



DETERMINANTS OF THE QUALITY OF FINANCIAL REPORTS OF THE LOCAL GOVERNMENT OF JEMBER DISTRICT

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Abstract

To maintain the public's trust in the government, public institutions must improve the quality of the services they provide to the general public. The presentation of excellent financial reports is one example of such an enhancement. To ascertain how internal control mechanisms, information technology use and human resource competency impact the calibre of financial statements, this research's case study on the Regional Apparatus Organization (OPD) of the Jember Regency Regional Government. The quantitative study's approach to collecting data is the survey method. The study's primary sources were questionnaire responses, providing preliminary data. The sample in this research consisted of 100 participants in the analysis method. This research demonstrates that the usage of information technology (X_2), internal control systems (X_3), and HR management abilities (X_1) all have a substantial and beneficial influence on the financial report's quality. After considering the R^2 values of 52.6% and 47.4%, additional elements influence the quality of the financial statements.

Keywords: Human resource competence, information technology utilization, internal control system, financial report quality.

INTRODUCTION

To Analyze strong performance results in these public organizations, Indonesian public organizations must offer the finest service to the Indonesian population. A public institution can demonstrate with concrete evidence that it has delivered the most excellent services by clearly displaying performance results in its financial accounts. Financial reports are one of the essential elements for achieving responsible financial management.

However, ensuring that the financial statements we generate adhere to the relevant accounting rules is essential. Financial statements are regarded as being of excellent quality when they follow current Government Accounting Standards (SAP). An extensive and routine analysis is needed to gauge the caliber of financial statements. After reviewing the financial statements for each reporting period, the Supreme Audit Agency will express a judgment regarding the accuracy or fairness of the financial statements.

The examination carried out by BPK demonstrates the degree of objectivity in the financial statements presentation, particularly in terms of conformity to governmental accounting requirements. The utilized accounting standards uphold the integrity of financial statements, ensuring that the data given is impartial when users of these financial accounts make judgments. There are still many Indonesian cities where required accounting rules still need to be followed.

Several errors were still found in the government's financial statements, as happened in 2021; namely, the Jember Regency Government found errors in its financial statements. Based on the financial statements audit report (Setyono, 2022), the East Java Representative BPK found three Jember Regency Government Financial Statements errors. First, BPK found a misrepresentation in the recording of fixed

assets with a ledger balance of IDR 4,024.80 billion, whose acquisition value had yet to be determined. Second, there was a duplication of data on aid recipients with the realization of Social Assistance Expenditure for the 2021 fiscal year amounting to IDR 47.19 billion. Third, the Regional General Treasurer did not allow the spending of BTT COVID-19 money for FY 2020; hence, it cannot be accepted as a legitimate realization of expenditure.

Previous research has shown how information technology, human resource effectiveness, and internal control mechanisms all impact the caliber of financial reporting. However, the findings of past investigations still need to be more consistent. Information technology utilization, internal control mechanisms, and human resource skills all positively and considerably influence the calibre of financial reporting, according to a study from 2022 by Ridzal et al. According to research conducted by Wismoyo and Nasution in 2022, HR skills significantly influence the quality of financial reporting more than technology.

Competent human resources must prepare excellent financial reports and be aware of the procedures for doing so in compliance with the relevant accounting standards.

It has an impact on how well financial reports are prepared. Human resource competency is an understanding of an employee's knowledge, abilities, and attitudes that directly affect their performance, according to (Arafat et al., 2020). Along with the experience of human resources, information technology is a factor that contributes to its success in producing excellent financial reports.

Advances in information technology will help organizations operate more efficiently. The availability of information technology may increase labor productivity and efficiency in preparing accurate financial reports that adhere to the relevant accounting standards. The Republic of Indonesia's administration must employ information technology to improve regional financial management capabilities by Republic of Indonesia Government Regulation No. 65 of 2005 Concerning Regional Financial Information Systems.

Internal control is a factor that influences the caliber of financial reporting, together with technology capabilities and human resources. Internal control is a technique for managing an organization's resources and is essential in preventing and detecting fraud. Internal control is a method businesses use to attain specific objectives impacted by information technology and human resources (Yaqin & Jatmiko, 2018). The control of local government internal institutions can be influenced by how good their financial reports are (Ningrum, 2018).

This research investigates how internal control mechanisms, information technology utilization, and human resource competencies impact the caliber of financial reports. They do this by reflecting on the events in the Jember District Government. Because Jember Regency has the potential to be the most significant contributor to agriculture, this research was carried out there (Diskominfo Jember, 2022). It inspired scientists to carry out a study in the Jember Regency.

THEORETICAL STUDIES

Stewardship Theory

According to M. M. Muth and L. Donaldson (1998), Stewardship theory describes circumstances where managers are put in personally unpleasant positions or are required to take adverse actions. Consequently, a manager should be driven by organizational goals rather than personal objectives. According to Yaqin and Bambang (2018), this theory was developed where executives as stewards are motivated to act following the wishes of the organization/society, namely the principal, as well as the fact that steward behavior will not leave the organization because the steward strives to attain the objectives set by the organization.

The Stewardship Theory is used in this study because it explains why the public can trust the government to manage the organization for its success. (L. Donaldson & J. H. Davis, 1991) This theory is intended for researchers to look at scenarios where leaders in a business or organization might be encouraged to serve as stewards in the best way.

Financial Statement Quality

Government Regulation Number 71 of 2010 concerning Government Accounting Standards stipulates that to produce superior financial reports; users must be provided with information that helps them define responsibilities and make decisions. There are normative requirements for meeting the intended quality of government financial statements, which are pertinent, trustworthy, comparable, and comprehensible in financial accounts' qualitative characteristics.

Human Resource Competency

Competence is the expertise individuals possess in fulfilling their responsibilities in a job or task. In the context of preparing financial statements, an individual's competence is the skill to understand and master the knowledge, abilities, and attitudes in accounting. The development of local government's total capability depends on the quantity and quality of its human resources. According to a study by Heni and Sri (2019), knowledge, ability, and attitude are the three primary building blocks for developing competence.

Information Technology Utilization

Government Regulation of the Republic of Indonesia Number 65 of 2005 concerning Regional Financial Information Systems of 2015 requires the government and regional governments to develop and use information technology to enhance their capabilities in managing regional finances and to ensure that regional financial information can be accessed, managed, and used accurately.

Maximum use of information technology can increase efficiency and effectiveness in preparing financial reports, which later can be presented on time so that they will be handy for decision-making and positively impact an organization.

Internal Control System

By Government Regulation Number 60 of 2008, the federal and local governments have created an internal control system to ensure the accomplishment of organizational objectives, including practical and efficient operations, accurate financial reports, supervision of state assets, and obeying the law and the rules. This system is an ongoing series of decisions and deeds by executives and all workers grouped inside the federal and municipal governments.

In order to avoid mistakes in the creation of financial statements, it is crucial to use the internal control system. The internal control system comprises five components: monitoring, information transmission, risk assessment, control actions, and the control environment (Shohabatussa'adah & Nasrullah, 2021).

METHOD

A quantitative method approach was adopted. According to Sugiyono (2018: 8), quantitative data is a research approach that relies on positivistic (concrete data) research data in the form of numbers that will be evaluated using statistics as a calculating test instrument relevant to the subject under inquiry and will be used to conclude. Contrasting variables X_1 (Human Resources Competence), X_2 (Information Technology Utilization), and X_3 (Internal et al.) with variable Y (Quality of Financial Statements)

Object of Research

This study aims to assess the effectiveness of the government's internal control system in Jember Regency, East Java, using information technology and human resources.

Population and Sample

The State Civil Apparatus, which consists of 6 agencies and 23 offices in the Jember Regency Government, is the focus of this research. It is a part of the Regional Apparatus Organization. The OPD Head, OPD Secretary/Treasurer, OPD Head of Subdivision, and OPD Staff in the Finance Subdivision were the respondents in this research.

Data Collection Techniques

Primary data are used in this kind of study. Sugiyono (2018: 225) claims that primary sources are information sources derived directly from the thing being studied, and the information is derived from the disseminated questionnaire. By sending questionnaires to 29 OPDs in the Jember Regency, the data was directly gathered from the field as primary data.

Data Analysis Techniques

The data for this inquiry were processed using the computer program Partial Least Square. An outer model, a structural model, a measurement model, or an inner model are employed in this data analysis. This research is being conducted to establish the correlation between the Internal Control System (X_3), Competence of Human Resources (X), Utilization of Information Technology (X_2), and the Quality of Financial Statements (Y).

Outer Model

Imam Ghozali (2021) asserts that the outer model aims to define the connection between latent variables and their indicators. A model is necessary to evaluate the validity and dependability of each variable's indications. This analysis is done to verify whether the measurement tool used is appropriate (valid and reliable). The evaluations performed on the outer model include:

1. Convergent Validity is a measurement that looks at the reliability of each association between an indicator and a concept or latent variable. When the statistical value $> t$ table and the outer loadings value are more significant than 0.5, the correlation is said to have excellent convergent validity. The Average Variance Extracted (AVE) value is the subsequent verification of convergent validity. It is strongly advised that each construct's AVE value be more than 0.5 to improve the findings of convergent validity.
2. Intolerant By examining the cross-loading value, which displays the strength of the correlation between each construct's indicators and indicators from other constructs, one may ascertain the validity of a construct by determining if it has an appropriate discriminant. When assessing the discriminant validity model, every Composite Reliability score on a construct over 0.6-0.7 has an excellent discriminant validity value.

Inner Model

The structural model is a model that is used to predict the causal link between latent variables. Its goal is to forecast the relationship between latent variables. R-Square (R^2) may examine the structural model to ascertain how an independent variable affects the dependent variable. In addition to R-Square, it is also necessary to test Predictive Relevance or Q^2 , which aims to test whether the model used has Predictive Relevance.

Hypothesis Testing

Hypothesis testing in this study looks at how the independent variable of financial statement dependability and the dependent variable of financial statement quality are related. If the T-statistics

value exceeds the T-table value, the hypothesis is accepted, and the hypothesis is tested. The T-table value for a two-tailed hypothesis is ≥ 1.96 with a confidence level of 95% or $\alpha = 5\%$. The following formulation may be used for this hypothesis test:

- $H_0: \alpha_1 \leq 0$: Accept H_0 , if t statistic ≤ 1.96 , a statement that implies the independent and dependent variables are not connected.
- $H_a: \alpha_1 = 0$: Accept H_a , if t statistic > 1.96 , this demonstrates a connection between the independent and dependent variables.

RESULTS AND DISCUSSION

Outer Model

Convergent Validity

Outer Loading Chart Convergent Validity Test

The comparison of each indicator's Loading Factor value against its concept with a minimum limit of 0.50 completes the convergent validity test. The measurement has satisfied the requirements for convergent validity, as shown by all loading factors in the chart below, which have values of more than 0.50. The convergent validity test complies with the minimum value of 0.50 for each construct since each variable has displayed an outer loading value of > 0.50 .



Source: Data Processed (2023)

Table 1 Average Variance Extracted Table (AVE) Convergent Validity Test

Variable	Average Variance Extracted (AVE)
HR Competency (X_1)	0.635

Utilization of Information Technology (X ₂)	0.684
Internal Control System (X ₃)	0.557
Quality of Financial Statements (Y)	0.523

Source: Data Processed (2023)

Each indication has a value of >0.50 in the table above's Average Variance Extracted (AVE) value, indicating that the measurement has satisfied the requirements for convergent validity and is deemed perfect.

Discriminant Validity

Table 2 Discriminant Validity Table

	X1_HR Competency	X2_Utilization of Information Technology	X3_Internal Control System	Y_Quality of Financial Statements
X1_HR Competency	0,797			
X2_Utilization of Information Technology	0,510	0,827		
X3_Internal Control System	0,742	0,662	0,746	
Y_Quality of Financial Statements	0,616	0,571	0,695	0,723

Source: Data Processed (2023)

Discriminant validity is shown if the square root coefficient of AVE or Fornell Larcker is preferably higher than the correlation coefficient between latent variables. It is said to be good if the discriminant validity coefficient value is more than 0.70. Given that all Fornell Larcker values are more than 0.70 in the table above, discriminant validity is likely satisfied.

Composite Reliability

Table 3 Composite Reliability Table

Variable	Cronbach's Alpha	Composite Reliability
HR Competency (X ₁)	0.962	0,965
Utilization of Information Technology (X ₂)	0,907	0,928
Internal Control System (X ₃)	0,942	0,949
Quality of Financial Statements (Y)	0,908	0,923

Source: Data Processed (2023)

A reliability test is run to gauge how consistently respondents' responses are given. Considering the construct reliability and validity shown in the above table, The study questionnaire was deemed trustworthy since Cronbach's Alpha and Composite Reliability both had coefficient values over 0.70 (> 0.70), indicating that the respondents' responses were consistent.

Inner Model

Table 4 R Square Test Table

	R²	Q²
Quality of Financial Statements (Y)	0,526	0,253

Source: Data Processed (2023)

The model's R-square value of 0.526 in the table above indicates moderate. Furthermore, it should be noted that other factors influence 47.4% of the financial statement quality and information technology, leaving the use of the internal control system and human resource competence to manage 52.6%.

Hypothesis Testing

Table 5 Hypothesis Testing Table

	Original Sample (O)	Sample Average (M)	Standard Deviation (STDEV)	T Statistic (IO/STDEV)	The Result	P Values	The Result	Conclusion
HR Competency » Quality of Financial Statements	0,215	0,218	0,09	2,389	Accepted	0,017	Significant	Positive and Significant Effects
Utilization of Information Technology » Quality of Financial Statements	0,191	0,189	0,087	2,189	Accepted	0,029	Significant	Positive and Significant Effects
Internal Control System » Quality of Financial Statements	0,410	0,421	0,121	3,392	Accepted	0,001	Significant	Positive and Significant Effects

Source: Data Processed (2023)

The Effect of Human Resource Competencies on the Quality of Financial Statements

The study's findings indicate that HR skills have a considerable and advantageous influence on the caliber of financial reports. The local administration of Jember Regency has utilized all accessible workforce to enhance the quality of financial records. These records are backed by the principle of responsible management and align with the objectives of the business.

The study's findings demonstrate that improving human resource capabilities will improve financial reporting. It is supported by an earlier study by Zubaidi et al. (2019) and Annie Mustika Putri et al. (2018), which revealed that human resource competency positively and substantially influences the caliber of financial statements.

The Effect of Information Technology Utilization on the Quality of Financial Statements

This research demonstrates that the influence of information technology on financial reporting quality is favorable, direct, and significant. The stewardship idea, which holds that the Regional Government of Jember Regency has made full use of all technology resources available to enhance the caliber of financial reporting, supports this.

Using information technology effectively and efficiently may influence how well financial reports are prepared. Information technology utilization influences financial reporting effectiveness, according to research by Shohabatussa'adah & Muhammad Nasrullah and Sri Wahyuni et al. published in 2021 and 2018, respectively.

The Effect of Internal Control Systems on the Quality of Financial Statements

The conclusions drawn from the analysis, which align with the study's discoveries, suggest that the internal control system significantly and favorably influences the precision of financial reporting. Stewardship theory, which contains prioritizing organizational goals, supports this and demonstrates that the Jember Regency Regional Government has kept an organized work process and complies with legal requirements.

This research suggests that strengthening the internal control framework would raise the financial statements' overall calibre. According to studies by Sundara and Rahayu (2019) and Gasperz (2019), the effectiveness of financial statements is notably enhanced by the positive impact of the internal control system.

CONCLUSION

Internal control systems, information technology, and human resource skills have a favorable relationship and significantly contribute to the accuracy of financial statements, according to the analysis and testing findings. It indicates that improving internal control processes, utilizing information technology, and enhancing human resource competence could elevate the quality of generated financial statements, particularly within the administration of the Jember Regency.

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