



## Determinants and Measurement Quality of the Financial Statement of Local Government in Indonesia

Basyiruddin Nur<sup>1\*</sup>

Roy Sembel<sup>2</sup>

Khomsiyah<sup>3</sup>

Juniati Gunawan<sup>4</sup>

<sup>1</sup>Doctoral Student in Accounting Studies, Faculty of Economics and Business, Trisakti University, Indonesia.

Email: [nurbasyiruddin@gmail.com](mailto:nurbasyiruddin@gmail.com)

<sup>2</sup>Professor and Distinguished Chair for Finance and Investment, IPMI International Business School, Indonesia.

<sup>3</sup>Faculty of Economic and Business, Trisakti University, Indonesia.

### Abstract

*This research aim is to create the measurement index of the quality of FSLG, using data from APRGE, Notes to FSLG, and ICS. APRGE has many indicators, but the relevant ones are AIS, Competence, Performance, and GGG. The measurement index sourced from APRGE is calculated from the percentage of performance achievement of every indicators. 35 main and 7 conditional indicators are taken from the Notes to FSLG. The ICS has 101 indicators. Samples are 25 Local Governments of provinces, cities, and municipals since 2015 to 2018. Software E-Views 8 is used for statistical computation. The output of the measurement index is the FSLG quality assessment category. The index can be used to measure the quality of FSLG produced by Local Governments. The results of statistical testing show that Competence and GGG affect the Quality of FSLG. Meanwhile, AIS and Performance do not. However, AIS and Performance can still be used to measure the Quality of FSLG. AIS is a primary need that cannot be left out in the process of presenting FSLG. Likewise for Performance, each Local Government already has its own KPI which will make CSA work properly following the rules, including in the preparation of the FSLG. The implication is to facilitate the internal and external parties in assessing and improving the quality of FSLG.*

#### Keywords:

*Accounting information system  
Competence  
Performance  
Good government governance  
The quality of financial statement  
of local government.*

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Corresponding Author

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## 1. Introduction

Financial reports produced by Local Governments are called Financial Statement of Local Government (FSLG). FSLG describes the condition and financial performance of the entity. The quality of FSLG is recognized after being audited by The Audit Board of the Republic of Indonesia. FSLG was presented using a cash basis in 2005 and earlier, then switched to a Cash Toward Accrual (CTA) basis from 2010 to 2014. The accrual basis was fully implemented in 2015. Several government agencies around the world do not use the accrual basis yet even though they use Government Accounting Standards (GAS). The accrual basis requires a good Accounting Information System (AIS) with sufficient support of applications, programs, and hardware (Efendi, Darwanis, & Abdullah, 2017). Besides, adequate competencies and good performance from each employee are also needed (Andini & Yusrawati, 2015). In this case, good governance from the government is also needed (Simon, Mas' ud, & Su'un, 2016). However, the application of a good AIS does not always provide

the best audit opinion. Likewise, the good Competence of a Civil State Apparatus (CSA) does not always provide a good audit opinion. A good CSA Performance does not always provide the best audit opinion. Transparency in governance management has been implemented by performing the principles of good governance by some Local Governments. However, the audit opinion they received was not the best. Otherwise, the audit opinion often obtained is an Unqualified Opinion even though it is not supported by a good Local Government Accounting Information System, Competence, Performance, and Good Government Governance (GGG). This research aim is to create the measurement index of the FSLG using data from the Accountability and Performance Report of Government's Entity (APRGE), Notes to FSLG, and Internal Control System (ICS). The APRGE provides information on the implementation of programs, activities, policies to ensure the implementation of vision, missions, goals, and targets of Local Government. COSO (2019) defines ICS as:

*"A process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."*

ICS is very important and necessary in producing good presentation of FSLG. The creation of the measurement index of the quality of FSLG is proposed for the easiness to measure the quality of FSLG and as alternative tool for measurement.

## **2. Literature Review**

### *2.1. Agency Theory*

In this research, the researcher use agency theory to explain the phenomenon of the presentation of FSLG for the need of reporting and responsibility purpose of the management of Local Government to the public and those whose interest to the Local Government report. Empirically, Local Governments tend to provide asymmetry information based on their interest. Then, the public interest is not fulfilled accordingly (Pandansari, 2016). Jensen and Meckling (1976) states that :

*"We define an agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent".*

This study uses agency theory because the government as the agent and the society as the principal requires an accountability report from the agent, which must be submitted and explained by the government. The government as an agent also has a responsibility to provide valuable information for users of FSLG.

### *2.2. Accountability and Performance Report of Government's Entity (APRGE)*

There are many indicators in APRGE but the relevant ones are AIS, Competence, Performance, and GGG. The final target of the APRGE presentation is the highest grade of APRGE submitted by the Ministry of Administrative and Bureaucratic Reform of the Republic of Indonesia. The review method to determine the grade of APRGE is by summarizing the final calculation of each component's grade. Then, the outcome of summarized figures will be recognized as the final grade of APRGE. The final value is used to determine the level of accountability of the Local Government relating to its Performance.

### *2.3. Accounting Information System (AIS)*

The technology of AIS is important as a tool in preparing FSLG. The benchmarks used to measure the AIS are the improvement in the quality of regional financial management and the realization of a Local Government based on Information and Communication Technology (ICT).

### *2.4. Competence*

Spencer and Signe (1993) states that:

*"A competency is an underlying characteristic of an individual that is causally related to criterion referenced effective and/or superior Performance in a job or situation".*

### *2.5. Good Government Governance (GGG)*

United Nations Development Programme (2015) issued by UN System Task Team on The Post -2015 UN Development Agenda 2012 defines GGG as:

*"Governance is the exercise of economic, political and administrative authorities to manage a country's affairs at all levels. It compares mechanisms, processes and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. Governance has "three legs": economic, political and administrative. Economic governance includes decision-making processes that affect a country's economic activities and its relationships with other economies. Political governance is the process of decision making to formulate policy. Administrative governance is the system of policy implementation".*

## 2.6. Performance

FSLG describes the Local Government's Performance carries out for the interested parties. Good Local Government's Performance is obtained by the cooperation of all elements, both either from higher-level management or the lower-level of regular staff who prepare FSLG.

## 2.7. The Quality of FSLG

The FSLG must be submitted in a reliable, relevant, trustworthy, and understandable presentation to produce good quality of financial reports. To obtain the quality of FSLG, supporting factors such as Competence and AIS are needed.

## 2.8. Accrual Basis

The application of the accrual-based accounting system has several stages. Starting from the cash basis in 2005 and earlier, then the Cash Toward Accrual (CTA) 2010 to 2014. The accrual basis was fully implemented in 2015. The application of accrual-based accounting is under the Accrual-based Government Accounting Standards (GAS).

## 2.9. The Measurement Index of the FSLG

In this research, the other quality measurement methods of FSLG will be added. The measurement tool used the data from the APRGE and Notes to FSLG. The measurement index of the quality of FSLG sourced from APRGE is calculated from the percentage of performance achievement of every indicators for each variable (AIS, Competence, Performance, and GGG).

Table-1. Measurement Index from APRGE.

No	Indicators
	<b>I. Accounting Information System</b>
1	The increasing quality of regional financial management.
2	The establishment of government-based information & communication technology.
3	The increasing of public access to information & communication systems.
4	The establish of e-government regulation.
5	The increasing of internet-based public services.
6	The development of management information systems.
	<b>II. Competence</b>
1	The increase of the examining apparatus professionalism and the invention of bureaucratic transparency
2	The increasing amount of supervisory apparatus participating in training.
3	The realization of competent, competitive, trustworthy, professional, and responsible government apparatus.
4	The increasing amount of apparatus who have completed bachelor and master degree.
5	The increasing levels of clean government.
6	The realization of a disciplined and integrated apparatus.
7	The decreasing amount of indiscipline civil servants.
	<b>III. Performance</b>
1	The Increasing quality and productivity of the workforce
2	The increasing in Civil State Apparatus who receive competency-based training
3	The increasing quality of financial reports.
4	The increasing value and predicate of accountability performance of government agencies.
5	The results of the Audit Board's opinion.
6	The increasing amount of certified auditors.
7	The implementation of local government's accountability and bureaucracy.
8	The fulfillment of minimum service standards and SOPs at each Local Governments' agencies.
	<b>IV. Good Government Governance</b>
1	Improve the performance of governance and cooperation between regions in good governance.
2	The increasing of transparency and public accountability.
3	The increasing percentage of government institutions & management to achieve efficiency & effectiveness in local government administration.
4	The increasing value of APRGE.
5	The improvement of effective and efficient governance.

Table 1 contains the measurement index sourced from APRGE. The index contains indicators used to measure the independent variables (AIS, Competence, Performance, and GGG).

The indicators of the quality of FSLG from the Notes to FSLG are 35 main and 7 conditional indicators. The presence of the main indicators will be given point 1, but its absence will be given a score of 0. Meanwhile, the presence of conditional indicators will be given a score of 0,5 and its absence does not affect the calculation of the measurement quality.

**Table-2. Main Indicators.**

No	Main Indicators
1	General information and description of the entity.
2	The explanation of reporting entity of domicile, legal form, the jurisdiction of place, main activities of operation, the operational basis according to the regulations.
3	Realization and financial position of the reporting entity in its entirety.
4	Realization progress and financial/fiscal position of the reporting entity's.
5	The reporting entity presents information about the differences in realization and financial/fiscal positions for the current and previous periods.
6	Government policies in raising income, spending efficiency, and selecting resources or financing management.
7	Macroeconomic disclosures.
8	Budget changes in the current and prior periods.
9	Reporting entities follow the budget conditions and developments.
10	The comparison between target and realization of State / Local Government Budget.
11	General description of the government's financial performance in realizing potential revenue on Budget Realization Reports and expenditure allocations that have been determined on State/Local Government Budget.
12	The structure of revenue on Budget Realization Report, expenditure, or financing are the total target value, the total realization value, the percentage comparison between the target and the realization, and the reasons for the difference between the target and the realization.
13	The basis for the presentation of financial statements and accounting policies.
14	Basic assumptions or concepts of accounting for the preparation of the financial statements.
15	The basic assumptions for financial reporting are the assumptions of an independent entity, the entity's sustainability, and measurability in terms of money.
16	The government does not liquidate the reporting entities in the short term.
17	The financial statement presents the activities that can be valued in terms of money.
18	The users of FSLG are the public, people representatives, supervisory agencies, auditing institutions, parties who give or participate in the process of donations, investments, and loans.
19	The selected accounting policies in preparing financial statements.
20	The accounting policies are customized to the conditions of the reporting entity.
21	The consideration of accounting policies and preparation of financial statements are sound judgment, uncertainty covering many transactions, substance over form, and materiality.
22	The accounting principles and methods of their application affect the presentation of the Budget Realization Report, Report on Changes in Excess Budget Balance, Balance Sheet, Operational Report, Cash Flow Statement, and Report on Changes in Equity.
23	Accounting policies about reporting entities, basic accounting principles, measurement bases, and accounting policies relating to Government Accounting Standards.
24	Basic accounting principle.
25	Measurement basis based on the presentation of financial statements.
26	Accounting policies in terms of revenue recognition-Budget Realization Reports, revenue recognition-Operational Reports, expenditure and expense recognition, consolidation report preparation principles, investment, recognition and termination/write-off of tangible and intangible assets, construction contracts, partnerships with third parties, research costs, and development, supply, formation of reserve funds, the establishment of employee welfare funds, and foreign currency interpretation.
27	The financial statements show the correlation between the numbers with the previous period.
28	Details and explanations for each item in the Budget Realization Report, Changes in Budget Balance Report, Balance Sheet, Operational Report, Cash Flow Statement, and Changes in Equity Report.
29	The explanation of the post of revenue-Budget Realization Report, expenditure, and financing.
30	Explanation of Changes in Budget Balance Reports
31	The explanation of the Operational Report for income-Operational Reports and expenses.
32	The description of the balance sheet for assets, liabilities, and equity.
33	The explanation of the cash flow statement for cash flow from operating activities, investing in non-financial assets, financing activities, and non-budgeting activities.
34	Explanation of the Statement of Changes in Equity at the beginning of the period, surplus/deficit-Operational Statement, the cumulative impact of changes in policy/fundamental error, and equity at the end of the period.
35	Notes to FSLG do not duplicate the account details.

Table 2 contains 35 main indicators sourced from the Notes to FSLG. While Table 3 below contains 7 conditional indicators sourced from Notes to FSLG.

Table-3. Conditional Indicators

Conditional Indicators	
1	The description of issues that affect the financial condition of the reporting entity in a future period.
2	Significant events during the reporting year, such as changes in government management, previous mismanagement, commitments or contingencies that cannot be presented on the financial statements balance sheet, merger or expansion of entities for the current year, and events that have a social impact; for example, strikes that the government must overcome.
3	Changes in accounting policies that are not material in the same year should be disclosed if they have a material effect on the next year.
4	Considering the types of activities and policies to be disclosed in Notes to FSLG.
5	The reporting entities provide other financial information.
6	The responsibility for managing assets and resources off the balance sheet, including loss or damage of assets and resources.
7	Unregulated accounting standards must be revealed.

The measurement scale to provide easiness of interpretation of target achievement in the measurement index made by the researchers is described in table 4 as follows:

Table-4. Value Category for the Measurement Index of the Quality of FSLG.

No	Category	Number Value %	Interpretation
1	A	≥100	<b>Satisfactory</b> (Qualified)
2	B	> 90 – 99	<b>Good</b> (Not qualified, but still classified as good and fits adequate GAS)
3	C	>80 - 90	<b>Enough</b> (Not qualified but still sufficient to fit GAS)
4	D	>70 – 80	<b>Bad</b> (FSLG produced is not qualified because it does not fit the disclosures in GAS)
5	E	<70	<b>Poor</b> (The needs of Notes to FSLG inadequate)

Table 4 describes the value categories for the measurement index of the quality of FSLG. Category A with a value range > 100% is interpreted as Satisfactory. Category B with a value range of 90-99% is interpreted as Good quality. Category C with a value range of 80-90% is interpreted as Enough. Category D with a value range of 70-80% is interpreted as Bad quality. Category E with a range of values <70% is interpreted as Poor quality. Furthermore, Internal Control System (ICS) will be added as indicators for measuring the quality of FSLG in the Notes to FSLG. The ICS has 101 indicators. For the measurement of the ICS, the researcher made the questionnaires. Nowadays, the Local Governments do not produced the ICS Report which should have been submitted in the Notes to FSLG.

Table-5. Indicators from ICS.

Internal Control System (ICS)	
Element: Control Environment	
Integrity and ethical values	
1	There are written internal policies or rules on behavior that give the sanction of staff fraud or dishonesty established by the administration (a code of ethics and penalties for violation).
2	The policies or rules have been communicated or socialized to all employees.
3	There is a written statement signed by the employees to apply the code of conduct (the creation of an integrity pact such as Regulation of the Minister for Empowerment of State Apparatus and Bureaucratic Reform number 60, 2012).
4	There is a special unit within the local government that works as an enforcer of employee behavior rules.
5	The employees who break a rule or policy are sanctioned by the supervisor according to the rules.
6	The penalties are given to employees who violate have been communicated to all employees so that the employee knows the consequences of deviations and offenses committed.
7	There are formal procedures for setting out, changing, or eliminating a control in the Local Government environment.
Commitment to Competence	
8	The Local Government determines the qualifications or requirements of education, the knowledge, and skill that must be met to occupy or perform certain duties. (competence standards for each office and duty executive.) There is a law product up to the competence standards.

9	There was a test of employees who were to occupy a particular office or committee.
10	There are local government efforts to improve employee knowledge and skills by training or courses.
11	There are training or courses conducted by governments according to the needs of employees or the needs of the work.
12	There are formal or informal programs for new employee orientation and training. There were guidelines on that programs.
13	The employees of the Local Government environment have competence according to the standards of competence set out for each section. (example: financial statements arranger have an education background in accounting, etc.)
14	The continuation of a staff's education receives support from the Local Government (there is a scholarship and training for qualified workers).
15	Each employee receives ongoing education and training according to their roles and capacities.
16	There is a monitoring mechanism to ensure that every employee gets their technical training according to the field of work.
17	There is a minimum standard of training hours that must be reached by each employee.
<b>Management philosophy and operating style</b>	
18	The Regional Work Units leaders make regular reports on the progress of program implementation and activities to be submitted to the Local Government.
19	The report contains the target time, obstacles, and achievements of programs and activities.
20	The Regional Head holds regular meetings with all Regional Work Units Heads to evaluate the achievement of programs and activities based on reports from each Regional Work Units leader.
21	Any decisions made by the chairman are discussed with the subordinate.
22	LGs are involved in designing changes in the control structure: - Controls are adequately monitored - There are follow-up actions on deviations from the applicable control elements
23	The Regional Work Units leaders make standard procedures for each work process and require employees to follow these procedures.
24	The local government is willing to accept advice from competent parties regarding important matters related to accounting and internal control issues.
25	The local government has a sense of responsibility for the financial statements, emphasizing the importance of the accuracy of accounting data and generally accepted accounting methods as well as the obligation to carry out routine reconciliations between related accounting units (for example, the Regional General Treasurer with the Expenditure Treasurer, the Accounting Sector, the Asset Sector, with the Regional Work Units Goods Manager).
26	No one leader in the local government environment is dominant compared to other leaders so, the checks and balances between the leaders are quite adequate.
27	There are indications that the Regional Head and his staff: • Want fair financial statements, • Honest in responding to auditor's questions, • Be conscientious in making accounting estimates, • Have integrity, • Have a strong sense of control.
28	The Regional Head makes improvements/adjustments to the Regional Work Units leaders.
29	There is a written policy regarding the pattern of mutation, rotation, and promotion of employees.
<b>Organizational Structure</b>	
30	The organizational structure is determined by Regional Regulation.
31	The organizational structure has described the main tasks, functions, responsibilities, and authorities for each work unit.
32	The organizational structure has provided an adequate overall framework for planning, directing, monitoring, and facilitating the sufficient flow of information.
33	There are adjustments to changes in the organizational structure related to changes in laws and regulations and the strategic environment.
34	There is a job analysis to determine the number of employees needed for each unit within the local government organization.

<b>Delegation of authority and responsibility</b>	
35	There is a job description that is set by the superior for each employee, especially for employees who are responsible for managing regional budgets and assets.
36	The policies and procedures set by the management for each task have been stated in writing so that the implementation of the tasks knows the authorities and responsibilities, especially procedures related to budget management (there are Standard Operating Procedures in every budget management procedure from planning to reporting).
37	Employees who cannot carry out their duties and responsibilities will be penalized.
38	Delegation of tasks and authority is given to employees who can realize the main goals and functions of the work unit.
39	The capacity for delegation of authority has been well regulated so the division of tasks is fairly even among employees (it is not the case that one person does not do much work while others have excessive work, but there is no compensation for the excessive work).
<b>Policies and practices related to Human Resources</b>	
40	The local government has employee competency standards which include background knowledge, skills and education for each position and position as the basis for recruiting new employees.
41	Employees who are recruited or accepted have matched their background knowledge, skills, and education with the required qualifications.
42	Employees are placed in work units that fit with their educational background and technical competencies (For example: Employees with accounting education backgrounds are placed in organizational units that prepare financial statements, etc.).
43	Employee promotion is based on consideration of work performance, rank, and seniority carried out through Baperjakat.
44	There is an adequate employee performance appraisal mechanism in addition to the DP3 which is made at the end of the year.
45	Each employee mutation considers the technical ability of the employee with the technical needs of a work unit.
46	The local government implements a reward and punishment system for achieving employee performance.
47	There is an employee transfer policy within the Bureau/Finance section (tasks are rotated periodically among employees).
<b>Element: Risk Assessment</b>	
48	The Regional Government has identified risks that may hinder the preparation of Regional Financial Reports such as late submission of Accountability Letters.
49	The local government has anticipated changes in regulations, accounting standards related to the recording and reporting process.
50	The local government has anticipated weaknesses in the use of information technology in transaction processing, such as backing up data if data stored on a computer is lost, program bottlenecks, etc.
51	The local government has anticipated if there is a change in personnel, such as making a mutation in the Bureau/Finance Division or the work unit in charge of finance and bookkeeping
52	The local government has anticipated the possibility of collusion between employees who are family members. (Employees who have family relations are not placed in units/positions/positions that have strategic relationships. For example older brother as procurement committee while younger brother as goods inspector).
53	There is a cash opname handled by the cash holder/treasurer function periodically and suddenly by the internal audit function.
54	There is a new or improved system (information technology) that has been implemented by the Regional Government in processing financial transactions.
55	All of the systems (information technology) created or selected have been tried before being applied in processing transaction data.
56	The employee turnover rate is quite high in bookkeeping and finance.
57	There is pressure on employees to immediately complete financial reports in too short a time.
<b>Element: Control Activity</b>	
<b>Information Processing Controls</b>	
58	The signing of Payment Order, checks, Disbursement Order or other documents is only carried out by personnel who have been appointed in the Decree of the Regional Head.

59	The Payment Order, check, Disbursement Order, or other important documents before being signed by the designated personnel, verified in detail.
60	The Payment Order, checks, Disbursement Order, and other important documents that are not used are stored in a safe place.
61	There are prenumbered serial numbers on Payment Order, check, Disbursement Order, and other forms.
62	There is a reconciliation between regional treasury accounts, cash in the expense treasurer, cash in the receipts treasurer with periodic and routine accounting records of receipts and expenses.
63	There is a periodic matching between the general ledger and the subsidiary ledger.
<b>Segregation of duties</b>	
64	The responsibility for carrying out transactions, recording transactions, and storing assets obtained from transactions is carried out by different people or fields within the Regional Work Units organization and the Regional Government.
65	Each stage of the execution of a transaction is carried out by a different person.
66	The general ledger and subsidiary ledgers are held by different people.
67	The employee who performs the bank reconciliation is separate from the one who prepares the check/Disbursement Order.
68	The Payment Order, checks, or other securities are signed by a different person from the person who prepared them.
69	There is a separation between the person signing the check and the cash receipts department.
70	There is a separation of duties between the parties carrying out the procurement of goods, inspecting the goods resulting from the procurement, receiving the goods from the procurement, and administering the bookkeeping.
<b>Physical Controls, data, documents and records</b>	
71	There are restrictions on access for people to enter the document storage room, data processing equipment, and asset storage (such as computers in the bookkeeping department and inventory/goods warehouse).
72	The document area and data processing equipment are equipped with a good security system, such as anticipating damage from fires and floods.
73	There are access/password restrictions for unauthorized persons on data processing and storage equipment (computers, servers, etc.).
74	The password is updated periodically.
75	Physical access is well protected and system monitoring has been implemented and action is taken if necessary.
76	The safety-deposit box is locked when not in use and the combination lock and other keys are restricted to certain people.
77	Existing controls are documented in procedure descriptions, flowcharts, and other forms.
<b>Performance Reviews</b>	
78	The local government analyzes the causes of the difference between the budget and the realization of revenues and expenditures.
79	A reporting mechanism compares the Performance target with the level of achievement (APRGE or other documents).
80	Local governments make comparisons between accountability reports made with similar reports by other local governments as well as relevant data such as statistical data.
81	Leaders within the local government review/conduct a comparative analysis between the realization with the budget and last year's forecast.
82	The results of the comparative analysis of the budget and the realization of income and expenditure as well as the achievement of performance reveal problems.
83	The Regional Head orders the Regional Work Units to follow up on the results of the analysis and the follow-up is documented for performance improvement.
<b>Elements: Information and Communication</b>	
84	Only valid and verified proof of transactions are recorded or journalized (related to the Existence and Occurrence Assertion).
85	All valid or verified proof of transactions in the fiscal year designed to have been recorded or recorded (related to the Completeness Assertion).
86	All rights and obligations of LGs caused by transactions have been recorded (related to the Rights and Obligations Assertion).



87	All transactions have been measured or stated in rupiah values and allocated according to their respective posts (related to the Valuation and Allocation Assertions).
88	All transactions are reported and adequate (related to the Presentation and Disclosure Assertions).
89	Journal entries are supported by complete supporting data/recording based on sources attached with complete supporting documents.
90	The recording is carried out by employees who are authorized to do so.
91	Each task is carried out under the main task.
92	Each journal entry must be approved by the competent authority.
93	Bookkeeping evidence in the file neatly.
94	Employees receive socialization of the established accounting policies.
95	Reports are prepared on time, informative, and distributed to the rightful parties.
96	There is an integrated information system that allows the practice of financial decentralization to be monitored centrally (the information system between Regional Work Units and Regional Financial Management Unit is integrated).
<b>Element: Monitoring</b>	
97	Every recommendation to improve the Internal Control Structure submitted by the Internal Auditor and External Auditor has been implemented and monitored by the DPRD.
98	The audit findings have been followed up as a whole.
99	Public complaints or issues in the mass media receive attention from the Regional Government and the Regional People's Representative Council and are followed up by the authorized Regional Work Units.
100	The division of tasks and authority has been properly monitored.
101	The leader periodically receives reports on the status of completion of recommendations submitted by internal and external auditors so the leader can ensure the quality and timeliness of completion of each recommendation.

Table 5 contains 101 indicators for ICS derived from the elements of internal control, they are Control Environment, Risk Assessment, Control Activity, Information and Communication, and Monitoring.

### 2.10. Research Hypothesis

*H<sub>1</sub>: The Accounting Information System (AIS) has positive effect on the Quality of FSLG.*

Regional financial AIS are systems capable for handling regional financial management processes, from budget preparation to regional financial reporting (Sihale & Setiyowati, 2018). Efendi et al. (2017) the application of AIS will have an impact on faster transaction processing and the calculations will have a high degree of accuracy, this will lead to an increase in the quality of more reliable FSLG. Gafur, Yusuf, and Lamaya (2016) the regional financial AIS also has a very important role in making decisions. The AIS is a resource designed to submit all the data for decision making. Efendi et al. (2017); Sihale and Setiyowati (2018) and Gafur et al. (2016) that the AIS has a positive effect on the Quality of FSLG.

*H<sub>2</sub>: The Competence has a positive effect on the Quality of FSLG.*

Competent Human Resources (HR) will be able to understand accounting logic well. This must be supported by a background in accounting education, having experience in finance, often attending tutoring and training (Kurniawan, 2016). Competence to carry out their duties and responsibilities with adequate experience, training and education can help complete the work and tasks assigned to them. This can support Local Governments in producing reliable FSLG (Efendi et al., 2017). The more competent of Human Resources owned by the Local Government, the higher Quality of FSLG will be produced. If the Competence of human resources is low, it will make the FSLG less qualified (Wibawa, Sinarwati, & Yuniarta, 2017). Wibawa et al. (2017); Kurniawan (2016) and Efendi et al. (2017) show that Competence has a positive effect on the Quality of FSLG.

*H<sub>3</sub>: Accounting Information System (AIS) has a positive effect on the Performance.*

The application of AIS starts from grouping, classifying, recording, processing government financial activities into a financial report to produce accurate information. The existence of technology-based tools, namely AIS, will make it easier to prepare financial reports. The government's performance will be reflected in how Civil State Apparatus in the Local Government agencies produce timely financial reports using the AIS (Armel, Nasir, & Safitri, 2017).

*H<sub>4</sub>: The Competence has a positive effect on the Performance.*

Satisfactory human resource Competence in terms of quality and quantity can increase the value of the information contained in FSLG. Apparatus Competence must always be sharpened and improved to produce effective Performance. Competence is very important in supporting the quality of Civil State Apparatus (CSA) in carrying out their field of work. The suitability between the Competence of the apparatus and their field of work will help the Civil State Apparatus understand their work properly, it will occur good quality work.

Hanifa, Wawo, and Husin (2016) and Inapty and Martiningsih (2016) stated that Competence has a positive effect on Performance.

*H<sub>1</sub>: The Performance has a positive effect on the Quality of FSLG.*

The Performance of an apparatus is very important in supporting Local Government Agencies towards financial management. This is because the Performance of the apparatus is also very influential on the Quality of FSLG. Zarlın and Khairani (2017) states that the Performance of apparatus has a positive effect on the Quality of FSLG.

*H<sub>6</sub>: The Accounting Information System (AIS) has a positive effect on the Quality of FSLG with Good Government Governance (GGG) as a moderating variable.*

AIS must also be supported by GGG so the information provided to users can provide benefits and help in making decisions for users of these FSLG. When GGG is excellent, will affect the government's AIS. Sihasale and Setiyowati (2018) and Untary and Ardiyanto (2015) state that AIS has a positive effect on the Quality of FSLG. Moreover, Kewo and Rufaedah (2019) state that GGG has a positive effect on the Quality of FSLG.

*H<sub>7</sub>: Competence has a positive effect on the Quality of FSLG with Good Government Governance (GGG) as a moderating variable.*

In excellent regional financial management, Local Government Agencies must have competent human resources. It is believed that competent human resources can affect the Quality of FSLG. Besides GGG, the Competence of the apparatus will be properly channeled according to their fields and will be able to produce quality FSLG. Wibawa et al. (2017) and Andini and Yusrawati (2015) state that Competence has a positive effect on the Quality of FSLG. Moreover, Oktarina (2016) state that Competence and GGG have a positive effect on the Quality of FSLG.

### 2.11. Frame Work

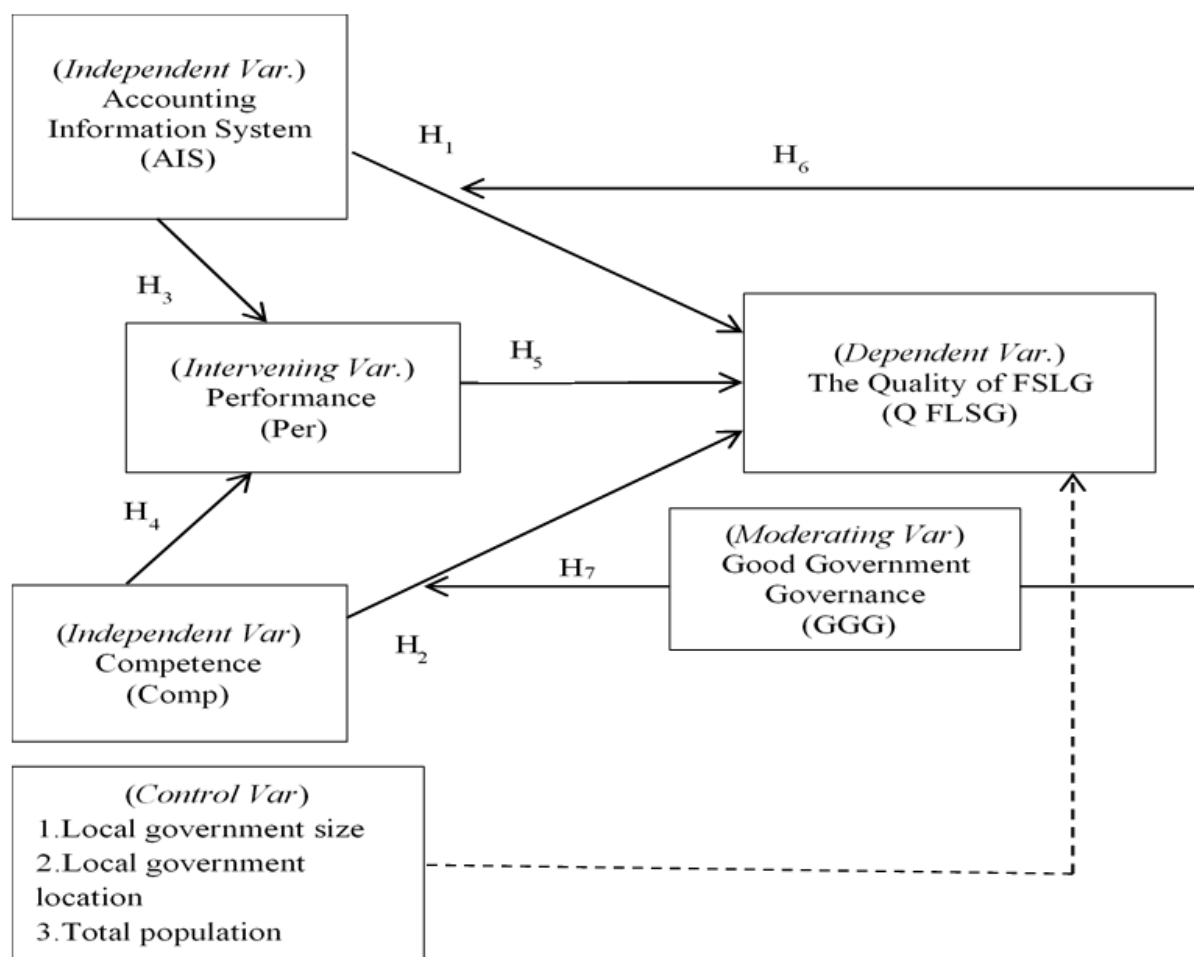


Figure-1. Frame work.

Figure 1 is a frame work that explains the relationship between the variables of AIS, Competence, Performance, GGG with the Quality of FSLG and the control variables used, namely Local Government Size, Local Government Location, and Total Population.

### 3. Research Methods

#### 3.1. Sample Selection and Data Collection

The data of population in this research are 548 Local Governments consisting of 34 provinces, and 514 cities and municipals. Samples of this research are 25 Local Governments of provinces, cities, and municipals with a period of research 4 years since 2015 to 2018. This research is panel data, which is a combination of cross-section and time-series data. This study uses software E-Views 8 (Econometric Views) for statistical computation.

#### 3.2. Measurement of Study Variables

##### 3.2.1. Independent Variable

The independent variables in this study are Accounting Information Systems, Competence, Performance, and Good Government Governance that are measured using indicators sourced from APRGE. In conducting the assessment, the researcher adds up the percentage of the performance achievement figures for all indicators of each variable sourced from the APRGE and used the average value.

##### 3.2.2. Dependent Variable

The indicators of the quality of FSLG from the Notes to FSLG are 35 main and 7 conditional indicators. The presence of the main indicators will be given point 1, but its absence will be given a score of 0. Meanwhile, the presence of conditional indicators will be given a score of 0.5 and its absence does not affect the calculation of the measurement quality.

##### 3.2.3. Control Variable

In this study, the control variables were used to test the effect of the independent variables on the dependent variable are 3 variables, namely the Local Government Location, the Local Government Size, and the Total Population. These variables choose as control variables are due to the availability of quantified data that can be used in statistical calculations. [Suhardjanto and Yulianingtyas \(2010\)](#) Local Governments in Java tend to comply with Government Accounting Standards (GAS). The size of the Local Government in this study is proxied by using total assets. This proxy is following the research of [Putri and Arza \(2015\)](#) and [Waliyyani and Makhmud \(2015\)](#). The bigger population of one territory will encourage the need more disclosures of FSLG ([Hendriyani & Tahar, 2015](#)).

**Size** = Ln Total Local Government Assets

#### 3.3. Model Specification

Formal testing to determine which model is better to use is based on statistical decisions. Statistically, three tests can be used to determine which method to choose. These are Chow Test (Common Effect vs Fixed Effect), Hausman Test (Fixed Effect vs Random Effect), and Lagrange Multiplier Test (Common Effect vs Random Effect).

#### 3.4. Data Analysis Methods

The data analysis design is used to test the effect of the AIS and Competence on the Quality of FSLG and GGG as moderating and Performance as an intervening variable, are the panel data equation models as follows:

Equation I:

$$Q \text{ FSLG} = a + \beta_1 \text{ AIS} + \beta_2 \text{ Comp} + \beta_3 \text{ Per} + \beta_4 \text{ Size} + \beta_5 \text{ Loc} + \beta_6 \text{ TP} + e$$

$$\text{Per} = a + \beta_1 \text{ AIS} + \beta_2 \text{ Comp} + e$$

$$Q \text{ FSLG} = a + \beta_1 \text{ AIS} + \beta_2 \text{ Comp} + \beta_3 \text{ AIS.GGG} + \beta_4 \text{ Comp.GGG} + e$$

Equation II:

$$Q \text{ FSLG} = a + \beta_1 \text{ AIS} + \beta_2 \text{ Comp} + \beta_3 \text{ Per} + \beta_4 \text{ Size} + \beta_5 \text{ Loc} + \beta_6 \text{ TP} + \beta_7 \text{ AIS.GGG} + \beta_8 \text{ Comp.GGG} + e$$

### 4. Result and Discussion

Based on [Table 6](#). Descriptive statistics, the mean value of the Quality of FSLG was 34.3650, indicating that the average Quality of the FSLG that was used as the research sample in the observation period was mostly included in FSLG groups that have quality.

The mean value of the AIS is 0.9617, indicating that almost all Local Governments sampled in this research have implemented the AIS well. The mean value of Competence is 0.9622, which indicates that the Competence possessed by the Civil State Apparatus (CSA) as the research sample is high. The mean Performance value is 0.9865, which indicates that most of the performance of CSA used as research samples is good. The mean value of GGG is 0.9808, indicating that most of the GGG samples used in the research are good. The mean value of the variable Quality of FSLG, AIS, Competence, Performance, and GGG that is greater than the standard deviation indicates the distribution of small data variables. It shows that the mean value can be used as a representation of all data.

Table-6. Descriptive statistic.

Sample: 2015-2018						
	Mean	Median	Maximum	Minimum	Std.Deviation	Observations
Quality of FSLG	34.3650	35.0000	36.0000	29.0000	1.5983	100
AIS	0.9617	1.0000	1.6667	0.3455	0.1518	100
Competence	0.9622	0.9981	2.2654	0.0750	0.2965	100
Performance	0.9865	1.0000	1.8120	0.0528	0.1776	100
GGG	0.9808	1.0000	2.4767	0.3100	0.2538	100
LG Size	29,1379	28.7514	33.8313	27.9324	1.2007	100
LG Location	1.2000	1.0000	2.0000	1.0000	0.4020	100
Total Population	1711413	805255	12488160	126578	2900278	100

Table-7. Sobelt Test Results.

Performance	Coefficient	SE
AIS	0.029075	0.119534
Competence	0.190723	0.055145
Quality of FSLG	Coefficient	SE
Kinerja	0.292179	0.180411
	Sobelt value	t Stat
AIS ->Performance -> Quality of FSLG	0.24	0.8099
Competence ->Performance-> Quality of FSLG	1.446	0.142

Based on Table 7, can be concluded that Performance is not able to mediate the effect of the AIS and Competence on the Quality of FSLG.

This study tested the coefficient of determination or the adjusted R square test to see the percentage contribution of the independent variable to the dependent variable. From Table 8, can be seen that the adjusted R square value is over 10%. So, the model is considered good enough.

Table-8. Determination coefficient test results.

R-squared	0.128282
Adjusted R-squared	0.110308
R-squared	0.987825
Adjusted R-squared	0.986086

The results of the coefficient of determination, the adjusted R square value of 0.1103 for model 1 and 0.9860 for model 2. It shows that the independent variables in total can explain variations and contribute to the dependent variable/Performance by 11.03% and the Quality of FSLG is 98.60%. The rest is explained by other variables outside the model in this research.

Table-9. F Test Results.

F-statistic	7.137236
Prob.(F-statistic)	0.001283
F-statistic	567.9538
Prob.(F-statistic)	0.000000

From Table 9 can be seen that the F statistic and the probability value = 0.00 < 0.05, so  $H_0$  rejects and it is concluded with an error rate of 5% the model is fit, it means, the independent variables simultaneously affect the Performance and Quality of FSLG.

Table-10. t-Test Results on the Quality of FSLG.

Variable	Coefficient	t-Statistic	Prob.	Decision	Conclusion
AIS	0.029075	0.243234	0.8083	$H_0$ failed to be rejected	Has no significant effect
Competence	0.190723	3.458578	0.0008	$H_0$ was rejected	Has significant effect
Performance	0.292179	1.619520	0.1103	$H_0$ failed to be rejected	Has no significant effect
LG Size	0.014007	4.316948	0.0001	$H_0$ was rejected	Has significant effect
LG Location	0.017029	1.252661	0.2150	$H_0$ failed to be rejected	Has no significant effect
Total Population	0.006696	0.938685	0.3515	$H_0$ failed to be rejected	Has no significant effect

Table-11. t-Test results on performance.

Variable	Coefficient	t-Statistic	Prob.	Decision	Conclusion
AIS	0.08314	2.607184	0.0114	$H_0$ was rejected	Has significant effect
Competence	0.079737	2.382792	0.0202	$H_0$ was rejected	Has significant effect

Table-12. t-Test Results on the Quality of FSLG with GGG as Moderating.

Variable	Coefficient	t-Statistic	Prob.	Decision	Conclusion
AIS_GGG	0.028640	2.189793	0.0323	H <sub>0</sub> was rejected	Moderate
Competence_GGG	0.053919	7.896429	0.0000	H <sub>0</sub> was rejected	Moderate

In Tables 10, 11, and 12 it can be seen that only the Competence have an effect on the Quality of FSLG and Performance. Meanwhile, the AIS only affects Performance. GGG as a moderating variable also strengthens the effect of AIS and Competencies on the Quality of FSLG. This can be seen from the probability value which is less than 0.05.

Based on the statistical analysis in this research, found that the first hypothesis (H<sub>1</sub>), AIS, has no significant effect on the Quality of FSLG because the data shows that the achievement of Local Government performance related to the AIS has approached a maximum value of 100%. The second hypothesis (H<sub>2</sub>) is that Competence has a positive effect on the Quality of FSLG, it means that the higher Competence of Civil State Apparatus, the Quality of FSLG they produce will be higher. The third hypothesis (H<sub>3</sub>) is the AIS has a positive effect on accepted Performance, because the use of the AIS will make it easier for Civil State Apparatus to carry out their duties, and it will have a good impact on the performance of the Civil State Apparatus. The fourth hypothesis (H<sub>4</sub>), Competence has a positive effect on Performance is accepted, because the Competence of the Civil State Apparatus is required to be able to carry out the tasks assigned to them. The fifth hypothesis (H<sub>5</sub>) is that Performance does not have a significant effect on the Quality of FSLG, because Performance is something that already has rules so that Civil State Apparatus will carry out their duties properly. The sixth hypothesis (H<sub>6</sub>), GGG strengthens the effect of the AIS on the Quality of FSLG is accepted so that Governance strengthens the effect of the AIS on the Quality of FSLG. The seventh hypothesis (H<sub>7</sub>) is that GGG strengthens the effect of Competence on the Quality of FSLG is accepted, means that GGG strengthens the effect of Competence on the Quality of FSLG because, with GGG, the Competence of Civil State Apparatus will be channelled well.

This study was tested the extent of the effect of indicators sourced from APRGE in measuring the quality of FSLG. The statistic test results show AIS and Performance do not affect the Quality of FSLG. However, AIS and Performance can still be used to measure the quality of FSLG. AIS is a primary need that cannot be left out in the process of presenting FSLG. Besides, the tabulated data results do not have high variance values. So that if it is processed in statistics, it will show that it does not affect the dependent variable. Likewise, with Performance, each Local Government already has its own Key Performance Indicator (KPI), this will make Civil State Apparatus (CSA) work properly following existing regulations, including in the preparation of FSLG.

## 5. Conclusion

The measurement index of the quality of FSLG that comes from APRGE, Notes to FSLG, and ICS has been created successfully in this research. The index can be used to measure the quality of FSLG produced by Local Governments. The results of the index made in this research are FSLG quality assessment categories.

The limitations encountered in this study are the limited number of research objects, only 25 Local Governments. Then, the measurement index made in this research can be used to assess the quality of FSLG only. Another limitation is the Local Governments still do not produce the ICS Report yet. ICS Report should be submitted in the Notes to FSLG.

The implication of this research is to facilitate external parties in assessing the quality of FSLG. Meanwhile, internal parties are to facilitate in improving the quality of FSLG or maintain it. The suggestions for further researchers are to increase the samples and research time to get better results.

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