack of revenues of 1,178 (25%) issues worth Rp27.03 trillion. In addition, there are 3,145 (40%) non-compliance issues that have no financial impact, consisting of 2,985 (95%) administrative deviations and 160 (5%) inefficiencies, inefficiencies, and ineffectiveness of Rp14.06 trillion (BPK, 2016).

Accountability and transparency of state finances is an important goal of public sector. Financial accountability is the provision of information and disclosure on the activities and financial performance of the country to all interested stakeholders, so that the public rights, namely the right to know, the right to be kept informed, and the right to be heard and to be listened to can be met.

2. LITERATURE REVIEW

2.1. Apparatus Commitment

Accountability and transparency of state finances is an important goal of public sector. Financial accountability is the provision of information and disclosure on the activities and financial performance of the country to all stakeholders. Public rights, namely the right to know, the right to be kept informed, and the right to be heard and to be listened to can be met. An organizational commitment showed a power of individuals in identifying its involvement in a part of the organization (Mowday et al., 1989). Meyer et al., (1997) presents three components, namely commitment: Affective commitment, continuance commitment and normative commitment. The commitment to the aim of describing the determination of the individuals in to reach the predetermined goal. Commitment to the aims of the budget or the budget goal commitment "is defined as the determination to try for a budget goal and the persistence in pursuing it over time" (Locke and Latham, 1990). This definition is used by accounting researchers like Chong and Chong, 2002; Maiga, 2005; Maiga and Jacob, 2007; to describe the destination variable commitment to research conducted in the budget.

Commitment to the goal is very important for the productivity of the manager determined whether the organization is able to achieve objectives. Locke et al. (1988) state "if there is no commitment to the goal, then the preparation of the purpose to be in vain." Some studies show that the performance of the individual would be better if they receive and are committed to the stated goals (Locke and Latham, 1990; Locke et al., 1988). Commitment is influenced by three things; (1) external factors which consists of authority, peer factors, and external rewards. (2) Interactive factors which consists of participation and competition and (3) the internal factors that consist of expectations and internal reward (Locke et al. (1988). The assumptions used to model the commitments proposed by Locke et al. (1988) considers that this factor external and internal are in the cognitive process.

Goal commitment is determined by the situational factors, personal factors and mediated by cognitive processes expectancy and valence (Wofford et al., 1992). Classification based on a summary of some researchers about the antecedent variables and consequences goal commitment undertaken by Locke et al. (1988), Locke and Latham (1990); Vance and dan Colella (1990).

2.2. The Role of Internal Audit

According to the Institute of Internal Auditors (IIA, 2012), the definition of internal auditor independence was "independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an Unbiased manner. Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels."

Furthermore Pickett (2010) declared the independence of the internal auditor is the freedom from conditions that threaten the ability of the internal audit activity or the chief audit to carry out internal audit responsibilities objectively. In line with the above statement Hiro (2006) states that the independence of the internal auditor is a state free from situations that threaten objectivity both individually and in their duties. According to Government Auditing Standards (2011) paragraph 3:03 Independence consists of: (1) Independence of mind (2) independence in appearance.

Pickett (2010) says the internal audit activity must be independent, and internal auditors must be objective in performing reviews their work. Auditor must have qualifications to understand the criteria used and must have an independent mental attitude. Arens et al. (2010) further Messier et al. (2006) says that the independence avoid relationships that might interfere with the internal auditor objectivity.

According to Arens et al. (2010), the definition of competence as follows "competence is the knowledge and skills necessary to accomplish tasks that define an individual's job." Cheng et al., stated that competence is a person who has knowledge (education, expertise and experience) and attitudes of ethical behavior in work. Furthermore Spencer and Signe (1993) says that the competence is the underlying characteristics of individuals with regard to the criteria for effective performance in a job or situation.

According to Pickett (2010) Competency is internal auditors apply the knowledge, skills, and experience needed in the performance of internal audit service, then according to The Institute of Internal Auditors Research Foundation's Common Body of Knowledge study/CBOK (IIA, 2012) competence adequately defined as the ability to perform a task or role. According Konrath (2002) so that checks can be done well, implementing checks should be someone who has the education, experience, and expertise in the field of accounting and auditing, then Bedard and Chi (1993) states that a competent person as someone who has the knowledge and extensive procedural skills and experience demonstrated by the audit.

According to Pickett (2010), expertise (skills) internal auditor can be devided in two types: Cognitive skills and behavioral skills. Cognitive skills include technical competences. Behavioural skills include communication and interpersonal abilities. According to Bonner et al. (1996), increased knowledge arising from formal training is as good as that obtained from a special experience, and the auditor must have professional qualifications and previous experience if they are to lead a good quality audit. Experienced internal auditors have advantages in terms of: (1) Detect errors; (2) understanding the mistakes accurately; and (3) look for the cause of the error (Tubbs, 1992).

Audit quality is a function of the scope of services provided and the extent to which the audit has been planned, implemented and communicated (Mihret and Yismaw, 2007), hereinafter Sawyer et al. (2003) said that internal audit must prove that the internal audit is a value to the organization and gain a reputation within the organization. Quality is determined by the internal audit department's ability to provide the internal audit findings and recommendations is central to the effectiveness of the audit (Mihret and Yismaw, 2007).

2.3. Quality of Accounting Information System

The system according to Wilkinson (2000). "A system is an integrated entity (i.e., a framework) that attempts to achieve a set of objective. Sementara it Bentley and Jeffrey (2007) defines information systems as an arrangement of people, data, processes, interfaces, networks, and technology that berinteraksi to support and improve both day-to-day operations in business (sometimes called the data processing), as well as support the problem-solving and decision-making needs of management (sometimes called information service).

Stair and dan Reynolds (2009) argues understanding of information systems, which is "an information system a set of interrelated components that collect, manipulate, store, and disseminate the data and information and provide a feedback mechanism to meet an objective." Also said by Hall (2004) "the information system is the set of formal procedures by the which the data are collected, processed into information, and distributed to users." Further definition of information system delivered Laudon and Laudon (2007), that the accounting information system to collect and process the transaction data and then disseminate financial information to interested parties (Kieso et al., 2011).

According to Wilkinson (2000) understanding of accounting information systems are: Accounting information system can be defined as an integrated framework within a firm that employs physical resources to transform The economic data into financial information for (1) operating and managing the firm's activities, and (2) reporting the firm's achievements to interested parties. Each organization adjust accounting information systems that users require, as said Kieso et al. (2011) that the accounting information system varies greatly from one business to another. This is in accordance with the contingency theory which says that no model or system that is universally accepted by the organization, because of the design of an organization depends on factors contingently relevant to the situation (Hoque, 2004).

From the definition of accounting information system before, there are two general purposes of accounting information system according to Wilkinson (2000), namely: (1). Provide information for operational activities and legitimate rules requirements in day-to-day operations; and (2) for decision making. Davis and Olsom (1985) which says "Quality for information systems is defined as excellence per fitness of the systems in serving the purpose for the which it was developed".

According to Laudon and Laudon (2007) general information systems in business entities pay attention to five measurement variables, namely: Scope, time, cost, quality, and risk. Meanwhile in terms of quality of information systems, Stair and dan Reynolds (2009) describes the general characteristics of the quality of the information system is a flexible, efficient, accessible, and timely. Further Atkinson and Robert (1998) says that to test whether the management accounting information system has to motivate and assist the manager or not in achieving organizational goals can be viewed timely, efficient, and effective from the system. Meanwhile, Wixom and Todd (2005) to measure the quality of information systems using dimensions reliability, flexibility, integration, accessibility, timeliness. Meanwhile, according to Chang et al. (2012) to measure the quality of information systems with security, ease of use and efficiency. Of the measurement system of the information disclosed by Laudon and Laudon (2007), Stair and dan Reynolds (2009) and Atkinson and Robert (1998. p. 1), as well as from the definition of accounting information system (Wilkinson, 2000; Bentley and Jeffrey, 2007; Stair and dan Reynolds, 2009; Hall, 2004; Laudon and Laudon, 2007), the measurement of the quality of information systems in this study using the dimensions of integration, flexible, reliability, efficient.

Government accounting system should be able to provide financial information necessary for the preparation of plans/programs and the evaluation of the physical and financial (Sonny and Sugiyanto, 2004). Regional Financial Information System (SIKD) is a system that documents, administer and process data of financial management and other related data into information that is presented to the public and as a framework for decision making in the planning, execution and reporting of the local government accountability (Government regulations 65/2010).

Several studies on the application of accounting information systems at the local government has been performed. Financial information which is helpful for users resulting from the financial statements prepared by personnel who have competence in the field of financial management and accounting system (Tuasikal, 2007). Mardiasmo (2006) state government is a complex and heterogeneous organizations. The complexity of the government led to the need of information for planning and management control are more varied. Likewise for the stakeholders of governance, they need information that is more varied, reliable and relevant for decision making. The duties and responsibilities of government accountants are providing good information to meet the needs of the organization's internal and external needs of the organization.

2.4. Quality of Financial Reporting

Definition of financial reporting according to Meigs (2006. p. 6), is: "The process of supplying general purpose financial information to people outside the organization." Belkaoui (2004) describe the scope of financial reporting in Statement of Financial Accounting Concepts No. 1, Objective of Financial Reporting by Business Enterprises are as follows: "Financial reporting includes not only financial statements but also other means of communicating information that relates, directly or indirectly, to the information provided by the accounting system - that is, information about an enterprise's resources, obligations, earnings, etc."

Furthermore Belkaoui (2004), states that based on the FASB (Concept statement 1), financial reporting includes: "Financial statements, notes to financial statements (ex. The accounting policies, inventory methods, alternative measures), supplementary information (ex. Changing prices disclosures), and other means of financial reporting (ex. Management discussion analysis, letters to stockholders)." Financial accounting standard board (FASB) and international accounting standard board (IASB) in 2010 has issued statement of financial accounting concepts (SFAC) 8 of the conceptual framework for financial reporting, as a substitute for SFAC No. 1 and 2. According to SFAC No. 8, the objective of financial reporting is: "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to the primary users of general purpose financial reports in making decisions about providing resources to the reporting entity."

According to FASB (2010), the objective of financial reporting is to provide financial information that is reported on the entity, which is beneficial for users to make decisions. International accounting standard board (IASB) (2010) issued international financial reporting standard (IFRS) which describes the conceptual framework for financial reporting. Financial reporting purposes based conceptual framework for financial reporting are: "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions about providing resources to the entity. Those decisions involve; buying, selling or holding equity and debt instruments, and providing or settling loans and other forms of credit."

According Belkaoui (2004) and the statement of financial accounting concepts (SFAC) No. 8 issued by the FASB in 2010, states that: "The usefulness of financial information for decision making should be the primary quality to be sought in determining what to encompass in financial reporting" is the quality of financial. Pelaporan financial reporting that produce useful information for users, i.e. information that meets the qualitative characteristics of information or financial information quality characteristics (IPSAS, 2010; Belkaoui, 2004; Jonas and dan Blanchet, 2000). In line with Jonas and dan Blanchet (2000. p. 357), states that the quality of financial reporting is complete and transparent information, which is designed so as not to mislead users.

Base on the definitions above it can be concluded that the financial reporting quality is a financial reporting that produce useful information to users, complete, transparent and not misleading, and meets the characteristics of financial information quality that is relevant, reliable, comparable and understandable: FASB and IASB (2008) is explicitly explained his desire to build a comprehensive assessment tool for assessing the quality of financial reporting related to all qualitative characteristics decission because these characteristics determine the usefulness of financial reporting information (IASB, 2008). Usefulness decission paradigm explains the relationship between users of accounting information, accounting information relevance, understanding decision-makers regarding accounting information, and others that affect the use of information in decision making.

Trueblood report sets 7 qualitative characteristics of financial reporting (Belkaoui, 2004. p. 125), which is the dimension of the quality of financial reporting, as follows: (1) Relevance and materiality, (2) form and substance, (3) reliability, (4) freedom from bias, (5) comparability, (6) consistency, and (7) understandability. McDaniel, et al. (2002), states that the qualitative characteristics of accounting information (accounting information quality characteristics) is the appropriate framework for evaluating the quality of financial reporting, it is consistent with the statement Statement of accounting concepts (SFAC) 2 issued by the financial accounting standards board (FASB) in 1980. According to SFAC 2, the accounting information quality characteristics are the characteristics used to describe the quality of financial reporting, which consists of three dimensions: (1) Relevance (2) reliability (3) comparability.

While the qualitative characteristics/quality of the information referred to in the general purpose financial reporting by IPSAS (2010), which is the dimension of the quality of financial reporting among others are: Relevance, faithful representation or reliability, understandability, timeliness, comparability, verifiability. Characteristics of quality information is referred to in general purpose financial reporting, which is contained in the conceptual framework for general purpose financial reporting by public sector entities issued by the international public sector accounting standards board (2010), which is the dimension of the quality of financial reporting are as follows.

2.4.1. Relevance

Financial and non-financial information is relevant if it is capable of making a difference in achieving the objectives of financial reporting. Financial and non-financial information is capable of making a difference when it has confirmatory value, predictive value, or both. It may be capable of making a difference, and thus be relevant, even if some users choose not to take advantage of it or are already aware of it.

2.4.2. Faithful representation

To be useful in financial reporting, information must be a faithful representation of the economic and other phenomena that it purports to represent. Faithful representation is attained when the depiction of the phenomenon is complete, neutral, and free from material error. Information that faithfully represents an economic or other phenomenon depicts the substance of the underlying transaction, other event, activity or circumstance which is not necessarily always the same as its legal form.

2.4.3. Understandability

Understandability is the quality of information that enables users to comprehend its meaning. GPFRs of public sector entities should present information in a manner that responds to the needs and knowledge base of users, and to the nature of the information presented. For example, explanations of financial and non-financial information and narrative reporting of achievements and expectations should be written in plain language, and presented in a manner that is readily understandable by users. Understandability is enhanced when information is classified, characterized, and presented clearly and concisely. Comparability also can enhance understandability.

2.4.4. Timeliness

Timeliness means having information available for users before it loses its capacity to be useful for accountability and decision-making purposes. Having relevant information available sooner can enhance its usefulness as input to assessments of accountability and its capacity to inform and influence decisions that need to be made. A lack of timeliness can render information less useful.

2.4.5. Comparability

Comparability is the quality of information that enables users to identify similarities in, and differences between, two sets of phenomena. Comparability is not a quality of an individual item of information, but rather a quality of the relationship between two or more items of information.

2.4.6. Verifiability

Verifiability is the quality of information that helps assure users that information in GPFRs faithfully represents the phenomena that it purports to represent.

3. METHODOLOGY

The research objects are quality of financial statement, quality of accounting information system, apparatus commitment, and the role of internal audit. The population in this study is local governments in Indonesia. The observation unit consists of those personnel that are involved in implementing accounting activities, of regency/city local government unit tool. Research methodology used in this study is sample method, by means of a questionnaire measuring. Respondents of this study are accounting staff and internal audir from 66 local government unit tool in Indonesia.

The sample is picked up randomly by a random sample technique. This study uses primary data collected by spreading questionnaire by mail (mail survey) to each of the respondents. The data collected is then tested for its validity and reliability so that the data is valid to be processed. Then, the data is analyzed descriptively in order to describe the characteristics of each research variable. The data will be analyzed is by using structural equation model with consideration of the pattern of relationships between variables that are correlative, causality and recursive. Each hypothesis to be tested by a statistical t test: Ho is rejected if tcount >tcritical, $\alpha = 0.05$ level.

4. FINDINGS AND DISCUSSION

Analysis of the data in this study using path analysis with the help of LISREL 8.70 software. The first hypothesis tested found that when the two independent variables together (apparatus commitment, and the role of internal audit) will give the effect of 58% (R^2) of the quality of accounting information system, while the remaining 42% is the influence of other factors outside apparatus commitment, and the role of internal audit. From F table for a significance level of 0.05 obtained a value of 1.66 F-table. Because the F value (15.272) is greater than the F table (1.66), with the error rate of 5% so it was decided to reject Ho and received Ha. So based on the test results it can be concluded that apparatus commitment, and the role of internal audit regency/city local government unit tool in Sulawesi utara province of Indonesia

The second hypothesis tested, resulted in findings that of F table with a significance level of 0.05 and F-table value by 1.66. Because the F value (11.612) is greater than the F table (1.66), with the error rate of 5% so it was decided to reject Ho and received Ha. So based on the test results it can be concluded that Through the influence of the independent variables partially obtained total influence of apparatus commitment, and the role of internal audit and information systems together affect t 63%, meaning 63% change in the quality of financial statement explained by quality of accounting information system, apparatus commitment, and the role of internal audit. While the remaining 37% is the influence of other factors beyond the four variables.

5. CONCLUSION

The model developed in this study may explain the influence of the apparatus commitment, and the role of internal audit on the quality of accounting information systems and the quality of financial statement both partially and simultaneously. The theories that already exist about accounting, management and organization make more emphasized linkages, that the influence of apparatus commitment the role of internal audit of the quality of accounting information systems and their impact on the quality of financial statement. The results of the empirical evidence from this study can be used to solve problems that occurs on the quality of accounting information systems and the quality of financial statement.The quality of financial statement accounting information systems can be improved through increased accounting information systems,commitment apparatuss and role of internal audit.

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