

# DETERMINING FACTORS OF THE QUALITY OF LOCAL GOVERNMENT FINANCIAL STATEMENTS PALEMBANG CITY

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**DETERMINING FACTORS OF THE QUALITY OF LOCAL  
GOVERNMENT FINANCIAL STATEMENTS  
PALEMBANG CITY**

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**Abstract**

The study was based on the success of Local Government of Palembang in Indonesia for seven consecutive years since 2010 until 2016 gaining Unqualified Opinion. The study aimed to know the determining factors of the implementation of Government Accounting Standard and the Quality of Local Government Financial Statement. The study was conducted by 50 Regional Organization of Palembang. Sampling was done by using purposive sampling method. Based on the sampling technique, obtained respondents as much as 150 respondents. The analytical method used in this study used path analysis. The results showed that partially information of technology had no significant effect on the implementation of Government Accounting Standards, however, employee competence and the internal control system have a significant positive effect on the implementation of Government Accounting Standards. The internal control system partially had no significant effect on the quality of Local Government Financial Statements, while employee competence, information of technology and the implementation of Government Accounting Standard had a significant positive effect on the quality of Local Government Financial Statements. Simultaneously, employee competence, information of technology, and the internal control system could affect the implementation of Government Accounting Standard so that could improve the quality of Local Government Financial Statements.

**Keywords:** Quality of Government Financial Report, Competence, Government Accounting Standards, Internal Control System

## INTRODUCTION

Based on Law no. 23 of 2014 on Regional Government and Law no. 33 of 2004 on the Fiscal Balance between Central and Regional Governments, each region throughout Indonesia is authorized to administer its own regional affairs. The implication of the change of centralized government system into decentralization is every region is expected to be more effective and efficient in regulating the potential of each region, especially in the economic field. Follow up on the granting of such authority, the Regional Government is required to report any activities and the financial statements must meet the qualitative characteristics of the financial statements as set forth in Government Regulation no. 71 of 2010 on Government Accounting Standards, which are relevant, reliable, comparable and understandable.

The quality of local government financial statements can be reflected from the results of the examination of the Supreme Audit Board. An examination of the financial statements is conducted to determine whether the financial statements presented by the local government have been disclosed in a reasonable and qualified, and the Supreme Audit Board will issue an opinion which is the result of an assessment of the quality of local government financial statements. According to Law Number 15 Year 2004, there are four types Opinions given by the State Audit Board of the Republic of Indonesia on the Inspection of Government Financial Statements namely, Unqualified Opinion (UO), Qualified Opinion (QO), Adverse Opinion (AO) and Disclaimer Opinion (DO). Unqualified Opinion is the highest opinion indicating that the financial statements have been prepared in a reasonable and qualified way. Audit results are also a reflection in the implementation of Government Accounting Standards in the preparation of Local Government Financial Statements concerned.

Based on the Highlights of Supreme Audit Board Report, the Local Government of Palembang among the 18 Local Governments within the scope of South Sumatra Province is the only one who received unqualified opinion for seven years from 2010 to 2016 (www.bpkp.go.id, 2017). Head of the Supreme Audit Board of South Sumatra Provincial Representative, Maman Abdurrahman stated that "the assessment of opinion is given based on the compliance of the Local Government of Palembang in preparing the financial statements based on existing rules" (www.mediaindonesia.com, 2017). Inspection of Financial Statements covers the examination of compliance rules that are guided by the applicable accounting standards, even the implementation of the Internal Control System is run. The preparation of qualified financial reports depends on how well transactions are recorded in accordance with Government Accounting Standards, employee competencies, the availability of facilities such as information technology and the implementation of the Internal Control System.

Determinants that allegedly affect the quality of financial statements is the implementation of Government Accounting Standards in the preparation of Local Government of Palembang financial statements. The preparation of the financial statements is expected to be guided by the determined standards, namely Government Accounting Standards as described in Government Regulation no. 71 of 2010. Government Accounting Standards govern the preparation of financial statements and recognition of assets, investments, liabilities to how to correct errors in recording transactions. Local Government of Palembang through the asset part of the Local Secretariat of Palembang disclose the results of the data showing the fact that the threat of poor assets owned by the Local Government of Palembang will almost disappear. Head of Sub-Division of Assets and Supplies of Palembang City Government, Rahman said "from 500 assets owned only 280 recorded in the asset. This is because hundreds of assets are still administrative flaws. Starting from not having a certificate of ownership, has not been processed behind the name until no one pocketed a letter that shows proof of assets. Indicators, the Regional Organizations reporting related assets owned by each Regional Organization are still less effective "(www.penasumatera.co.id, 2016). Chief Representative of Supervisory and Development Supervisory Board, IGB Surya Negara when presenting Accrual-Based Government Accounting Standards material, stated that the implementation of Accrual-Based Government Accounting Standards is not easy, it needs the strong commitment from local leaders and qualified personnel is a priority for Accrual-Based Government Accounting Standards can be done. If the employee who runs the accounting system has a competence that qualified, then the implementation of accounting functions can run well and accounting information will have a good quality as well. (www.bpkp.go.id, 2014). Nurlis and Yudianti (2017) revealed that Employee Competence has a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Darwanis et al. (2016), Simon et al. (2016), Agung and Winarningsih (2015), Zahara (2015), Setiyawati (2013), and Nuryanto and Afiah (2013) who voiced similarly that the Local Government Financial Statements will be more qualified if their employees have competent skills. Conflicting opinions submitted by Syarifudin (2014) that the employee competence does not contribute to the increase or decrease the quality of Local Government Financial Statements. Employee competence declared by Munandar (2016) and Pituringsih (2015) as one of the factors influencing the readiness of applying of Government Accounting Standard so that it will have an impact on improving the quality of the financial statement. The increasing widespread use of information technology allows the involvement of utilization of information technology in determining the quality of local government financial statements. Procedures of revenues and expenditures for Local Government which now began to involve the role of technology capable of assisting employees in carrying out accounting functions so that financial

reporting can be done on time. Haza (2015), Hertati (2015), Nuryanto and Afiah (2013) and Delanno and Deviani (2013) suggest that the greater the information technology utilized in the process of preparing the financial statements will improve the quality of the financial statements themselves. Conflicting opinion is expressed by Nurlis and Yadiati (2017), Suwanda (2015) and Pramudiarta (2015) that the utilization of information technology has no effect on the quality of financial statements. Utilization of information technology is also a factor that can affect the implementation of International Public Sector Accounting Standard as accounting standards in force in Kenya as disclosed by Hamisi (2012). Munandar (2016) and Pituringsih (2015) said that the utilization of Information Technology can be a determinant in the readiness of applying Government Accounting Standards, although Fitriзал (2017) stated otherwise that information system as one part in the utilization of information technology has no significant effect.

Supreme Audit Board underscores that with the strong foundation of the internal control system will contribute to improving the quality of financial statements. The Internal Control System also covers the efforts of the Local Government in following up the recommendations of the Supreme Audit Board as well as the completeness of administrative services to the public. Supreme Audit Agency warned 11 local governments including the Local Government of Palembang not to neglect the results of the investigation and follow-up of the Supreme Audit Board audit results within 60 days ([www.detiksumsel.com](http://www.detiksumsel.com), 2016). As a third factor that can determine the quality of Local Government Financial Statements, Afiah and Azwari (2015), Kasim (2015), Zahara (2015), Rismawati et al. (2015) and Udiyanti et al. (2014) states the same result in their research, that the Internal Control System gives a significant positive effect on improving the quality of financial statements. Opposing opinions are expressed by Latifah (2017), Nurlis and Yadiati (2017), Simon et al. (2016), Suwanda (2015), Nuryanto and Afiah (2013) and Setiyawati (2013) stating that the Internal Control System does not affect the quality of Local Government Financial Reports, and Yendrawati (2016) concludes that the quality of Local Government Financial Statements will be better if Internal Control System is running lower. Dewi et al. (2017) concluded that the Internal Control System can determine the successful implementation of Government Accounting Standards in the preparation of financial accountability reports.

The preparation of the financial statements must also be in accordance with Government Accounting Standards as the official guide to reporting on financial management. The implementation of Government Accounting Standards plays an important role in determining the quality of Local Government Financial Reports produced. Wibawa (2017) revealed that the implementation of Government Accounting Standards has a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Erin (2016), and Putra (2015) who voiced similarly that the Local



Government Financial Report will be more qualified if the implementation of Government Accounting Standards has been executed appropriately. Conflicting opinions are given by Fikri and Biana (2015) and Suwanda (2015) that the implementation of Government Accounting Standards does not contribute to the increase or decrease in the quality of Local Government Financial Statements.

There is still a significant research gap between the research and the achievement of Local Government of Palembang in maintaining Unqualified Opinion (UO), it is interesting to examine the influence of employee competence, utilization of information technology, and Internal Control System on the implementation of Government Accounting Standards and its implication to the quality of local government financial statements Palembang city. This study aims to determine the effect of employee competence, utilization of information technology and Internal Control System on the implementation of Government Accounting Standards either partially or simultaneously and the implications to the quality of Local Government Financial Statements. The benefits of this research for the institution that can be a source of information, as well as for further researchers can be a source of reference in discussing more the determinants of the quality of Local Government Financial Statements.

## **LITERATURE REVIEW**

### **Effect of Employee Competence, Utilization of Information Technology, and Internal Control System to the Implementation of Government Accounting Standards**

Definition of employee competence, as stated in Government Regulation no. 11 the year 2017 on Civil Servant Management mentioned that Technical Competence is knowledge, skill, and attitude-behavior that can be observed, measured, and developed that specific related to the technical field of position.

Employee competence is expected in accordance with the position, main tasks, and work functions. Employee competence declared by Munandar (2016) and Pituringsih (2015) as one of the factors influencing the readiness of applying of Government Accounting Standard so that it will have an impact on improving the quality of the financial statement.

Utilization of information technology is the use of the computer, software, and other similar things in an optimal manner. Information technology includes computers (mainframe, mini, micro), software (software), databases, networks (internet, intranet), electronic commerce, and other types related to technology (Wilkinson et al, 2000).

The use of such information technology as the optimal use of computers and software will have an impact on faster transaction processing and the calculation will also have a high degree of secrecy so that it will lead to improved quality of

financial reporting more reliably because the use of technology will reduce the errors that are material concerned (Primayana, et al, 2014). <sup>22</sup>

Utilization of information technology is also a factor that can affect the implementation of International Public Sector Accounting Standard as accounting standards in force in Kenya as disclosed by Hamisi (2012). Munandar (2016) and Pituringsih (2015) said that the utilization of Information Technology can be a determinant in the readiness of applying Government Accounting Standards, although Fitrizal (2017) stated otherwise that information system as one part in the utilization of information technology has no significant effect.

Internal control by Government Regulation Number 71 Year 2010 on Guidelines for Regional Financial Management is a process designed to provide adequate assurance about the achievement of local government objectives as reflected in the reliability of financial statements, efficiency, and effectiveness of the implementation of programs and activities and compliance with laws and regulations. <sup>41</sup>

Elements of Internal Control System in Government Regulation Number 60 the year 2008 about Government Internal Control System includes control environment, risk assessment, information and communication, control activities, and monitoring. <sup>21</sup> Dewi et al. (2017) concluded that the Internal Control System can determine the successful implementation of Government Accounting Standards in the preparation of financial accountability reports.

Therefore, the hypothesis is proposed as follows:

- H<sub>1</sub>: Employee Competence significantly effect the Implementation of Government Accounting Standards. <sup>45</sup>
- H<sub>2</sub>: Utilization of Information Technology significantly effect the Implementation of Government Accounting Standards.
- H<sub>3</sub>: Internal Control System significantly effect the Implementation of Government Accounting Standards.
- H<sub>4</sub>: Employee Competence, Utilization of Information Technology, and Internal Control System significantly effect the Implementation of Government Accounting Standards. <sup>1</sup>

### **Effect of Employee Competence, Utilization of Information Technology, Internal Control System and the Implementation of Government Accounting Standard to the Quality of Financial Statement**

<sup>18</sup> International Federation of Accountants (2014) in IAESB: Handbook of International Education Pronouncements, defines the following competencies:

“Competence is defined as the ability to perform a work role to a defined standard with reference to working environments. To demonstrate competence in a role, a professional accountant must



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possess the necessary (a) professional knowledge, (b) professional skills, and (c) professional values, ethics, and attitudes". (p.11)

Nurlis and Yadiati (2017) revealed that Employee Competence has a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Darwanis et al. (2016), Simon et al. (2016), Agung and Winarningsih (2015), Zahara (2015), Setiyawati (2013), and Nuryanto and Afiah (2013) who voiced similarly that the Local Government Financial Statements will be more qualified if their employees have competent skills. Conflicting opinions submitted by Syarifudin (2014) that employee competence does not contribute to the increase or decrease the quality of Local Government Financial Statements. With regard to the effect of information technology utilization on the quality of financial statements, it is obvious from the very beginning of the budgeting process to the accountability of the financial statements. Istianingsih and Wijanto (2008) have also proved that the use of information technology in accounting can affect the satisfaction of users of financial statements because of the quality, speed, and accuracy of data contained in the relevant financial statements.

The more widespread use of information technology may be the involvement of the use of information technology in determining the quality of local government financial statements as disclosed by Haza (2015), Hertati (2015), Nuryanto and Afiah (2013) and Delanno and Deviani (2013). This suggests that the greater the information technology utilized in the process of preparing the financial statements will improve the quality of the financial statements themselves. Conflicting opinion is expressed by Nurlis and Yadiati (2017), Suwanda (2015) and Pramudiarta (2015) that the utilization of information technology has no effect on the quality of financial statements.

Internal control by Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 21 Year 2011 on Guidelines for Regional Financial Management is a process designed to provide adequate assurance about the achievement of local government objectives as reflected in the reliability of financial statements, efficiency, and effectiveness of the implementation of programs and activities and compliance with laws and regulations. Afiah and Azwari (2015), Zahara (2015), Rismawati et al. (2015) and Udiyanti et al. (2014) states the same results in his research, that the Internal Control System gives a significant positive effect on improving the quality of financial statements. Opposing opinions are expressed by Latifah (2017), Nurlis and Yadiati (2017), Simon et al. (2016), Suwanda (2015), Nuryanto and Afiah (2013) and Setiyawati (2013) stating that the Internal Control System does not affect the quality of Local Government Financial Reports, and Yendrawati (2016) concludes that the quality of Local Government Financial Statements will be better if Internal Control System is running lower.

<sup>1</sup> The quality of Local Government Financial Statements is related to the Implementation of Government Accounting Standards. Bastian (2010, 137) states that:

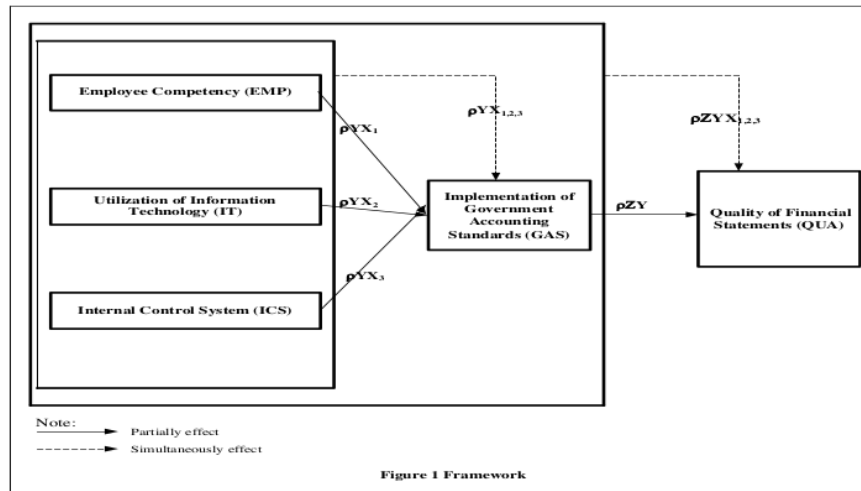
“Government Accounting Standards are the accounting principles applied in preparing and presenting the government financial statements so that Government Accounting Standards are requirements that have the power of law in an effort to improve the quality of government financial statements in Indonesia”.

Then Nordiawan (2006,25) argues that with the <sup>10</sup> implementation of Government Accounting Standards in the scope of government both central and local governments include departments and agencies. <sup>49</sup> Under it, Government Accounting Standards are believed to have an impact on improving the quality of financial reporting in central and local government. The statements are also supported by Wibawa (2017) which reveals that the application of Government Accounting Standards has a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Erin (2016), and Putra (2015) who voiced similarly that the Local Government Financial Statements will be more qualified if the implementation of Government Accounting Standards has been executed appropriately. Conflicting opinions are given by Fikri and Biana (2015) and Suwanda (2015) that the implementation of Government Accounting Standards does not contribute to the increase or decrease in the quality of Local Government Financial Statements.

Therefore, the hypothesis is proposed as follows:

- H<sub>5</sub>: Employee Competence significantly effect the Quality of Financial <sup>6</sup> statements.
- H<sub>6</sub>: Utilization of Information Technology significantly effect the Quality of <sup>16</sup> Financial Statement.
- H<sub>7</sub>: <sup>16</sup> Internal Control System significantly effect the Quality of Financial Statements.
- H<sub>8</sub>: Implementation of Government Accounting Standards significantly effect the Quality of Local Government Financial Statements.
- H<sub>9</sub>: Employee Competency, <sup>7</sup> Utilization of Information Technology, Internal Control System and Implementation of Government Accounting Standards significantly effect the Quality of Financial Statements.

9 Based on the above explanation, the framework in this study is as follows:



## METHODS

### Types of research

30 This type of research is quantitative research, which emphasizes on testing theories through the measurement of research variables with numbers and perform data analysis with statistical procedures. (Muhyiddin, Tarmizi and Yulianita 2017: 26).

### Data Collection Technique

33 The type of data used in this study is the primary data. Data were collected using questionnaires developed based on related dimensions and indicators. Questionnaires distributed to each of the Regional Organizations amounting to 50.

### Population and Sample

Population in this research is the entire Regional Organizations<sup>6</sup> of Palembang which amounted to 50 Regional Organizations. Sample selection method used in this research is purposive sampling method, that is sampling conducted based on certain criteria. The criteria of respondents set in this study are Head of Financial Division, Financial Manager of Income and Financial Manager of Expenditure. Questionnaires distributed to each organization after being collected, only returned by 12<sup>43</sup> (one hundred and twenty-six) pieces. Details of the return of the questionnaire can be seen in Table 1 below.

**Table 1. Return of Questionnaire Review**

Information	Total
Number of questionnaires distributed	150
Number of questionnaires returned	126
Number of questionnaires used	126
Rate of return of the questionnaire	84%

Source: primary data processed, 2017

**The operational definition of research variables**

Table 2 the following describes the operational definition of research variables.

**Table 2. Operational Definition of Research Variables**

Variable	Definiton	Dimension	No of Quest	Scale
<b>The Quality of Financial Statements (QUA)</b>	The quality of financial statements are normative measures that need to be manifested in accounting information so as to meet its objectives (Nordiawan, 2006: 25)	1. Relevant 2. Reliable 3. Comparable 4. Understandabl e	1, 2, 3, 4, 5 6, 7, 8, 9, 10 11, 12, 13 14, 15	Ordina l
<b>The Implementation of Government Accounting Standards (GAS)</b>	Government Accounting Standards, h <sup>34</sup> inafter abbreviated as GAS, are accounting principles applied in preparing and presenting government financial statements (Law Government No. 71 tahun 2010)	1. <sup>15</sup> resentation of Financial Statements 2. Budget Realization Statement 3. Cash Flow Statement 4. Notes to the Financial Statements 5. Inventory Accounting 6. Investment Accounting 7. Fixed Assets Accounting 8. Construction in Workmanship Accounting 9. Obligations Accounting 10. Corrections of Errors 11. Consolidated Financial	16, 17, 18 19, 20, 21, 22 23, 24 25, 26 27, 28 29, 30 31, 32 33, 34 35, 36 37, 38 39, 40 41, 42	Ordina l

		Statements		
<b>Employee Competence (EMP)</b>	Technical competence are the knowledge, skills, and attitudes/behaviors that can be observed, measured, and developed that are specific related to the technical field of office. (Law Government No. 11 Tahun 2017)	1. Knowledge	43, 44, 45, 46, 47, 48	Ordina 1
		2. Skill	49, 50, 51, 52, 53, 54, 55	
		3. Attitude	56, 57, 58, 59, 60, 61	
<b>Information Technology Utilization (IT)</b>	Utilization of information technology is the use of computer, software and other similar thing in an optimal manner.	1. Computer	62, 63, 64, 65, 66, 67, 68	Ordina 1
		2. Internet	69, 70	
<b>Internal Control System (IAS)</b>	Utilization of information technology is the use of computer, software and other similar thing in an optimal manner. (Wilkinson et al: 2000). Internal Control System is a process designed to provide reasonable assurance about the achievement of local government objectives reflected in the reliability of financial statements, efficiency and effectiveness of the implementation of programs and activities and compliance with laws and regulations (Regulation of the Minister of Home Affairs No. 21 tahun 2011)	1. Control Environment	71, 72, 73, 74, 75, 76, 77, 78, 79	Ordina 1
		2. Risk Assesment	80, 81, 82, 83, 84, 85, 86	
		3. Control Activities	87, 88, 89	
		4. Information and Communication	90, 91, 92	
		5. Monitoring		

### Data Analysis Technique

The method used is path analysis method, which is a method of composition correlation into different parts to interpret an effect. Testing begins by testing the quality of data through validity and reliability test data.

The results of the tests in Table 3 below, show that the question items for the Quality of Local Government Financial Statement have valid criteria for statement 1-15, the 16th statement will be eliminated in the collection of research data. The valid questionnaire items will be used as research instruments since the r value is



greater when compared to the  $r_{table}$ . Question items for the implementation of Government Accounting Standards from questions 1 to question 27, question items for Employee Competency from Question 1 to Question 19, Question items for Utilization of Information Technology from Question 1 to Question 9, and Question items for Internal Control System from Question 1 to Question 22 is valid/fit to be used <sup>29</sup> a research instrument, since the value of  $r$  is bigger when compared to  $r_{table}$ . Based on the results of the classical assumption test, the data obtained has been spread normally and free from problems of heterokedastisitas, multicollinearity and autocorrelation.

The results of validity and reliability testing are as follows:

**Table 3. Validity Test Results**

Dimension	Question	R <sub>table</sub>	R <sub>count</sub>	Information	Dimension	Question	R <sub>table</sub>	R <sub>count</sub>	Information
<b>The Quality of Financial Statements</b>					Knowledge	EMP4	0,361	0,674	Valid
Relevant	QUA1	0,361	0,512	Valid		EMP5	0,361	0,789	Valid
	QUA2	0,361	0,592	Valid		EMP6	0,361	0,791	Valid
	QUA3	0,361	0,578	Valid		EMP7	0,361	0,677	Valid
	QUA4	0,361	0,585	Valid		EMP8	0,361	0,802	Valid
	QUA5	0,361	0,633	Valid		EMP9	0,361	0,929	Valid
Reliable	QUA6	0,361	0,515	Valid		EMP10	0,361	0,816	Valid
	QUA7	0,361	0,541	Valid		EMP11	0,361	0,741	Valid
	QUA8	0,361	0,829	Valid		EMP12	0,361	0,719	Valid
	QUA9	0,361	0,873	Valid		EMP13	0,361	0,778	Valid
Comparable	QUA10	0,361	0,600	Valid		EMP14	0,361	0,592	Valid
	QUA11	0,361	0,873	Valid		EMP15	0,361	0,836	Valid
	QUA12	0,361	0,510	Valid		EMP16	0,361	0,890	Valid
Understandable	QUA13	0,361	0,866	Valid		EMP17	0,361	0,778	Valid
	QUA14	0,361	0,568	Valid		EMP18	0,361	0,692	Valid
	QUA15	0,361	0,900	Valid		EMP19	0,361	0,771	Valid
	QUA16	0,361	0,357	Tidak Valid	<b>Utilization of Information Technology</b>				
<b>The Implementation of Government Accounting Standards</b>					Computer	IT1	0,361	0,799	Valid
Standard No.01	GAS1	0,361	0,750	Valid		IT2	0,361	0,546	Valid
	GAS2	0,361	0,845	Valid		IT3	0,361	0,456	Valid
	GAS3	0,361	0,845	Valid		IT4	0,361	0,746	Valid
Standard No.02	GAS4	0,361	0,828	Valid		IT5	0,361	0,848	Valid
	GAS5	0,361	0,633	Valid		IT6	0,361	0,737	Valid
	GAS6	0,361	0,724	Valid		IT7	0,361	0,785	Valid
Standard No.03	GAS7	0,361	0,767	Valid		IT8	0,361	0,808	Valid
	GAS8	0,361	0,937	Valid		IT9	0,361	0,696	Valid
Standard No.04	GAS9	0,361	0,814	Valid	<b>Internal Control System</b>				
	GAS10	0,361	0,697	Valid	Control Environment	ICS1	0,361	0,611	Valid
Standard No.05	GAS11	0,361	0,461	Valid		ICS2	0,361	0,601	Valid
	GAS12	0,361	0,747	Valid		ICS3	0,361	0,680	Valid
Standard No.06	GAS13	0,361	0,395	Valid		ICS4	0,361	0,662	Valid
	GAS14	0,361	0,835	Valid		ICS5	0,361	0,692	Valid
	GAS15	0,361	0,587	Valid		ICS6	0,361	0,628	Valid
	GAS16	0,361	0,652	Valid		ICS7	0,361	0,799	Valid
Standard No.07	GAS17	0,361	0,802	Valid	Risk Assesment	ICS8	0,361	0,777	Valid
	GAS18	0,361	0,845	Valid		ICS9	0,361	0,737	Valid
	GAS19	0,361	0,813	Valid	Control Activities	ICS10	0,361	0,901	Valid
Standard No.08	GAS20	0,361	0,791	Valid		ICS11	0,361	0,870	Valid
	GAS21	0,361	0,915	Valid		ICS12	0,361	0,638	Valid
Standard No.09	GAS22	0,361	0,683	Valid		ICS13	0,361	0,876	Valid
	GAS23	0,361	0,758	Valid		ICS14	0,361	0,787	Valid
Standard No.10	GAS24	0,361	0,758	Valid		ICS15	0,361	0,805	Valid
	GAS25	0,361	0,709	Valid		ICS16	0,361	0,737	Valid
Standard No.11	GAS26	0,361	0,635	Valid	Information dan Komunikasi	ICS17	0,361	0,576	Valid
	GAS27	0,361	0,683	Valid		ICS18	0,361	0,918	Valid
<b>Employee Competence</b>						Monitoring	ICS19	0,361	0,849
Knowledge	EMP1	0,361	0,608	Valid	ICS20		0,361	0,737	Valid
	EMP2	0,361	0,735	Valid	ICS21		0,361	0,675	Valid
	EMP3	0,361	0,502	Valid	ICS22	0,361	0,602	Valid	

Source : primary data that is processed, 2017

**Table 4. Reliability Test Results**

Variables	Cronbach's Alpha	Information
The Quality of Financial Statements	0.926	Reliable
The Implementation of Government Accounting Standards	0.968	Reliable
Employee Competence	0.766	Reliable
Utilization of Information Technology	0.915	Reliable
Internal Control System	0.965	Reliable

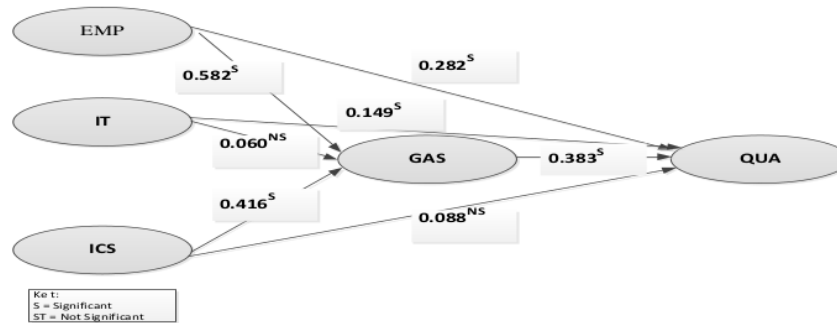
Source: primary data processed, 2017

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Based on the results of the reliability test in Table 4, Cronbach's Alpha value of the quality of Local Government Financial Statements of 0.926, the variable of the implementation of Government Accounting Standard of 0.968, the variable of Human Resource Competence of 0.766, the variable of Information Technology Utilization of 0.915, and Internal Control System of 0.965 so it can be concluded that all statements in the questionnaire are reliable because they have Cronbach's Alpha value more than 0.7. This indicates that each statement item used will be able to obtain consistent data which means that if the statement is filed back will be obtained the answer is relatively the same as the previous answer.

## FINDINGS

The results of testing of all hypotheses proposed in this study are:



**Figure 2. Full Model\_Fit Path Analysis Diagram**

## Effect of Employee Competence, Utilization of Information Technology, and Internal Control System to the Implementation of Government Accounting Standards

The result of figure 2 shows that employee competency variable has an effect on the implementation of Government Accounting Standards. The value of  $t_{count}$  or

estimate is positive indicating that the effect is positive. In addition, from the results of statistical tests p-value of  $0.000. < 0,05$  and from the result of comparison between  $t_{\text{count}} = 6,439 > t_{\text{table}} = 1,980$  means that the increase of employee competency will be followed by the improvement of Government Accounting Standard and vice versa decreasing employee competence will result in decreasing the implementation of Government Accounting Standards. The direction of the positive regression coefficient indicates a tendency that the financial officers in each Regional Organizations have the awareness to perform the tasks according to their ability. Means **hypothesis 1** in this study which states that "*there is a significant influence of competence of employees on the implementation of Government Accounting Standards*" **accepted**.

The results of this study support Munandar (2016) and Puringsih (2015) research which states that employee competence is one of the factors affecting the readiness of applying Government Accounting Standards, meaning that the more competent the resources are placed, the implementation of Government Accounting Standards becomes more optimal.

The results of the analysis in figure 2 show that the variable of Information Technology Utilization has no effect on Government Accounting Standards. The value of  $t_{\text{count}}$  or estimate is negative indicating that the effect is negative. In addition, from the results of statistical tests p-value of  $0.312. > 0,05$  and from the result of comparison between  $t_{\text{count}} = -1.016 < t_{\text{table}} = 1,980$  means that the increase of Information Technology Utilization will be followed by decrease of Government Accounting Standard and the decrease of Utilization of Information Technology will result in the increase of Government Accounting Standard. The direction of negative regression coefficient indicates a tendency that employees in each Regional Organization have less awareness to utilize existing technology facilities, and there are still some sectors where technological facilities are inadequate. The absence of influence of the utilization of information technology is seen from the research data showing the low average of employees who utilize information technology in financial implementation in each Regional Organization. Means **hypothesis 2** in this study which states that "*there is a significant influence of the use of information technology on the implementation of Government Accounting Standards*" was **rejected**.

The results of this study prove the need for efforts to increase training on the use of information technology ranging from new employees to employees with a much longer working period. The results of this study also support research conducted Fitrizal (2017) that there is no significant effect of utilization of information technology on the Implementation of Government Accounting Standards.

The results of the analysis in figure 2 shows the Internal Control System variables effect the implementation of Government Accounting Standards. The value of  $t_{\text{count}}$  or estimate is positive indicating that the effect is positive. In addition, the

results of statistical tests p-value of  $0.000 < 0.05$  and from the comparison between the value of  $t_{count} = 4.141 > t_{table} = 1.980$  means that the improvement of Internal Control System will be followed by an increase in the implementation of Government Accounting Standards and vice versa the decline of the Internal Control System will result in a decline in the implementation of Government Accounting Standards. The direction of the positive regression coefficient indicates a tendency that financial officers in each Regional Organization have an awareness of running an appropriate Internal Control System in regulating activities in each Regional Organization. Means **hypothesis 3** in this study which states that "there is a significant effect Internal Control System on the implementation of Government Accounting Standards" **accepted**.

The results of this study support research from Dewi et al. (2017) stating that the Internal Control System is one of the factors affecting the readiness of the implementation of Government Accounting Standards, meaning that the better the Internal Control System run, then the implementation of Government Accounting Standards become more optimal.

The test results simultaneously on the influence of employee competence, utilization of information technology and internal control system on the implementation of Government Accounting Standards are as follows:

32  
Table 5. ANOVA<sup>b</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.568	3	3.856	132.986	.000 <sup>a</sup>
	Residual	3.131	108	.029		
	Total	14.699	111			

a. Predictors: (Constant), ICS, IT, EMP

b. Dependent Variable: GAS

Source: Output SPSS version 18

The results of the analysis in Table 5 show that the F-value of the estimate is positive indicating that the effect is positive. In addition, from the results of statistical tests p-value value of  $0.000 < 0.05$  and from the results of comparison between the value of  $F_{count} = 132,986 > F_{table} = 2.68$  means the influence Employee Competencies, Utilization of Information Technology, and Internal Control System can improve the implementation of Government Accounting Standards. Local Government of Palembang should continue to improve and dig again with teaching, training or explanations of Government Accounting Standards. Local Government of Palembang should continue to pay attention to the quality of its employees, optimizing the utilization of information technology in financial



implementation and monitor the running of Internal Control System in each Regional Organization. Means **hypothesis 4** in this study which states that "*there is a significant effect of employee competence, utilization of information technology and Internal Control System on the implementation of Government Accounting Standards*" **accepted**.

The results of this study are in line with the results of Munandar (2016) and Pituringsih (2015) research which states that the competence of employees and the utilization of Information Technology as one of the factors influencing the readiness of applying Government Accounting Standards. Dewi et al. (2017) also concluded that the Internal Control System can determine the successful implementation of Government Accounting Standards in the preparation of financial accountability reports.

#### **Effect of Employee Competence, Utilization of Information Technology, Internal Control System and the Implementation of Government Accounting Standard to the Quality of Financial Statement**

The results of analysis in figure 2 shows the employee competency variables affect the Quality of Financial Statements. The value of  $t_{count}$  or estimate is positive indicating that the effect is positive. In addition, from the results of statistical tests p-value of 0.014.  $<0,05$  and from result of comparison between  $t_{count} = 2,495 > t_{table} = 1,980$  means that the increase of employee competency will be followed by improvement of Quality of Financial Statements and vice versa decrease in employee competence will result in decreasing quality of financial report. The direction of the positive regression coefficient indicates a tendency that the financial officers in each Regional Organization have an awareness to perform the task in preparing the financial statements based on rules/guidelines applicable according to their ability. Means **hypothesis 5** in this study which states that "*there is a significant effect of employee competence on the Quality of Financial Statements*" **accepted**.

The results of this study support the research by Nurlis and Yadiati (2017) revealed that the Employee Competence have a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Darwanis et al. (2016), Simon et al. (2016), Agung and Winarningsih (2015), Zahara (2015), Setiyawati (2013), and Nuryanto and Afiah (2013) who voiced similarly that the Local Government Financial Statements will be more qualified if their employees have competent skills.

The results of the analysis in figure 2 shows the variables utilization of Information Technology affect the quality of financial statements. The value of  $t_{count}$  or estimate is positive indicating that the effect is positive. In addition, from the results of statistical tests p-value of 0.021.  $<0,05$  and from result of comparison between  $t_{count} = 2,351 > t_{table} = 1,980$  means that the increase of Information Technology Utilization will be followed by improvement of Quality

of Financial Report and on the contrary decrease of <sup>6</sup> Utilization of Information Technology will decrease Quality of Financial Staetements. Direction of positive regression coefficient indicates the tendency that the employees in each Regional Organization in processing financial transaction data using software in accordance with legislation that is Local Financial Accounting System. Means **hypothesis 6** in this study which states that "there is a significant effect of the utilization of <sup>24</sup> Information Technology on the Quality of Financial Statements" accepted.

The results of this study support the research by Haza (2015), Hertati (2015), Nuryanto and Afiah (2013) and Delanno and Deviani (2013) which suggest that the greater the information <sup>48</sup> technology utilized in the process of preparing the financial statements will improve the quality of the financial <sup>45</sup> statements themselves. Thus from the results of **hypothesis 6** can be known efforts to improve the Quality of Financial Statements can be through improving the ability of employees in operating information systems through various training or socialization of the system used, and continuously update the facilities provided to each Regional Organization in the form of computers and network upgrades.

The result <sup>16</sup> of the analysis in figure 2 shows the Internal Control System variables have no effect on the Quality of Financial Statements. The value of  $t_{count}$  or estimate is positive indicating that the effect is positive. In addition, from the results of statistical tests  $p$ -value of 0.444.  $> 0,05$  and from result of comparison between  $t_{count} = 0,768 < t_{tabel} = 1,980$  means that the improvement of Internal Control System will not be followed by improvement of Quality of Financial Statement and on the contrary decreasing of Internal Control System will not decrease Quality of Financial Statement. The direction of the positive regression coefficient indicates a tendency that the employees in each Regional Organization already have awareness to run Internal Control System, but not accompanied by the illustration of the implementation of Internal Control System that has not been optimal.

From <sup>47</sup> the results of research at Regional Organization of Palembang showed that the internal control system has no effect on the quality of local financial statements. This is likely to occur because the internal control system is not maximized, all Regional Organization leaders have not done the examination for the accounting records maximally. Means **hypothesis 7** in this study which states that "there is a significant effect Internal Control System to the Quality of <sup>24</sup> Financial Statements" **rejected**.

The results of this study proves the need for efforts to improve <sup>2</sup> the im<sup>39</sup>plementation of Internal Control System from lower level employees to upper management. The results of this study also support research conducted by Latifah (2017), Nurlis and Yadiati (2017), Simon et al. (2016), Suwanda (2015), Nuryanto and Afiah (2013) and Setiyawati (2013) which stating that the Internal Control System does not affect the quality of Local Government Financial Statements.

The results of the analysis in figure 2 shows the variables of the <sup>46</sup> Implementation of Government Accounting Standards affecting the Quality of Financial Statements. The value of  $t_{count}$  or estimat<sup>5</sup> is positive indicating that the effect is positive. In addition, from the results of statistical tests p-value of 0.000. < 0,05 and from the result of comparison between  $t_{count} = 3,756 > t_{table} = 1,980$  means that the increase of implementation of Government Accounting Standard will be followed by improvement of Quality of Financial Statement and the decreasing of implementation of Government Accounting Standard will decrease Quality of Financial Statement. The direction of the positive regression coefficient indicates a tendency that the employees in each Regional Organization in recording each transaction in accordance with the planned activities have been referring and guided by Government Accounting Standards as a guideline in accordance with Government Regulation no. 71 the year 2010. Means **hypothesis 8** in this study which states that "there is a significant effect of implementation of Government <sup>24</sup> accounting Standards on Quality of Financial Statements" **accepted**.

The results of this study support the study by Wibawa (2017) which revealed that the implementation of Government Accounting Standards has a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Erin (2016), and Putra (2015) who voiced similarly that the Local Government Financial Statement will be more qualified if the implementation of Government Accounting Standards has been <sup>15</sup> executed appropriately. Thus from the results of hypothesis 8 can be known efforts to improve the Quality of Financial Statements can be through optimizing the application of Government Accounting Standards in recording and acknowledging every transaction performed by each Regional Organization includes recording assets, liabilities, investments, and preparation of financial statements required.

The results of a simultaneous test of the effect of employee competence, utilization of information technology, <sup>23</sup> internal control system and the implementation of Government Accounting Standards to the quality of Local Government Financial Statements are as <sup>31</sup> follows:

**Table 6. ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.323	4	2.581	79.096	.000 <sup>a</sup>
	Residual	3.491	107	.033		
	Total	13.814	111			

a. Predictors: (Constant), GAS, IT, ICS, EMP

b. Dependent Variable: QUA

Sumber: Output SPSS version 18

<sup>9</sup> The results of the analysis in Table 6 show that the  $F_{count}$  or estimate is positive indicating that the effect is positive. In addition, the results of the statistical tests p-value of  $0.000 < 0.05$  and the results of the comparison between the value of  $F_{hitung} = 79.096 > F_{table} = 2.45$  means the effect Employee Competence, Utilization of Information Technology, Internal Control Systems and implementation of Government Accounting Standards can improve the Quality of Financial Statements. Local Government of Palembang should continue to improve and dig again with teaching, training or explanations of Government Accounting Standards. Local Government of Palembang should continue to pay attention to the quality of its employees, optimizing the utilization of information technology in financial implementation and monitor the running of Internal Control System in each Regional Organization. Means **hypothesis 9** in this study which states that "there is a significant influence of employee competence, utilization of information technology, Internal Control System and implementation of Government Accounting Standards on Quality of Financial Statements" **accepted**.<sup>19</sup> The results of this study in line with the result<sup>26</sup> of research Nurlis and Yadiati (2017) revealed that the Employee Competence have a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Darwanis et al. (2016), Simon et al. (2016), Agung and Winarningsih (2015), Zahara (2015), Setiyawati (2013), and Nuryanto and Afiah (2013) who voiced similarly that the Local Government Financial Statements will be more qualified if their employees have competent skills. Haza (2015), Hertati (2015), Nuryanto and Afiah (2013) and Delanno and Deviani (2013) suggesting that the greater the information<sup>2</sup> technology utilized in the process of preparing the financial statements will improve the quality of the financial statements themselves. Afiah and Azwari (2015), Zahara (2015), Rismawati et al. (2015) and Udiyanti et al. (2014) states the same results in his research, that the Internal Control System gives a significant positive<sup>2</sup> effect on improving the quality of financial statements. Wibawa (2017) revealed that the implementation<sup>4</sup> of Government Accounting Standards has a significant positive effect on the quality of local government financial statements. This opinion is also supported by Edriani (2017), Erin (2016), and Putra (2015) who voiced similarly that the Local Government Financial Report will be more qualified if the implementation of Government Accounting Standards has been executed appropriately.

## <sup>14</sup> CONCLUSIONS

Based on the results and discussion<sup>3</sup>, it can be concluded that: Partially, the utilization of Information Technology has no significant effect on the implementation of Government Accounting Standards. While employee



competence and Internal Control System have a significant positive effect on the implementation of Government Accounting Standards. Simultaneously, the employee competence, utilization of Information Technology and Internal Control System have a significant positive effect on the implementation of Government Accounting Standards.

Partially, Internal Control System has no significant effect on Quality of Local Government Financial Statement. While the employee competence, utilization of Information Technology, and implementation of Government Accounting Standards have a significant positive effect on the Quality of Local Government Financial Statements. Simultaneously, employee competence, utilization of Information Technology, Internal Control System and implementation of Government Accounting Standard have a significant positive effect on Quality of Local Government Financial Statement.

### **Suggestions**

This research is only done on the scope of the Local Government of Palembang so that the results of research cannot be generalized to other regions in Indonesia. Therefore the next researcher is expected to expand the scope of the research and also can analyze the data from the auditor's point of view.

This research does not fully explain about the Implementation of Government Accounting Standards and the Quality of Financial Statement so it is expected for the next researcher to examine other factors including local financial supervision, the role of the internal auditor, facilities and infrastructure, accounting comprehension, and others.

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