

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **A. Theoretical Basis**

##### **1. Stewardship Theory**

Perspectives of stewardship theory is taken from management accounting based on psychological and sociological theories. Stewardship theory is an alternative theory under agency theory that is used in public organization such as government. This theory describes that the managers are not motivated by individual goals but they more focus about organizational goals (Donaldson and Davis, 1991). The illustration is executive as stewards are motivated to do their work based on principal's wishes. In addition, the steward behavior will not leave the organization's interests because they try to achieve the goals of the organization.

While, Keay (2017) stated that stewardship theory essentially holds that the directors who acts as stewards not pay attention with own economic interest, but more concern in organizational interest. They will act in a way to achieve organizational services than self-services and working for organizational needs.

Stewardship theory assume that a servant who has a behavior that they can always collaborate in an organization, have a high utility in group rather than individuals and always willing to serve (Anton, 2010). Government as a public organization must do their work based on public interest rather than

individual interest. In addition, the government especially local government must do their duties and functions appropriately, provides accountability, and evaluate performance to achieve good performance of society welfare. Stewards in government must understand about value of togetherness is so important that they can control and run the organization to achieve public organization's goals.

## **2. Quality of Local Government Financial Statement**

Local government is basically become an object of reporting entity. The reporting entity must submit their work of one period in the form of financial statement. Financial statement is used to determine the value of economic resources that are used to carry out government operational activities, assess financial conditions, evaluate the effectiveness and efficiency of an entity, and help to determine its compliance with the regulation (law).

According to Government Regulation (PP) No. 71 / 2010 about Government Accounting Standard, financial statement is structured reports on financial position reports and transactions carried out by reporting entity. Local government as a public sector organization must pay attention to the information presented in the financial statement carefully to do planning, controlling, and make a decision.

Financial statement must achieve the qualitative characteristics as a representative of government public responsibility. Qualitative characteristic of financial statement is normative measurement that need to be realized in

accounting information so that they can achieve their objectives. In government, there are four (4) qualitative characteristics of financial statement:

a. Relevant

Relevant financial statement can be achieved when the information contained can influence a user's decision by helping them evaluate past or present events, predict the future, and confirm the results of their evaluation in the past. The characteristics of relevant information are:

- a) Have a Feedback Value: information allows users to confirm their expectations in the past
- b) Have a Predictive Value: information can help users to predict the future based on past events
- c) Timeliness: information timely presented can influence and be useful in decision making
- d) Complete: government financial accounting information is presented as complete as possible, covering all accounting information that can influence decision making. The information contained in financial statements must be clearly disclosed so that the errors in the use of information can be prevented

b. Reliable

Information may be relevant, but if the presentation is unreliable, the use of information can be wrong. Reliability means that the information presented are free from misleading data and material errors, honest in presentation, and verifiable. The characteristics are:

- a) Honestly Presentation: information describes the transaction honestly and other evidence should be presented
- b) Verifiability: the information presented in the financial statement can be tested. If the test already done more than once by different parties, so the result show the conclusions that are not much different
- c) Neutral: information is directed to the general needs and doesn't take sides with certain parties necessary

c. Comparable

The information contained in the financial statements will be more useful if it can be compared with the previous period financial statement. There are two (2) kinds of comparisons. Internal comparisons can be done if an entity applies the same accounting policy from year to year. External comparisons can be done if the entities that compared apply the same accounting policy.

d. Understandable

The information presented in the financial statement can be understood by users and expressed in terms adjusted to the limits of users understanding. So that the users assumed that they have sufficient knowledge on activity and operational environment reporting entity and will learn the information.

**3. Human Resource Competency**

Human resource is one of the important factor that influence organizational achievement. Without human resource the organization will not run well. Human resource are basically movers, thinkers, and planners that will be achieve organizational goals. Both public and private sector organizations, developing human resource is critically important in increasingly knowledge-based and global economy (Antwi and Analoui, 2008).

According to Hullah and Pontoh (2017) human resource as intellectual capital consists of people in the organization, their competencies, and use it in their work. Human resource competency include its capacity, is the ability of a person or individual, an organization, or a system to carry out its functions or authority to achieve its objectives effectively and efficiently (Triwahyuni, 2016).

Local government is one of the reporting entity which is have regulations and laws that can changes. It makes the government must improve their

competency of human resource. This is not only affect the accounting basis, but also affect the operational technique of local government financial administration. Changes occur in accounting technique mainly recording procedures, document and form used, authorization functions, and supervision (Sari and Witono, 2014).

In a good local financial management, the OPD must have human resource that qualified and competent. It is supported by an accounting education background, take the education or training, and have an experience in financial sector. Qualified and competence of human resources itself in accounting system implementation will be able to understand the logic of accounting properly. Wulandari (2014) described the failure of the local government's human resource in understanding and applying the logic of accounting concepts will have an impact on the errors of financial statements. When the financial statements error it means there is no accordance with accounting government concept.

Hutapea and Thoha (2008) argued that there are three main aspects of the human resource competencies formation:

a. Knowledge

Employee must have an information to carry out his duties and responsibilities in accordance with the certain sector that he or she engaged in. Knowledge or information owned by employee can used in a real condition (job). In government, the implementation of employee

knowledge must be able to achieve public organization goals. Employees must have good quality knowledge with professionalism, dedication, and discipline in order to realize good, honest, transparent, and responsible governance.

b. Skill

Skill is an effort to carry out the duties and responsibilities given by the organization to an employees within a good and maximum capability. There are three (3) types of skills that employees must have: (a) hard skills - technical and analytical skills, (b) soft skills – social interaction skills, and (c) life skills. This three kind of skills are very necessary for employees who has occupied certain position, because relate with communicating, motivating, and delegating.

c. Attitude

Attitude is a pattern of an employee in the role of carrying out his duties and responsibilities based on organizational regulations. Employees in public organization must have attitude to give a good services to the society. The information must free from wrong information. In addition, the responsibility also one of the attitude that helping society when they face various problems relate with government performance.

#### **4. Implementation of Government Accounting Standard**

Ningsih (2016) stated that financial statements are useful for decision making if it meet the expected quality. Financial statement is considered to

meet the qualitative characteristics especially in specific standard that is Government Accounting Standard.

Government Accounting Standard defined as standard that regulate how financial statement are presented for general purposes in order to improve the comparability of financial statement both in budget, between periods, and between entities (Armel, 2017). Based on Government Regulation (PP) No. 71 / 2010, Government Accounting Standard is accounting principles applied in compiling and presenting government financial statement.

Adhitama (2017) stated that Government Accounting Standard applied in the scope of government, such as central government, local government, and organizational units within the central or local government according to the laws and regulations mentioned are obliged to present expenditure, transfer, financing, assessing financial conditions, evaluating the effectiveness and efficiency of a reporting entity and helping government to obedient with the regulations.

In the form of financial statement any accounting principle and financial reporting that must be understood and obeyed by government in order to run their activities and arrange the standards. The principles are:

a. Accounting Basis

Accounting basis used is the accrual basis where income or expense ( in the LO) is recognized when the right to receive income or issue an issued.

Budget Realization Report (LRA) is prepared based on cash basis, it



means that income and financing receipts are recognized when cash is received in the State/Local General Cash Account or by reporting entity. Accrual basis for balance sheet means that assets, liabilities, and equity are recognized and recorded at the time of transaction, without pay attention with cash or cash equivalents are received.

b. Historical Cost Principle

Historical cost can be defined as the amount of cash or equivalent cash that has been paid intended to obtain an investment asset at the time of acquisition. While the recording of obligations in accordance with the amount of cash equivalent. Historical cost is more reliable than others because its more objective and verifiable.

c. Realization Principle

Public accounting in practice is not given an emphasis on the principle of income costs because the incomes are authorized through the government budget an accounting period will be used to pay debt and expenditure.

d. Substance Over Form Principle

Fairness presentation of transactions and other events to make an information, the recording and presentation of transactions or other events must based on substance and economic reality, not only formality. If there is an inconsistency transaction substance or other event, then it must be explain in notes.

e. Periodicity Principle

The accounting activities and financial reporting entity need to be divided into reporting periods so the performance of the entity can be measured and the position of the resources can be determined.

f. Consistency Principle

The same accounting treatment is applied to similar events from period to period by a reporting entity (the principle of internal consistency). The accounting method used can be change to the other method when its provide information better than the old method and disclosed in the notes.

g. Full Disclosure Principle

Financial statement provide complete information on the face or notes that can be used by the users.

h. Fair Presentation Principle

The financial statements present fairly Budget Realization Report (LRA), Changes to More Budget Balance Reports, Balance Sheet, Operational Report (LO), Cash Flow Report, Changes in Equity Report, and Notes. Fair presentation must be followed by an element of consideration and careful in decision making.

## **5. Internal Control System**

The definition of internal control system based on Government Regulation (PP) No. 60 / 2008 is an integral process in actions and activities carried out continuously by the leader and all of employees to provide adequate

confidence in achieving organizational goals through effective and efficient activities, reliability of financial reporting, state assets security, and compliances of laws and regulations.

In this regulation the internal control system itself especially for the government, namely SPIP. Government Internal Control System (SPIP) is an internal control system that is carried out thoroughly in the central government and local government. So, all of government in Indonesia applied SPIP as their system to control the organization.

According to Alam et al (2018) internal control system that proper is very crucial because it enhance the confidence among stakeholders. Beside that, it will also help government to reduce cronyism and nepotism in public sector organization. Internal control system that run well will also prevent the organization from bad financing.

To achieve management effectiveness, efficiency, transparency, and accountability of state finances, ministers / leaders of institutions, governors, and mayors must exercise to control the administration of government activities. Wilkinson et al (2000) in Putra (2017) mention subcomponents of control activities relate with financial reporting are (1) adequate design and the use of numbered documents and records; (2) separation of duties; (3) adequate authorization of transactions; (4) independent investigation of performance; (5) appropriate assessment on the amount recorded.

In Government Regulation (PP) No. 60 / 2008 also explains that there are five (5) elements in SPIP such as:

a. Control Environment

The head of government agency must create and maintain a control environment in order to create a positive and conducive behavior for the internal control system implementation through:

- a) Enforcement of integrity and ethical values
- b) Commitment towards competency
- c) Conducive leadership
- d) The formation of an appropriate organizational structure based on government needs
- e) Proper delegation of authority and responsibility
- f) Policies arrangement and implementation regarding the human resource creation
- g) Realization of the role of government internal supervision apparatus effectively
- h) Good working relationship with related government agencies.

b. Risk Assessment

Internal control must provide an assessment of the risks faced by organizational units both the inside and outside. Risk assessment is carried out by the leader, which is consist of the risk identification and risk analysis by establishing organizational goals.

c. Activity of Control

Activity of control help to ensure that the direction of government agency leader is carried out effectively and efficiently to achieve organizational goals.

d. Information and Communication

Information must be recorded and reported to the head of government agency and the other parties determined by certain forms and tools timely so that the government can carry out their controlling functions and responsibility. Information and communication is held to easier all employees functions to identify and record transactions supported by a good information system.

e. Monitoring

Monitoring must be able to assess the quality of performance continuously and ensure that the recommendations of the audit results and review can be follow up immediately.

**6. Utilization of Information Technology**

Information technology is a very important thing in this developing era. Armel (2017) stated the information technology as technology that is used to process data, including compiled, stored, manipulated data to make a quality information for users in decision making. This technology use a set of computer to process data, a network system to connect a one computer to the

other computer, and telecommunications technology used so the data can spread and accessed globally.

Mustafa et al (2010) in Sari and Witono (2014) generally explain that the use of information technology can be viewed from: (a) the use of device (equipment that support the implementation of information technology including software, hardware, and network system); (b) processing and storage (utilization of information technology for financial data management, systematic, and comprehensive); and (c) maintenance (the regular maintenance schedule for information technology equipment to support the continuity of the work).

According to Government Regulation (PP) No. 56 / 2005 the indicators in the utilization of Local Financial Information System (SIKD) are:

- a. The process of documentation, administration, and data processing of local financial management using SIKD accordance with the laws and regulations
- b. Presentation of budget information, budget implementation, and local financial statement produced by the Local Financial Management Information System
- c. Provide the local financial information in order to support SIKD

The use of information technology to collect, store, retrieve, and manipulate data has provided the public sector organization. Information technology system can deliver very accessible, provide information that

accurate in times that can be fundamentally impact on conduct of operations in all sectors (Donnelly *et al*, 1994). Leung and Adams (2009) stated that in public organization technology as known as e-government which is related to the use of technology that can enhance the internal effectiveness and efficiency process and transactions.

Utilization of information technology can minimize various kinds of errors in recording activities due to the existence of a support system that produce financial statement. In addition, conduct the training in the use of information technology devices also needed. So between the users and information technology must work together to create a quality of local government financial statement.

## **B. Research Hypothesis**

### **1. Hypothesis Development**

- a. The influence of human resource competency towards the quality of local government financial statement

Human resource in government become an important thing to run the activities. The quality of financial statement can be achieved when the resource have a competency and capacity related with accounting background. If the employee understand and focus about accounting concept and will produce a financial statement that quality.

Triwahyuni (2016) state that competencies can be obtained through learning activities to acquire various cognitions or understanding, skills,

attitude, and behaviors. Good human resource can be seen by accounting educational background, attend the training, and have experience in finance. So the employees can understand the logic of accounting properly as an implementation of accounting system.

In the previous research conducted by Armel (2017) if the human resource have a high competency in organization, it can be influence the quality of government institutional itself according to their quality of financial statement. Adhitama (2017) and Nurais (2017) also stated that human resource competency has a significant influence to the quality of local government financial statement.

On the other hand, research conducted by Sanjaya (2017) and Triyanto (2017) stated that human resource competency has no significant influence to the quality of government financial statement.

Based on the description above, the hypothesis is:

**H<sub>1</sub> = Human resource competency has a positive influence to the quality of local government financial statement**

- b. The influence of implementation of government accounting standard towards the quality of local government financial statement

Reporting entity including the government will report their accountability in the form of financial statement. Government Accounting Standard is a reference in arranging government standard to carry out their duties and prepare the financial statement. In addition, the



examiners in providing opinions refers to whether financial statements are prepared in accordance with Government Accounting Standard. The users also need the financial statement that quality because the information contained can help them to make a decisions. Therefore it is necessary to apply Government Accounting Standard in carrying out government activities.

Armel (2017) mentioned that Government Accounting Standard is one of the legal product that have legal power to improve the quality of financial statement that must be implemented both in central government and local government in Indonesia. In the research conducted by Adhitama (2017) also confirmed that Government Accounting Standard is the accounting principle that support government accountability, transparency, and quality of financial statement.

Other research conducted by Evicahyani and Setiawina (2016), Nurais (2017), and Gumelar (2017) also stated that the implementation of Government Accounting Standard has a positive influence on the quality of government financial statement. Research conducted by Inapty and Martiningsih (2016) show that Government Accounting Standard has no significant influence to the quality of local government financial statement.

Based on the the description above, the hypothesis is:

**H<sub>2</sub> = Implementation of Government Accounting Standard has a positive influence to the quality of local government financial statement**

- c. The influence of internal control system towards the quality of local government financial statement

The internal control system influence the government activities. Internal control functions to achieve government goals that have been planned. The implementation of good internal controls will produce financial statement that quality. So the users can trust the contained information and use it to alternative reference in making decisions.

According to the results of The Audit Board of Indonesia (BPK) in 2017, internal control is a serious problems that must be deducted every year. In the Audit Result Report (IHPS) first semester in 2017 from 537 local government financial statement, BPK disclosed 6.053 internal control system weaknesses consisting 2.156 problems with accounting and reporting in the control systems, 2.657 weaknesses in the control system for implementation of the revenue and expenditure budget, and 1.240 internal control structure.

At the organizational level, the purposes of internal control relates to the reliability of financial statement, timely feedback value to achieve operational and strategic objectives, and compliance with laws and

regulations (Armel, 2017). All of the purposes relate with the qualitative characteristics of financial statement.

In the previous research conducted by Sanjaya (2017) and Triyanto (2017) stated that internal control system has a positive influence to the quality of local government financial statement. Beside that, Nurais (2017) found that internal control system has no significant influence to the quality of local government financial statement.

Based on the description above, the hypothesis is:

**H<sub>3</sub> = Internal control system has a positive influence on the quality of local government financial statement**

- d. The influence of utilization of information technology towards the quality of local government financial statement

More developed an era, the information technology also will develop. Information technology can help government employees to do their duties systematically and accelerated. Structured and systematic system will produce financial statement that sufficient with qualitative criteria. Both central and local government are obliged to develop and utilize the information technology advances to improve the ability to manage local finance and deliver financial information to the public.

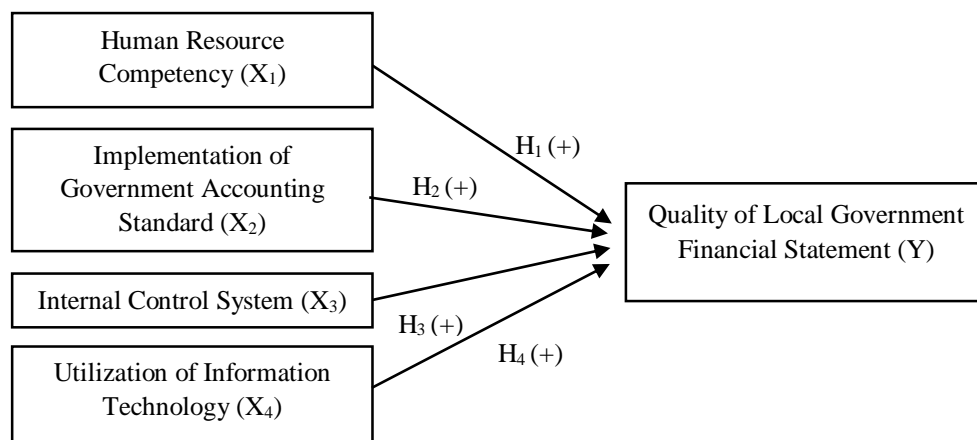
Armel (2017) has examined that the utilization of information technology helped to accelerate the process of financial transaction and presentation, so the information timely presented before lose their value.

Timeliness is one of the qualitative characteristics of financial statements so that there is a significant influence of the utilization of information technology on the quality of local government financial statement. This is in line with research conducted by Sari (2016) and Triyanto (2017).

Based on the descriptive above, the hypothesis is:

**H<sub>4</sub> = The utilization of information technology have a positive influence on the quality of local government financial statement**

## 2. Research Model



**Figure 2.1**