

## THE ANALYSIS OF THE REGIONAL REPORT QUALITY (A STUDY IN THE REGIONAL WORK IN LUMAJANG DISTRICT)

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### ABSTRACT

*Penelitian ini bertujuan untuk menguji pengaruh pemahaman akuntansi, pemanfaatan sistem informasi akuntansi keuangan daerah, dan peran audit internal terhadap kualitas laporan keuangan daerah di unit kerja Kabupaten Lumajang. Data primer yang digunakan dalam penelitian ini adalah daftar pertanyaan dalam bentuk kuesioner. Responden dalam penelitian ini adalah kepala keuangan dan staf akuntansi di SKPD. Penelitian ini menggunakan pendekatan kuantitatif dengan jumlah responden sebanyak 56 orang yang dipilih menggunakan metode total sampling. Pengujian hipotesis dilakukan dengan teknik analisis regresi linier berganda yang menggunakan program Statistical Package for Social Sciences (SPSS). Hasil penelitian ini menunjukkan bahwa pemahaman tentang akuntansi memiliki pengaruh yang signifikan terhadap kualitas laporan keuangan lokal, pemanfaatan sistem informasi akuntansi regional, dan peran audit internal tidak berpengaruh signifikan terhadap kualitas laporan keuangan daerah pada SKPD di Lumajang.*

**Kata Kunci:** *pemahaman akuntansi, pemanfaatan sistem informasi akuntansi keuangan daerah, peran audit internal, kualitas laporan keuangan*

### INTRODUCTION

In modern times nowadays, every country is required to have good governance government. These requirements encourage the central government and regional governments to implementing public accountability. In government organizations, the intended accountability is in the form of financial statements which regulated in Law Number 17 of 2003 concerning State Finance and Law number 32 of 2004 concerning Regional.

According to Nordiawan, et al (2007: 94), the financial report is a structured report on the financial position and transactions that carried out by a reporting entity. The quality of the financial statements is very important to be considered by the government. By increasing the quality of the financial reports, it will certainly increase the credibility of presenting the entity, complete, and also based on the needs of the users to create a transparency and an accountability of regional financial management. The quality of financial reports can be seen from the qualitative characteristics of financial reports. In paragraph 32 of KKAP, the qualitative characteristics of financial reports are normative measured that need to be realized in accounting information to fulfill its objectives. In the Basic Framework of Preparing Financial Report Presentations (IAI, 2009), there are four basic qualitative characteristics, namely: understandability, relevant, reliability, and comparability.

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In Indonesia, there are many the financial management of regional in trouble. The Supreme Audit Institution (BPK) also assessed the quality of regional financial reports is still low. There is an article, which reported on the website (<http://www.antaranews.com>) in 2014, stated that the Supreme Audit Institution assessed that the quality of financial reports preparation in the regions was still below the average. It can be seen from the fact that there are still few regions that have unqualified opinions. The government the area is still slow in pursuing the quality of its financial reports. According to the 2013 BPK audit data from a total of 456 regionals, only 34 regions had their financial statements that obtained by WTP. While it is at the central government level, 75 percent has received the WTP opinions. The preparation of good financial reports, or classified as PAPs, does not necessarily represent the achievement of people's welfare. The statement was stated by the Chairman of the Supreme Audit Institution (BPK), Harry Azhar Aziz, after he did a socialization entitled "BPK Socialization: The Management of State Finance and People's Welfare" at the Universitas Negeri Yogyakarta (UNY) campus.

According to Yuliani, et al (2010) research, the low quality of financial reports was caused by the lack of the understanding on accounting as the basic preparation of the financial reports. Yet, it is not optimally applied to regional financial accounting information systems and/or the weak of internal audit role. According to the Complete Indonesian Language Dictionary, the word "understanding" is something that we understand correctly, thus, someone was said that he or she understood accounting then he or she would understand correctly how the accounting process becomes a financial report based on the principles and standards of the financial statements set in Government Regulation Number 71 of 2010 concerning Government Accounting Standards.

In addition to the understanding of accounting, the use of accounting information systems is also important in improving the quality of regional financial reports. To achieve the transparency of regional financial management and to realize the accountability, the use of regional financial accounting information systems must be implemented to maximum in order to produce data which is faster, more effective and more efficient. The information system that has been used is the Regional Financial Information System (SIKD). According to the Decree of the Minister of Finance of the Republic of Indonesia concerning to Regional Financial Information System Article 1 stipulated in 2001, the Regional Financial Information System, hereinafter abbreviated as SIKD, is a facility that organized by the Minister of Finance to collect, validate, process, analyze data, and provide region financial information in the framework of formulating policies in the distribution of the Balancing Fund, the evaluation of regional financial performance, the preparation of The Draft Budget Presented to the Parliament (RAPBN) and other needs, such as state financial statistics.

While the third thing which influences the quality of regional financial reports is the existence of an internal audit role. Internal Audit is a free or independent assessment activity status within the organization to re-examine financial accounting and other fields as a basis for providing services or services to an organization. The need for an internal audit role is to assess the accuracy of the implementation of organizational policies and take corrective action if there are irregularities in order to achieve the goals efficiently and effectively (Akhmad Syarifudin, 2014). He argued that the auditor showed whether the statements financially prepared are in accordance to SAP and the quality is as expected.

Based on the description, the formulation of the problem is whether the understanding of accounting, the use of information systems, and the role of internal audit affecting the quality of regional financial reports? Thus, the purpose of this study is to examine the effect of understanding on accounting, the utilization of information systems, and the role of internal audits on the quality of regional financial reports intrinsically. The results of this study proved that the accounting comprehension has a positive effect on the quality of regional financial reports while the use of information systems and the role of internal audit did not affect the quality of regional financial reports. The results of this study are expected to provide benefits for some parties, for example, for practitioners, providing input on factors that affect the quality of regional financial reports in order to increase their credibility and be able to realize transparency in regional financial management and the presentation of regional financial reports. For academics, the results of this study can be used as a reference in conducting a research which related to the topic, such as the influence of understanding on accounting, the use of regional financial information systems and the role of internal audits on the quality of regional financial reports (a study in Lumajang district regional work units). For the researchers, the results of this study are expected to be useful for the development of knowledge about factors that affect the quality of regional financial reports, and this can be used as input and reference material for further research.

This article was written in the following order; the next section discussed about the literature review and the development of hypotheses, followed by a discussion of the methods regarding the sampling, the data collection and the method of proving hypotheses. The analysis and discussion of research results was written in the next section. The final section discussed the conclusion, suggestions, and limitations.

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

### **The Quality of Regional Financial Reports**

Financial reports are prepared to provide a relevant information regarding the financial position of a reporting entity during a period. Financial reports are used to determine the value of economic resources that are used to carry out government

operational activities, assess financial conditions, evaluate the effectiveness and the efficiency of a reporting entity, and help to determine its compliance with legislation (Wulandari and Jalil, 2015).

According to Erlina Rasdianto (2013:21), she suggested that the Quality of Regional Financial Reports is a result of the process of identifying, measuring, recording of economic (financial) transactions from accounting entities in a regional that are used as information in the context of the entity's financial management accountability. Accounting and economic decisions are made by those who need it. The quality of financial reports is seen from the qualitative characteristics of financial reports. In paragraph 32 of the FHF, the qualitative characteristics of the financial reports are normative measured that need to be realized in accounting information, then they can meet their objectives. According to the Basic Framework for Preparing Financial Report Presentations (IAI, 2009), there are four basic qualitative characteristics, understandability, relevant, reliability, and comparability.

### **The Influence of Understanding of Accounting on The Quality of Regional Financial Reports**

According to Diani (2014), the understanding of accounting had a positive effect due to the quality of regional financial reports. This showed that the higher the level of understanding of the accounting head of the finance subdivision and the accounting staff become better the quality of the financial reports produced.

According to Yuliani (2010), the understanding of accounting had a significant influence on the quality of regional financial reports. Every increasing in the understanding of accounting is made for accounting staff because it will improve the quality of regional financial reports producing.

Thus, it can be concluded that the understanding of accounting had a positive effect on the quality of regional financial reports which means that the higher the level of the understanding of accounting on regional financial staff will be better the quality of regional financial reports.

Based on the description, the first hypothesis of this study is:

**H1: The understanding of accounting affects the quality of regional financial reports.**

### **The Utilization Effect of The Regional Financial Accounting Information Systems on The Quality of Regional Financial Reports**

According to Yuliani (2010), the utilization of regional financial accounting information systems had a significant influence on the quality of regional financial reports. It means that every increasing in the utilization of the regional financial accounting information system will make the quality of regional financial reports in better quality.

According to Asep Yogi (2017), the use of regional financial accounting information systems had a positive effect on the quality of regional financial reports. It showed that the higher utilization of regional financial accounting information systems will make the quality of regional financial reports better.

Thus, it can be concluded that the utilization of regional financial accounting information systems had a positive effect on the quality of regional financial reports which means that the higher the utilization level of regional financial accounting information systems will make the quality of regional financial reports better.

Based on the description, the hypothesis of this study is:

**H2: The utilization of regional financial accounting information systems affects the quality of regional financial reports**

### **The Influence of The Role of Internal Audit on The Quality of Regional Financial Reports**

According to Yuliani (2010), the role of internal audit had an influence on the quality of regional financial reports. It means that the role of internal audit can be relied on, then the quality of regional financial reports quality is getting better.

According to Diani (2014), the role of internal audit had a significant positive effect on the quality of government financial reports. It means that if the financial reports that had the reliability of the value of information as an internal audit is good will make the quality of the financial reports of the regional better.

Thus, it can be concluded that the role of internal audit has a positive effect on the quality of regional financial reports which means that the role of internal audit can be relied on and financial reports that have the reliability of information value as a good internal audit make the quality of the financial statements of the regional better.

Based on the description, the hypothesis of this study is:

**H3: The role of internal audit influences the quality of regional financial reports**

Based on the explanation above, the thinking framework used in this study is as follows:

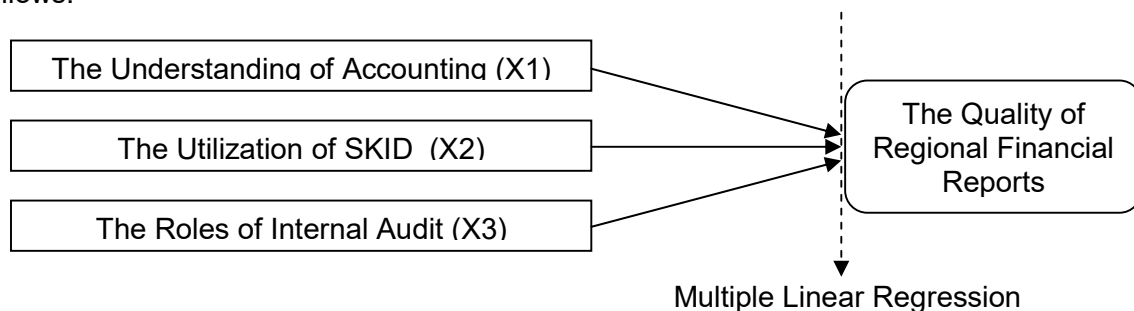


Figure 1. Research Model

## RESEARCH METHODOLOGY

### The Operational Definition and Variable Measurement

#### *The Quality of Regional Financial Reports (Y)*

The quality of financial reports is if the information is presented in the report, the financial can be understood and meets the needs of the user in decision making, free from mislead understanding, material errors and reliable. Thus, the financial reports can be compared to the previous periods. However, it is important to realize that financial reports do not provide all information that the user might need in making an economic decision. In general, the financial reports describe the effects of past events, and do not require to provide non-financial information.

#### *The Understanding of Accounting (X1)*

The understanding of accounting is an understanding and brilliant about the accounting process that carried out to become a financial report based on the principles and standards of the preparation of financial reports that applied in Government Regulation Number 24 of 2005 concerning Government Accounting Standards.

#### *The Utilization of Regional Financial Accounting Information Systems (X2)*

The utilization of regional financial accounting information systems is the application of the system regional financial information by each SKPD in the process of preparing regional financial reports. One of the examples is the procurement of SIKD that is easily accessible to users of regional financial reports.

#### *The Role of Internal Audit (X3)*

It is an independent activity, an objective belief and a consultation designed to add value and improve the organization's operations. The inspectorate as internal audit plays a role in realizing financial reports that are represented in SAP of each SKPD.

This study aims to determine the causative relationship used to explain the effect of an independent variables, namely: the understanding of accounting, the use of regional financial accounting systems and the role of internal audit on the dependent variable, namely the quality of regional financial reports.

### Population and Sampling

The population in this study is the Regional Work Unit (SKPD) in Lumajang District, amounting to 28 SKPD consisting of:

1. Regional Secretary
  - The Governance
2. SKPD Inspectorate
3. SPKD Agency

- Regional Development Planning Agency Lumajang District
  - Regional Civil Service Agency
  - Regional Finance Office Lumajang District
  - Regional Tax and Retribution Agency Lumajang District
  - National Unity and Political Agency Lumajang District
  - Regional Board for Disaster Management
4. SPKD Services
- Department of Population Control, Family Planning and Women's Empowerment Lumajang District
  - Department of Archives and Library Services Lumajang District
  - Food Resilience Services Lumajang District
  - Manpower Office Lumajang District
  - Environmental Services Lumajang District
  - Department of Tourism and Culture Lumajang District
  - Trade Office Lumajang District
  - Public Works Office Lumajang District
  - Housing and Settlement Area Office Lumajang District
  - Department of Health Lumajang District
  - Department of Transportation Lumajang District
  - Department of Fisheries Lumajang District
  - Department of Education Lumajang District
  - Community and Village Empowerment Service
  - Department of Cooperatives and Micro Enterprises
  - Population and Civil Registration Service
  - Investment Services and One Stop Services
  - District Social Service Lumajang District
  - Youth and Sports Service

5. The Civil Service Police Unit

The technique of sampling that has been used in this study is total sampling technique. Total sampling is a sampling technique which the number of the samples is the same as the population (Sugiyono, 2007). The reason of using total sampling technique is because, according to Sugiyono (2007), the total population less than 100 from the entire population was used as the sample of all of the research. This study used a total sampling because the population is less than 100 objects.

The respondents in this study were the heads of finance and accounting staff at SKPD. The reason of those selected respondents is because the head of the department

and accounting staff are responsible for making financial statements for each SKPD and also each part is an important element in producing government financial statements. They are directly involved and fully understand about accounting activities. The total number of respondents are 56 respondents.

### **Data Type**

The type of data used in this research is a subject data. Subject data is a data that obtained directly from the population. In terms of its characteristics, the type of data used in this research is quantitative.

### **Techniques of Data Analysis and Hypothesis Testing**

The technique of analysis that has been used is multiple linear regression. The reason for using the method, it can be as a prediction model for one dependent variable (Y) with three independent variables (X1, X2, X3) because the independent variables are more than one. The independent variables can be denoted as X1, X2, X3, et cetera. So, the symbol or formula of multiple regression equations is (Purba Budi, 2014:282) :

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Description:

- Y = The Quality of Regional Financial Reports
- X1 = The Understanding of Accounting
- X2 = The Utilization of Regional Financial Information Systems
- X3 = The Role of Internal Audit
- e = Error term

## **RESULTS AND DISCUSSIONS**

### **Validity and Reliability Testing**

The validity test resulted by using the Pearson Correlation approach for items of independent variables namely the understanding of accounting, the utilization of regional financial accounting information systems, and the role of internal audit and dependent variable items, namely the quality of regional financial reports, namely all report items for all variables are on the significance level, namely below 0.05. It can be concluded that the statement in this study is valid.

The reliability test results in this study indicated that the alpha value of all the items in each variable is reliable because it is greater than Cronbach's Alpha above 0.6.



### Normality Test

The results of the normality test in this study by using the *KolmogorofSmirnov* method showed the value of the specification  $0.597 > 0.05$ , so, the data variable of this study had a normal distribution.

### Classic Assumption Test

Heteroscedasticity test in this study used scatterplot to form the dots that spread randomly by not forming a clear pattern. It showed that there is no problem with heteroscedasticity in the regression model.

Multicollinearity test was seen from the tolerance value and VIF value. Based on the output, the Tolerance value of each independent variable was greater than 0.10. Meanwhile, value VIF on each independent variable was smaller than 10.00. Thus, it can be concluded that there is no Multicolence.

### Multiple Linear Regression Test

The results of the equation multiple linear regression in this study are as follows:

$$Y = 11,476 + 0.681 X1 + 0.385 X2 + 0.517 X3$$

Interpretation of the regression model above is as follows:

1. Constant = 11,476

If the Understanding of Accounting variable (X1), the Utilization of Regional Financial Accounting Information Systems (X2), the Role of Internal Audit (X3) are constant or equal to the zero. The Value of the Quality of Regional Financial Reports (Y) is 11,476.

2. Regression coefficient for X1 = 0.681 (The Understanding of Accounting)

It showed the value of the regression coefficient for The Understanding of Accounting Variable (X1) which is 0.681 and has a positive regression coefficient. A positive value indicates that there is a unidirectional relationship between The Quality of Regional Financial Reports (Y) and The Understanding of Accounting (X1) which means if The Understanding of Accounting variable (X1) rises by one unit, then the value of The Quality of The Regional Financial Reports variable (Y) will be 0.681 units assuming that the other independent variables are constant.

3. Regression coefficient for X2 = 0.385 (The Utilization of Regional Financial Accounting Information Systems)

It showed the value of the regression coefficient for The Utilization of Regional Financial Accounting Information System variable (X2), which is 0.385 and has a positive regression coefficient. A positive value indicates that there is a unidirectional relationship between the quality of regional financial reports (Y) and The Utilization of Regional Financial

Accounting Information System (X2) which means The Utilization of Regional Financial Accounting Information System variable (X2) rises by one unit, then the value of The Quality of Regional Financial Reports variable (Y) will be 0.385 units assuming that other independent variables are constant.

#### 4. Regression coefficient for X3 = 0.517 (The Role of Internal Audit)

It showed the value of the regression coefficient for the Role of Internal Audit variable (X3) which is 0.517 and has a positive regression coefficient. A positive value indicates that there is a unidirectional relationship between the Quality of Regional Financial Reports (Y) and the Internal Audit Role (X3) which means the Internal Audit Role variable (X3) rises by one unit, then the value of the variable quality of the Regional Financial Report (Y) will be 0.517 units assuming that the other independent variables are constant.

### **Hypothesis Testing**

The coefficient of determination ( $R^2$ ) can be seen from the value of Adjusted R Square ( $R^2$ ) of 0.263. This indicates that about 26.3% of the Quality of Regional Financial Reports can be explained by the Understanding of Accounting variable (X1), the Utilization of Regional Financial Accounting Information Systems (X2), and the Role of Internal Audit (X3) while the remaining amount ( $100-26.3\% = 73.7\%$ ) is explained by other causes that is not addressed in this study.

The suitability test of the model (F test) obtained that the calculated F value is 7.536 and the significance value is 0.000, then  $H_0$  is rejected and  $H_1$  is accepted. So, it can be concluded that the regression model produced by the Understanding of Accounting, the Utilization Regional Financial Accounting Information Systems and the Roles of Internal Audit have a model suitability for the Quality of Regional Financial Reports.

### ***The Effect of Understanding of Accounting on the Quality of Regional Financial Reports***

The results of the test on this variable indicate that the Understanding of Accounting has influenced on the Quality of Regional Financial Reports. It can be seen from the t count value of 2,277 with a significance level of less than 0,05 that is equal to 0,027.

The results of this study agree with the research that conducted by Dian Irma Diani (2014), Yuliani, et al (2010), and Asep Yogi Permana (2016). Their researches showed that accounting comprehension has a significant effect. The higher the level of understanding of the accounting on the head of the financial subdivision and the accounting staff will be better the quality of the financial reports produced. This reveals that to be able to produce quality financial reports. The quality of the people who carry out the tasks in preparing financial reports must be the main concern. The employees that have been involved must understand

about how the process and implementation of accounting are guided by the applicable provisions.

***The Effect of Utilization of Regional Financial Accounting Information Systems on the Quality of Regional Financial Reports***

The results of the test on this variable indicate that the effect of the Utilization of Regional Financial Accounting Information Systems has no significant effect on the Quality of Regional Financial Reports. It can be seen from the t count value of 1.455 with a significance level of more than 0.05 that is equal to 0.152.

The results of this study agree with a research which was conducted by Dian Irma Diani (2014). It showed that the Utilization of Regional Financial Accounting Information Systems has no significant effect on the Quality of Regional Financial Reports. In this framework, Law Number 33 of 2004 concerning the financial balance of the central and regional governments affirms the support of regional financial information systems that held nationally.

In terms of the frequency distribution data for the utilization of regional financial accounting information system, the average level of achievement of respondents for the variable utilization of regional financial accounting information systems is in the good category. Yet, in the reality, the government with the use of regional financial accounting information systems has not fully been able to enhance effectiveness, answer the information needs, improve the performance, and improve the efficiency of government officials in doing their work.

So, it showed that the government has not fully utilized the regional financial accounting information system even though SIKD is a tool used to achieve the government's objectives in providing financial information as part of the regional management information system.

***The Effect of Internal Audit Roles on the Quality of Regional Financial Reports***

The results of the test on this variable indicate that the role of the Internal Audit does not affect the quality of regional financial reports. It can be seen from the t count value of 1.738 with a significance level of more than 0.05 that is equal to 0.088. This can be explained because internal audits do not work directly in the process of preparing and presenting LKPD. The main task of internal audit is to conduct checks, coaching towards the regional financial reporting process, and as a management consultant. The limited number of inspectorate officers, the level of competence and the extent of the audit coverage became the obstacles to be able to examine all financial posts carefully and in detail. So, the internal audit performance becomes less optimal.

In addition, from the results of this study, it also can be seen that the Internal Audit's ability to detect non-compliance, errors or irregularities is not optimal yet. Therefore, the

errors, in activities and in accounting records that have been made, are not detected until the time of examination by the BPK. For the example, in terms of financial management and valuation of regional assets. This is evidenced by the findings of the BPK which were not found before by the internal government audit.

### **CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATION**

Based on the results of research that had been done, it can be concluded that the understanding of accounting influences the quality of regional financial reports. The use of regional financial accounting information systems and the role of internal audits did not affect the quality of regional financial reports.

Based on the discussion from the results in this study, it is expected that if it was seen from the results of this study, it appears that the understanding of accounting, the use of regional financial accounting information systems, and the role of internal audit have been well done, but there are still some things that have not been fully done, so this impact on the low quality of financial reports produced by the government. For further research, it is suggested that other variables which can affect the quality of regional financial reports, such as work experience, application of SAP, et cetera, can be compared with the results of the authors' research. The further researcher is expected to be able to expand the research area and increase the number of respondents. For further research, it is expected to conduct the research with various methods, such as direct interviews, field survey methods, etc.

In carrying out this research, there are several things that become obstacles and make it difficult for the researcher conducting this research. This research was conducted only in one area, namely the SKPD in Lumajang district, so, the results of the research cannot be generalized to all objects as a whole. And, the lack of understanding on the respondents about questions or statements in the questionnaire as well as concern and seriousness in answering all the questions. Subjectivity problems from respondents can result in the results of this study being against the bias of respondent answers.

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