

CHAPTER II

LITERATURE REVIEW

A. THEORETICAL FRAMEWORK

1. Stewardship Theory

Donaldson and Davis (1991) in "Toward a Stewardship Theory of Management" describe Stewardship Theory as a situation where management as stewards are not motivated by the individual interests but rather are aimed at the interests of the organization. There is a strong relationship between organizational satisfaction and organizational success. Organizational success can be achieved by maximizing standardized utilities and principals, so that the stewards and principal members will work together to achieve organizational interests. Stewardship theory can be used in public sector accounting research such as government organizations and other non-public organizations. Fundamental assumptions of stewardship theory shown in the following table.

Table 2. 1
Fundamental Assumptions of Stewardship Theory

Managers as	Stewards
Governance approach	Sociological and psychological
Model of human behaviour	Collectivistic, pro-organizational, trustworthy
Managers motivated by	Principal's objectives
Manager's and principal's	Interests converge
Structures that	Facilitate and empower
Owners' attitude	Risk propensity
Principal-manager relationship based on	Trust

Source: Podrug (2011)

2. Theory of COSO

In 1994 the Committee of Sponsoring Organizations of the Treadway Commission (COSO) issued the Internal Control – Integrated Framework to help businesses and other entities assess and enhance their internal control systems.



Figure 2. 1 COSO Cube Framework

Source: COSO, Internal Control - Integrated Framework, Executive Summary, May 2013.

The COSO cube represents the integrated perspective recommended by COSO for an organization to expand internal control, providing more robust and extensive focus on the broader subject of enterprise risk management. The COSO cube has three components. Through analyzing each part of the components, the cube can be best understood.

a. The three objectives

The columns show operations, reports and conformity. The goals are intended to help a company focus on various aspects of internal

control in order to help the management to achieve its goals.

b. The five components

Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring Activities shall be represented in rows. The elements represent what is needed to achieve the three objectives.

c. An entity's organizational structure

Entity-Level, Division, Operating Unit and Function shall be represented by the third dimension. In order to the organization achieves its objectives, internal control must be effective and integrated to all levels of the organization.

3. Surah An-Nisa Verse 58

﴿ إِنَّ اللَّهَ يَأْمُرُكُمْ أَنْ تُؤَدُّوا الْأَمَانَاتِ إِلَىٰ أَهْلِهَا وَإِذَا حَكَمْتُمْ بَيْنَ
النَّاسِ أَنْ تَحْكُمُوا بِالْعَدْلِ إِنَّ اللَّهَ نِعِمَّا يَعِظُكُمْ بِهِ إِنَّ اللَّهَ كَانَ سَمِيعًا
بَصِيرًا ﴾

“Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing”. *Amanah* is one of the noble qualities possessed by the Prophet Muhammad sallallahu 'alaihi wa sallam. *Amanah* has the meaning of being trusted or trusted. Meanwhile, when viewed from the side of *aqidah* and religious law, trust is everything that must be accounted for and related to other people or

other parties. Trust can be in the form of objects, jobs, words, or beliefs. The government receives and manages public funds or channels those funds for the benefit of the local community. In this case, accountability is one form of government in carrying out the mandate. If deviations occur, the law must be determined as fairly as possible.

4. Regional Financial Accountability

Based on the Government Accounting Conceptual Framework in Government Regulation No. 71 of 2010, that accountability means responsible for managing resources and implementing policies entrusted to entities in achieving the objectives that have been set periodically. Accountability is often interpreted as an obligation to describe the success or the failure of the organizer in accordance with applicable laws and regulations. Accountability is a form of the responsibility of the trustee to the public in carrying out the mission to achieve predetermined results, and done periodically (Mardiasmo, 2009). According to Mardiasmo (2009), management of public sector organizations is based on three main elements. These elements are economical, efficient and effective. Economical related to the use of certain quality and quantity at the lowest price. Economic achievements can be achieved by minimizing costs or avoiding waste. Efficiency is related to achieving maximum output with minimal input. Meanwhile, Effective is related to extent to which targets can be achieved from the targets set. Accountability is not merely a responsibility, but is related to providing an explanation through accountability, presentation, and disclosure to the owner of the fund regarding all activities carried out in

managing the fund (Mardiasmo, 2009).

5. Budgetary Participation

Participative budgeting is a process of joint decision-making by public sector, it is an instrument of accountability for management and implementation of programs financed from public funds (Kahar, Rohman, and Chariri, 2016). Budgeting participation is a process in the organization that involves managers to participate in the budgeting process (Brownel, 1982). The process of budgeting at the local government is a fairly complicated stage and involves government work units, one form of manifestation of this involvement is participation in budgeting (Nazaruddin and Setyawan, 2012). The participation in the budgeting process can motivate someone because they are given the opportunity to realize the initiative and increase creativity. Personal involvement and willingness to accept each other's responsibilities make management achieve their goals easier. A sense of lower level managerial responsibility can strengthen the manager's creativity. If lower level managers are given the opportunity to draw up a budget, the budget goals can become personal goals and will result in greater goal congruence. According to Milani, 1975, six indicators that need to be considered from budget participation are:

- a. Involvement of management in preparing the budget.
- b. The reason for the manager to revise the budget while it is being processed.
- c. The desire to give an opinion to managers regarding the preparation of

the budget without being asked.

- d. Employee influence in the final budget.
- e. How important the contribution made to the budget is.
- f. The frequencies of superiors to ask for suggestions or opinions when preparing a budget.

6. Accessibility of Financial Reports

According to Style and Tennyson (2007) the accessibility concerns in how many steps are required to locate the financial report in the website. According to Mardiasmo (2009), government financial reports are public rights that must be granted by the government, both central and regional. The ease for someone in obtaining information about financial statements is called as the accessibility of financial statements.

The society as a party who gives trust to the government to manage public funds has the right to obtain government financial information to perform an evaluation of the government (Mardiasmo, 2009). The principle of transparency guarantees access or freedom to obtain information about the administration of government. The information referred to the form of policy making process, governance, and the results achieved (Krina, 2003). Regional government financial statement information can meet the principles of transparency and accountability if the local government continues to improve the accessibility of its financial statements. To improve local governments accountability is by providing facilities to the public of the government financial reports.

7. Internal Control

Government Regulation No. 60 of 2008 defines the internal control system as an integral process of actions and activities carried out continuously by leaders and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and adherence to laws and regulations. This internal control aims to achieve effective, efficient, transparent and accountable management of state finances. Internal control helps government to achieve their goals by directing and overseeing the existing resources. In addition, internal controls play a role in preventing and detecting the possibility of irregularities in the government as early as possible.

The Government Regulation explains that the internal control system is implemented both in the central government and local government. In carrying out internal control, there are elements that are used as guidelines and benchmarks for the effectiveness of the internal control system. These elements include in Government Regulation No. 60 of 2008 as follows:

a. Control environment.

A healthy internal control is determined based on good control environment and good management. A good control environment is expected to encourage management to behave positively to be able to achieve organizational goals easily. Therefore, the leaders should be able to create and maintain a healthy control environment.

b. Risk assessment.

Internal controls must be able to identify and assess all the risks that might occur in the future. Risk assessment consists of risk identification and risk analysis. In carrying out the risk identification, the government can use an appropriate methodology for the purpose of Government Agencies, also using adequate mechanisms to recognize risks from external and internal factors. Meanwhile, analyzing risk aims to determine the impact of the risks that have been identified in achieving the objectives of Government Agencies.

c. Management of activity

Government Agency Leaders must carry out appropriate control or management activities with the size, complexity, and nature of the task and the function of the relevant Government Agency. Management of activities consist of:

- 1) Reviews the performance of Government Agencies;
- 2) Human resource development;
- 3) Control over management of information systems;
- 4) Physical control over assets;
- 5) Stipulation and review of indicators and performance measures;
- 6) Separation of functions;
- 7) Authorization of important transactions and events;
- 8) Accurate and timely recording of transactions and events;
- 9) Restrictions on access to resources and their records;

10) Accountability for resources and their records;

11) Good documentation of the Internal Control System and a document of important transactions and events.

d. Information and Communication

The leadership of government agencies must identify, record, and communicate information. Communication is carried out effectively by providing and utilizing various forms of communication, as well as managing, developing, and updating information systems continuously.

e. Internal Control System.

Internal control system is carried out through continuous monitoring, separate evaluations, and follow-up recommendations on audit results and other reviews. Continuous monitoring is carried out through routine management activities, supervision, comparison, reconciliation, and other actions related to the implementation of tasks.

8. Transformational Leaderships

The concept of transformational leadership integrates ideas developed in a character, style and contingency approach. Hater and Bass (1988) stated that the dynamic of transformational leadership involves strong personal identification with the leader, joining in a shared vision of the future, or going beyond the self-interest exchange of rewards for compliance. According to Bass and Avolio, 1993: 112; Bass, 1997: 21; Bass *et al.*, 2003) dimensions of leadership are divided into four dimensions namely;

a. Idealized Influence.

Leaders who emphasize trust and emphasize the importance of commitment, and the ethical value. Such leaders are admired as role models, increase loyalty and gain trust from subordinates.

b. Inspirational Motivation.

Leaders are able to inspire employees by setting high standards, giving confidence so that goals can be achieved. Employees feel inspired by the leader. This aspect of transformational leadership plays a major role in creating and maintaining employee morale.

c. Individualized Consideration.

Leaders who pay attention of the issues experienced by employee and try to meet the member needs. The subordinates are treated differently but fairly. The leaders give attention to the members one by one. The members not only needs to be recognized and their perspectives improved, but leaders also provide the means to achieve goals more effectively. With individual attention, assignments are given to subordinates to provide learning opportunities.

d. Intellectual Stimulation.

Intellectual leaders encourage members of the organization to think rationally and use data and facts in solving various problems. Subordinates are also encouraged to think in their own way, and consider creative ways to develop themselves. Transformational leadership has a transformation effect both at the organizational level and at the individual level. The leadership practices help to achieve the

qualified and positive outcomes. A company that has transformational leaders will decentralize greater responsibility, it will effect the managers to take a greater tendency to take risks. Therefore, it is very important for managers to apply a transformational approach at work.

B. PREVIOUS RESEARCHES AND HYPOTHESES DEVELOPMENT

1. The effect of budgeting participation on regional financial accountability

Budget plays an important role in public sector organizations considering the budget includes aspects of planning, controlling, and public accountability. Involvement in the budgeting process will help the process of achieving the goals set by the organization. When employees are involved in the budgeting process (their opinions / inputs are taken into consideration in the preparation of the final budget), it will be followed by a heightened sense of self-belonging to the individual (Hayuwati and Halim, 2018).

An increase in self-belonging will impacts on increasing the sense of personal responsibility for achieving the level of agency budget. Arifin's research (2012) on budget participation in the scope of Pekalongan Regional Government agencies supports this statement by concluding that participation in budgeting has a positive effect on performance accountability. Meanwhile Hayuwati and Halim (2018) found that participation in budgeting did not have a positive effect on the financial accountability of the Klaten Regency. Based on the analysis above, the following hypothesis can be formulated:

H₁: Budgeting participation has positive effect on regional financial accountability.

2. The effect of accessibility of financial reports on regional financial accountability

Wahyuni (2014) shows that the presentation of regional financial reports and the accessibility of regional financial reports have a positive and significant effect on transparency and accountability in regional financial management. In addition, research by Nurrizkiana, Handayani, and Widiastuty (2017) provides evidence that the accessibility of regional financial reports has a positive and significant effect on the accountability of regional financial management.

Recent public sector reforms have generally emphasized the importance of increasing accountability and widening the scope of measurement and reporting systems, as well as the use of information and communication technologies (Verawaty, 2016). The government has a mandate from the public to manage the public funds effectively. Therefore the public has right to know how the government manages finance in providing services to the public. With the ease of accessibility of financial statements can increase the accountability of regional finances, so as to facilitate the public to assess the performance of the government and the achievement of the government. Based on the analysis above, the following hypothesis can be formulated:

H₂: Accessibility of financial statements has positive effect on regional financial accountability

3. The effect of internal control on regional financial accountability

Prior research of Hamidi (2009) stated that internal control has a positive effect on public accountability. The statement was supported by Hayuwati and Halim (2018) that internal control had a significant positive effect on the regional financial accountability of Klaten Regency. A good internal control system will profit an organization in averting the incidence of bad financing as well as helping organization to work successfully and in congruity while detecting of errors and irregularities in its operation (Wardiwyono, 2012).

The internal control system is providing an emphasis towards accountability, therefore, its practice in the public sector seem crucial at any stages in enhancing accountability in the public sector organization (Aziz, Rahman, Alam and Said, 2015). The Government Internal Control System (SPIP) is an internal control system that is carried out comprehensively in the central and regional government environment. Weak of internal control systems will have a negative impact on performance that will ultimately reduce financial accountability. Based on the description of the theory that has been reviewed, the research hypothesis can be formulated as follows:

H₃: Internal control has a positive effect on regional financial accountability.

4. The effect of transformational leadership on regional financial accountability

Aziz, Rahman, Alam and Said (2015) found there are connections of accountability with the integrity system, internal control system and

leadership qualities. Kakisina and Bastian (2018) found that the organizational commitment and transformational leadership have proven to not moderate the effect of accountability on the performance of public primary schools in Nias Island.

Transformational leadership integrates views or creative insights, perseverance and energy, intuition and sensitivity or sensitivity to the needs of others to integrate other cultural strategies into their organizations (Bass, 1985). The idea of COSO (2009) stated that if the performance of leaders and subordinates in an organization goes well, then all components will built-in and permeated in the management process. COSO recognizes a "tone on the top", therefore the leadership of the organization has a very important role in leading the organization to achieve the organization goal.

Marques (2010) pointed out several characteristics of a leader such as conforming moral and values, highly ethical, honoring Integrity, honesty and trust, full of respect, passion, commitment, compassion, justice, kindness, forgiveness, courage, love, deep listening, inspired and inspiring, authenticity, multi-dimensional, and amendable to change. Based on the analysis above, the following hypothesis can be formulated:

H₄: Transformational leadership has a positive effect on regional financial accountability.

C. RESEARCH MODEL

Based on previous research and supported by theoretical studies, it is assumed that budgetary participation, accessibility of financial reports, internal control and transformational leadership has a positive effect on regional

financial accountability in Ciamis Regency. The framework can be formulated as follows:

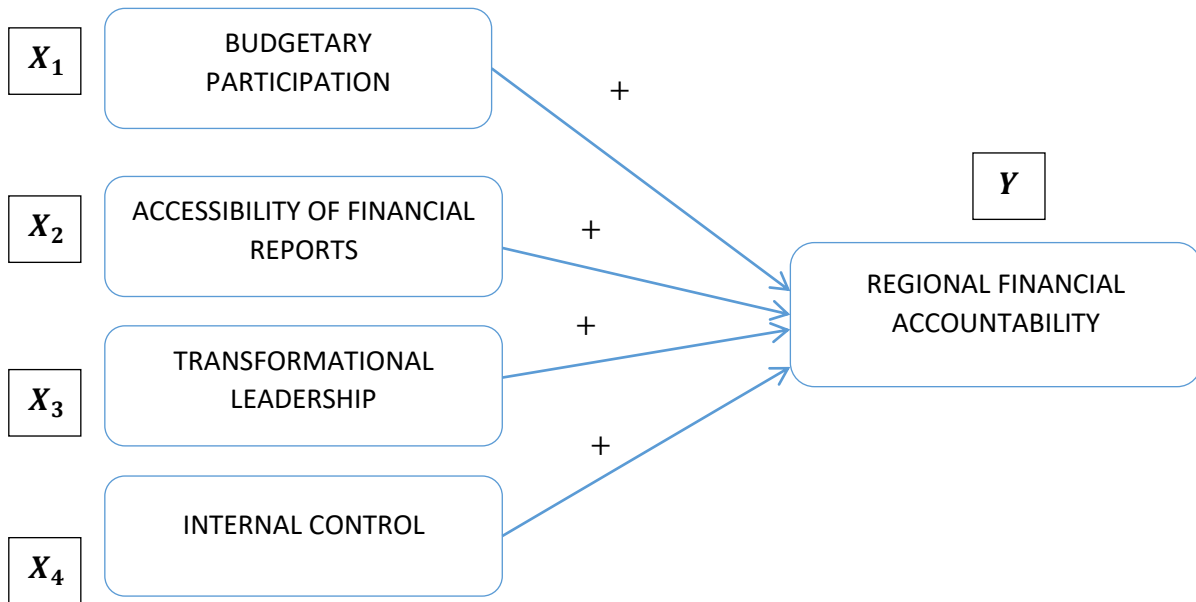


Figure 2. 2 Research Model