

CHAPTER I

INTRODUCTION

A. Background

It is interesting to study the phenomenon of government financial reporting in Indonesia. There are still many government financial statements that do not present any data as required by regulations, and there are still many deviations and problems found by the Audit Board (BPK) in conducting audits of government financial statements. Thus, public demand for good governance increases.

The increase of public demand for good governance encourages the quality improvement of Regional Device Organization (OPD) performance in producing financial statements. Financial statements are very important tools especially for the government to obtain information about financial positions. The information about financial statements must be presented on time and follow applicable accounting standards.

The quality of local government financial statements can be measured from the results of the examination of the Audit Board. An examination of financial statements is carried out to determine whether the financial statements presented by the local government have been reasonably and qualifiedly disclosed, and the Audit Board will issue the result of the assessment on the quality of local government financial statements. (Dewata et al., 2017).

The quality of financial statements has several characteristics. These characteristics are regulated in Government Regulation No. 71 of 2010 which regulates government accounting standards that impose an accrual base. Government Regulation No. 71 is a reformation of Undang-Undang No. 17 of 2013 which discusses State Finance mandates in which the form and content of the accountability report for the implementation of the State Expenditure Budget (APBN) or the Regional Expenditure Budget (APBD) should be prepared and presented by Government Accounting Standards (SAP).

Financial statements are said to be qualified if they have honesty, verifiability and neutrality characteristics. Honest presentation refers to information that honestly describes other transactions and events that should be presented reasonably and can be expected to be presented. Verifiability means that the information presented in financial statements can be tested. Further, if the test is carried out more than once by different parties, the results still show conclusions that are not very different. Neutrality refers to information that is directed at general needs and does not favor the needs of certain parties (Kurniawati *et al.*, 2018).

Accounting recording and reporting is set out in the verse of the Qur'an because the holy book is a guideline in all activities of a Muslim's life.

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَىٰ أَجَلٍ مُّسَمًّى فَاكْتُبُوهُ ۚ وَلْيَكْتُب بِيَدِكُمْ كَاتِبٌ
بِالْعَدْلِ ۚ وَلَا يَأْب كَاتِبٌ أَنْ يَكْتُبَ كَمَا عَلَّمَهُ اللَّهُ ۚ فَلْيَكْتُبْ وَلْيُمْلِلِ الَّذِي عَلَيْهِ الْحَقُّ
وَلْيَنْتَقِ اللَّهُ رَبَّهُ وَلَا يَبْخَسْ مِنْهُ شَيْئًا ۚ

"O ye who believe, if you are not in cash for the specified time, you should write it down. And let an author among you write it correctly. And do not let the writer be reluctant to write it as God taught it, so let him write, and let the person who owes it to imitate (what will be written), and let him fear Allah Allah, and do not reduce it at all than the debt ... "(QS 2: 282)

The piece of the letter Al-Baqarah verse 282 explains that the command on the practice of accounting records is in economic transactions. The verse is closely related to the aspects of everyday life. Every transaction must be recorded even if the transaction is not made in cash. The record is accompanied by the amount and timing. Therefore, the recording and preparation of financial statements in accounting must follow the provisions of government regulations.

Financial statements produced by local governments will be used by several interested parties as a basis for decision making. Therefore, the information contained in the Local Government Financial Statements (LKPD) must be useful and meet the needs of the users (Nurillah, 2014). Local Government Financial Statements (LKPD) are assessed annually in the form of Opinions from the Audit Board (BPK). BPK provides an Unqualified Opinion (WTP) to Local Government Financial Statements (LKPD). It means that the financial statements of a local government entity are presented and expressed fairly and qualifiedly. There are four opinions given by the BPK, namely: Unqualified Opinion (WTP), Fair Opinion with Exceptions (WDP),

Unnatural Opinion (TW), and No Opinion (TMP) (Darmawan and Darwanis, 2018).

The result of the examination of the Audit Board (BPK) of Republic of Indonesia stated that Bantul Regency Government succeeded in gaining an Unqualified Opinion (WTP) opinion in 2013 and until now Bantul Regency can still maintain an Unqualified Opinion (WTP). However, the unqualified opinion given by the Supreme Audit Agency to the government financial statements of Bantul Regency is not free from mistakes and weaknesses. Even though the WTP opinion shows good financial management, there are still some findings that require emphasis to realize regional financial management in Bantul Regency Government to be more orderly, effective, efficient, economical and accountable in the future. (*bkad.bantulkab.go.id*)

In 2018, the BPK found weaknesses in the internal control system in preparing the financial statements of Bantul Regency. The main weaknesses in the internal control system of the Bantul Regency Government Financial Statements found by the BPK were the settlement of potentially uncollectible receivables, inadequate inventory management, poor administration of the Bantul Regency government fixed assets, spending of goods and services in the form of money handed over to the public is budgeted for employee expenditure, and there is no mechanism for reporting and authorizing the receipt of non-APBD aid funds directly received by the OPD. (*bkad.bantulkab.go.id*)

From these problems it can be said that the internal control system in Bantul Regency needs to be reviewed again. The internal control system is one of the factors that influence the quality of local government financial statements. It was true that in the preparation of financial statements there are often mistakes both intentional and unintentional. The government needs an optimal internal control system to convince stakeholders and the public about the accuracy of financial statements. Research conducted by Kiranayanti and Erawati (2016), Komarasari (2017), and Marlinawati and Wardani (2018) found empirical evidence that the internal control system has positive effect on the quality of local government financial statements.

Other factors that can affect the quality of financial statements are Human Resources (HR), Information Technology (IT), and understanding of accrual-based government systems. Preparation of qualified financial statements requires competent human resources and understanding on the rules in preparing financial statements in line with government accounting standards (Kiranayanti and Erawati, 2016). Qualified human resources are needed so that the financial statements produced meet reliability characteristics. However, government employees with educational backgrounds in accounting are still limited. It causes lack of understanding or mastery of the Regional Device Organization (OPD) apparatus in managing regional finances properly and correctly. The better the capacity of human resources owned, the better the quality of financial statements. Research conducted by Hertati (2015), Kiranayanti and Erawati (2016), Marlinawati

and Wardani (2018), and Triyanti and Mustikawati (2018) found empirical evidence in which human resource competence has a positive effect on the quality of local government financial statements.

Information technology is the technology that can help humans in almost everything, i.e. helping humans to make, change, store and provide information. Information technology is commonly in the form of hardware and software. The government can be greatly helped by the existence of information technology because it can simplify and accelerate the work without having to input or calculate financial report data manually. Progress in information technology needs to be utilized and developed so that the management of local government financial reports can be carried out quickly and accurately. Research conducted by Komarasari (2017), Kurniawati et al. (2018), Darmawan and Darwanis (2018), and Wardani and Nugroho (2018) proved that information technology has positive effect on the quality of local government financial statements.

The accrual-based government system is a new system of government which was first implemented in 2015. The government implements accounting standards as an accrual basis so that the quality of the presentation of financial information for government organizations can be improved. There should be considerations to make use of accrual base because there are still many institutions that need trainings on the new rules. An understanding of accrual-based governance systems is related to the level of understanding of an institution on the applied regulations. Kiranayanti and Erawati (2016) propose

that understanding of regulations holds an important role in the quality of financial statements. The higher the level of understanding of the institution towards the new regulation, the higher the quality of the institution's financial statements. Understanding of regulations serves as a guideline to ensure the implementation of financial reporting in following the specified objectives and legislation. Research conducted by Kiranayanti and Erawati (2016) and Ramadhani et al. (2018) revealed empirical evidence that the understanding of accrual-based accounting systems has positive effect on the quality of local government financial statements, and research conducted by Darmawan and Darwanis (2018) found that the application of influential financial accounting systems positively affects the quality of local government financial statements.

This research is a replication of the research conducted by Sundari and Rahayu (2019). The difference with the previous research is on the location of the research, the time of the research, and the addition of the independent variable, namely Understanding of Accrual Based Accounting. The previous research was conducted in Bandung while this research was conducted in Bantul Regency.

This research was conducted to reduce the problems in Bantul Regency Government and find out whether human resources, internal control systems, information technology, and understanding of the government system with accruals affected the quality of financial statements. This study is entitled:

"THE EFFECT OF HUMAN RESOURCE COMPETENCE, INTERNAL CONTROL SYSTEM, INFORMATION TECHNOLOGY, AND UNDERSTANDING ON ACCRUAL BASED ACCOUNTING ON THE QUALITY OF FINANCIAL STATEMENTS"

B. Research Question

The researcher formulated several research questions based on the background of the problems, as follows:

1. Do human resource competence have a positive effect on the quality of financial statements?
2. Does internal control system have a positive effect on the quality of financial statements?
3. Does information technology have a positive effect on the quality of financial statements?
4. Does understanding on accrual-based government accounting systems have a positive effect on the quality of financial statements?

C. Research Objectives

This study has the following objectives:

1. To find empirical evidence on the positive effect of human resource competence on the quality of financial statements
2. To find empirical evidence on the positive effect of internal control system on the quality of financial statements.

3. To find empirical evidence on the positive effect of information technology on the quality of financial statements.
4. To find empirical evidence on the positive effect of understanding on accrual-based government accounting systems on the quality of financial statements.

C. Research Benefits

The expected benefits of this study are as follows:

1. Academic Benefits

This study can provide a reference on the influence of human resource competence, internal control systems, information technology and understanding on the government system on the accrual basis to the quality of financial statements in the Regional Government. In addition, it is expected that this research can be used as additional literature in future studies.

2. Practical Benefits

This research can be used as additional information for the Regional Government in the presentation of financial statements as well as advice for the Regional Government as an improvement in the financial reporting process to achieve the vision and mission DIY local government, especially in Bantul Regency Government.