

Importance of Internal Accountants' Competence in Shaping Good Quality Financial Reporting in Local Governments in Indonesia

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This research was conducted against the background of a phenomenon on which an Indonesian Supreme Audit Institution (BPK-RI) audit shed light – namely, the poor quality of financial reporting especially by regional governments, but also by provincial and city/district governments. This research was carried out through surveys and was grounded in existing theories which were employed to develop a research model designed to examine the quality of financial reporting of local governments and their relevance to internal accountants' competence, good governance principles and the application of accrual-based government accounting standards. The survey was conducted for two years targeting the provincial/regency/city/district governments of West Java and Banten, reaching as many as 37 local governments. Data was analysed using structural equation modelling, processed using Smart PLS. The benefit of this research is to contribute scientifically to public sector accounting science and solve problems for local governments in implementing tasks related to improving the quality of local governments' financial reporting. The results indicate that internal accountant competence had a significant positive effect on the quality of financial reporting, especially in local governments. Likewise, the principles of good governance and the application of accrual-based government accounting standards have effects, and the direction of their influence is also positive.

Key words: *Competence of Internal Accountants, Principles of Good Governance, Accrual-Based Government Accounting Standards, Quality of Financial Reporting.*

Background

Poor-quality financial reporting is a phenomenon that occurs across Indonesia – in local governments, ministries, institutions and also public companies – which is characterised by poor auditor opinion and late submission of financial reports to the Indonesia Stock Exchange (IDX). The central government has attempted to overcome this phenomenon by drafting a bill on financial reporting. In an overview of the first semester of 2018, the Indonesian Supreme Audit Institution (BPK, 2018) stated that one of the most difficult obstacles to obtaining qualified opinion was mainly the problem of incompatibility between the records and the physical existence of assets, and the value of assets that had not been revalued was noted in every audit conducted by the BPK. This is due to the lack of competence of accounting staff at the regional work unit (SKPD) level. Consequently, asset recording is not done per government accounting standards (GAS; Indonesian Supreme Audit Institution, 2018).

The competence of accounting personnel is a determinant of producing quality financial reports. Moreover, human resource (HR) competence includes knowledge, skills, abilities and personality characteristics that directly affect performance (Mangkunegara, 2013), and Government Regulation Number 101/2000 defines good governance as developing and applying the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, supremacy of law and being accepted by the entire community. If local governments deploy good governance in carrying out their activities, they will be more likely to remain sustainable and operate effectively. The sustainability of local government activities is crucial because the government can provide services and foster public trust, which benefits all interested parties. Throughout the world, including Indonesia, efforts have been made to understand the principles of good corporate governance. These principles are necessary to achieve sustainable performance while paying attention to the parties concerned.

The adoption of accrual-based GAS, which was implemented in 2015, has not run optimally (Penetapan, Seleksi, Makalah, Terbuka, & Pimpinan, 2019). The Minister of Home Affairs stated that the regions have faced several obstacles in implementing the new accounting standards, such as the quantity of HR managing finances, competencies and commitment of regional heads in encouraging the optimisation of the application of accrual-based financial reports in the regions (Penetapan et al., 2019). Meanwhile, reporting on an accrual basis means that economic transactions or accounting events are recognised, recorded and presented in financial statements as they occur, regardless of the time when cash is received or paid. Revenues are recognised when rights have been obtained, and expenses are recognised when the obligation arises or resources are consumed. The purpose of these accrual-based GAS is to improve the quality of financial reporting information, provide a complete picture of the government's financial position and present actual information about

the rights and obligations of the government. In addition, GAS accruals offer benefits for evaluating government performance related to service costs, efficiency and achievement of objectives. This study was aimed at answering three research questions as follows: (1) Does internal accountant competence have a significant effect on the quality of financial reporting? (2) Does the application of good governance principles have a significant effect on the quality of financial reporting? (3) Does the application of accrual-based GAS have a significant effect on the quality of financial reporting?

Theoretical Review

Internal Accountant Competence

According to Hitt, Ireland and Hoskisson (2014), competence, which is a combination of knowledge, skills, attitudes and experience, enables superior performance, which includes knowledge, intellectual skills, strategies or a combination of all three that can be applied to every work unit. In other words, competence is an individual characteristic that can enable superior performance. In addition, the ability to do work must be supported by skills, knowledge and work attitudes (Landy and Conte, 2016). Therefore, competent internal accountants must have a combination of knowledge, skills, attitudes and experience in organizational units or companies. In district, city and provincial governments, internal accountants are called accounting executors.

Principles of Good Governance

According to Sedarmayanti (2018), good governance entails implementing a solid and responsible state government, as well as an efficient and effective one, by maintaining constructive interaction between the state domain, the private sector and society. Government Regulation Number 101/2000 defines good governance as developing and implementing the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness and legal supremacy such that these can be accepted by the entire community. According to Bastian (2014), good governance means carrying out good, clean and authoritative functions of government (structure, functions, people, rules, etc.). As Kettani and Moulin (2014) clarified, the World Bank (2006) defines good governance as 'epitomized by predictable, open and enlightened policy-making; a bureaucracy imbued with a professional ethos; executive arm of government accountable for its actions; and the strong civil society participation in public affairs, and all behave under the rule of law'.

Accrual-Based Government Accounting Standards

Minister of Home Affairs Regulation 64/2013 Article 1 paragraph (10) explains that accrual-based accounting standards recognize the effects of transactions and events at the time when the transactions and events occur, regardless of when cash or cash equivalents are received or

paid. Abdul and Kusufi (2012) concluded that this accrual basis meets reporting objectives that cannot be met by a cash basis. Reporting has managerial and supervisory objectives. Indonesian Government Regulation 71/2010 article 1 paragraph (8) states the following:

Accrual-based government accounting standards are government accounting standards that recognize income, expenses, assets, debt, and equity in accrual-based financial reporting, and recognize income, expenditure, and financing in reporting the implementation of the budget based on the basis stipulated in the Indonesian Budget (APBN) / Regional Revenue and Expenditures Budget (APBD).

Furthermore, according to the Guidelines of Government Accounting Standards (GGAS 01), such accrual-based standards represent ‘an accounting base that recognizes the effect of transactions and other events when the transaction and event occurs, regardless of when cash or cash equivalents are received or paid’. Rusmana, Setyaningrum and Yuliansyah (2017) laid out the eight principles used in government accounting and financial reporting: accounting basis, historical value principle, realization principle, substance principle outperforms formal form, periodicity principle, consistency principle, complete disclosure principle, fair presentation principle (see pp. 39–41).

Quality of Financial Reporting

Kieso, Weygandt and Warfield (2016) clarified that financial reporting quality refers to the quality of accounting information – namely, the qualitative characteristics of accounting information. The quality of information is grouped into four classes: (1) intrinsic quality: accuracy, objectivity, believability and reputation; (2) quality of accessibility: access and security; (3) contextual quality: relevance, added value, timeliness, completeness and amount of data; and (4) quality of representation: interpretation, ease of understanding, concise representation and consistent representation. According to Hall (2012) the quality of information consists of relevance, timeliness, accuracy, completeness, and summarizing. Further, the dimensions of the quality of accounting information are relevant, timeliness, accuracy, completeness and summarization (Hall (2012)). Moreover, Bastian (2014) highlighted the criteria for quality information as follows: ‘Some important qualities of the information contained in financial statements according to GAS are understandability, relevance, reliability and comparability’ (p. 134).

Hypothesis Development

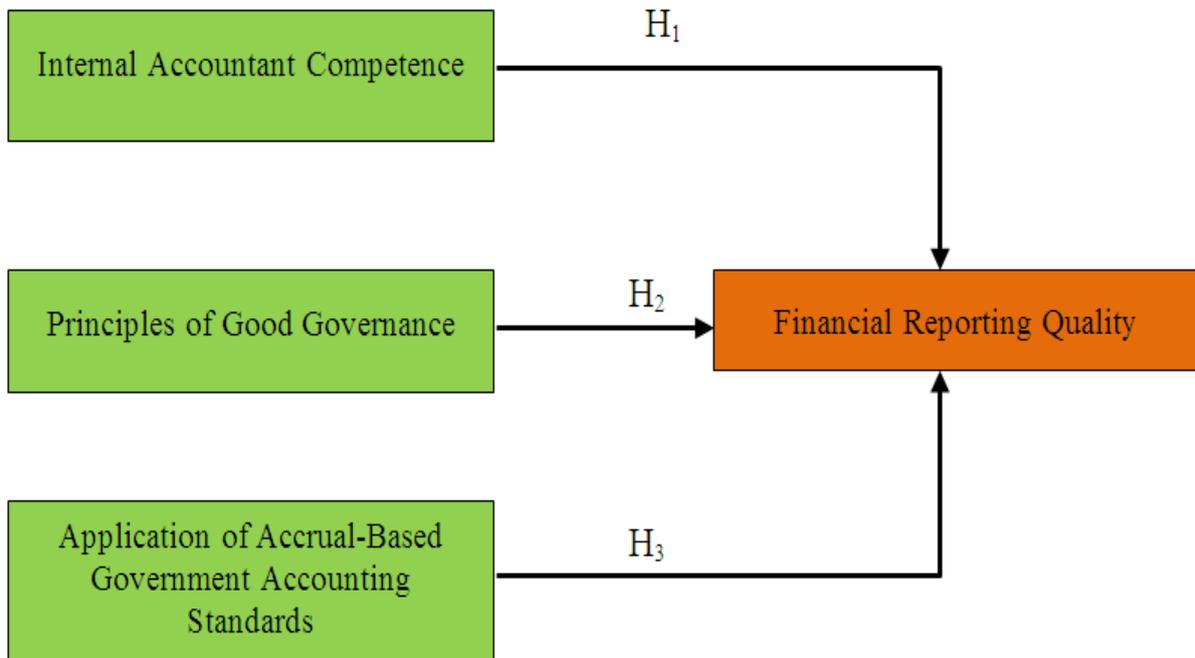
Oktarina, Raharjo and Andini (2016) explained that the quality of regional government officials influences the quality of financial statements. Competent accountants will be able to understand the logic of accounting. Failures of internal accountants, especially in regional

governments, in understanding and applying the logic of accounting will lead to errors in financial statements and report mismatches with standards set by the government. This will certainly affect the quality of financial reporting. Samukri (2015) stated that the competence of regional government officials has a significant influence on the quality of financial statements. Government officials who are competent in the field of accounting will improve the quality of the financial statements of the central and regional governments. According to Murapi (2017), HR abilities and team organization have significant effects on the quality of work unit financial information.

If public servants carrying out the activities of a regional government can implement good governance principles, the government services will be better. Samukri (2015) investigated how applying the principles of good corporate governance can influence the quality of financial reports, and the results revealed very significant effects on the implementation of good corporate governance and reliability of financial statements. The better the implementation of good corporate governance, the lower the fraud or errors in the reliability of financial statements. Khan, Serafeim and Yoon (2016) conducted similar research. As these studies suggest, we can expect the consistent application of good corporate governance to improve the quality of a company's financial statements (Oktarina et al., 2016).

Muda et al. (2017) and Oktarina et al. (2016) argued that the application of accounting standards affects the quality of financial statements. Thus, if the preparation of the central and regional governments' financial statements follows government accounting principles, the quality of these financial statements will improve. However, as Triwardana (2017) pointed out, the application of GAS did not significantly influence the quality of Regional Government Financial Institutions (LKPD). The relationship between internal accountant competence, the principles of good governance, the application of accrual-based GAS and financial reporting quality can be seen in Figure 1 below:

Figure 1. Framework



The framework depicted in Figure 1 illustrates the research hypotheses:

H₁: Internal accountant competence has a significant effect on the quality of financial reporting.

H₂: The application of the principles of good governance has a significant effect on financial reporting quality.

H₃: The application of accrual-based GAS has a significant effect on financial reporting quality.

Method

This research was explorative (exploratory study) with a type of causal study aimed at determining the cause of one or more problems (Sekaran & Bougie, 2016). The study involved examining the influence of internal accountant competence, the application of good governance principles and the application of accrual-based GAS to financial reporting quality. The target population as a whole unit of analysis was all provincial/district/city governments in the West Java and Banten regions, totalling 37 entities. The observation unit in this study was Agency of Regional Financial and Asset Management (DPKAD) because it is the lowest sub-organization in the provincial/district/city regional government that prepares local government financial reports. Table 1 provides the names of provinces/districts/cities in the West Java and Banten regions that comprised the target population/research sample:

Table 1: List of Target Populations/Research Sample

No.	SKPD	No.	SKPD
	West Java Province	19	Bandung Barat Regency
1	Bandung City	20	Kuningan Regency
2	Banjar City	21	Majalengka Regency
3	Bekasi City	22	Cianjur Regency
4	Cirebon City	23	Garut Regency
5	Cimahi City	24	Bandung Regency
6	Depok City	25	Indramayu Regency
7	Sukabumi City	26	Ciamis Regency
8	Bogor City	27	Pangandaran Regency
9	Tasikmalaya City		Banten Province
10	Bekasi Regency	28	Tangerang City
11	Tasikmalaya Regency	29	Serang City
12	Sumedang Regency	30	Cilegon City
13	Purwakarta Regency	31	Tangerang Selatan City
14	Subang Regency	32	Tangerang Regency
15	Cirebon Regency	33	Pandeglang Regency
16	Karawang Regency	34	Serang Regency
17	Bogor Regency	35	Lebak Regency
18	Sukabumi Regency		

Sources: <https://jabarprov.go.id> and <https://bantenprov.go.id/>

The data were analysed using structural equation modelling (SEM) and processed using partial least squares software consisting of the following two stages: the outer model (measurement model) for testing validity and reliability and the inner model (structural model) for determining the relationship between constructs, significance values and R-squared of the research model. Structural models were evaluated using R-squared for the dependent construct, t-test and significance of the structural path parameter coefficients.

Results and Discussion

Descriptive Statistics Analysis

Table 2 presents descriptions of the internal accountant competence variables measured by four reflective dimensions:

Table 2: Descriptions of the Variables of Internal Accountant Competence

No.	Dimension	Average	Standard Deviation
1.	Knowledge	4.33	0.62
2.	Skill	4.24	0.87
3.	Attitude	4.18	0.74
4.	Experience	3.15	1.62
Total		15.90	3.85

Average	3.98	0.96
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Source: Processed Primary Data, 2019

As the results in Table 2 indicate, the competence of internal accountants has an average value of 3.98, meaning that it is still inadequate. The variable consists of four research dimensions where the lowest average dimension value is an experience that is equal to 3.15 with a standard deviation of 1.62, meaning that internal accountants lack sufficient experience; for example, the length of work in the related field has not been long enough. The highest average value is knowledge, which is equal to 4.33 with a standard deviation of 0.62, meaning that internal accountants have sufficient knowledge to carry out their duties, such as implementing GAS.

Table 3 presents descriptions of the variables of good governance principles, measured by three reflective dimensions:

Table 3: Descriptions of the Variables of Good Governance Principles

No.	Dimension	Average	Standard Deviation
1.	Transparency	4.16	0.88
2.	Participation	4.13	0.77
3.	Accountability	4.54	0.41
Total		12.83	2.06
Average		4.28	0.69

Source: Processed Primary Data, 2019

As Table 3 reveals, the principles of good governance have an average value of 4.28, which means that they have been implemented properly. The variable consists of three dimensions, and the dimension with the lowest average value is participation, which is equal to 4.13 with a standard deviation of 0.77, meaning that the principles of good governance are less relevant to public opinion. The highest average value is accountability, which is equal to 4.54 with a standard deviation of 0.41, meaning that the evidence of good governance comes in the form of financial information reporting that can be accounted for.

Table 4 provides descriptions of variables relating to the implementation of accrual-based GAS, measured in three reflective dimensions:

Table 4: Descriptions of Variables Relating to the Application of Accrual-Based Government Accounting Standards

No.	Dimension	Average	Standard Deviation
1.	Recognition	4.93	0.23
2.	Recording	4.95	0.21
3.	Measurement	4.76	0.71
Total		14.64	1.15
Average		4.88	0.38

Source: Processed Primary Data, 2019

As the results in Table 4 indicate, the application of accrual-based GAS has an average value of 4.88, which means that these accounting standards have been implemented very well. The variable consists of three dimensions where the lowest average value is that of measurement, which is equal to 4.76 with a standard deviation of 0.71, meaning that assets and liabilities have not been recorded in accordance with the actual situation. The highest average value is for recording, which is equal to 4.95 with a standard deviation of 0.21, meaning that the recording is carried out in accordance with the principles of the applicable GAS.

Table 5 offers descriptions of the financial reporting quality variables measured by four reflective dimensions:

Table 5: Descriptions of the Quality of Financial Reporting Variables

No.	Dimension	Average	Standard Deviation
1.	Relevance	4.62	0.52
2.	Reliability	4.61	0.48
3.	Comparability	4.66	0.66
4.	Understandability	4.79	0.41
Total		18.68	2.07
Average		4.67	0.52

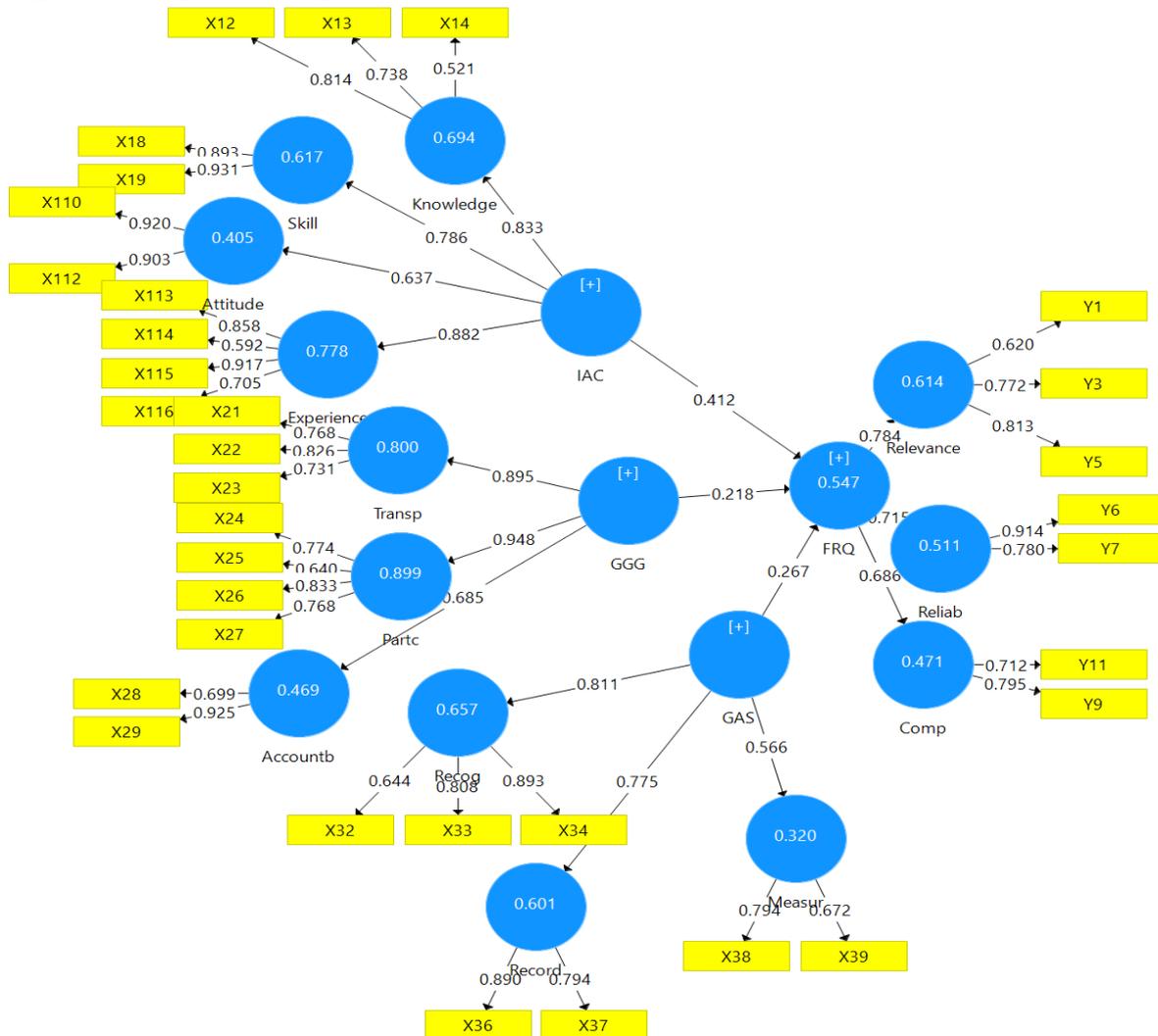
Source: Processed Primary Data, 2019

As the results in Table 5 illustrate, financial reporting quality consists of four research dimensions where the lowest average dimension is reliability, which is equal to 4.61 with a standard deviation of 0.48, meaning that financial statements are presented honestly and maintain neutrality. The highest average value is understandability, which is equal to 4.79 with a standard deviation of 0.41, meaning that the presentation of financial statements is based on GAS and can be used for management decision making.

Test of Validity and Reliability

The following are the results of the factor loading construct of internal accountant competence, good governance principles, application of accrual-based GAS and quality of financial reporting on Smart PLS:

Figure 2. Output Loading



The path diagram in Figure 2 above shows that the loading factor for the second-order meets convergent validity and the indicator value is above 0.5. All first- and second-order factor loadings are significant at the 5% level.

Table 6 shows the reliability test results for the variables of internal accountant competence, good governance principles, application of accrual-based GAS and financial reporting quality:

Table 6: Reliability Test

Variable	AVE	Cronbach's Alpha	Composite Reliability	Description
Internal Accountant Competence	0.691	0.702	0.774	Reliable
Good Government Governance Principles	0.616	0.807	0.856	Reliable
Application of Accrual-Based Government Accounting Standards	0.625	0.651	0.962	Reliable
Financial Reporting Quality	0.617	0.645	0.746	Reliable

Source: Data Processed (2019)

The results in Table 6 reveal that for all four variables, Cronbach's Alpha is above 0.6 and composite reliability is above 0.7. Therefore, it can be concluded that the indicators used in each dimension have sufficient reliability or ability to measure the construct.

Evaluation of Goodness of Fit of Structural Models (Inner Model)

Table 7 below provides the analysis results for the coefficients of the research variables:

Table 7. R-Squared

Variable	R-Squared
Financial Reporting Quality (Y)	0.547
Predictive Relevance (Q^2)	0.453

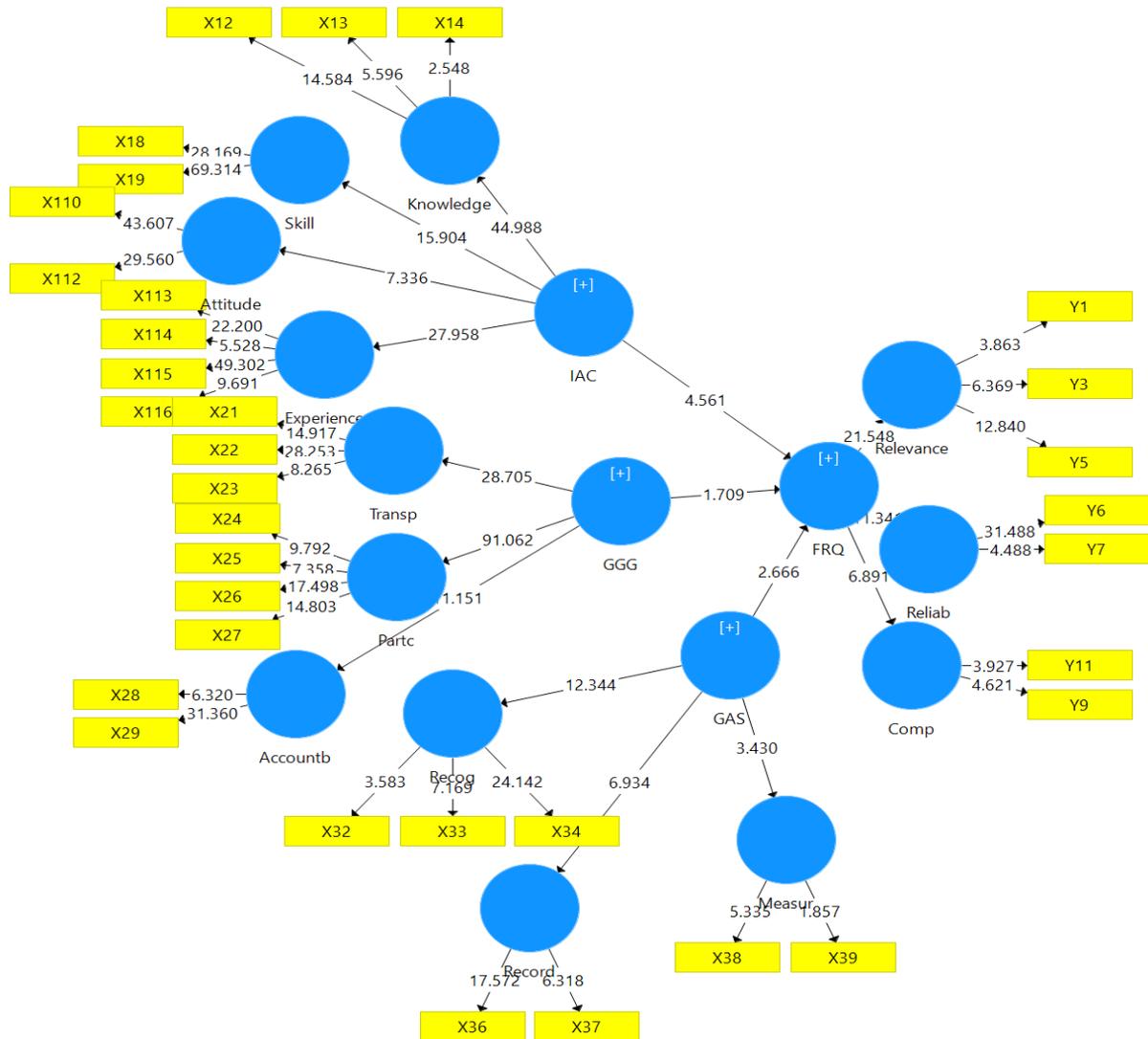
Source: Data Primer Yang Diolah, 2019

As the results in Table 4 show, the R-squared value for financial reporting quality variable is 0.547, indicating that internal accountant competence, principles of good governance and application of accrual-based GAS can explain 54.7% of the variance in financial reporting quality, while the rest of 45.3% is influenced by other variables not in the model. The predictive relevance value for the structural model in this study is 0.453 or 45.3%, meaning that the model is able to explain the phenomenon of financial reporting quality associated with internal accountant competence, good governance principles and application of accrual-based GAS. Therefore, the model can be said to be good or to have good predictive value. Therefore, the model is suitable for testing the hypotheses.

Hypothesis Testing

Testing the hypotheses in this study partially directly affected the statistical T values for each pathway. Figure 3 presents the path diagram of the hypothesis testing:

Figure 3. Output Inner Model



The path diagram of the hypothesis testing shows that all dimensions and indicators in each variable have a T statistic value greater than 1.660, meaning that these dimensions are able to measure each construct. Table 8 below illustrates the significance of the influence of internal accountant competence, good governance principles and implementation of accrual-based GAS on financial reporting quality:

Table 8: Path Coefficients

Inter-variable Relationships	Parameter Coefficient	T Statistic	P Value	Description
Internal Accountant Competencies -> Financial Reporting Quality	0.412	4.561	0.000	Significant
Good Government Governance -> Financial Reporting Quality	0.218	1.709	0.000	Significant
Application of Accrual-Based Government Accounting Standards -> Financial Reporting Quality	0.267	2.666	0.008	Significant

Information: 5% significance level

The path parameter coefficient obtained from the influence of the internal accountant competence variable on financial reporting quality is 0.412 with a statistical T value of 4.561 > 1.660 at a significance level of $\alpha = 0.05$ (5%) and a P value of 0.000 (i.e. below 0.05), indicating that there is a significant influence of internal accountant competence on the quality of financial reporting. Therefore, this result supports the first hypothesis that the competence of internal accountants influences the quality of financial reporting. The parameter coefficient value of 0.412 means that the more competent internal accountants are, the better the financial reporting quality is.

The path parameter coefficient obtained from the influence of good governance principles on financial reporting quality is 0.218. With a statistical T value of 1,709 > 1,660 at a significance level of $\alpha = 0.05$ (5%) and a P value of 0.000 (i.e. below 0.05), good governance Principles have a significant influence on the quality of financial reporting. Thus, this result supports the second hypothesis that good governance principles have a significant effect on the quality of financial reporting. The parameter coefficient value of 0.218 means that greater commitment to applying the principles of good governance means better financial reporting quality.

The path parameter coefficients obtained from the effect of applying accrual-based GAS on financial reporting quality is -0.267 with a statistical T value of 2.666 > 1.660 at the significance level $\alpha = 0.05$ (5%) and P value 0.008 (i.e. below 0.05), indicating that the application of accrual-based GAS has a significant effect on the quality of financial reporting. This result supports the third hypothesis that there is a significant effect of the application of accrual-based GAS on the quality of financial reporting. The parameter coefficient value of 0.267 means that the more stringent the application of accrual-based GAS, the better the financial reporting quality.

Discussion

The first hypothesis concerned the effect of internal accountant competence on financial reporting quality. The test results indicate that internal accountant competence has a significant effect on the quality of financial reporting. The direction of its influence is positive, indicating that the more competent internal accountants are, the better the financial reporting quality. This result is in line with Murapi (2017), who found that HR abilities and team organization have significant effects on the quality of a work unit's financial information. Xu, H. Nord, D. Nord and Lin (2003) also examined the key factors of the quality of accounting information. They uncovered that HR, systems, organisational and external factors are critical in determining the quality of accounting information. The existence of good internal accountant competence, especially in the local government environment, can improve the quality of financial reporting.

The result regarding the second hypothesis indicates that the principles of good governance have a significant effect on the quality of financial reporting. As the direction of its influence is positive, the greater the commitment to applying the principles of good governance, the better the financial reporting quality. Conversely, the worse the governance, the worse the financial reporting quality. This result is in line with Crowther (2018) and Muda et al. (2017), who showed that the application of good governance and government accounting standards affect the quality of financial information of OPD in Banda Aceh City. The results of Fazny and Setiyawati (2019) and Setiyawati (2014) also showed that applying the principles of good governance has a significant effect on the quality of financial statements. Setiyawati and Doktoralina (2019) also found that the application of the principles of good governance affects the quality of accounting information. Yusniyar and Abdullah (2016) obtained the same results and concluded that good governance has a positive and moderate effect on the quality of financial statements. The phenomenon of low-quality financial reports in local governments in the provinces of West Java and Banten, therefore, is related to the low implementation of good governance principles.

Finally, the result relating to the third hypothesis shows that the application of accrual-based GAS has a significant effect on the quality of financial reporting. The direction of influence is positive, which means that if accrual-based GAS is implemented properly, the quality of financial reporting will increase, and vice versa. Based on the facts in the field, it is known that there are still local governments in the provinces of West Java and Banten that obtain unqualified audit opinions (WTP) rather than those from BPK. This is due to a lack of HR to control the accrual-based accounting system, and there are still many heads of accounting who have no accounting background. The results of this study are in line with the research of Nugraeni and Budiantara (2015) and Yahya, Hasibuan, Torong and Muda (2018), who stated that the application of accrual-based accounting systems has a positive effect on the quality of financial information. Zainuddin and Setiyawati (2019) showed that the application of GAS

has a significant effect on the quality of financial statements. Nugraeni and Budiantara (2015) obtained the same results and asserted that GAS directly influences the quality of financial statements. Thus, the phenomenon of poor-quality financial statements of local governments in the provinces of West Java and Banten can be traced to a lack of HR that control accrual-based accounting systems.

Conclusions and Suggestions

Internal accountant competence has a significant effect on the quality of financial reporting. Therefore, the better the competence of internal accountants, the better the quality of financial reporting. Adequate internal accountant competence allows for quality, accountable and transparent financial reporting on which the regional government can base its decisions. Furthermore, good governance principles have a significant effect on the quality of financial reporting. The application of good governance in the forms of transparency, participation and accountability plays a role in producing good financial reports. Moreover, the application of accrual-based GAS has a significant effect on the quality of financial reporting. If such accounting standards are implemented properly, the quality of financial reporting will increase. The poor-quality local government financial reporting that occurs in general in Indonesia is partly due to a lack of HR controlling accrual-based accounting systems.

The government should strive to improve the competence of internal accountants through both continuous training and further education for existing accountants and recruitment of new accountants who are truly competent to qualify. The results of this study are following the findings of the BPK RI that the causes of poor financial statements could primarily be traced to accounting staff lacking the competence to apply GAS, especially in the recording of government assets. The application of good governance principles should increase so that the quality of financial reporting continues to increase and perform to earn public trust in local governments in particular. Regarding accrual-based GAS, the government should tighten the supervision of its implementation. This is because the application of accrual-based GAS is an obligation stated in Government Regulation of the Republic of Indonesia Number 71/2010, according to which all government agencies must apply accrual-based GAS.

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