

## **CHAPTER II**

### **LITERATURE REVIEW**

#### **A. Theoretical Framework**

##### **1. Decision Usefulness Theory**

The decision usefulness theory was first put forward in the 1954 dissertation entitled *An Accounting Concept of Revenue* at the University of Chicago in the United States by George J. Staubus. The decision usefulness approach is the provision of historical financial information to be more useful. This approach holds that if we cannot prepare financial statements that are theoretically correct, at least we can make historical financial reports more useful.

Reserve Recognition Accounting (RRAS) states that it is impossible to prepare financial statements with a full level of reliability and relevance in full because consequently there will be trade-offs between reliability and reliability (Scott, 2003: 35; FASB, 1980b). So far, the presentation of financial statements using historical costs is still relatively reliable because the costs of assets or liabilities of the company are still objective for estimation. However, the weakness of presenting financial statements with historical costs is the inability to predict the ability of companies to take advantage of opportunities and react in adverse situations.

Financial statements provide accountability to the owner and useful information for investors. Therefore, financial statements must pay attention to the level of reliability and relevance. Both of these criteria will experience trade-offs if used simultaneously. Therefore, to overcome these problems, the approach to the use of decisions is used to make more useful financial statements based on historical costs. One of them is through full disclosure.

## **2. Technology Acceptance Model (TAM) Theory**

TAM is one of the most widely used acceptance models in information technology research because this model is simple and easier to implement. The purpose of TAM is more devoted to explain the behavior of computer users. TAM is an adaptation of TRA which was introduced by Davis in 1986 (Maharidho et al., 2018).

Before the TAM model emerged, there was a theory known as Theory of Reasoned Action (TRA) developed by Martin Fishbein and Icek Ajzen (1975, 1980). Originating from previous research which began with attitude and behavior theory, the emphasis of TRA at that time was on attitude from a psychological point of view. The principle is determines how to measure the relevant behavioral attitude components, distinguishes between beliefs or attitudes, and determines external stimuli so that the TRA model causes the user's reaction and perception of the information system to determine the user's attitude and behavior (Fatmawati, 2015).

In relation to the term TAM, the letter "A" stands for "Acceptance", so it can be said that TAM is an analytical model to determine user behavior on technology acceptance. Wikipedia defines TAM as an information systems theory that models how users come to accept and use a technology. The TAM model the a concept on how users accept and use new technology. The origin of the psychological theory approach is to explain the user that refers to the beliefs, attitudes, interests, and relationships of user behavior. The hallmark of the TAM Model is simple but it can predict the acceptance and use of technology (Fatmawati, 2015).

### **3. Human Resource Competence**

One of the main factors in carrying out human resource policies is the contribution to support and run them. Humans are important resources needed to run an organization. Human resources can be considered as the driving force for carrying out organizational activities to realize organizational goals. In an organization, the capacity and performance of human resources can be defined as the ability of individuals, organizations (institutions) or systems to carry out the functions of authority effectively and efficiently to achieve organizational goals. Capacity must be seen as the ability to achieve performance, to produce outputs and outcomes (Negara, 2015).

Human resources in the right number and good competence are very necessary for the presentation of financial statements because they

will affect the quality of the financial statements of the area. Employees who do not have sufficient knowledge in work will face many obstacles that result in a waste of material, time and energy. Competence can be developed through knowledge/education, experience, and training (Haliah dan Nirwana, 2019). The more human resources with good abilities, the better the financial statements. If the competency of the HR in the agency that issues the LKPD is low / not good, the quality of the resulting LKPD is not good enough as well. Therefore, good human resource competencies affect the quality of financial statements.

The human resource competencies can be revealed when the government has carried out its duties and functions professionally, effectively, and efficiently. The existence of competencies in human resources encourages the realization of quality financial reports that are free from material misstatement and misleading understanding (Wati et al., 2014).

#### **4. Internal Control System**

In Indonesian Government Regulation, No. 60 of 2008 concerning the Government's Internal Control System, internal control is defined as a process that is an integral part of actions and activities carried out continuously by management. All employees provide reasonable guarantees for achieving organizational goals through effectiveness and efficiency, reliability of financial statements, state assets safeguarding, and compliance with laws and regulations (Kasim, 2015).

Triyanti and Mustikawati (2018) mention that the Internal Control System is a process carried out by an organization designed to provide adequate confidence in achieving organizational goals regarding the reliability of financial statements, as well as compliance with laws and regulations. The variable indicators of internal control systems include the control environment, risk assessment, control activities, information and communication, and monitoring.

The quality of local government financial statements depends on how well the implementation of the government's internal control system in the area and the necessary processes and stages that must be passed which are regulated in the accounting system of the local government.

## **5. Information Technology**

Facilities and infrastructure are tools to support the success of a process of efforts made to achieve vision and mission. It is because if the facilities and infrastructure are not available, all activities carried out will not achieve the expected results according to the plan (Yahya et al., 2018). One of the supporting factors is Information Technology (IT).

Information technology is a facility consisting of hardware and software to support and improve the quality of information quickly. Information technology also includes computers (mainframe, mini, micro), databases, networks (internet, intranet), electronic commerce, and other types of technology-related. Aside from being a computer technology for processing and storing information, information technology also functions

as a communication technology for information dissemination (Afnany et al., 2018). Computer as one component of information technology is a tool that can multiply the capabilities possessed by humans and computers. It can also do something that humans might not be able to do (Kamemy, 2017).

Local governments must utilize existing technology to add and improve information on financial statements. Regional financial reports are initially manual and seen as ineffective, inefficient and lack of reliability and accuracy because the preparation of financial statements manually has a greater risk of errors. Therefore, the use of information technology in regional financial reporting is needed (Komarasari, 2017).

## **6. Understanding on Accrual-Based Government Accounting Systems**

Accrual-based accounting recognizes elements of financial statements consisting of assets, liabilities, equity, income, and expenditure. The accrual-based Government Regulation Number 71 of 2010 improves the quality of financial statements and the realization of good governance and the government's performance. Central and local governments must implement accrual-based Government Accounting Standards (Setiawan and Gayatri, 2017).

The application of accrual-based the government accounting system has presented new problems for local governments in improving the quality of financial statements. It is because the changes are not merely technical problems in recording transactions and presenting financial

statements. Further, accounting policies, accounting treatment for transactions, accounting choice, and existing accounting systems design and analysis are required. Meanwhile, competent and professional human resources in terms of accounting policymaking up to technical analysis are of a limited transaction (Idward et al., 2018).

The application of accrual basis in the government accounting system in a country is not easy. ADB (Asian Development Bank) specifically highlights the problem of implementing the accrual based for developing countries and provides several recommendations for implementing the accrual basis in developing countries (Surepno, 2015).

Setting accounting standards is an important factor for the government so that there are accounting standards that can be accepted by interested parties and are useful for the development of government accounting. Indonesia is one of the countries that use accrual-based accounting in financial statements based on the International Public Sector Accounting Standards (IPSAS). The general purpose of financial statements is to meet the general needs of most report users. To achieve these objectives, accounting standards establish all considerations in the context of financial statements presentation, guidelines for the structure and content of financial statements. SAP-based accruals govern the presentation, recognition and measurement, and correction and consolidation of financial statements. Accrual-based SAP reveals that government financial statements include components of financial position

reports, financial performance reports (statement of budget realization, reports on changes in remaining budgets, operational reports), reports on changes in net assets/equity, cash flow statements and statement of financial records (Gamayuni, 2018).

Local governments need to understanding the system in applying accrual-based accounting standards because it plays an important role in the quality of financial statements. This understanding serves as a guideline to ensure that the implementation of financial reporting follows the specified objectives and legislation. It will be easier for local governments that have a good understanding of PP 71 2010 will be easy to prepare financial statements in line with the objectives previously set.

## **7. Quality of Financial Statements**

Basically, the financial statement is a form of accountability for the stewardship of economic resources owned by the entity. Published reports are prepared under the accounting standards so that financial statements can be compared to the financial statements of the prior period or can be compared with the financial statements of other entities (Suwanda, 2015).

Government Regulation Number 24 of 2005 concerning Government Accounting Standards explains that recognition of financial statements elements involves the process of determining the fulfillment of criteria for recording events in an accounting record so that it will complement the assets, liabilities, fund equity, income, expenditure, and financing elements as well as the content in the financial statements of the



concerned reporting entity. Recognition is manifested in recording the amount of money against financial statement items that are affected by related events or events (Mardiana and Fahlevi, 2017).

The quality of Local Government Financial Statements is a qualitative characteristic of a report that presents the financial position and performance of local government and other information which is the result of a certain period of accounting process used by stakeholders in decision making (Triyanti, 2018).

The information presented in the financial statements aims to meet the information needs of all user groups. The quality of a financial report can be said to be of high quality if it meets relevant, reliable, comparable and understandable requirements (Sundari and Rahayu, 2019).

## **B. Hypotheses Development**

### **1. Effect of Human Resource Competence on the Quality of Financial Statements**

Human resource competence is one form of decision usefulness theory. Decision usefulness theory contains components that need to be considered by presenters of accounting information so that the available scope can meet the needs of the decision makers who will use it. The presenters of accounting information are human resources. Human resources are the basic elements of organization that must be managed well so that they can contribute optimally to the achievement of organizational goals (Kurniawati et al., 2017). Human resources with

appropriate educational backgrounds and experience in the financial field will be able to complete tasks and adapt well to changes in accounting standards (Jantong et al., 2018).

In the application of accounting standards, adequate human resources are needed. Inadequate human resources are a significant problem in managing state finances. The examples can be in the form of incompetent human resources who tend not to care on changes (Ismet, 2018).

Therefore competent human resources are needed, who are supported by a background in accounting education, often attend education and training or have experience in finance. If human resources carrying out the accounting system have competencies in the field of accounting, then these resources will use their knowledge and understanding in preparing the financial reports in accordance with accounting principles and established rules so that they can produce quality financial reports (Palimbong et al., 2018).

Komarasari (2017) states that human resources are people who are ready, willing and able to contribute to the achievement of organizational goals. Human resources include three aspects, namely education, experience, and training. Human resources must be good because good human resources will show good resource capacity too.

The higher the level of education a person has, the more experience he has, and the more training provided, the more acquired. The better the

quality of human resources, the more accurate the quality of the financial statements. Based on the description, the hypothesis of this study:

**H<sub>1</sub> : Human resource competence have positive effect on the quality of financial statements**

## **2. Effect of the Internal Control System on the Quality of Financial Statements**

Internal control system is a form of decision usefulness theory. Similar to human resources which are presenters of information, the internal control system is one part of the presenter of accounting information that supports the smooth running of accounting information systems.

The internal control system has several purposes. One of them is to check the accuracy and reliability of accounting data. The risk of errors and recording errors or calculations can be minimized through the existence of an accounting system. It aims to reduce the possibility of regional governments experiencing errors. Kiranayanti and Erawati (2016) mention that a system that is designed and built can work well if the parts that are integrated with the system operate according to their respective duties and responsibilities.

The government must build a good internal control system because the internal control system affects the quality of financial statements. Weak internal control systems can lead to cases of corruption,

misappropriation of state finances, waste of budget, organizational inefficiencies, and poor quality of government financial reports.

The internal control system needs to get the attention of the government because one of the factors causing the company's business difficulties is the existence of various weaknesses in the implementation of the government's internal control system. Therefore, it is very important for the government to improve the internal control system so that it can present qualified financial reports. Based on the description, the next hypothesis of this study is:

**H<sub>2</sub> : The internal control system has positive effect on the quality of financial statements**

### **3. Effect of Information Technology on the Quality of Financial Statements**

Information technology is a form of technology acceptance model. TAM is the most widely used model in predicting the acceptance of information technology by taking two perceptions, namely the perception of benefits and ease of use. The TAM model has a concept of how users accept and use new technology. In compiling financial statements, the government needs to update new technology in each institution, such as not recording financial transactions and making financial reports manually but using computers. This will provide benefits and can facilitate each user in doing work.

Jogiyanto (1995) explains that qualified information can be achieved through the role of technology component. Information is a product of an information technology system that plays a role in providing useful information for decision-makers within the organization including report. The quality of financial statements can be achieved by optimizing the use of information technology. The optimization is to build a network of management information systems and work processes that enable the government to work in an integrated manner by simplifying access between work units. Through the use of good information technology, the government can improve the quality of regional financial reports (Rahmawati et al., 2018).

Government activities can be more effective and efficient through the use of information technology. Information technology describes all types of technology that can help people in making and processing information into data. Information technology also plays an important role in communicating information dissemination efficiently.

The higher the utilization of information technology, the better the quality of financial statements. The utilization of information technology will also help speed up the transaction data processing process and the presentation of local government financial statements. Based on the description, the other hypothesis of this study is:

**H<sub>3</sub> : Information technology has positive effect on the quality of financial statements**

#### **4. Effect of Understanding on Accrual-Based Accounting on the Quality of Financial Statements**

The understanding on accrual-based government accounting systems is a form of decision usefulness theory. SFAC No. 2 concerning Qualitative Characteristics of Accounting Information describes the hierarchy of the quality of accounting information in the form of primary quality, content and secondary quality. In the theory of decision usefulness it is explained that the primary quality of information that is useful in economic decision making is the relevant and reliability value. In an accrual-based government accounting system, financial statements must be presented in a relevant, reliable, comparable and understandable manner. Further, relevant and reliability value can make accounting information in decision making.

Accrual-based Government Accounting Systems have been applied throughout the region since 2015. However, there are still some regions that have not implemented the accounting system. Several obstacles have caused some regions in Indonesia unprepare to implement accrual-based SAP. One of the obstacles is the human resource and infrastructure in implementing accrual-based SAP. Besides, the quality of government financial reports compiled based on PP No. 71 of 2010 has not been fully following the Government Regulations.

Financial statements through the implementation of accrual-based government accounting standards are intended to provide better benefits to

stakeholders, both users and government financial statements examiners, compared to costs incurred. This is in line with one of the accounting principles, namely that the costs incurred are proportional to the benefits obtained (Usman et al., 2016).

The accrual accounting systems must be implemented in stages so that the quality of the financial statements produced can be in line with Government Regulations. The Regional Work Unit (SKPD) which previously has implemented a cash-based accounting system towards accruals certainly has a broader understanding and experience in the implementation of the new accounting system. Understanding of accrual-based government systems will greatly assist activities in financial reporting. Based on the description, the another hypothesis of this study is:

**H<sub>4</sub>: Understanding on Accrual-based Accounting has positive effect on the quality of financial statement**

### C. Research Model

The research methods in this study are as follows:

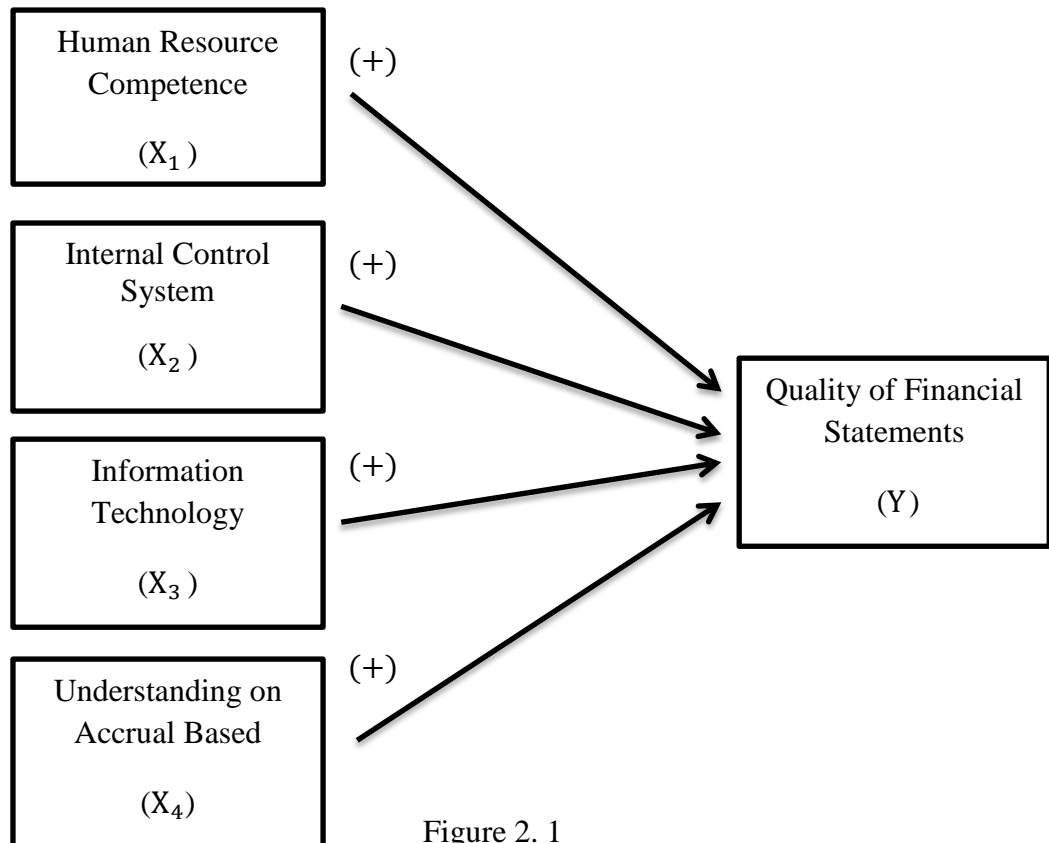


Figure 2. 1  
Research Model