FACTORS THAT AFFECTING THE QUALITY OF THE SIMALUNGAN DISTRICT GOVERNMENT'S FINANCIAL STATEMENTS WITH THE GOVERNMENT INTERNAL CONTROL SYSTEM AS MODERATING VARIABLE

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Abstract: The purpose of this study was to determine and analyze the factors that affecting the quality of financial statements in the Government of Simalungun District. The independent variables in this study are the implementation of government accounting standards (SAP), human resource competencies (HR), understanding of the local financial information system (SIKD), and the role of internal auditors, the dependent variable is the quality of local government financial reports with the moderating variables is the government’s internal control system (Government Internal Control System). The type of research in this study is causal associative using primary data and data collection techniques through the distribution of questionnaires in regional device organizations of Simalungun, North Sumatra, Indonesia. The method of determining the sample with the census method, so that the entire population is used as a research sample. The population of this study was 30 regional device organizations, each consisting of 3 respondents with total 90 respondents. Data is processed using SEM method with Smart PLS analysis tools. The results of this study prove that the implementation of SAP has a significant positive effect on the quality of the Simalungun District Government's financial statements, HR competencies have a significant positive effect on the quality of the Simalungun District Government's financial statements, the understanding of SIKD has a significant positive effect on the quality of the Simalungun District Government's financial statements, the role of the internal auditor has a significant positive effect on the quality of the Simalungun District Government's financial statements. While government internal control system cannot moderate each of the effects of SAP implementation, HR competencies and the role of internal auditors on the quality of the Simalungun District Government's financial statements.

Keyword: Implementation of SAP, HR competency, Understanding of SIKD, The role of internal auditors, Government internal control system, Quality of local government financial statements.

1. INTRODUCTION

As the development of public sector accounting in Indonesia, the form of accountability to the public for government performance becomes a general demand. The increasing demands require government institutions to provide information on their activities and performance to the public. Local governments have the obligation
to publish information through local government financial reports that are used as a basis for decision making.

The phenomenon of the quality of government financial reports in Indonesia is an interesting matter for further study. In preparing its financial statements, local governments have several requirements that must be met so that the quality of financial statements is categorized as good. Quality financial statements indicate that the government is responsible in accordance with the authority delegated to it in carrying out the responsibilities of managing public entities. In terms of the quality of the BPK government's financial statements, it can provide 4 types of opinions, namely: Fair without exception (WTP), Fair with Exclusion (WDP), Unreasonable (TW), and Not Providing Opinion (TMP).

The fact that there are some irregularities that have been discovered by BPK in conducting audits of government financial statements makes it interesting to study further. The results of BPK's examination of 542 local government financial statements in 2017 revealed WTP opinions on 411 local government financial statements, WDP opinions on 113 local government financial statements, and TMP opinions on 18 local government financial statements. Based on the level of government, WTP opinion was reached by 33 of 34 provincial governments, 298 of 415 district governments, and 80 of 93 city governments.

The Government of Simalungun District is one of the district governments in North Sumatra Province which consists of 30 regional device organizations which are also required to carry out good financial management. Local government financial statements examination by the Financial Examination Board to provide adequate confidence in the regional financial statements whether they have been presented fairly in all respects. The final result of the BPK audit process is to give an opinion on the fairness of information local government financial statement’s. BPK's opinion on local government financial statement of Simalungun District Government until 2017 can be seen through Table 1.

### Table 1 List of Opinions on the Simalungun District Government's Financial Statements

<table>
<thead>
<tr>
<th>Number</th>
<th>Year</th>
<th>Audit Opinion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2012</td>
<td>WDP</td>
</tr>
<tr>
<td>2</td>
<td>2013</td>
<td>DISCLAIMERER</td>
</tr>
<tr>
<td>3</td>
<td>2014</td>
<td>WDP</td>
</tr>
<tr>
<td>4</td>
<td>2015</td>
<td>WDP</td>
</tr>
<tr>
<td>5</td>
<td>2016</td>
<td>WDP</td>
</tr>
<tr>
<td>6</td>
<td>2017</td>
<td>TMP</td>
</tr>
</tbody>
</table>

*source: IHPS I 2018 BPK RI*

As seen in the table above shows the financial statements of the Government of Simalungun District in 2017 received a TMP opinion by the BPK which was caused by the account presented not in accordance with Government Accounting Standards (SAP) and / or not supported by sufficient evidence. The first factor that is
thought to affect the quality of financial statements is the adoption of government accounting standards (SAP). SAP is the accounting principles applied in preparing and presenting government financial reports. SAP is a systematic set of procedures, organizers, equipment, and other elements to realize the accounting function from the time of transaction analysis to financial reporting within government organizations. The second factor that is thought to affect the quality of financial statements is the competence of human resources (HR). HR competency is the ability and characteristics possessed by a state civil service (ASN) in the form of knowledge, skills, and behavioral attitudes required in carrying out their duties, so that the ASN can carry out their duties professionally, effectively and efficiently (Head of BKN Decree Number 46A, 2007).

The third factor that is thought to affect the quality of financial statements is The Understanding of regional financial information systems (SIKD). SIKD in the Government Regulation of the Republic of Indonesia Number 56 of 2005 is a system that documents, administers, and processes regional financial management data and other related data into information that is presented to the public and as a material for decision making in the framework of planning, implementing, and reporting the accountability of local governments.

The fourth factor that is thought to affect the quality of financial statements is the role of internal auditors. The Government Internal Oversight Apparatus (APIP) must be able to provide a guarantee that the entire accounting and financial reporting process has been carried out according to government accounting standards (SAP) to produce quality financial reports. The fifth factor is the government's internal control system which in this study is a moderating variable. Government internal control is an integral process of actions and activities that are continuously carried out by the leadership 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 legislation (Indonesia, 2008).

2. THEORETICAL BASIS
2.1 Decision Useful Theory

In order to make decisions, the theory of the usefulness of decisions includes the requirements of the quality of accounting information that is useful in decisions that will be taken by the user. The usefulness of accounting information decisions contains components that need to be considered by presenters of accounting information so that the available scope can meet the needs of decision makers. The level of needs of users of financial statements needs to be considered in the presentation of accounting information.

Decision usefull theory includes the requirements of the quality of accounting information that is useful in decisions to be taken by users. The usefulness theory of accounting information decisions is reflected in the form of rules that must be met by financial reporting components in order to be useful in the context of economic decision making.
2.2 Quality of Local Government Financial Statements

Financial statements are a form of responsibility for the management of economic resources owned by an entity. The published financial statements must be prepared in accordance with applicable accounting standards so that the financial statements can be compared with the previous period's financial statements or compared with the entity's clear financial statements. So the quality of local government financial reports is the totality of the forms of accountability for the management of economic resources owned by an entity.

2.3 Implementation of Government Accounting Standards

Government Accounting Standards are accounting principles applied in preparing and presenting government financial statements. The Government accounting standards referred to are required in the context of preparing accountability reports on the implementation of the state / regional budget in the form of financial reports which at least include the Budget Realization Report, Balance Sheet, Cash Flow Report, and Notes to the Financial Statements.

2.4 Human Resource Competencies

Determination of the level of competence is needed in order to know the level of performance expected for the good/average category. Competence consists of five characteristics, namely: Knowledge, Skills, Motives, Traits, Self Concept. Someone who has competence will work with his knowledge and skills so that he can work easily, quickly, intuitively and with experience can minimize mistakes.

2.5 Understanding of Regional Financial Information Systems (SIKD)

SIKD is a system that documents, administers, and processes data on regional financial management and other related data into information that is presented to the public and is used as material for decision making in the context of planning, implementing, and reporting the accountability of local governments.

Regional Financial Information (IKD) is all information related to regional finance needed in the context of implementing SIKD. IKD submitted must meet the principles of accuracy, relevance, and accountability.

2.6 Role of Internal Auditors

Internal audit is an independent activity, objective beliefs and consultations that are designed to add value and improve organizational operations (Tim Penyusun STAN, 1998). Internal audits assist the organization in achieving its objectives by applying a systematic and disciplined approach to evaluating and increasing the effectiveness of the process of managing risk adequacy of organizational control and management.

2.7 Government Internal Control System

The Government Internal Control System is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, financial reporting reliability, security of state assets, and compliance with laws and regulations (Republik Indonesia, 2008).
2.8 CONCEPTUAL FRAMEWORK AND HYPOTHESES

Based on the description that has been explained, then compiled a research concept which is a logical relationship from the theoretical foundation and empirical study that can be described as follows:

2.9 Hypotheses

Based on the formulation of the problem and the purpose of the study, the hypothesis or temporary answers to the problems that are the object of research used in this study are:

H1: Implementation of SAP has a positive effect on the quality of financial reports of the Regional Government of Simalungun District.

H2: HR competence has a positive effect on the quality of the Simalungun District Government's financial statements.

H3: The Understanding of the regional financial information system has a positive effect on the quality of the Simalungun District Government's financial reports.

H4: The role of the internal auditor has a positive effect on the quality of the Simalungun District Government's financial statements.

H5: The government's internal control system can moderate the effect of SAP implementation on the quality of the Simalungun District Government's financial statements.

H6: The government's internal control system can moderate the effect of HR competencies on the quality of the Simalungun District Government's financial reports.

H7: The government's internal control system can moderate the influence of the role of the internal auditor on the quality of the regional financial reports of the Regional Government of Simalungun District.
3. RESEARCH METHODS

This study aims to test hypotheses and is research that explains phenomena in the form of relationships between variables (Erlina, 2011). The population in this study were all regional device organizations in the Simalungun District Government involved in the preparation of the financial statements of 30 regional device organizations, consisting of the Regional Secretariat, DPRD Secretariat, Korpri Secretariat, Inspectorate, 6 (six) bodies, 19 (nineteen) offices and 1 (one) the Civil Service Police Unit office. Each regional device organizations will be given 3 (three) questionnaires which will be filled out by the Head of the regional device organizations Office, then to the PPK (Financial Administration Officer) and the treasurer of expenditure. Therefore the number of samples of this study was 90 respondents (30x3).

Tests conducted in this study are descriptive statistical tests, data quality tests, and hypothesis testing.

4. RESEARCH RESULTS AND DISCUSSION

Based on the tests that have been carried out, the following are the results of descriptive statistical testing, data quality testing, and hypothesis testing.

4.1 Descriptive statistics

<table>
<thead>
<tr>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>90</td>
<td>1.50</td>
<td>5.00</td>
<td>3.9093</td>
<td>.76607</td>
</tr>
<tr>
<td>90</td>
<td>1.60</td>
<td>5.00</td>
<td>3.8356</td>
<td>.90073</td>
</tr>
<tr>
<td>90</td>
<td>1.60</td>
<td>5.00</td>
<td>3.9689</td>
<td>.76315</td>
</tr>
<tr>
<td>90</td>
<td>1.43</td>
<td>5.00</td>
<td>3.8873</td>
<td>.82982</td>
</tr>
<tr>
<td>90</td>
<td>1.60</td>
<td>5.00</td>
<td>4.0156</td>
<td>.64875</td>
</tr>
<tr>
<td>90</td>
<td>1.70</td>
<td>5.00</td>
<td>4.1044</td>
<td>.54421</td>
</tr>
</tbody>
</table>

Descriptive statistical test results from the data that have been tested are all variables have a mean value that is almost the same between one another, which is above 3.8, which means that the average respondent answers the questionnaire questions with neutral answers, agree to strongly agree.

Data Quality Test

In the data quality test there are two tests carried out namely, the validity test and the reliability test. Test the validity by looking at the average variance extracted (AVE) value and the AVE restriction value is 0.50. Based on the results of the validity test that has been done, all the variables in this study are included in the valid data category.

Furthermore, data reliability testing. This test uses the Cronbach alpha (CA) and composite reliability (CR) values. The boundary values for CA and CR are 0.70. Based on the results of the reliability test that has been done, all the variables in this study are included in the category of reliable data.
4.2 Hypothesis Test
Test the Effect of Significance

Significant test is performed to determine whether all independent variables used have an influence on the dependent variable. Significance test in this study using the Bootstrapping approach is to see the test results through the P Values value. If the p values are below 0.05, the results have a significant effect. The results of the significance test can be seen in the following table:

<table>
<thead>
<tr>
<th>Original Sample (0)</th>
<th>P Values</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAP Implementation (X1) -&gt; KLKP (Y)</td>
<td>0.270</td>
<td>0.014</td>
</tr>
<tr>
<td>SDM (HR) Competency (X2) -&gt; KLKP (Y)</td>
<td>0.352</td>
<td>0.001</td>
</tr>
<tr>
<td>Utilization of SIKD (X3) -&gt; KLKP (Y)</td>
<td>0.266</td>
<td>0.000</td>
</tr>
<tr>
<td>The Role of Internal Audit (X4) -&gt; KLKP (Y)</td>
<td>0.215</td>
<td>0.006</td>
</tr>
</tbody>
</table>

Determination Coefficient Test (R2)

The coefficient of determination test is a test conducted to see how much influence the independent variable has on the dependent variable. The coefficient of determination test results in this study is the R2 value of 0.613, which means that the independent variable in this study is able to influence the dependent variable as much as 61.3%, the rest is influenced by other variables outside this study.

Moderation Test

Next is a moderation test, which tests whether the government's internal control system is significant in moderating the influence of the adoption of government accounting systems, HR competencies and the role of internal auditors on the quality of financial statements. The moderation test results can be seen in the following table:

<table>
<thead>
<tr>
<th>Original Sample (0)</th>
<th>P Values</th>
<th>Conclusions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moderation in SAP Implementation (X1) -&gt; KLKP (Y)</td>
<td>0.029</td>
<td>0.887</td>
</tr>
<tr>
<td>Moderation of HR Competencies (X2) -&gt; KLKP (Y)</td>
<td>-0.215</td>
<td>0.274</td>
</tr>
<tr>
<td>Moderation of Internal Audit Roles (X4) -&gt; KLKP (Y)</td>
<td>0.109</td>
<td>0.580</td>
</tr>
</tbody>
</table>
4.3 Discussion of Research Results
Effects of The implementation of Government Accounting Standards on the Quality of Regional Government Financial Statements

The results of the SAP variable test results on the quality of local government financial statements is The implementation of SAP has a positive and significant effect on the quality of local government financial statements. This study is in line with research conducted by Azlim, Darwanis, & Bakar (2012), Wati, Kadek Desiana (2014), Suwanda (2015) and Saragih (2016) who stated that The implementation of SAP has a significant effect on the quality of financial statements. However, it is different from the research by Desmaria Puji Kesuma, Anwar, & Darmansyah (2017) and Sianturi (2016) that the implementation of SAP has no effect on the quality of local government financial reports.

This is enough to prove that the Simalungun District Government has been well in applying government accounting standards. Government accounting standards must be set at all regional device organizations in Simalungun District consistently in preparing the financial statements of the Simalungun District Government with periodic financial reports and evaluating financial statements.

Effect of Human Resources Competence on the Quality of Regional Government Financial Statements

HR competency variable test results on the quality of local government financial reports is HR competence has a positive and significant impact on the quality of local government financial reports. This is in line with research conducted by Tambingon, Yadiati, & Kewo (2018), Siahaya, Asnawi, & Layuk (2011), Rahmatika & Afiah (2014) and Ayu, Kiranayanti, Made, & Erawati (2016) which state that there are Significant positive effect between HR competencies and the quality of local government financial reports. But not so with Syarifudin (2014), Suwanda (2015) and Sianturi (2016) who stated that HR competencies had a non-significant positive effect on the quality of local government financial reports and Sukmaningrum research (2012) stated HR competencies had no significant effect on the quality of financial statements.

This proves that the human resources in this case are referred to as the State Civil Apparatus of the Simalungun District Government are consistent and have competence in accounting in the preparation of financial statements. Competence is the ability and characteristics possessed by someone in the form of knowledge, skills and behavioral attitudes required in the implementation of the duties of his position.

Effect of Understanding of Regional Financial Information Systems on the Quality of Regional Government Financial Statements

The test results of the use of SIKD variables on the quality of local government financial reports is the use of SIKD has a positive and significant effect on the quality of local government financial reports. This is in line with the research of Yuliani & Bakar (2010), Siahaya et al. (2011), Wati, Kadek Desiana (2014) and
Muda et al. (2018) which shows that the regional financial accounting system significantly influences the quality of financial statements. Unlike the case with Diani's research (2014) which shows that The Understanding of regional financial accounting information systems does not have a significant positive effect on the quality of local government financial reports.

This is enough to prove that the Simalungun District Government has implemented and understood the regional financial information system well. SIKD must be consistently applied to all regional device organizations in Simalungun District in order to accelerate the work process in regional financial management and provide comprehensive regional financial information to the wider community.

**Effects of the Role of Internal Auditors on the Quality of Regional Government Financial Statements**

The results of the internal auditor role variable test on the quality of local government financial statements is the role of internal auditors has a positive and significant influence on the quality of local government financial statements. This is in line with research by Tambingon, Yadiati, & Kewo (2018), Yuliani & Bakar (2010), Diani (2014) and Saragih (2016) which show that the role of the internal auditor has a significant positive effect on the quality of local government financial reports. However, the research of Adha Inapty & Martiningsih (2016) states that internal audit has no effect on the quality of financial statements.

This is sufficient to prove that internal auditors are able to provide confidence in the good quality of the Simalungun District Government's financial statements.

**The Government's Internal Control System cannot moderate the effect of the implementation of SAP on the Quality of Regional Government Financial Statements**

The results of the moderating variable test of the government internal control system as a moderating variable in the effect of the implementation of SAP on the quality of the financial statements of local governments is that the government's internal control system cannot moderate the influence of SAP accounts of the quality of the Simalungun Regional Government's financial statements. This is in line with research by Adha Inapty & Martiningsih (2016) which states that the government's internal control system cannot moderate The implementation of SAP to the quality of financial statements. In contrast to research conducted by Saragih (2016) which states that the variable internal control system of the government is a moderating variable that can strengthen the effect of the implementation of SAP with the quality of local government financial reports.

**The Government's Internal Control System cannot moderate the effect of HR competencies on the Quality of Regional Government Financial Statements**

The results of the moderating variable test of the government's internal control system as a moderating variable in the effect of HR competencies on the quality of local government financial reports is that the government's internal control system cannot moderate the effect of HR competencies on the quality of the Simalungun Regional Government's financial reports.. This is in line with research by Adha
Inapty & Martiningsih (2016) which states that the government's internal control system cannot moderate HR competencies on the quality of financial statements. In contrast to research conducted by Saragih (2016) which states that the variable internal control system of the government is a moderating variable that can strengthen the effect of HR competencies with the quality of local government financial reports. Accordingly, research by Dewi (2017) and Syarifudin (2014) also states that the government’s internal control system as a moderating variable is able to moderate the relationship of human resource competencies to the quality of local government financial reports.

**Internal Control Systems** The government cannot moderate the influence of the role of internal auditors on the quality of the Regional Government Financial Statements

The result of the moderating variable test of the government internal control system as a moderating variable in the influence of the role of the internal auditor on the quality of the financial statements of the local government is that the government internal control system cannot moderate the influence of the role of the internal auditor on the quality of the Simalungun Regional Government's financial statements. This is in line with the research of Syarifudin (2014) which states that government internal control system is not significant in influencing the role of internal audit on the quality of local government financial statement. In contrast to Saragih's research (2016) which states that the variable internal government control system is a moderating variable that can strengthen the effect of internal audit with the quality of local government financial reports.

5. **CONCLUSIONS AND SUGGESTIONS**

5.1 **Conclusions**

Based on data analysis and discussion carried out in the previous chapter, conclusions can be drawn:

1. The implementation of Government Accounting Standards has a significant positive effect on the quality of the Simalungun District Government's financial statements.
2. Human resource competence has a significant positive effect on the quality of the Simalungun District Government's financial statements.
3. The use of regional financial information systems has a significant positive effect on the quality of the Simalungun District Government's financial reports.
4. The role of the internal auditor has a significant positive effect on the quality of the Simalungun District Government's financial statements.
5. The government's internal control system cannot moderate the effect of the implementation of SAP on the quality of the Simalungun Regional Government's financial statements.
6. The government's internal control system cannot moderate the effect of HR competencies on the quality of the Simalungun District Government's financial reports.
7. The government's internal control system cannot moderate the influence of the role of the internal auditor on the quality of the Simalungun Regional Government's financial statements.

5.2 Research Limitations
In this study the researchers realized that there were limitations, including:
1. This study uses a questionnaire instrument where the answer is based on the perceptions and views of the respondents so as to enable the occurrence of bias or incompatibility with the actual situation and contains elements of subjectivity.
2. The independent variable in this study was only able to affect the quality of the financial statements of the Government of Simalungun District by 61.3% where there are still other factors not included in this study.

5.3 Suggestions
1. Test results in this study indicate that factors such as SAP implementation, HR competency, SIKD utilization and the role of internal auditors have a significant effect on the quality of local government financial reports. So it is recommended to the Government of Simalungun District to further improve and pay attention to it so that later it can improve the quality of each of these factors in order to produce the quality of the financial statements of the Simalungun Government.
2. It is expected that in subsequent research observation techniques that are used not only through the use of questionnaires but can add other techniques such as interviews and observations and can add other variables that are more influential than the previous variables.

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