

CHAPTER II

LITERATURE REVIEW

A. Theoretical Basis

1. Stewardship Theory

Stewardship theory is a theory that explains how managers have an attitude of feedback to their workers. Stewardship theory is an alternative to agency theory that can address the different interests between executives and workers that may arise. Thus, in this theory, the executive can achieve what the company aspire to (Donaldson & Davis, 1991). This theory designs the executive as a steward to act in accordance with the wishes of the principal, then stewards will try to achieve organizational goals without prioritizing individual interests.

In the theory of agency and organizational economics, the model of man illustrates that humans will be selfish in order to maximize their economic benefits. On the other hand, there is the model of man by basing sociology and organizational psychology. This model illustrates how organizational holder is motivated to carry out responsibilities and authority to gain recognition from superiors. In this situation, it can be seen the existence of non-financial factors that encourage to carry out the responsibility.

2. Accountability

According to Rasul (2002) in Septiningtyas (2017) accountability is the ability to give answers to higher authorities over the actions of a person or group of people to the wider community within an organization. Scott (2002) stated that accountability is a mechanism that the public gives to officials to explain and ensure that they have acted rightly, behave ethically and been responsible for their actions. On the other hand, according to the glossary of BPK RI accountability is 1. clarity of function, implementation and organ liability so that the management of the company is effected effectively; 2. Responsible management of resources and implementation of policies entrusted to the reporting entity in achieving the objectives that have been set periodically; 3. accountability; 4. the decisive principle that any activity and final outcome of the activities of the state administrator must be accountable to the public or the people as the highest sovereign of the state in accordance with the provisions of applicable legislation. Thus it can be concluded that accountability is a responsibility that government / officials do to the public to ensure that the government concerned has done its job properly and correctly.

Sujianto, et al (1995) describes accountability functions covering three elements: 1) providing information about decisions taken during the course of operating entities; 2) having the internal parties review the information; 3) taking corrective actions where necessary. Ulum and

Sofyani (2016) continue that an entity or organization may be said to be accountable if an entity can provide open information about the decisions taken during the operating entity, allowing outside parties or people to review the information, and willingness to take corrective action when necessary. So, from the elements of accountability can be concluded that accountability is a condition where the results of activities that have been done can be explained and accounted for by providing access to information to outsiders or public.

Stewart in his writing "The Use of Information in Public Accountability" in Trijuwono (1999) stated that accountability has 5 different levels:

- a. Policy accountability, accountability for policy choices made
- b. Accountability program, accountability for achievement of goals / results and effectiveness achieved
- c. Performance accountability, accountability for the achievement of efficient activities
- d. Process accountability, accountability for the proper use of processes, procedures or measures in carrying out the defined actions
- e. Probity and legality accountability, accountability for the legality and honesty of use of funds in accordance with approved budget or adherence to applicable regulations.

Roberts and Scapens (1985) argued that accountability builds the moral system itself by communicating notions about what should happen. In the world of practitioners, losing independence becomes one of the complex things to increase accountability itself. Not only information delivery, accountability is also associated with monitoring functions, so the information presented to the public allows to be audited by the functional supervisory apparatus. With this, it can be said that accountability becomes an important component in government.

3. Transparency

As a component of good governance, transparency is needed to improve government oversight. Transparency is built on the basis of free information flows, all government processes, institutions and information need to be accessible to interested parties, and available information must be sufficient to be understood and monitored (Mardiasmo, 2009). Sopana and Mardiasmo (2013) stated that an entity is said to be transparent when it meets several of the following criteria:

- a. There is a budget policy announcement.
- b. Available budget documents and easily accessible.
- c. A timely accountability statement is available.
- d. Accommodating votes / people's suggestions.
- e. There is a system of public information.

Transparency is an act of government openness about the performance they have done to show a clean and honest government in

the absence of something to hide. So it can be concluded that the use of transparency is also important in determining the success of a government.

4. Human Resource Competence

Human resources is an important component in carrying out various tasks and even jobs. In the field of finance, human resources even play a direct use in making financial statements about information that will be conveyed to stockholders, so we can say that the better of human resources owned by an entity, the better an organization or entity. It will also be supported by how human resources do their work by meeting the standards of the existing provisions so that the organization can run as expected. According to Lado and Wilson (1994) human resources can provide benefit and facilitate the development of an organization. With proper management, systems and training, human resources can be a high investment value for an organization in competing with other organizations.

In addition, Pujanegara (2017) stated that the gap between the established standards and the competencies possessed by the resources. This is something that should always be noticed by the organization given that human resources are important. In line with this, the term human resource is replaced by the term human capital which assumes that human resources are an asset that must be developed its potential so as to achieve the standards set by the government even more.

In terms of understanding, human resources are divided into two broad lines, namely in terms of macro and micro. From a micro perspective, human resources are people who specifically engaged and working in an entity or organization and directly involved in advancing the entity or organization. In terms of macro, human resources are residents of a country that has entered the age of the workforce, both those who have not worked and who have worked. Herbig et al (1994) stated that the design of program training must be done so that human resources can succeed in translating the results of training or experience into their workplaces.

In achieving good and competent human resources, there are several aspects that must be noticed, among others:

- a. Responsible. It is an action to provide an outsider with regard to performance or something related to the internal of an entity or organization. Not only in business and government affairs, responsibility is an ethic that even must be applied in life to provide information related to the actions we make.
- b. Training. It is an activity that we do to hone, train, even as a form of evaluation of our ability to competence that we can grow and expected to increase with the training. In the case of organizations and entities, training is undertaken to assist resources in improving the performance and problems existing

in organizations or entities. It is intended that resources can perform their duties in meeting organizational goals.

- c. Experience. Experience is an event that has occurred in the past which will provide lessons related to the events that have been passed.

5. Regulation Compliance

In the economic sector, financial statements are an important instrument in determining how well a government is performing. It is supported by Fatimah et al (2014) that stated about the auditor consideration that should be compliance with the provisions of legislation in conducting its examination.

Regulation is a rule made by the government to be done to create a prosperous country. Regulation itself has a compelling and even punitive nature so that all levels of society can be obedient. Fenn & Veljanovski (1988) stated that the enforcement of government regulation and control is very complex and largely determines the effect of the regulation. This theory supports the view about how the government in making regulations must be in line with the problems faced by the community.

Fenn & Veljanovski (1988) continued to comply with the regulation, penal and negotiated-compliance that approach to enforcement should be construct. It is assumed that the highest parties (such as top management or board of directors) should make a rule that

if it is violated, will give multiple losses according to the level of violation. So if an entity has high compliance, then the level of punishment will be lower. In the other side, if the entity has low regulation compliance, then the level of punishment will be high. In addition, Sutinen and Kuperan (1999) stated that to develop and implement the regulation, the key of legitimacy is the fairness built into the procedures used to develop and implement policy.

With the issuance of regulation on governance of the village, it is expected that all villages can run the government in accordance with the rules. In terms of system, the government itself has been very detailed in regulating the mechanism in preparing good financial statements. Therefore, regulation compliance is an important aspect to be enforced.

6. The Use of Information Technology

In line with the development of the era, then people always make many innovations to facilitate them in living life. Papaioannou and Dimelis (2005) stated that information technology is a core element of the knowledge basis society, because with the existence of information technology, not only connects people with other, but also information technology has developed as a field that provides great benefits to the wider community. Powell and Micallef (1997) argued that to achieve the success of information technology should be developing the 'fusion' framework strongly. It is related to how information technology give the contribution which produces the competitive advantage.

Computer is one of the inventions that can help human life in carrying out activity easily. As a tool that has multifunctional features, many things that can be done by a computer ranging from simple business to more complex, one of them is the problem of recording. The computer can easily input, process until presenting records by minimizing errors. In making the financial statements, human resources are prepared to arrange them in detail and as much as possible avoid mistakes. By using the computer, the preparation of financial statements can be more efficient and can reduce any errors that may occur.

Computer itself is divided into two components, namely hardware and software. Hardware is a physical form of computer that can support the process of computer performance. On the other hand, the software is the brain of a computer that provides various systems so that the computer can carry out its tasks properly. Therefore, these two devices become important things that must be considered so that the computer can have maximum performance when used.

Currently, the computer is not only functioned as supporting thing, it is a must of thing that some entity should have so that the availability of a computer becomes an importance. Computer usage has even extended event to the government sector. In line with this, in of government act no.56 year 2005 explains how the central government and local governments should utilize information technology to improve financial management in order to realize good governance.

Therefore, between the user and the computer must work well in order to provide organizational benefits. With the right human resources and trained as users and good computer care, information technology can provide positive benefits. On the other hand, if human resources are not trained and computer maintenance is not good, utilization of technology is difficult to achieve.

7. Financial Statement Quality

The financial statements are records of a company's financial information in an accounting period that can be used to describe an entity's performance. The financial statements can be said as a tool that can be shown to the stockholders or shareholders as physical evidence in financial terms. According to PSAK, the financial statements are said to be qualified if they meet the following:

- a. Understandable: The essential quality of the information contained in the financial statements is its ease to be understood by the user. If the financial statements are difficult to understand by stockholders, then the financial statements have inadequate quality.
- b. Relevant: Relevant means in line with existing decisions. The information in the financial statements has the quality of a relevant if it can influence a user's economic decisions by helping them evaluate past, present, or future events, affirming, or correcting their past evaluations.
- c. Materiality: Materiality is the magnitude of the omitted value or misstatement of accounting information, that can be seen from the

circumstances surrounding it, may result in a change in an influence on the consideration of the person who placed the trust in the information, because of the omission or misstatement. If the information has a high degree of materiality, this will affect the quality of the financial statements

- d. Reliability: in presenting information, financial statements should pay attention to reliability. In order to obtain reliable financial statements, financial statements should avoid material mistakes, and can be relied on by the user as a faithful representation of what should be presented reasonably expected to be served.

B. Summary of previous researches

Irma (2015) stated that accountability of management village fund in Sub-District South of Dolo Sigi Regency can be seen from planning, implementation and responsibility both in technical and administration that has been running well, but in the other side in the competency of human resource is the main problem. There are many findings indicated that administration of ADD fund has not been complied yet with the local government regulation.

Hanifah and Praptoyo (2015) stated that the process of accounting recording in Kepatihan Village Menganti Sub-District Gresik has been implemented, but has not run well and not in accordance with Regulation No.6 of 2014 because of Village Kepatihan accounting in the process of recording, any transactions conducted were only recorded in the daily cash book and Kepatihan Village have not compiled a general ledger this is due to limited competent human

resources in the field of accounting, so that accounting records in Kepatihan Village has not run optimally. The system of recording cash receipts and disbursements in Kepatihan Village Menganti Sub-district Gresik has not done separation of records between cash receipts and cash disbursements that should be recorded in auxiliary books details of objects of acceptance and auxiliary cash book details of expenditure object. The financial management of Kepatihan Village Menganti Sub-district of Gresik has demonstrated accountable and transparent implementation seen from the reporting of the Revenue Budget (APBDesa), so that the financial management is used to improve the service and empowerment effort of Kepatihan Village of Menganti Sub-district, Gresik Regency.

In another research location, Wida, Supatmoko and Taufikurrohman (2017) stated that the accountability system in the planning of the Village Fund Allocation in 9 Rogojampi sub-villages Banyuwangi Regency has lasted 100%, and earned the AA value. This means that the accountability of its management has been carried out satisfactorily, and in accordance with prevailing regulations and regulations. The Accountability System in the implementation of the Village Fund Allocation in 9 Rogojampi sub-districts has lasted 100%, and earned an AA. This means that the system of accountability of implementation has been carried out satisfactorily and in accordance with established procedures. The Accountability System in the supervision of the Village Fund Allocation in 9 Rogojampi sub-districts has gone on 100% and earned an AA. It means that the system of accountability under supervision has been

satisfactory. Supervision has been carried out by the inspectorate, the sub-district, the village, and the community on the planning, implementation, and accountability of the management of ADD. The Village Funds in 9 Village in Rogojampi sub-districts have taken place at 87.5%, and obtained AA. This means that the accountability system in accountability has been carried out satisfactorily, by recasting each activity in the form of reports that have been determined based on the procedures that have been set. Overall Accountability System in 9 Villages in Rogojampi Sub-district has been 97%. This means that the accountability system in Kecamatan Rogojampi obtains AA value, which means the accountability system has been satisfactorily satisfied. All in the processes of planning, execution, monitoring and accountability, all have been satisfactory, but there is one component in the unfulfilled supervision, namely the timeliness in the delivery of the late SPJ.

For further explanation about previous research, see table 2.1 as follows:

Table 2.1
Summary of previous research

| No . | Title and Author | Variables | Result |
|------|---|---|---|
| 1. | The influence of Financial Management Accountability Village Fund Allocation, Village Policy, and Institutional Village towards Public Welfare (Case Study In Gubugklakah Village, Poncokusumo District, Malang Regency) Dura (2016) | Independent variables: Financial Management Accountability Village Fund Allocation, Village Policy and Village institutional | $H_1 : VI_1 + \rightarrow VD (S)$ $H_2 : VI_2 + \rightarrow VD (S)$ $H_3 : VI_3 + \rightarrow VD (S)$ |

| No | Title and Author | Variables | Result |
|----|---|---|--|
| | | Dependent variable: Public Welfare | |
| 2. | Factors that effecting Quality of Financial Statement in Local Government of Semarang City Setyowati, et al (2016) | Independent variables: The Use of Information Technology, Human resource competence, and The role of internal audit Dependent variable: Quality of financial statement | H ₁ : VI ₁ - → VD (NS) H ₂ : VI ₂ + → VD (S) H ₃ : VI ₃ + → VD (S) H ₄ : VI _{1,2,3} + → VD (S) |
| 3. | Accountability of Village Fund Allocation Management (Add) In Dolo Selatan District Sigi Regency Irma (2015) | Accountability of Village Fund Allocation Management (Add) In Dolo Selatan District Sigi Regency | The accountability of the management of the allocation of village funds in the South Dolo sub district of Sigi Regency is seen from the planning, implementation and accountability stages both technically and administratively well. |
| 4. | The Influence of the Internal Control System, Regulation Compliance, Audit Opinions of the Previous Year and the Age of the Local Government Towards Unqualified opinion to Local Government Financial Statements Throughout Indonesia Fatimah, et al (2014) | Independent variables: Internal control system, Regulation Compliance and Audit age Dependent variable: Unqualified opinion | H ₁ : VI ₁ - → VD (NS) H ₂ : VI ₂ - → VD (NS) H ₃ : VI ₃ + → VD (S) H ₄ : VI ₄ - → VD (NS) |
| 5. | Accountability and Transparency of Responsibility in Village Expenditure Budget (APBDes) | Accountability and Transparency of Responsibility in Village Expenditure Budget (APBDes) | The financial management of Kepatihan Village Menganti Sub-district of Gresik has demonstrated accountable and transparent implementation. |

| No | Title and Author | Variables | Result |
|----|--|---|---|
| | Hanifah and Praptoyo (2015) | | |
| 6. | <p>Presentation of Village Government Financial Statement (Study On Ampeldento Village Government of Malang Regency)</p> <p>Khilmiyah and Handayani (2016)</p> | <p>Presentation of Village Government Financial Statement (Study On Ampeldento Village Government of Malang Regency)</p> | <p>Accountability of village fund management indicating that planning and implementation of Village Fund Allocation (ADD) activity has shown accountable management and transparency, but seen from the administration side still needed further development.</p> |
| 7. | <p>The Influence of Information Technology Utilization and Internal Control Systems Towards the Quality of Local Government Financial Statement (Skpd Case Study in DKI Jakarta Province)</p> <p>Chodijah and Hidayah (2018)</p> | <p>Independent variables: Information technology utilization and Internal Control System</p> <p>Dependent variable: Quality of Financial Statement</p> <p>Moderation variable: Morality</p> | <p>H₁: VI₁ + → VD (NS) H₂: VI₂ + → VD (S)</p> |
| 8. | <p>Accountability of Village Fund Allocation Management (ADD) in Rogojampi Sub-district of Banyuwangi Regency</p> <p>Wida, et al (2017)</p> | <p>Accountability of Village Fund Allocation Management (Add)</p> | <p>Overall Accountability System in 9 Villages in Rogojampi Sub-district has been 97%. This means that the accountability system in Kecamatan Rogojampi obtains AA value.</p> |
| 9. | <p>Financial Accountability in the Management of Village Fund Allocation (Add) In Perangat Selatan</p> | <p>Independent variable: Financial Accountability in the</p> | <p>1. Financial Accountability in Village Fund Allocation Management (ADD) in Perangat Selatan Village Office from implementation</p> |

| No . | Title and Author | Variables | Result |
|------|--|---|--|
| | Village Office Marangkayu Sub-district Kutai Kartanegara Regency Riyanto (2015) | Management of Village Fund Allocation (ADD) and Inhibiting and supporting factors in financial accountability Dependent variable: Management of Village Fund Allocation (ADD) | to achievement of the results can be accounted in front of all the Village Government, but not accountable to the entire village community. 2. Factors inhibiting financial accountability in the management of Village Fund Allocation (ADD) in the Village Office of South of Peragat, among others, still the new rules that appear in the Village Consultative Board (BPD) and Chairman of the RT |
| 10. | Accounting System of Village Fund Management Ismail et al (2016) | Accounting System of Village Fund Management | Village officials do not have readiness in implementing Act no. 6 year 2014. They have not fully understood the management of village funds based on Permendagri 113/2014. This is worsened by the low quality of human resources, lack of socialization and guidance. |

C. Research hypothesis

1. Hypothesis Development

- a. The effect of accountability towards the quality of financial statements

As a tool of government accountability to the public, financial statement is an important instrument and become necessity to show it. Dura (2016) examined the accountability of financial management to the welfare of rural communities by obtained

positive results. On the other hand, accountability in the allocation of village funds has also been researched by Irma (2015). This study resulted in accountability goes well, but the obstacle in this research is administrative responsibility which becomes the main problem. Based on the description above, the researcher proposed the following hypothesis:

H₁ = The effect of accountability towards the quality of financial statements

- b. The effect of transparency towards the quality of financial statements

In act 6 year 2014 on villages, the Village Community Institution serves as a forum for village community participation in development, governance, community and empowerment that leads to democratization and transparency at the community level and creates access to more active citizens in development activities. With this regulation, the government directly expects a form of transparency from the village government for development to be improved. In addition, Hanifah (2015) examined the Accountability and Transparency Accountability of the Village Revenue and Expenditure Budget (Apbdes). The results found are the records in the sample village have been implemented, but not in accordance with the applicable regulation, but in terms of transparency has been done well.

Therefore, the researcher proposed the hypothesis:

H₂ = The effect of transparency towards the quality of financial statements

- c. The effect of human resource competence towards the quality of financial statements

Based on previous research in different environments, Setyowati et al (2015) on Factors Affecting the Quality of Local Government Financial Statement of Semarang City, the result of research is human resources have a positive effect on the quality of financial statement in local government of Semarang. In addition, based on the procedures for the implementation of guidance and consultation on village fund management (*Juklak bimkon*), the village government should be able to record or at least to do the bookkeeping of financial transactions as a form of financial accountability. Based on the description, the researcher proposed hypothesis:

H₃ = The effect of human resource competence towards the quality of financial statements.

- d. The effect of regulation compliance towards the quality of financial statements

A country has regulations as a form of boarder about what should be done and should not be done. The regulation itself is a regulation which is formed by the people's representative council

which is approved by the president. In financial governance, Indonesia has regulated its validity by issuing regulations and followed by ministerial regulations in the country. For this reason, in preparing a good financial statement, it must be in accordance with the regulations that have been established. If the financial statements are in accordance with the regulation, it will have high quality. In the regional government, Fatimah et al (2014) have examined the regulation compliance in local governments. From this explanation, the researcher proposed the following hypothesis:

H₄ = The effect of regulation compliance towards the quality of financial statements

- e. The effect of the use of information technology towards the quality of financial statements

Information technology is an innovation that can help process data from processing to storing data. This data then become information for the parties concerned in making decisions. Therefore, the information technology is expected that the data we manage can be quality information. Using information technology will be very helpful in the process of data management so as to minimize the occurrence of errors that may appear. Therefore, the better the apparatus in using information technology, the higher the quality of the financial statements produced by the village government. In different spheres, Setyowati et al (2016) stated that

the use of information technology has no significant effect on the quality of financial statements. However, in Chodijah and Hidayah (2018) stated that the use of information technology has a significant influence on the quality of financial statements. From the description, the researcher proposed hypothesis:

H₅ = The effect of the use of information technology towards the quality of financial statements

2. Research Model

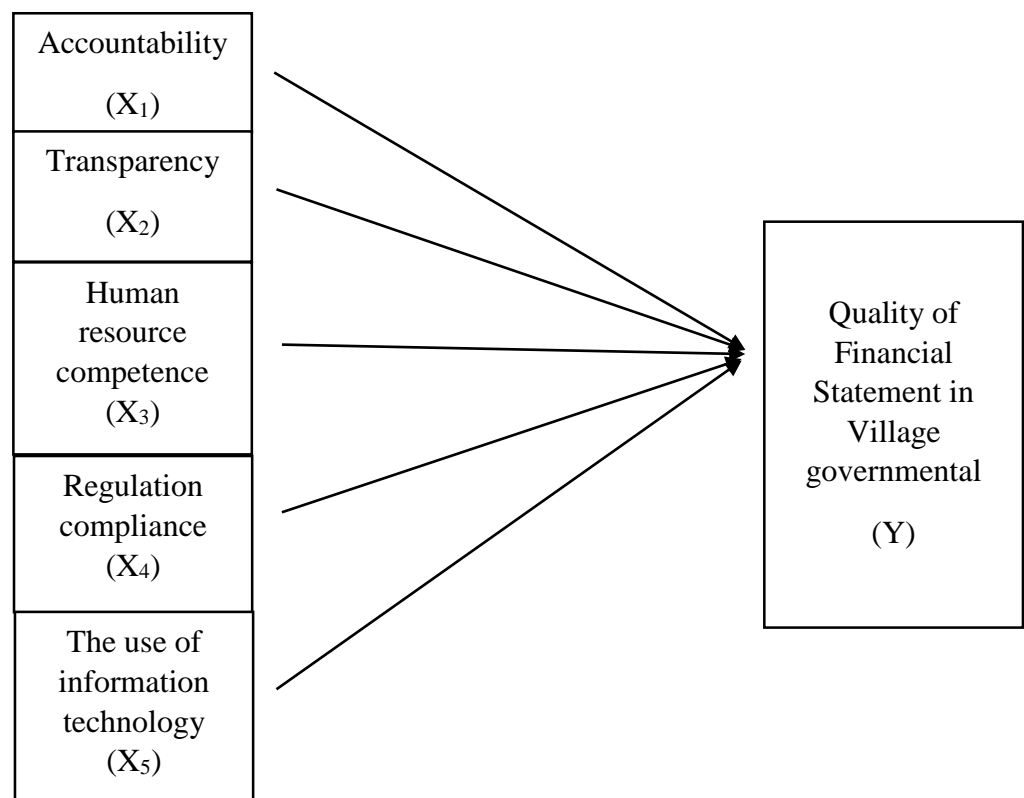


Figure 2.1
Research model