

## Factors Affecting the Quality of Local Government Financial Statements

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### ARTICLE INFORMATION

#### Publication information

#### Research article

#### HOW TO CITE

Budiyani, E.N., & Sinarasri, A., & Kristiana, I (2024). Factors Affecting the Quality of Local Government Financial Statements. Economics and Business International Conference Proceeding, 1(2), 167-178.



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Received: July 20, 2024  
Accepted: July 25, 2024  
Published: August 1, 2024

### ABSTRACT

This study aims to determine the influence of accounting understanding, internal control system, and the use of information technology on the quality of local government financial reports in Semarang City OPD. The population in this study is OPD employees in Semarang City. Meanwhile, the research sample was 88 respondents. Data collection was carried out by distributing questionnaires. The data were analyzed using multiple linear regression analysis. The result of this study is that accounting understanding has a positive and significant effect on the quality of local government financial statements. The internal control system has a positive and significant effect on the quality of local government financial statements. The use of information technology has a positive and significant effect on the quality of local government financial reports. The results of the determination coefficient ( $R^2$ ) show that the understanding of accounting, internal control system, and the use of information technology in explaining the quality of local government financial statements is 62% and the rest is explained by other variables that are not studied in this study.

**Keywords:** Accounting Understanding, Internal Control System, Utilization of Information Technology, Quality of Local Government Financial Statements.

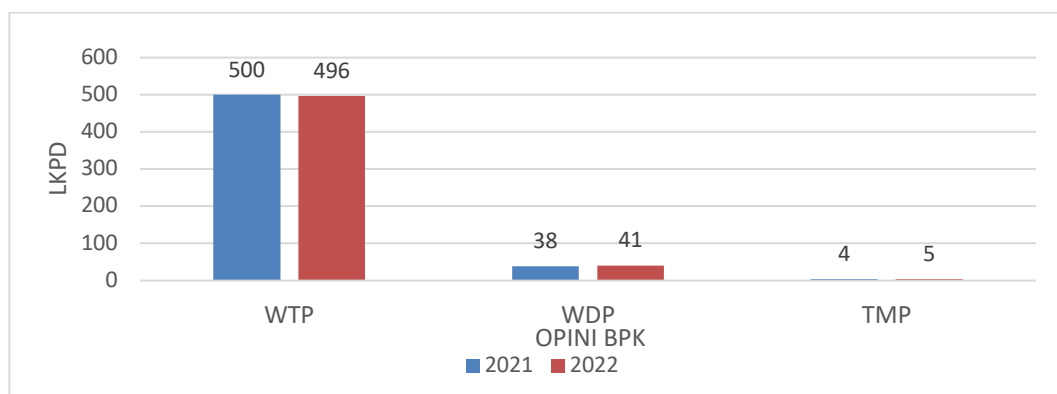
## INTRODUCTION

Based on Law No. 17 of 2003 concerning State Finance, it is stated that local governments are obliged to submit an accountability report on the implementation of the Regional Revenue and Expenditure Budget (APBD) to the Regional People's Representative Council (DPRD) in the form of financial statements that have been audited by the Financial Audit Agency (BPK) no later than six months after the end of the fiscal year (Fitriana et al., 2024). The financial statements in question at least include reports on the realization of the Regional Revenue and Expenditure Budget (APBD), balance sheets, cash flow statements, and notes on financial statements prepared and presented in accordance with Government Accounting Standards (SAP) (Finance, 2003).

Government financial statements are information that can be useful for users in assessing accountability and decision-making in economic, social, and political matters. The quality of government financial reports must be the main concern for regional leaders so that they can be used in decision-making for the progress of each region (Nurchayono, Sinarasri, et al., 2023a). Quality is defined as conformity with standards, measured from non-conformity and achieved through inspection (Mulyana, 2010). Quality financial statements are determined by the opinion of the Audit Board (BPK). BPK provides four types of opinions on the results of the audit of financial statements, namely Reasonable Without Exception (WTP), Reasonable With Exceptions (WDP), Unreasonable (TW), and Not Giving Opinion (TMP). Government Accounting Standards (SAP) have qualitative characteristics of financial statements, namely including normative measures that must be applied in accounting information in order to meet the requirements. (Republic of Indonesia, 2010).

The qualitative characteristics of government financial statements include: relevant, reliable, comparable, and easy to understand. Financial statements are considered relevant if the information they contain can influence the user's decision, reliable if they are free from misleading meanings and material errors, can be compared with the financial statements of previous periods or the financial statements of other reporting entities, and are generally understandable to users. (Republic of Indonesia, 2010).

Figure 1. LKPD Opinion in 2021 and 2022



Source: bpk.go.id

Table 1. List of LKPDs that Have Experienced a Decline in Opinion

WTP Becomes WDP Opinion			
1	Padang Lawas Regency Government	10	Pangandaran Regency Government
2	Binjai City Government	11	Bandung City Government
3	Kerinci Regency Government	12	Pemalang Regency Government
4	Pemkab Ogan Ilir	13	Sumbawa Regency Government
5	Pagar Alam City Government	14	Pemkab Kapuas
6	Palembang City Government	15	East Kolaka Regency Government
7	Kaur Regency Government	16	Tanimbar Islands Regency Government
8	Tanggamus Regency Government	17	North Maluku Provincial Government
9	Bekasi Regency Government	18	Pemprov Papua
WDP to TMP Opinion			
1	Meranti Islands Regency Government		

Source: bpk.go.id

The results of the audit of the 2022 Regional Government Financial Statements (LKPD) show a decrease in the opinion of the Audit Board (BPK) compared to the previous year, namely, from Reasonable Without Exception (WTP), to Reasonable With Exceptions (WDP) in 2 Provincial Governments, 12 Regency Governments, and 4 City Governments, as well as from Reasonable Without Exception (WTP) to Not Giving Opinion (TMP) in 1 Regency Government (Audit Board of the Republic of Indonesia, 2023).

The Financial Statements of the Semarang City LKPD Regional Government even though it received Reasonable Without Exception (WTP), however, there are still problems in the accounting understanding of the recording of expenditure payments that are not in accordance with the real volume resulting in overpayment, evidence of expenditure is not confirmed by PT PPN so that it cannot be believed to be reasonable, and the weak internal control system results in the non-fulfillment of self-management work in accordance with the provisions so that resulting in irregularities (Financial Audit Agency, 2023). With the problems still present, it is necessary to make improvements to the problems that are still occurring, so that they can improve the quality of better financial reports.

Based on the above phenomenon, accounting understanding is the first factor that affects the quality of local government financial statements. Accounting understanding is the extent to which a person has the ability to understand or appreciate accounting correctly both as a body of knowledge and as a process, starting from recording transactions to preparing financial statements (Mahmudi, 2010). Research conducted by (Lestari & Dewi, 2020) and (Artiwi & Kresnandra, 2023) reveals that accounting understanding has a positive and significant effect on the quality of financial statements, which means that the better employees understand and are good at how the accounting process is carried out until it becomes a financial report, the better the quality of the financial statements that will be produced. In contrast to the results of research conducted by (Atika et al., 2019) and (Nur et al., 2023), the results of accounting understanding have no effect on the quality of financial statements because government officials and staff do not

fully understand and understand how to group evidence of accounting transactions in government financial statements.

The second factor that affects the quality of regional financial reports is the Government Internal Control System (SPIP) which is an integrated process consisting of various actions and activities carried out continuously by leaders and all employees in order to provide sufficient confidence in the achievement of organizational goals through the implementation of effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations (Republic of Indonesia, 2008). Based on research conducted by (Lestari & Dewi, 2020), (Binawati, 2022), and (Nur et al., 2023) obtained results that the internal control system has a positive and significant effect on the quality of financial reports, which means that to achieve accountable and transparent state financial management and reduce irregularities, it is necessary to have a good internal control system from government leaders and also the need for the role of all government employees in carrying out internal control system and conducting supervision (Nurchayono, Hanum, et al., 2023; Nurchayono, Sinarasri, et al., 2023b; Rahma et al., 2022). In contrast to the results of research conducted by (Widiatmoko, 2020), (Gustina, 2021), and (Machmudiyanti & Aufa, 2023) that the internal control system has no effect on the quality of financial statements, because the internal control system is still weak and has not been implemented effectively, causing the quality of the financial statements produced to be unsatisfactory.

The third factor that affects the quality of regional financial reporting is the use of information technology. Information technology is a technology that includes not only computer technology (hardware and software) used to process and store information, but also communication technology used to send or distribute information (Martin, 1999). Based on research conducted by (Widiatmoko, 2020) and (Binawati, 2022), the results were obtained that the use of information technology has a positive and significant effect on the quality of financial reports, which means that the right use of information technology can help the ability to manage finances and distribute financial information to public services. In contrast to the results of research conducted by (Apriansyah et al., 2020) and (Lantu et al., 2023), the use of information technology has no effect on the quality of financial reports, because information technology has not been able to have a large impact on the creation of reports on government financial management.

## **LITERATURE REVIEW**

Institutional Theory is the formation of an organization due to the pressure of the institutional environment that causes institutionalization. The idea underlying this theory is the idea that in order to survive, an organization must be able to convince the public or society that the organization is a legitimate entity. This Institutional Theory defines that organizations that prioritize legitimacy will have a tendency to try to adapt themselves to external expectations or social expectations where the organization is located (Prasad et al., 2021).

Institutional theory explains that it is used to explain actions and decision-making in public organizations. Institutional theory has emerged as a reinforcing explanation for both individual and organizational actions caused by exogenous

factors, external factors, social factors, societal expectation factors, and environmental factors (Scott, 2008).

Adjustment to external expectations or expectations of social expectations can lead to the tendency of organizations to separate their personal activities and focus on systems that are symbolic of external parties. Public organizations that tend to focus on gaining legitimacy may have similarities with other public organizations. Thus, in carrying out its functions, organizations are also vulnerable to external pressure (Agustin et al., 2023). Institutional theory is also used to find out the extent to which quality financial statements can be created driven by coercive, picky, and normative phenomena (Budiawan and Budi, 2014).

This research will try to emphasize external pressures related to the environment around the organization. In the government sector, there are many laws and regulations that regulate the financial reporting process technically (Budiawan and Budi, 2104). The existence of each rule is aimed at regulating existing practices to be better. A regulation can cause an organization's tendency to improve itself, so that the organization can be seen well by outsiders Chodijah (2018).

The quality of financial reports, government organizations as internal parties have the legitimacy to account for the implementation of their government to external parties, such as the state domain, the private sector, academics and society. Institutional theory is also used to find out the extent to which quality financial statements can be created due to external pressures related to the surrounding environment.

Institutional theory is closely related to the understanding of accounting in various aspects, especially in the context of the development and practice of accounting. Institutional theory posited that norms and values in society influenced business and accounting practices. Institutional theory also considers how accounting practices have evolved over time. This could include changes in accounting methods, technology used, or the way companies report financial information. These changes are often triggered by institutional factors, such as changes in regulation.

Institutional theory suggests that organizations often adapt their practices to fit the norms and demands that prevail in their environment. Internal control systems should be designed to ensure that organizations adhere to these practices and avoid potential social sanctions or penalties. Thus, institutional theory can influence the thinking and actions of organizations in developing and managing their internal control systems to meet the demands of the external environment and achieve their goals effectively.

The relationship between institutional theory and government information technology is that the implementation of information technology in government can change the norms and values in the institution. The use of information technology can change government practices. Information technology can help improve government accountability and transparency by enabling greater public access to government data and information. In integrating information technology, the government must also consider regulatory and policy challenges related to privacy, data security, and citizens' rights in the digital environment. Based on the problems

that have been formulated and then associated with existing theories, the hypotheses that can be taken are as follows:

### **The Effect of Accounting Understanding on the Quality of Local Government Financial Statements**

Accounting understanding is the extent to which the ability to understand or correctly understand accounting as a set of knowledge (*body of knowledge*) or as a process, starting from recording transactions to becoming financial statements (Mahmudi, 2010). When associated with institutional theory, the understanding of accounting is influenced by norms, standards, compliance, and institutional pressures. Having a good understanding of these aspects can help agencies improve the quality of local government financial reports, which can ultimately increase transparency, accountability, and public trust. Accounting understanding has a positive and significant effect on the quality of financial statements supported by research conducted by (Mardiana, 2017), (Devi, 2018), (Lestari & Dewi, 2020) and (Artiwi & Kresnandra, 2023)

H1 = Accounting understanding has a positive and significant effect on the quality of local government financial statements.

### **The Influence of the Internal Control System on the Quality of Local Government Financial Statements**

Internal Control System is a plan, method, procedure, and policy designed by management to provide adequate assurance of operational efficiency and effectiveness, reliability of financial reporting, security of assets, compliance/compliance with laws, policies and other regulations (Kumaat, 2010). If associated with an institutional theory that focuses on how institutions shape organizational behavior through rules, norms, and culture, this theory can be used to understand how internal control systems (SPI) are implemented and integrated in government structures to improve the quality of regional financial reports. The Internal Control System has a positive and significant effect on the quality of financial statements supported by research conducted by Chodijah et al (2018), Rahmawati et al (2018), and Lisda et al (2018).

H2 = The government's internal control system has a positive and significant effect on the quality of local government financial statements.

### **The Effect of Information Technology Utilization on the Quality of Local Government Financial Reports**

The use of information technology according to Thomson et.al. (1991) in Wijana (2007) is the expected benefit of information system users in carrying out their duties or behavior in using technology when doing work. The right use of information technology can help improve user performance. If associated with institutional theory, the use of information technology by local governments in financial reporting is influenced by various pressures, such as rules and regulations, social and professional norms, imitating best practices from other regions, as well as pressure from the community and stakeholders. By adopting the right information technology, local governments can improve the efficiency, accuracy, transparency, and accountability of their financial statements. The use of information technology has a positive and significant effect on the quality of financial statements supported by research conducted by Rahmawati et al (2018), Pebriantari (2021), and Chodijah et al (2018).

H3 = The use of Information Technology has a positive and significant effect on the quality of local government financial statements.

### RESEARCH METHOD

The research method used is quantitative research and comparative causal research (*causal comparative reaserch*) which is a type of research with problem characteristics in the form of a causal relationship between two or more variables. This type of causal research is intended to uncover problems in the form of cause and effect (Radjab & Jam'an, 2017). The researcher uses the research design to provide empirical evidence and analyze the influence of accounting understanding, internal control systems, and information technology on the quality of government financial statements. This study uses data in the form of numbers. The numbers were obtained from the answers of the respondents, which were quite large so they had to be processed using data *Software Statistical Product and Service Solution* (SPSS). The population of this study is employees Semarang City Regional Apparatus Organization (OPD). The variable measurements of this study are:

Table 2. Measurement of Research Variables

No	Variable	Measurement
1	Quality of Local Government Financial Statements	a. Relevant b. Reliable c. Comparable d. Understandable
2	Understanding Accounting	a. Recording Stage b. Overview Stage c. Reporting Stage
3	Internal Control System	a. Control Environment b. Risk Assessment c. Control Activities d. Information and Communication e. Monitoring
4	Utilization of Information Technology	a. Perangkat b. Financial Data Management c. Therapy

The data analysis of this study uses multiple linear regression, the regression equation is as follows:  $Y = \alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + e$

Description: Y: Quality of Local Government Financial Statements;  $\alpha$ : Correlation coefficient;  $\beta_1$ : Regression coefficient X1;  $\beta_2$ : Regression coefficient X2;  $\beta_3$ : Regression coefficient X3; X1: Understanding of Accounting; X2: Internal Control System; X3: Utilization of Information Technology; e: Error or variable interference.

### RESULTS

Table 3. Results of the Validity Test of Research Variables

No	Variable	Item	rcalculate	rtabel	Information
1	Quality of Regional Government	Y1	0,602	0,2096	<i>Valid</i>
		Y2	0,667	0,2096	<i>Valid</i>

No	Variable	Item	rcalculate	rtabel	Information		
	Financial Statements (Y)	Y3	0,686	0,2096	<i>Valid</i>		
		Y4	0,695	0,2096	<i>Valid</i>		
		Y5	0,590	0,2096	<i>Valid</i>		
		Y6	0,495	0,2096	<i>Valid</i>		
		Y7	0,562	0,2096	<i>Valid</i>		
		Y8	0,708	0,2096	<i>Valid</i>		
		Y9	0,614	0,2096	<i>Valid</i>		
		2	Understanding Accounting (X1)	X1.1	0,659	0,2096	<i>Valid</i>
				X1.2	0,689	0,2096	<i>Valid</i>
X1.3	0,595			0,2096	<i>Valid</i>		
X1.4	0,650			0,2096	<i>Valid</i>		
X1.5	0,752			0,2096	<i>Valid</i>		
X1.6	0,693			0,2096	<i>Valid</i>		
X1.7	0,456			0,2096	<i>Valid</i>		
X1.8	0,621			0,2096	<i>Valid</i>		
X1.9	0,450			0,2096	<i>Valid</i>		
3	Internal Control System (X2)	X2.1	0,601	0,2096	<i>Valid</i>		
		X2.2	0,678	0,2096	<i>Valid</i>		
		X2.3	0,541	0,2096	<i>Valid</i>		
		X2.4	0,658	0,2096	<i>Valid</i>		
		X2.5	0,709	0,2096	<i>Valid</i>		
		X2.6	0,694	0,2096	<i>Valid</i>		
		X2.7	0,489	0,2096	<i>Valid</i>		
		X2.8	0,605	0,2096	<i>Valid</i>		
		X2.9	0,617	0,2096	<i>Valid</i>		
		X2.10	0,668	0,2096	<i>Valid</i>		
4	Utilization of Information Technology(X3)	X3.1	0,653	0,2096	<i>Valid</i>		
		X3.2	0,657	0,2096	<i>Valid</i>		
		X3.3	0,675	0,2096	<i>Valid</i>		
		X3.4	0,734	0,2096	<i>Valid</i>		
		X3.5	0,734	0,2096	<i>Valid</i>		
		X3.6	0,608	0,2096	<i>Valid</i>		
		X3.7	0,553	0,2096	<i>Valid</i>		
		X3.8	0,518	0,2096	<i>Valid</i>		

Source: Primary data processed, 2024

Table 4.7 shows that all statement items have a value greater than the table. This means that the data obtained is *valid*.

Table 4. Results of the Reliability Test of Research Variables

Variable	Cronbach's Alpha	Information
Quality of Local Government Financial Statements	0,802	<i>Reliable</i>
Understanding Accounting Internal Control System	0,792	<i>Reliable</i>
Utilization of Information Technology	0,826	<i>Reliable</i>
	0,793	<i>Reliable</i>

Source: Primary data processed, 2024



Table 4.8 above shows that *Cronbach's alpha* value of all variables is greater than 0.60 so it can be concluded that the instrument from the questionnaire used to explain the variables of Local Government Financial Statement Quality, Accounting Understanding, Internal Control System, and Information Technology Utilization is declared reliable or trustworthy as a variable measurement tool and further data testing can be carried out.

Table 5. Multiple Regression Test Results

Variable	<i>Unstandardized Coefficients B</i>	Calculation	<i>Mr</i>
Constant	2,039	0,671	0,504
Understanding Accounting Internal Control System Utilization of Information Technology	0,222	2,622	0,010
	0,417	5,281	0,000
	0,312	3,223	0,002

Source: Primary data processed, 2024

## DISCUSSION

### **The Effect of Accounting Understanding on the Quality of Local Government Financial Statements**

The results of the study show that accounting understanding has a positive and significant effect on the quality of local government financial statements. This identifies that the higher the accounting understanding, the quality of local government financial statements will increase, this is also proven in the value of a coefficient of 0.222 with a significance level of 0.010. This means that the H1 statement is accepted.

The results of this study are in accordance with previous research (Atika et al., 2019) A study on the Buleleng Regency OPD shows that accounting understanding has a positive and significant effect on the quality of local government financial statements. In line with research (Lestari & Dewi, 2020) a study on BPKAD Badung Regency which shows that accounting understanding has a positive and significant effect on the quality of regional financial reports. The results of this study support the institutional theory reflected in the ability of local governments to adopt and implement relevant and accurate accounting standards, which are in line with the pressures of regulations, social norms, and public expectations (Nurchayono et al., 2020). The implementation of good accounting practices helps reduce information gaps and improve the quality of financial information presented in financial statements, thereby supporting local government efforts in achieving the goals of transparency and public accountability (Firmansyah & Rahmawati, 2020).

### **Internal Control System on the Quality of Local Government Financial Statements**

The results of the study show that the internal control system has a positive and significant effect on the quality of local government financial reports . This identifies that the better the internal control system, the better the quality of local government

financial statements, this is also proven in the value of a coefficient of 0.417 with a significance level of 0.000. This means that the H2 statement is accepted.

The results of this study are in accordance with previous research (Binawati, 2022) a study on the SKPD of Klaten Regency which shows that the internal control system has a positive and significant effect on the quality of local government financial reports. In line with research (Munggaran et al., 2020) A study on the Ministry of Social Affairs shows that the internal control system has a positive and significant effect on the quality of government financial reports. The results of this study support institutional theories that emphasize the importance of legitimacy and public trust in government institutions. The implementation of an effective internal control system not only reduces the risk of errors and fraud in financial reporting, but also meets applicable normative and regulatory expectations, thereby strengthening the position of local governments in maintaining their institutional integrity and reputation in the eyes of the public and other stakeholders (Arief & Prasetyo, 2020).

#### **Utilization of Information Technology on the Quality of Local Government Financial Reports**

The results of the study show that the use of information technology has a positive and significant effect on the quality of local government financial reports. This identifies that the good use of information technology in compiling financial statements will improve the quality of local government financial statements, this is also proven in the value of a coefficient of 0.312 with a significance level of 0.002. This means that the H3 statement is accepted.

The results of this study are in accordance with previous research (Widiatmoko, 2020) a study on BPKAD in Ponorogo Regency that obtained the results of the use of information technology has a positive and significant effect on the quality of government financial reports. In line with research (Apriansyah et al., 2020) a study on the Bungo Regency OPD that obtained the results of the use of information technology had a positive and significant effect on the quality of local government financial reports. These results support institutional theories that emphasize the importance of adapting to technological developments to support the effectiveness and legitimacy of government institutions. The use of information technology in local governments in Indonesia can improve the quality of financial reporting, by reducing human intervention that is potentially vulnerable to manipulation, so that information technology can help improve the integrity and credibility of financial reports. (Wibowo & Supriyanto, 2021).

### **CONCLUSION**

Based on the results of the research and discussion, this study can be drawn:

- a. Accounting understanding has a positive and significant effect on the quality of local government financial reports at the Semarang City OPD.
- b. The internal control system has a positive and significant effect on the quality of local government financial reports at the Semarang City OPD.
- c. The use of information technology has a positive and significant effect on the quality of local government financial reports at the Semarang City OPD.

### **LIMITATION**

In this study, there are still limitations and shortcomings, namely: The coefficient of determination (R<sup>2</sup>) shows a value of 0.620, meaning that 62% of the variation in the quality of financial statements is explained by the variables in the model, while 38% is explained by other factors that are not included in the model. Based on the results of the analysis and conclusion of this study, the researcher gave suggestions: The researcher is then advised to add or consider other variables regarding the quality of local government financial statements, such as the capacity of human resources, the role of internal audit, and the use of accounting information systems.

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