

## **CHAPTER I**

### **INTRODUCTION**

#### **A. Research Background**

Central Government issued UU No. 23 / 2014 about replacement from centralization to decentralization government system. The existence of decentralization system by government implement as a regional autonomy. Regional autonomy makes the local government have right, authority, and obligation to manage and organize their affairs in accordance with the prevailing laws and regulation. This policy substitutes the transfer of funding, facilities and infrastructure, and human resource affairs to the local government.

Lanin and Hermanto (2019) issued that any substitution from stated-oriented to public-oriented public sector model, construct, and practice. The substitution focus on public interest rather than government apparatus interest. It makes the local government level very close to the society.

The implementation of this policy requires local government to report its performance to the Central Government. In addition, the society also demands the accountability for government financial reporting. Accountability is an obligation to take responsibility for the success or failure in carrying out the objectives and targets that have been set before, through a media periodically (Mardiasmo, 2002).

Harun *et al* (2015) stated that government as public sector organization use the public resources. When the organization use public resource it means that the public has right to know how the public is or is not being served. So the government must report its performance to the public as a form of public transparency.

The government regulations that regulate accountability for public transparency are UU No. 17 / 2003 about State Finance and UU No. 23 / 2014 about Local Government. This two acts states how the efforts to realize transparency and accountability of government financial management both central and local government with reporting in a form of financial statements.

Accountability for public transparency is reinforced by one of the regulations that regulate about the quality characteristics of financial statements that is Government Regulation (PP) No. 71 / 2010 concerning the Government Accounting Standard (SAP) in the Government Accounting Conceptual Framework (KKAP, Appendix 1:par. 35-40). This regulation regulates the quality of financial statements which needs fulfill several characteristics, such as: relevant, reliable, understandable, and comparable. When the financial statements already done, it will be submitted to the People's Representative Council (DPR) / and Assembly at Regional (DPRD) and share to the society after obtaining an audit opinion from The Audit Board of Indonesia (BPK).

Long before this regulation was formed, Allah SWT had sent the holy Qur'an Surah An-Nahl verse 93:

وَلَوْ شَاءَ اللَّهُ لَجَعَلَكُمْ أُمَّةً وَاحِدَةً وَلَكِنْ يُضِلُّ مَنْ يَشَاءُ وَيَهْدِي مَنْ يَشَاءُ وَلَتُسْأَلُنَّ عَمَّا كُنْتُمْ  
تَعْمَلُونَ

This verse has meaning “And if Allah had willed, He could have made you (of) one religion, but He causes to stray whom He wills and guides whom He wills. And you will surely be questioned about what you used to do”.

The Audit Board of Indonesia’s opinion is one of the quality indicators of financial accountability. The Audit Board of Indonesia’s opinion means the examiner’s professional statement regarding the fairness of financial information presented in financial statement based on four criteria, namely compliance with government accounting standard, adequate disclosures, compliance with laws and regulations, and effectiveness of internal control system. Government financial statements are Central Government Financial Statement, Ministry / Agency Financial Statement, Local Government Financial Statement whose includes: Balance Sheet, Budget Realization Report, Cash Flow Statement, and Notes. According to UU No 15 / 2004, BPK has four opinion towards the investigation such as Unqualified Opinion, Qualified Opinion, Adverse Opinion, and Disclaimer. If The Audit Board of Indonesia give Unqualified Opinion it means the information contained are presented and disclosed in fair and qualified manner.

According to Sri Mulyani as a Minister of Finance the Unqualified Opinion does not guarantee that there is no corruption or fraud on it. Unqualified Opinion

is (only) seen whether it has followed the planning, budgeting, and execution using accounting principles. In fact, many irregularities found by The Audit Board of Indonesia on the financial statements.

In the Audit Result Summary Year 2017 1<sup>st</sup> Semester (IHPS) conducted by The Audit Board of Indonesia, the findings regarding irregularities are summarized as follows:

**Table 1.1**  
**The Total of Audit Result Report and BPK Audit Findings**  
**1<sup>st</sup> Semester 2017**

<b>Government / Type of Auditing</b>	<b>Total of Audit Result Report</b>	<b>Total of Audit Findings</b>
<b>Central Government</b>	<b>113</b>	<b>1.411</b>
Financial Auditing	102	1.322
Performance Auditing	1	11
DTT Auditing	10	78
<b>Local Government</b>	<b>537</b>	<b>7.950</b>
Financial Auditing	537	7.950
<b>BUMN and Other Institution</b>	<b>37</b>	<b>368</b>
Financial Auditing	6	45
Performance Auditing	8	104
DTT Auditing	23	219
<b>Total</b>	<b>687</b>	<b>9.729</b>

Source: [www.bpk.go.id](http://www.bpk.go.id) – IHPS BPK RI 2017 1<sup>st</sup> Semester

In Table 1.1 BPK already audited 687 Audits Results Reports disclosed 9.729 findings with 14.997 problems including 7.284 (49%) problems related to internal control system weaknesses, 7.549 (50%) problems related to issues of non-compliance towards the regulations with the amount of 25,14 billion, and

164 (1%) problems related to uneconomically, inefficiency, and ineffectiveness with the amount of 2.25 billion.

**Table 1.2**  
**Audit Opinion for Local Government Financial Statements by BPK**

Audit Opinion	Local Government (%)	
	2015	2016
Unqualified Opinion	58%	70%
Qualified Opinion	36%	26%
Disclaimer	5%	4%
Adversed Opinion	1%	0%

Source: [www.bpk.go.id](http://www.bpk.go.id) – IHPS BPK RI 2017 1<sup>st</sup> Semester

Table 1.2 shows the Audits Results Reports (IHPS I 2017) which contains the examination results of 537 from 542 Local Government Financial Statements (LKPD) in 2016 that has been submitted. The amount of 537 Local Government Financial Statements, The Audit Board of Indonesia provide 375 Unqualified Opinions (70%), 139 Qualified Opinions (26%), and 23 Disclaimer (4%). Compared to previous year, in 2015, the Unqualified Opinion of Local Government Financial Statements increased from 58% to 70%. Any explanation in IHPS II 2017 about the examination of 5 LKPD 2016, The Audit Board of Indonesia gives 3 Unqualified Opinions and 2 Qualified Opinions. So the total for Unqualified Opinion is 378, 141 Qualified Opinion, and 23 Disclaimer. This Qualified Opinion exist because the government did not present the financial statement like in Government Accounting Standard.

**Table 1.3**  
**Audit Opinion by BPK in DIY**

No	Local Government	Audit Opinion				
		2012	2013	2014	2015	2016
1	DIY Province	WTP	WTP	WTP	WTP	WTP
2	Yogyakarta City	WTP	WTP	WTP	WTP	WTP
3	Bantul Regency	WTP	WTP	WTP	WTP	WTP
4	Sleman Regency	WTP	WTP	WTP	WTP	WTP
5	Kulon Progo Regency	WDP	WTP	WTP	WTP	WTP
6	Gunungkidul Regency	WDP	WDP	WDP	WTP	WTP

Source: [www.bpkp.go.id](http://www.bpkp.go.id)

Table 1.3, shows the regencies in DIY Province almost all of them, since 2012-2013, show the good audit opinion from The Audit Board of Indonesia. However, Gunungkidul Regency got 3 times Qualified Opinion. Gunungkidul Regency become the object of research because in 2012-2014 the government got Qualified Opinion. In 2015-2016 the opinion increased from Qualified to Unqualified Opinion. Reviewing from the data, Gunungkidul Regency tried to improve and maintain the audit opinions. Unqualified Opinion can be achieved by preparing the financial statement that is suitable with Government Accounting Standard, compliance with the laws, accountable, transparent, and adequate of disclosures.

The increased of Unqualified Opinion in Gunungkidul Regency does not guarantee that there is no fraud on the reporting. According to Bahrullah, as the deputy of The Audit Board of Indonesia in DIY, Unqualified Opinion is a professional investigation statement regarding the fairness of financial statements which is not a guarantee that there is no fraud encountered or the possibility of

the future. Beside that the achievement of maintaining Unqualified Opinion is expected for local government to encourage the creation of accountability and public transparency. The local government also must follow up on the audit opinion by The Audit Board of Indonesia no later than 60 days after the audit result report already received.

Based on this phenomenon the researcher took the research with the title **“The Influence of Human Resource Competency, Implementation of Government Accounting Standard, Internal Control System and Utilization of Information Technology Towards The Quality of Local Government Financial Statement (Empirical Study on Local Government Department in Gunungkidul Regency)”**. This research is a replication from previous research from Raja Yoga Gustika Armel (2017) with the title *Pengaruh Kompetensi Sumber Daya Manusia, Penerapan Standar Akuntansi Pemerintahan, Pemanfaatan Teknologi Informasi dan Sistem Pengendalian Internal Terhadap Kualitas Laporan Keuangan Pemerintah Daerah (Studi Pada SKPD Kota Dumai)*. This research indicate that the financial statements made by local government, there are still many presentations that do not achieve qualitative characteristics.

If the previous research subject is SKPD in Dumai, this research was conducted on Local Government Department in Gunungkidul Regency. The variables used in this study both dependent and independent were similar to the previous study. By conducting research that has not held in Gunungkidul, we can

see the development of local government there which tries to improve the level of financial statement quality and defend it.

## **B. Scope of Problem**

This research was conducted in Gunungkidul Regency that focused on 32 Local Government Department include 19 local government offices, 5 agencies, and 8 sub districts. The variables used were human resources competency, implementation of Government Accounting Standard, internal control system, and utilization of information technology, then the dependent variable was quality of local government financial statement.

## **C. Research Problems**

Based on the background that has been described, then the research problems of this study are:

1. Is there any positive influence of human resource competency on the quality of local government financial statement?
2. Is there any positive influence of the implementation of Government Accounting Standard on the quality of local government financial statement?
3. Is there any positive influence of the internal control system on the quality of local government financial statement?
4. Is there any positive influence of utilization of information technology on the quality of local government financial statement?



#### **D. Research Objectives**

Based on the background that has been described, then the research objectives of this study are:

1. To test the positive influence of human resource competency on the quality of local government financial statement.
2. To test the positive influence of implementation of Government Accounting Standard on the quality of local government financial statement.
3. To test the positive influence of the internal control system on the quality of local government financial statement.
4. To test the positive influence of utilization of information technology on the quality of local government financial statement.

#### **E. Research Benefits**

Based on the background that has been described, then the research benefits of this study are:

1. Theoretical Benefit

This study is expected to provide sufficient explanations and become a reference for improving related research in the future.

2. Practical Benefits

- a. For Local Government

The results of this study can be used as an alternative reference which contains thoughts that can be taken into consideration for decisions

making that relate with the quality of local government financial statement in Gunungkidul Regency.

b. For College

This research is expected to be a reference for continuing and developing similar research to be more new and innovative.

c. For The Researcher

This research can increase knowledge and understanding what the factors that have influences on the quality of local government financial statement. The knowledge can be a reference for the future career of researcher in the government sector.