Factors of quality of financial report of local government in Indonesia

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Abstract. The purpose of this research is to find out whether the Accounting Information System and Internal Control in Local Revenue Office to the affect the Quality of Financial Report of Local Government. The sampling was conducted by using simple random sampling method in which the sample was determined without considering strata. The data research was conducted by distributing the questionnaires. The results showed that the degree of Accounting Information System and Internal Control simultaneously affect the Quality of Financial Report of Local Government. However, partially, accounting information system influence to the quality of financial report of local government and the internal control does not affect the quality of financial report.

Keywords: Quality of Financial Report, Local Government, Agency Theory and Internal Control

1. Introduction
Regional autonomy is any rights, authorities, and obligations of an autonomous region to set and manage its own affairs and interests of local communities in accordance with the legislation policy. The economic crisis hit Indonesia disenchanted the government and society for a total reform of the governance system of the country. One of the implementations of governance reform is the implementation of regional autonomy. This policy provides space for local governments to build and develop their regions independently [15] & [16]. The policy provides the opportunity to the region to carry out its service and development implementation functions to catch up with other regions in accordance with the authority of which regulates. The implication for the region is to play an important role in overcoming the problem of equitable development and self-governance. As the primary implementer of development, a region has an obligation to implement the development that has an impact on people's welfare. Regional development is succeeded by the structured and controlled Regional Budget (APBD) so that it can be controlled easily [19]. Regional Budget (APBD) is the basic law of budget disbursement that is needed for any activity/project that has been set to be directly implemented.

In its implementation, the budget will be determined based on the Financial Report of Local Government. This report is one of the local revenues that reflects the degree of regional autonomy. A
good Financial Report will indicate that the region has been able to follow the procedures of financial reporting quality and utility. The Financial Report will be interpreted as a Financial Report consists of data information of various structural elements of wealth and financial structure that is a reflection of the results of certain activities.

The results of research by [5] showed that the implementation of government accounting standard and accounting information system positively affect the quality of financial reports. [4], [6] & [10] conducted a research with a variable of the implementation of accounting system of government and the quality of financial report of local government. The results showed that the local financial accounting system affects the quality of financial report of local government, it is due to the availability of financial accounting system that will more facilitate the users of the accounting system in processing financial data and working in accordance with government accounting standards that have already applied to the financial accounting system, so that the financial report will be produced in a good quality. Based on the results of this research [15] which has been conducted in the Department of Highways of Bandung City, West Java Province, it can be concluded that overall, the financial accounting system in the Department of Highways is in a good category. Therefore, it can be concluded that the implementation of financial accounting system in the Department of Highways has a positive effect on the quality of financial report. [9], [15] tested the Internal Control and Financial Reporting Systems on Treasurer Spending in Task Force Units in Indonesia. The results showed that there is a significant and positive effect between the internal control system and the quality of the financial report of Local Government in the Department of Local Revenue, Finance and Asset Management of North Sumatera. [8], [13], [14], conducted a research with the quality of internal control and reporting systems for the local governments. The results showed that the Government Internal Control System is still inoptimal. The government should be more concerned with the internal control system to minimize risk and loss at local government unit. The problem of this research is whether the Accounting Information System and Internal Control affect the Quality of Financial Report of Local Government?

2. Methods

The method used in this research is causal associative method with quantitative approach. The formulation of the problem with the associative research is by linking two or more variables [11]. By using the research method, it will find a significant relationship between the variables [12]. The purpose of associative research is to find whether there is any effect and how big the effect of causality or of independent and dependent variables of the study. This quantitative research will look at the relationship of the objects researched and those that are more causal, so that there will be some independent and dependent variables [18].

According to [3], [19], population is a generalization area which consists of objects or subjects that become the quantities and specific characteristics defined by the researcher to study and then make conclusions. The population is the employees of the Local Revenue Office of North Sumatera Province, Indonesia for 112 employees. [1] & [2] states that sample is a part of the numbers and characteristics of the population. The sample was addressed to any employees in the Local Revenue Office of North Sumatera Province.

The sampling technique used is simple random sampling in which the members will be included into random sample of the population without considering the strata that exists in the population. Data collection method used is Questionnaire. The questionnaires were distributed to the Employees of Local Revenue Office of North Sumatera Province in order to obtain the necessary data. According [1] & [2] in a study, there is a need of data instrument that is tool(s) selected and used by researcher in his/her activities to collect the data to make the activities become systematic”. The reasons of the author in using questionnaire are: (1) to facilitate the data collection from the respondents at the same time to be distributed directly to the respondent within a specified time, (2) the fulfillment of the questionnaires does not require a long time. (3) the use of questionnaires will get the answers to facilitate the data processing.
3. Results and Discussions

3.1. Result
Based on the $t_{\text{table}}$ was used to test the effect of each independent variable partially towards the dependent variable. In order to find out whether there is any effect of each independent variable partially towards the dependent variable can be seen on the significance level of 0.05. If the value of $\text{sig } t < 0.05$, then $H_0$ is rejected. Meanwhile, if the value of $\text{sig } t > 0.05$, then $H_0$ is accepted.

**Table 1. Partial testing (T-Test).**

| Model | Unstandardized Coefficients | Standardized Coefficients | t    | Sig. |
|-------|-----------------------------|---------------------------|------|------|
|       | B          | Std. Error | Beta |      |      |
| 1     | (Constant) | 5.072      | 1.564 | 3.243 | .001 |
| X1    | .554       | .100       | .419  | 5.535 | .000 |
| X2    | .070       | .126       | .041  | .554  | .580 |

Source: Data processed using SPSS (2017).

Based on Table 1 above, it can conclude the hypothesis test partially from each independent variable as follows:

- The $t_{\text{hitung}}$ value of the accounting information system ($X_1$) measure variable is 5.535 and the significance value of 0.000. The significance value of $t$ test obtained is 0.000 that is less than the determined alpha significance level 5% (0.05), so that the $t_{\text{hitung}}$ of 5.535 > $t_{\text{table}}$ of 1.687, then $H_0$ is rejected with a definition that there is significant effect of accounting information system on the quality of financial report of local government.

- The value of $t_{\text{hitung}}$ of internal control variable ($X_2$) is 0.554 and the significance value is 0.580. The significance value for $t$ test is 0.580 that is bigger than the determined alpha significance level of 5% (0.05). $H_0$ is accepted with a a definition that there is no significant effect of Internal Control on the quality of financial report of local government.

$F_{\text{test}}$ is used to find out the effect between the independent and dependent variables simultaneously. In order to find out whether there is any significant effect of each independent variable; accounting information system and internal control on the dependent variable: The Quality of financial report of local government freely with a significant value of. If the value of $\text{sig } F < 0.05$ then the $H_0$ is accepted, while if the value of $\text{sig } F > 0.05$ then the $H_0$ is rejected.

**Table 2. F-Test.**

| Model | Sum of Squares | df | Mean Square | F       | Sig. |
|-------|----------------|----|-------------|---------|------|
| 1     | Regression     | 303,381 | 3 | 101,127        | 23,996  | .000b |
|       | Residual       | 716,423 | 170 | 4,214        |         |      |
|       | Total          | 1019,804 | 173 |           |         |      |

a. Dependent Variable: Y  
b. Predictors: (Constant), X2, X1  
Source: Data processed using SPSS (2017).

Based on the table above, it can be seen that $F$ test, in the Anova table, the $F$ value is 23.996 and the significant value is 0.000 that is smaller than 0.05, so that it can be concluded that the accounting information system and internal control has a significant effect on the quality of financial report of local government. The determination coefficient ($R^2$) measure on how far a model explaining the dependent variables. The determination coefficient is between 0 and 1. The small $R^2$ value means the ability of independent variables in explaining the limited dependent variation. The value which is
close to 1 means that the independent variables almost provide all of the necessary information to predict the variation of dependent variable.

| Model | $R$ | $R^2$ | Adjusted $R$ | Adjusted $R^2$ | Std. Error of the Estimate |
|-------|-----|------|--------------|----------------|---------------------------|
| 1     | .545$^a$ | .297 | .285         | 2.05286         |                           |

Table 3. Testing of the Coefficient of Determination ($R^2$).

The determination coefficient test in Table 3 showed the $R^2$ of 0.297. Thus, the effect of accounting information system and internal control on the quality of financial report of local government is 29.7%. The rest (100% - 29.7% = 70.3%) is affected by other factors that are not observed in this research.

3.2. Discussion

Factors of quality of financial report of local government depend on contributes to the improvement of decision-making quality for the efficiency and effectiveness of public expenditure through accurate and transparent financial information, while improving the allocation of resources by informing the costs incurred from a policy and the transparency of the success of a program [6]. Information Technology as facilities and infrastructures, hardware, software, useware of systems and methods for obtaining, transmitting, processing, interpreting, storing, organizing, and using data meaningfully [5]. And with the use of information technology will minimize errors, because all financial management activities will be recorded more systematically and will eventually be able to present reliable local financial statements. The regional financial accounting system is one of the organizational subsystems that facilitate control by reporting the performance of regional government. The scope of the regional financial accounting system includes accounting system policies, accounting system procedures, human resources, and information technology.

4. Conclusions

The purpose of this research is to find out the effect of the variables of accounting information system and internal control on the quality of financial report of local government in the Local Revenue Office. This research used simple random sampling method to determine the sample. Based on the results of the research, there are three conclusions as follows:

- Partially, accounting information system influence to the quality of financial report of local government.
- Partially, internal control does not affect the quality of financial report of local government.

Based on the concluded results of the research, there are 3 suggestions as follows:

- As the subject of this research, the Local Revenue Office of North Sumatera Province has to concerned with the accounting information system used, either in understanding the use or to find out the government accounting standards, so that the data processing can produce a good quality financial report.
- It should also be concerned with the internal control, since the internal control is a way to direct, control, and measure the resources of an organization, also plays an important role in preventing and detecting fraud, which is highly required and needs to be implemented in the Local Revenue Office of North Sumatera Province.
Acknowledgement
The results of this study are expected as support to the regulatory by government accounting standards, so that the data processing can produce a good quality financial report.

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