FACTORS AFFECTING QUALITY OF FINANCIAL STATEMENTS IN LANGKAT REGENCY WITH THE INTEGRITY OF FINANCIAL MANAGEMENT AS MODERATING VARIABLES

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ABSTRACT
The objective of the research was to analyze the influence of human resources competence, the use of information technology, and the implementation of internal control system on the quality of financial statement of Langkat District Administration with the integrity of financial managers as moderating variable. The research used analytic survey method. The population was 52 Work Units (Regional Work unit) in Langkat District Administration. Each Work Unit was represented by Financial Administrator and an expenditure treasurer as the respondents. The samples were taken by using census sampling technique (total population). Hypothesis was tested by using multiple linear regression analysis with an Statistical Package for Social Science (SPSS) software program. The result of the research showed that human resource competence, the use of information technology and the implementation of internal control system simultaneously and partially had positive and significant influence on the quality of financial statement of Langkat District Administration. The integrity of financial manangers as moderating variable was able to moderate the correlation of human resources competence, the use of information technology, and the implementation of internal control system with the quality of financial statement of Langkat District Administration.

Key word: Competence of human resources, the utilization of information technology, implementation of internal control system, the integrity of financial management official and Quality of Financial Statement

1. INTRODUCTION
The aim of the state to be achieved in the administration of government can be seen through state financial management. Law Number 17 of 2003 Article 3 paragraph (1) states that state finances are managed in an orderly manner, obey the laws and regulations, are efficient, economical, effective, transparent and accountable by taking into account the sense of justice and propriety. The accountability of the Regional Government in the management of regional finances is conveyed by issuing Local Government Financial Statement. Good accountability for the financial management of local governments is assessed based on the quality of the Local Government Financial Statement.

The Supreme Audit Agency opinion is a examiner's professional statement regarding the fairness of financial information presented in financial statements based on four criteria, namely compliance with government accounting standards, adequacy of disclosure (adequate disclosure), compliance with laws and the effectiveness of internal control. Based on these four criteria Supreme Audit Agency-Republic of Indonesia opinion is divided into four types, namely: a. Unqualified Opinion, other than Unqualified Opinion there is currently an opinion Unqualified Opinion with Paragraph
Explanation. The Unqualified Opinion with Paragraph Explanation is issued because in certain circumstances the auditor must add an explanatory paragraph in the audit report, even if it does not affect unqualified opinions on the report. b. Qualified Opinion. c. Adverse Opinion. d. Disclaimer Opinion.

Data for 2007-2010 shows Local Government Financial Statement Langkat Regency get Disclaimer Opinion, and circulating between 2011 to 2016 to obtain Qualified Opinion. Regency Langkat was the sixth time to get a Qualified Opinion because there was no significant increase in Local Government Financial Statement that had been issued in 2016. This is because the Supreme Audit Agency found that the financial statements presented were still considered incomplete and there were material errors, coupled with weak implementation. The Government's Internal Control System is implemented. In addition, preliminary research data shows that the competence of Human Resources (HR) is still weak and that the utilization of information technology is not maximally expected to influence the quality of the Local Government Financial Statement.

Explanation in the Supreme Audit Agency-Republic of Indonesia Regulation Number 01 of 2017 concerning the State Financial Checking Standard states that the implementation of auditing management and responsibility for state finances is one step in order to create a clean and free government from corruption, collusion and nepotism. This is different from the phenomena that occur such as Hand Catching Operations (get caught in illegal action/transaction) carried out by the Corruption Eradication Commission, where some regional heads who were involved in corruption cases in the APBD turned out to be The Local Government Financial Statement that has been submitted obtains a Unqualified Opinion even for the umpteenth time.

Referring to the rampant corruption that occurred in the Local Government, a quote on the page of the Secretariat of the Cabinet of the Republic of Indonesia dated May 5, 2017, entitled Meeting the President, Corruption Eradication Commission Leaders Discussed the Position of Inspectorate and Ease of Dismissing Civil Servants. by the low integrity of the National Civil Apparatus.

2. LITERATURE REVIEW
Decentralization is the submission of government affairs by the Central Government to regional governments where the regions are granted rights, authority and obligations as autonomous regions to regulate and manage their own government affairs and the interests of local communities in the State system. Based on these guidelines the local government is accountable to the public as voters through the legislature, also accountable for submitting Local Government Financial Statement to the central government which includes the statement of Local Government Agencies and reveals all activities through Local Government Financial Statement.

Quality of financial statements
The Government Accounting Standards Committee (2005: 01-05) states that the purpose of preparing government financial statements is to present information that is useful on decision making and shows the accountability of the entity reporting on the resources entrusted to them. Suwardjono (2005) states that information must be useful for users and information must have value. Information is said to have value (usefulness
of decision) if the information can increase the decision maker's knowledge about his past, present, or future decisions.

Government Regulation Number 71 of 2010 concerning Government Accounting Standards states that the qualitative characteristics of financial statements are normative measures that need to be realized in accounting information so they can get their goal. The normative prerequisites that are needed so that government financial statements can meet the desired quality is relevant, reliable, comparable and understandable. Based on some of the above it can be concluded that the quality of financial reporting is precondition normative necessary to make the value of government financial reporting accounting information to meet the desired quality that is relevant, reliable, comparable and understandable.

The factors that affect the quality of financial statements

Human Resource Competence (HR)

Competency according to Spencer and Spencer (1993) in Vathanophas (2006) is a basic characteristic possessed by an individual that is causally related to meeting the criteria required in occupying a position. Becker and Ulrich (2001) in Ramlal (2006) that the competence contains aspects of knowledge, skill and the ability or personality characteristics that affect performance. Law Number 05 of 2014 concerning State Civil Apparatus states that technical competence can be assessed from the level of education specialists, functional technical training, and technical working experience. A number of managerial competencies are measured by the level of education, structural or management training, and leadership experience. From the above description in the opinion of researchers HR Competency is the ability of financial management officials in performing their duties based on education, knowledge, skills and behavior to responsibility for duties and obligations in financial management.

Information technology utilization

Hussein et al. (2005) stated that the development of information technology affects the way the organization works, including in the government sector. Information technology includes computers (mainframes, mini, micro), software (software), databases, networks (internet, intranet), electronic commerce, and other types related to technology (Wilkinson et al. 2000). Indrajit, (2000) said technology information is a technology that deals with processing data into information and the process of channeling data / information within the limits of time and space to improve work efficiently. From the description above, information technology includes a combination of the use and maintenance of computer technology and telecommunications technology itself. Computers as hardware with software as software that functions for processing facilities and data storage integrated and sent via communication channels. This variable is measured through the use of computers and networks, integrated data processing and computer maintenance.

Implementation of Internal Control System

Internal controls are plans, methods, procedures and policies designed by management to provide adequate guarantees for efficiency and operational effectiveness, to rely on financial reporting, safeguarding assets, compliance with laws and government policies and regulations (quote one of the blogspot community finance counting taxation in G. Kumaat, 2010). There are three main
objectives of management to design an effective Internal Control System, namely: (1) reliability of financial statements, (2) effectiveness and efficiency of the company's operations, and (3) compliance with laws and regulations. In an effective Internal Control System must be comprehensive and involve people at all levels within the company (Deloitte Touche LLP et al. 2004) The Internal Control System component according to COSO consists of: 1) Control environment, 2) Risk assessment, 3) Control Activities, 4) Information and communication, 5) Monitoring.

Based on the description above Internal Control System is internal control that includes organizational structure, methods, and coordinated measures to safeguard the wealth of the organization, check the accuracy and reliability of accounting data, boost efficiency, and compliance with policy leaders to provide reasonable assurance for the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. This variable indicator is the control environment, risk assessment, control activities and communication information.

Integrity of financial management officials

Cooper and Sawaf (2002) in Sedarmayanti (2017) state that integrity is the most profound calling and direction to gather courage to apply it in practice. Carter (1999) states that in integrity requires three steps: (1) differentiating what is right and what is wrong, (2) implementing what you have reviewed, even if you suffer from your own loss, (3) saying that you are openly in carrying out based on your understanding of what is right and wrong. Integrity maintains high achievement standards and carries out competencies which means having intelligence, education and training to be able to add value through performance (Mutchler, 2003).

Integrity is able to show honesty (demonstrating honesty), that is working with others honestly and correctly presenting complete and accurate information (Harefa, 2000). From the above description, integrity is the only word with actions that are manifested by acting consistently in accordance with the values and policies of the organization and the code of ethics of the profession, even in circumstances that are difficult to do. Communicate intentions, ideas and feelings openly, honestly and directly even if difficult with other parties. Integrity can be assessed with honesty, transparency, courage and responsibility.

Research Hypothesis

H1: HR competencies, use of information technology and Application of the Internal Control System had effect on quality of regency government financial statements of Langkat partially and simultaneously.
H2: The integrity of financial management officials is able to moderate the effect of the HR Competency had effect on quality of regency government financial statements of Langkat.
H3: The integrity of financial management officials is able to moderate the effect of the use of information technology had effect on quality of regency government financial statements of Langkat.
H4: The integrity of financial management officials is able to moderate the effect of Internal Control System had effect on quality of regency government financial statements of Langkat.
3. RESEARCH METHODS

Type of Research, Research Location, Population and Research Sample

This type of research is an analytic survey research which is a research that tries to explore how the phenomenon occurs and analyzes the dynamics of causality of the phenomenon. Location of all Work Unit research in the regency government of Langkat. The population in this study were Financial Administration Officials and Expenditures Treasurers from 52 Work Units in the Regency Government. In this study the entire population will be sampled because it uses census sampling techniques.

Data Collection Method, Operational Definition and Variable Measurement

The data source used is primary data. The method used is survey method. Data collection techniques were carried out using questionnaire techniques. The operational definition of variables is a definition that is used as the basis for determining the value of each of these variables.

Measurements in this study using a scale interval with Likert scale technique. Erlina (2011) defines a Likert scale prepared to assess the extent to which the subject agrees and disagrees with the statement submitted. To measure the opinions of respondents used a Likert scale containing 5 answer preferences and made in the form of a check (√) or cross (X) with details as follows: Score 1 (STS = Strongly Disagree), Score 2 (TS = Disagree, Score 3 (N = Neutral), Score 4 (S = Agree) and Score 5 (SS= Strongly Agree).

Table. 1 Operational Definition and Variable Measurement

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Variable Definition</th>
<th>Indicator</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Quality of Financial Statements</td>
<td>Normative measures that need to be realized in accounting information so that they can meet their objectives.</td>
<td>(1) Relevant (2) Reliable, (3) Can be compared (4) Understandable.</td>
<td>Interval</td>
</tr>
<tr>
<td>(Y)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2. HR Competency (X1)</td>
<td>The ability of the Administration Officer to carry out his duties based on education, training obtained, understanding of duties and responsibilities towards obligations.</td>
<td>(1) Educational background, (2) Knowledge, (3) Expertise (4) Behavior.</td>
<td>Interval</td>
</tr>
<tr>
<td>3. Information Technology (X2)</td>
<td>Computers as hardware with software as software that functions for processing and data storage facilities that are integrated with the network as a medium of communication channels.</td>
<td>(1) Utilization of computers and internet networks (2) integrated data processing (3) computer maintenance.</td>
<td>Interval</td>
</tr>
<tr>
<td>4. Internal Control System (X3)</td>
<td>An integral process in the actions and activities carried out continuously by the leadership and all employees to provide adequate assurance for the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations</td>
<td>(1) Control Environment (2) Risk Assessment (3) Control Activities (4) Information and Communication</td>
<td>Interval</td>
</tr>
<tr>
<td>5. Integrity of Financial Management Officials</td>
<td>The only words with actions that are realized by acting consistently in accordance with the values and policies of the organization and the code of ethics of the profession, even in circumstances that are difficult to do. Communicate intentions, ideas and feelings openly, honestly and directly even if difficult with other parties.</td>
<td>Integrity is measured by (1) Obedience to the code of ethics and norms (2) honest and transparent, (3) brave, (4) to be responsible</td>
<td>Interval</td>
</tr>
</tbody>
</table>

Research Regression Model

Model 1  
\[ Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_1 \ldots \ldots \] (1)
Model 2.1 \[ Z = \alpha + \beta_1 X_1 + \varepsilon_2 \] ............................... (2.1.1)
\[ |\varepsilon| = \alpha + \beta_2 Y \] ............................... (2.1.2)
Model 2.2 \[ Z = \alpha + \beta_3 X_2 + \varepsilon_3 \] ............................... (2.2.1)
\[ |\varepsilon| = \alpha + \beta_4 Y \] ............................... (2.2.2)
Model 2.3 \[ Z = \alpha + \beta_5 X_3 + \varepsilon_4 \] ............................... (2.3.1)
\[ |\varepsilon| = \alpha + \beta_6 Y \] ............................... (2.3.2)

Information:

- Y: Quality of financial statements
- X_1: HR competency
- X_2: Information technology utilization
- X_3: Implementation of an internal control system
- Z: Integrity of financial management officials
- \( \alpha \): Constants
- \( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6 \): Regression coefficient
- \( \varepsilon_1, \varepsilon_2, \varepsilon_3, \varepsilon_4 \): Error
- \( |\varepsilon| \): Absolute Error term

### Classical Assumption Testing Results

#### Test results for normality

The test results show the sig value \((2\text{-tailed}) > \alpha (0.661 > 0.05)\). Thus it can be concluded that through statistical tests proven residual data is normally distributed.

#### Multicollinearity test results

The test results multicollinear show all correlation coefficients of independent variables, are in the range of 0.206 to 0.393 and smaller than the maximum required limit (0.60). In conclusion, based on the results of multicollinearity testing, there is no multicollinearity between independent variables in the regression model.

Multicollinearity tests can also be seen through the Tolerance value and VIF value. VIF calculation results also show the same thing, all independent variables have a smaller VIF 10 and in the range of 1.299 to 1.470, then it can be concluded that there is no multicollinearity problem in the model (Ghozali, 2016).

#### Heteroscedasticity test results

The results of statistical tests through the Glejser test show the significance value is in the range 0.096 - 0.902 and is greater than the significance value required (0.05). So that no one variable has a significant effect on the dependent variable residual absolute value (AbsRes_1). This means that the regression model has a constant residual variant (homoskedasticity).

### Hypothesis Testing Results

#### Table 2. Results of First Hypothesis Testing

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constants</td>
<td>0.984</td>
<td>0.000</td>
</tr>
<tr>
<td>HR Competency (X_1)</td>
<td>0.252</td>
<td>0.000</td>
</tr>
</tbody>
</table>
The results of testing the first hypothesis shows a correlation (R) of 0.823 between the three independent variables and the dependent variable. That is, the level of the relationship of the four independent variables with the dependent variable is strong (see Table 2).

**Determination Coefficient (Adjusted R Square)**

The test results show the coefficient of determination (adjusted $R^2$) of 0.667. This means that 66.7% of the variation in the quality of financial statements can be explained by the variables of HR competency, utilization of information technology and Internal Control System simultaneously. The remaining 33.3% is explained by other variables not included in the regression model.

**Statistical Test Results F**

The results of the F statistic test with a significance value of 0.000 smaller than $\alpha = 5\%$ means that HR competencies, information technology utilization, implementation of Internal Control System simultaneously significant positive effect on the quality of financial statements (H1 accepted).

**Test Statistics t (Partial Test)**

The results of the statistical test in Table 2. show that HR competencies, utilization of information technology, application of Internal Control System have a significant positive effect on the quality of financial statements partially with a significance value of each variable of 0.000; 0.000; 0.000 is smaller than $\alpha = 5\%$.

**Residual Test Results**

The first step is to regress the independent variables to the moderator variable to obtain the residual value which is then absolutized and then regress the dependent variable to the absolute value of the residual. The regression results produce the regression model as follows:

- $H2: |\epsilon| = 1.135 - 0.202 Y$
- $H3: |\epsilon| = 1.257 - 0.230 Y$
- $H4: |\epsilon| = 1.120 - 0.96 Y$

The results of testing the second hypothesis shows the coefficient of quality parameters of the financial statements is negative with a significance of 0.003 which is smaller than 0.05. Thus the integrity of financial management officials is able to moderate the relationship between HR competencies and the quality of Pemkab financial reports. Langkat (H2 is accepted).

The results of testing the third hypothesis shows the value of the quality parameter coefficient of financial statements is negative with a significance value of 0.000 which is smaller than 0.05. Thus the integrity of financial management officials is able to moderate the relationship between the use of information technology and the quality of the financial statements of the District Government of Langkat (H3 accepted).
The results of testing the third hypothesis shows the value of the negative financial report quality coefficient with a significance value of 0.006 which is 0.05 smaller. Thus the integrity of financial management officials is able to moderate the relationship between Internal Control System and the quality of Langkat District Government financial reports (H4 accepted).

4. DISCUSSION

The results of the study showed the competence of human resources, the utilization of information technology and the application of Internal Control System partially and simultaneously influence the quality of the financial statements of the District Government of Langkat. The integrity of financial management officials is able to moderate the relationship between the independent variables of HR competencies, the use of information technology and the application of Internal Control System to the quality of the financial statements of Langkat District Government.

The results showed that in improving the quality of the financial statements of the Langkat Regency Government should begin with efforts to improve the role of HR competencies, the use of information technology and the application of Internal Control System accompanied by how to build high integrity of financial management officials throughout Work Unit.

1. Effect of HR competencies on the quality of financial reports

The results showed partially that HR competency had a significant effect on the quality of financial statements. If other variables are considered constant, the competency relationship of HR with the quality of financial statements is significant and unidirectional, the better the competency of HR, the better the quality of financial reports and conversely the decline in HR competencies will affect the quality of financial reports.

The results of this study support and are consistent with Nurillah's research (2014) stating that HR competencies have a positive effect on the quality of local government financial reports. But this is contrary to the research of Syahadatina and Fitriyana Research (2016) which shows that partially the human resources variable in finance does not affect the quality of financial statements.

Based on the analysis of respondents' answers HR competencies still need to be improved. One of the causes is that even though the working age is quite high, accounting and financial training and financial reporting are still low. Besides that, planning for future employee placement needs to be considered because the level of background with accounting education is still low.

2. Effect of the use of information technology on the quality of financial statements

The results showed partially that the application of information technology had a significant effect on the quality of financial statements. If other variables are constant, the relationship between the application of information technology and the quality of financial statements is significant and unidirectional, the better the application of information technology, the better the quality of financial reports and vice versa.

The above results are in line with the research of Yudianta et al., (2012) which states that the use of information technology has a positive effect on the quality of
financial reporting information in the Regional Work Unit of Gianyar Regency. This is contrary to Riandani's (2016) research which shows that the use of information technology does not affect the quality of financial statements.

Based on the analysis of the answers to questionnaires respondents the use of information technology is not so good, plus the observations of researchers and interviews found that for Work Unit such as sub-districts where the communication network infrastructure has not been able to cover the entire work area of the sub-district.

3. Influence of the application of Internal Control System to the quality of financial statements

The results show partially, Internal Control System has a significant effect on the quality of financial statements. If other variables are constant, the Internal Control System relationship with the quality of financial statements is significant and unidirectional, where the better the Internal Control System, the better the quality of the financial statements and vice versa.

The results of this study support Surastiani's research (2015) which states that internal control has a significant positive effect on the quality of financial statement information. However, this research is not in line with the research conducted by Yendraawati, (2013) which concluded that Internal Control System has a negative effect on the quality of financial statement information.

Based on the analysis of the answers to questionnaires, respondents applying Internal Control System were not so good. Descriptive statistics in terms of the application of the Work Unit internal control system in the department, the agency and secretariat and the inspectorate are higher than the district Work Unit. This is because in the implementation of tasks and functions as financial administrator in the sub-district, treasurer roles and knowledge become one of the supporting factors for each direction of financial administrator actions which results in the internal supervision function running less than expected.

4. Effect of the integrity of financial management officials as moderator variables on the quality of financial statements.

The integrity of financial management officials as moderating variables is able to moderate the relationship between HR competencies, information technology utilization and the application of Internal Control System to the quality of Langkat District Government financial reports.

This is in line with Mutchler (2003) who stated. Integrity maintains high achievement standards and carries out competencies which means having intelligence, education and training to be able to add value through performance. The application of high integrity in the preparation of financial statements will produce performance in the form of quality financial statements by optimizing competencies, utilizing information technology and implementing internal control systems. Integrity is able to show honesty (demonstrating honesty), that is working with others honestly and correctly presenting complete and accurate information (Harefa, 2000).

The results of the study prove that the integrity of financial management officials can moderate the relationship between HR competencies and the quality of financial reports. Testing the second hypothesis is accepted, integrity plays a role in directing competence to produce good and quality performance.
The results of the study prove that the integrity of financial management officials is able to moderate information technology utilization on the quality of financial reports. The third hypothesis is accepted, information technology is only a tool in achieving organizational goals. Information technology is a dead item that cannot do anything if it is not supported by the resources that move it. Utilization of the application of information technology will be very useful if run by governance with integrity.

The results of the study show that the integrity of financial management officials can moderate the relationship of Internal Control System to the quality of financial reports. The fourth hypothesis can be accepted. Integrity as honesty and sincerity to do what is right and fair in the Internal Control System will sharpen its decisions and actions. Integrity is able to provide solutions by putting aside personal and group interests that often occur in the application of Internal Control System. If faced with conflicts in decision making, high integrity in a well integrated Internal Control System will improve the quality of financial reports, because the checking process of the accuracy and reliability of accounting data has ruled out any conflicts of interest between groups and individuals, which of course can hamper the clarity of information the financial statements.

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