

THE EFFECT OF HR COMPETENCE AND INTERNAL CONTROL SYSTEMS ON QUALITY OF FINANCIAL STATEMENTS WITH ORGANIZATIONAL COMMITMENT AS MODERATION VARIABLES

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ABSTRACT

This study aims to empirically examine the factors that influence the quality of financial statements. The factors used in this research are HR competencies, internal control systems and organizational commitment. Using 90 samples of employees relating to financial reporting in Belu regency, there are 40 regional apparatus organizations, consisting of 21 board, 6 agencies, 2 secretariats, 1 regional hospital, inspectorate, and 9 sections. The data analysis method uses SEM-PLS with the help of the SmartPLS 2.0 application. The results showed that the factors that influence the quality of financial statements are a good internal control system and HR competency if employees have high organizational commitment. HR competence will not affect the quality of financial statements in Belu regency if employees do not have organizational commitment, so it can be concluded that organizational commitment is able to strengthen the relationship between variables.

Key words: HR competence, internal control system, organizational commitment, financial report quality

INTRODUCTION

To realize corporate governance, public sector organizations must continue to make efforts to improve transparency and accountability in regional financial management. Regional financial management regulates all technical aspects including regulatory, institutional, regional financial information systems, and improving the quality of human resources. Financial reports are a medium for an entity in this case the government to account for its financial performance to the public, so the regional financial reports presented must have adequate quality and follow government accounting standards in accordance with Government Regulation No. 71 of 2010 (Suardjono, 2005).

Regional financial statements as a form of accountability to the public, so it must have qualitative characteristics of the quality of financial statements. Based on Government Regulation No. 71 of 2010, the qualitative characteristics of government financial statements are relevant, reliable, comparable and understandable. If the information contained in government financial reports as required in these regulations, then the local government is able to improve the quality of the financial statements of the local government.

Quality of local government financial reports can be identified from the opinion of the Supreme Indonesian Supreme Audit Institution on the results of audits of the regional government financial reports. Opinions given by Supreme Audit Institution are based on Law Number 15 of 2004 concerning Examination of Examiner's Professional Statement regarding the fairness of financial information presented in financial statements, with criteria: (a) compliance with government accounting standards, (b) adequacy of disclosure, (c) compliance with laws and regulations, and (d) the effectiveness of the internal control system (Ratifah and Ridwan, 2012). In carrying out its function, the Supreme Audit Institution conducts audits of regional financial statements that will provide a number of opinions based on the quality standards of financial reports reported by local governments, opinions issued may be in the form of unqualified opinion, modified unqualified opinion, qualified opinions, adverse opinion and disclaimer opinions.

Supreme Audit Institution gave a release related to the quality of the regional government financial reports in semester 1, which was published in the Summary of Examination Results in 2018, revealed that there was an increase in the quality of local government financial reports in 2017 as indicated by an unqualified 30% increase in fair opinion over five years lastly, in 2013 only 46% of local governments obtained unqualified opinions and in 2017 it became 76%, so this has led to a positive trend of improving the quality of financial statements (www.bpk.go.id). Improving the quality of the financial statements of the regional government as a form of community demands that the local government implement good corporate governance by promoting the principles of transparency and accountability.

Based on the Supreme Audit Institution report, it means that there are still 24% of the financial statements of the regional government obtaining a reasonable Supreme Audit Institution opinion with an exception, is not fair and does not provide an opinion. Factors that cause the provision of opinion include: the presentation of financial statements not based on established standards, violations of the law, insufficient audit evidence, limitations on the scope of the audit and violations (www.djkn.kemenkeu.go.id). One of the regions that obtained the Supreme Audit Institution audit opinion with a reasonable exception was Belu Regency in East Nusa Tenggara Province. Audit opinion obtained by Belu Regency during the last five years has not increased, so it can be concluded that the financial statements of Belu Regency still tend to be unfavorable.

Supreme Audit Institution audit opinion did not increase in Belu regency, proving that the regency did not follow up on Supreme Audit Institution findings which recommended to improve the weaknesses of the internal control system. Substantial problems of Belu regency internal control, namely (1) receipt of funds for social assistance spending late submitting accountability reports for use of funds, (2) recipients of grant funds late and not yet reporting accountability for use of funds, (3) cash management at

treasurers of school operational treasures has not fully in accordance with the provisions, (4) the management of assets is not yet adequate, (5) the administration of other assets is inadequate (IHPS-BPK, 2018).

Qualified Opinion of the past five years can be identified that the local government of Belu Regency has not implemented a good internal control system, other than that based on the observations of researchers, the human resources of accounting administrators in work units almost entirely do not have an accounting background, so they do not have adequate capacity. So with these problems, researchers try to prove empirically that internal control and HR competencies have an influence on the quality of financial statements.

HR competence greatly influences the presentation of quality financial statements. HR has competence in the field of accounting will be easier to hold financial reports, because financial statements are one of the products produced in the field of accounting. So, in an effort to improve the quality of financial reports, local governments must place employees who have accounting education backgrounds as organizers of financial reports or other ways that can be used is to improve the competency of employees through training, seminars, workshops and others. HR competence in the work environment are very important because the regional government is an accounting entity that is a government unit that manages the budget, wealth, and obligations that carry out accounting and presents financial reports in accordance with applicable standards (Warisno, 2008).

Other factors of HR competencies is internal control system greatly influences the quality of the presentation of government financial statements. Internal control system is a criterion used by Supreme Audit Institution in providing an assessment of financial information presented so that it can influence the opinion and quality of the financial statements. Internal control in the government is guided by Government Regulation No. 60 of 2008 concerning the government's internal control system. Internal control is built on five components namely the control environment, risk assessment, control activities, information and communication and monitoring. Internal control system has the objective to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, the reliability of financial reporting, the security of state assets, and compliance with laws and regulations.

Studies on the quality of financial statements have been carried out by previous researchers, but there are still inconsistencies in the results of research that reveal the competence of human resources and internal control systems affect the quality of financial statements and there are those who find no influence between variables. Study Yosefrinaldi (2013), Winidyaningrum (2010), Yendrawati (2013), and Trisnawati and Wiratmaja (2018), revealed that human resource competency has a positive effect on the quality of financial statements, but the study Sukmaningrum (2012), Siahaan (2013), and Syarifudin (2018) (2014), found that human resource competencies did not affect the quality of financial statements. study Indriasari (2008), Sukmaningrum (2012) and Puspitawati (2016) found that the internal control system had a positive effect on the quality of local government financial reports, but study Yendrawati (2013) and Desiana (2014) found that the internal control system had no effect on the quality of the report. local government finance.

This study adds moderation variables to overcome the research inconsistencies and get better results. Organizational commitment is used as a moderating variable because it regulates employee relations with the organization. Employees have confidence in the goals and values carried by the organization and are serious about realizing work targets for the benefit of the organization (Pramita and Andriyani, 2010). Organizational commitment will create a sense of belonging, responsibility and awareness in realizing the vision and mission of the organization (Irwan, 2011). Organizational commitment can strengthen the relationship of human resource competencies and internal control systems empirically proven by Suarmika (2016) and Manullang (2016).

This study aims to empirically examine the effect of human resource competencies and internal control systems on the quality of financial statements that are strengthened by organizational commitment in Belu regency. This research was conducted in Indonesia because Indonesia is one country that has a high complexity of governance, which has 34 provinces, 416 regency, 98 cities and 7,094 districts, so that government management is of particular concern, especially in bureaucratic reform. Bureaucratic reform is expected to be able to build corporate governance so that it will create public confidence in the administration of government, but in reality the regency government has not met public expectations, as indicated by Supreme Audit Institution opinion over the past five years, so researchers are interested in conducting studies related to the quality of financial statements.

LITERATURE REVIEW

This study uses stewardship theory and contingency theory in predicting the relationship of human resource competencies and internal control systems that are moderated by organizational commitment. Stewardship theory is a theory that describes the situation of managers not motivated by individual goals but rather prioritizes the interests of the organization. This theory assumes that management is a party of high integrity, has honesty and is able to act responsibly to carry out the best actions and meet the interests of stakeholders. Contingency theory states that there is no design and use of a management control system that can be applied effectively to all organizational conditions, but a control system must certainly be effective for certain organizational, corporate or government situations (Otley, 1980).

Government Financial Reports

Financial statements are a form of accountability for the management of economic resources that are used within a certain period (Mardiasmo, 2009). Local government financial reports are information provided by local governments to assist stakeholders in making social, political and economic decisions so that decisions made can be of higher quality (Mahmudi, 2007). Bastian (2006) explains that public sector financial statements are a representation of the financial position of transactions carried out by

a public sector entity. Based on Government Regulation No. 71 of 2010, local government financial reports consist of budget realization reports, reports on changes in excess budget balances, balance sheets, operational reports, cash flow statements, equity change reports and notes to financial statements.

Financial reports as a medium of accountability to the public must be reported with established quality standards. Quality financial reports have relevant information (has a feedback value, timely and complete predictive value), is reliable (reported to be honest, verifiability and neutral), can be compared, and can be understood by the Republic of Indonesia, 2010).

Human Resource Competencies

In realizing good financial management, in an institution must have competent human resources, supported by accounting education background, often attend education and training, and have experience in finance, it is necessary to apply the existing accounting system. Competent employees have characteristics: knowledge in the field and a good work environment, have skills in completing tasks and have good skills (Republic of Indonesia, 2013). Empirical studies of Barus (2017), Andrianto (2017), Silaban (2017) and Riandani (2017) reveal that the better the competency of human resources, the better the quality of financial statements produced.

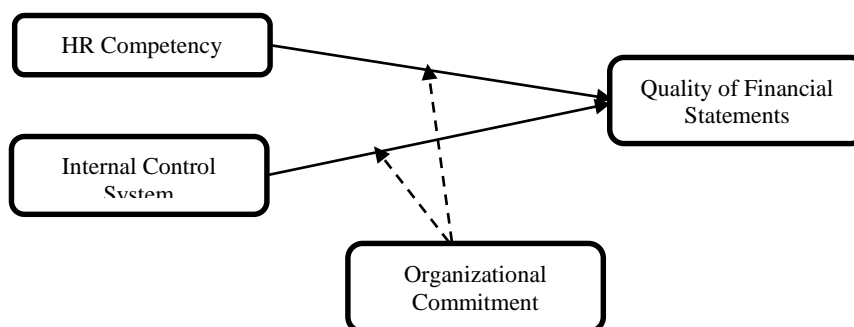
Internal Control System

Internal control systems are policies and procedures designed to provide adequate confidence for management that the organization achieves its goals and objectives (Rai, 2008: 283). Internal control system is an integral process of actions and activities carried out continuously by the leadership and all employees to be able to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations. invitation (Republic of Indonesia, 2008). The components in the government's internal control system are the control environment, risk assessment, control activities, information and communication, and monitoring internal control. Empirical studies require that the better an organization's internal control will avoid fraud behavior and will focus on organizational goals, so that internal control affects the quality of financial statements (Sukmaningrum, 2012 and Mahaputra, 2014).

Organizational Commitment

Commitment is the strength of one's recognition and involvement in a particular organization. Commitment as a belief in organizational values (identification), willingness to do their best for the sake of the organization (job involvement), and a desire to remain a member of the organization concerned (loyalty) expressed by an employee of his organization (Porter and Steers, 1979). Organizational commitment as the desire of employees to continue working with their organization (Allen & Meyer, 1990). Organizational commitment involves three attitudes toward identifying with organizational goals, a sense of involvement with organizational tasks, and a sense of loyalty to the organization. Organizational commitment is built on trust in organizational values, willingness to help realize organizational goals and loyalty to remain a member of the organization. Empirically organizational commitment can strengthen the relationship between variables as evidenced by study Rahmawati (2015) and Manullang (2016), which reveal that employees have high competence and the company has good internal control supported by high organizational commitment that will produce quality outputs and outcomes.

Figure 1. Research Framework



Based on the conceptual framework, the research hypotheses that will be tested in this study are:

- H1 : HR competence has a positive effect on the quality of financial statements.
- H2 : The internal control system has a positive effect on the quality of financial statements.
- H3 : Organizational commitment moderates the relationship of HR competence to the quality of financial statements
- H4 : Organizational commitment moderates the relationship of the internal control system to the quality of financial statements

RESEARCH METHODOLOGY

The approach used in this research is a quantitative approach based on a positive paradigm. This study aims to examine the factors that affect the quality of local government financial reports. The study population was employees involved in Belu regency financial management consisting of 21 board, 6 agencies, 2 secretariat, 1 regional hospital, inspectorate and 9 sections, so that the total organization of regional apparatus obtained from Belu regency totaled 40. Sampling technique in this research is

using purposive sampling method with type of sample selection based on certain considerations or criteria (Sekaran & Bogie, 2013).

Data used in this study are primary data. Primary data is data that refers to information obtained from first hand by researchers relating to variables (Sekaran & Bougie, 2013). Method used is a survey method, which is a collection of data obtained directly from the original source using a questionnaire (Ikhsan & Ghozali, 2006). The questionnaire used in the study was measured on a Likert scale of 5.

The construct of this study was measured using the research indicators used by previous studies, the construct of the quality of financial statements was measured using the Khasanah (2015) indicator. Human resource competence and internal control systems are measured by the indicators used by Yosefrinaldi (2013) and the construct of organizational commitment is measured by the indicators used by Putri (2010). Data analysis method, this study uses SEM-PLS with SmartPLS 2.0 software. The use of PLS is based on several considerations that PLS is an analytical method that can be applied at all data scales, does not require a lot of assumptions, and the sample size does not have to be large. Besides PLS can be used to confirm theories can also be used to build relationships that do not yet have a theoretical basis for testing propositions (Abdillah and Hartono, 2015: 165). Evaluation of the research model is done by evaluating the measurement model and evaluating the structural model.

Evaluation of the measurement model is used to measure the validity and reliability of the research construct. Construct is valid if it has a AVE value above 0.5 (> 0.5), a communality value above 0.5 (> 0.5) factor loading above 0.7 (> 0.7), the root of AVE is greater than the correlation between variables and cross loading value under the loading factor. Reliable constructs if they have composite reliability and Cronbach's alpha values above 0.6 (> 0.6) (Abdillah and Hartono, 2015: 196). Evaluate structural models using R-Square (R^2) to predict research models. Hypothesis testing uses a significance value (p-value) below 0.05 and the value of the path coefficient (β). The hypothesis is accepted if you have a p-value < 0.05 and a path coefficient > 0 . The construct is said to strengthen or weaken the relationship between variables if it has a significance value (p-value) below 0.05 (< 0.05) (Sugiono, 2004).

ANALAYSIS, RESULTS AND DISCUSSION

The research respondents were employees implementing the financial statements of the Belu regency government consisting of 40 regional apparatus organizations, consisting of 21 offices, 6 agencies, 2 secretariats, 1 regional hospital, inspectorate, and 9 sections. The questionnaires distributed were 120 questionnaires returning as many as 105 questionnaires and 15 unusable questionnaires because they were incomplete, so the questionnaires used in this study were 90. Demographics of the research respondents are shown in table 1.

Table 1 explains that the majority of respondents in this study were women, amounting to 55.56% of the total sample and the remaining 44.44% were men. The age of the research respondents was dominated by respondents aged over 40 years by 42.22%, then followed by respondents with ages 31-40 years by 39.89%, and ages 20-30 years by 18.89%. Respondents with tenure of more than 10 years are 60%, 5-10 years are 23.33% and less than 5 years are 16.67%. Whereas the education level was dominated by respondents with undergraduate education level of 58.89% and the last education department was dominated by respondents with the last non-accounting education department by 52.22%.

Table 1. Demographics of Research Respondents

Keterangan	Total	Presentase
Gender:		
a. Male	40	44%
b. Female	50	56%
Ages:		
a. 20-30 Years	17	19%
b. 31-40 Years	35	39%
c. > 40 Years	38	42%
Work Experience:		
a. < 5 Years	15	17%
b. 5-10 Years	21	23%
c. > 10 Years	54	60%
Level of education:		
a. Postgraduate	6	7%
b. Bachelor	53	59%
c. Diploma	19	21%
d. High school	12	13%
Competence		
a. Accounting	43	48%
b. Non-accounting	47	52%

Measurement Model Analysis

Evaluation of the measurement model is used to assess the instrument in a valid and reliable study. A study can use reflective or formative construct types in a research model or use both. This study only uses constructs that are reflective type. Evaluation of measurement models in assessing validity is done in two stages, convergent validity and discriminant validity. Discriminant validity is measured by the value of loading factor, communality and AVE, while discriminant validity is measured by the value of cross loading and the AVE square, and the reliability of a construct can be seen from the composite reliability and Cronbach alpha values.

Table 2. Test Results of convergent and discriminant validity

	Convergen			Discriminant	
	Loading Factor	Communality	AVE	Cross Loading	akar AVE
HR C	0,798	0,517	0,518	0,669	0,784
ICS	0,838	0,631	0,632	0,379	0,679
O C	0,852	0,604	0,604	-0,079	0,787
QFS	0,859	0,622	0,623	0,811	0,851

HR Comp: HR C, ICS: Internal control systems, O C: organizational commitment, QFS: Quality of financial statements

Table 2 shows the results of testing for convergent and discriminant validity. Convergent validity test results show the loading factor value for each indicator above 0.7 and the value of communality and AVE above 0.5, so that it has met the convergent validity test. Discriminant test results show the cross loading value below the outer loading value and the AVE square is greater than the correlation between variables in the research model used. The test results show that the research construct has met the validity test, so the indicators can be used for testing the inner model. Assessing the validity of a construct is very important because it relates to the accuracy of an instrument used to assess the relationship between variables.

A reliable indicator if the value of composite reliability and Cronbach alpha is more than 0.7. Composite reliability and Cronbach alpha are shown in Table 2.

Table 2. Reliability Test Results

	Composite Reliability	Cronbach Alpha
HR C	0,628	0,613
ICS	0,656	0,649
OC	0,647	0,638
QFS	0,655	0,647

HR C: HR competencies, ICS: Internal control systems, OC: organizational commitment, QFS: Quality of financial statements

Based on Table 2, it can be seen that the composite reliability value for each construct is above 0.7 and the Cronbach alpha value for each construct has also been above 0.7. So it can be concluded that the construct used in the research model has met the reliability test. Reliability in a study is needed, because it is used to measure the consistency of answers to a research instrument.

Structural Model Analysis

Evaluation of structural models or inner models is used to predict relationships between latent variables, this test is conducted after the research model has met the validity and reliability tests (Ghozali, 2014). The results of testing the structural model (inner model) can be seen in the value of R-Square (R2) for exogenous constructs and path coefficient values for endogenous constructs. The results of testing the structural model using PLS are shown in table 3.

Table 3. Hypothesis Testing Results

	Original Sample	Std Error	T Statistics	P-value	R2
HR C → QFS	-0,172	0,093	1.290	0.099	0,870
ICS → QFS	0,432	0,140	2.136	0.016	
HR C* OC → QFS	0,333	0,122	1.894	0.029	
ICS*OC → QFS	0,380	0,156	1.696	0.045	
Z -> Y	-0,718	0,102	4.884	0.000	

HR C: HR competencies, ICS: Internal control systems, O C: organizational commitment, QFS: Quality of financial statements

Table 3, shows the results of the coefficient of determination of the influence between the variables of human resource competence, internal control systems, organizational commitment and the quality of local government financial reports obtained a value of 0.870, meaning that the variables of human resource competence, internal control systems and organizational

commitment have an influence of 87% on the variable quality of local government reports, while the remaining effect of 12% is explained by other variables not used in the research model.

Hypothesis testing results show that human resource competence does not affect the quality of financial statements, this is indicated by t-statistics below 1.64 (1.290) and p-values above 0.05, so hypothesis 1 is rejected. The test results show that the Belu regency environment HR competencies do not contribute to improving the quality of financial statements or in other words competent and incompetent HR have the same output.

Based on the results of observations made by researchers, found that the competence of employees in Belu regency related to the presentation of financial statements is still uneven and the majority of employees do not have accounting education backgrounds. The results of this study are in line with studies of Kamila, et.al (2014), Syarifudin (2014) and Mayang (2018), revealing that HR competencies do not affect the reliability and quality of financial statements.

Based on the results of the study, the implementation of a good control system in the Belu regency government will improve the quality of financial statements, this is indicated by the original sample value of 0.432 with a t-statistic value of 2.136 (> 1.64) and a p-value of 0.016 (< 0.05). The results of this study support previous research conducted by Yosefrinaldi (2013), Soimah (2014), Manullang (2016), Puspitawati (2016), Adrianto (2017), Triyanti & Mustikawati (2019) proving that the internal control system has a positive and significant effect on the quality of government financial statements. The better the application of the government's internal control system, the better the quality of the financial statements produced.

Based on the results of the test, organizational commitment is able to moderate the combination of HR competencies and internal control systems to the quality of financial statements. Hypothesis testing shows the original sample value of 0.333 with a t-statistic value of 1.894 (> 1.64) and p-value of 0.029 (< 0.05), so it can be concluded that, if in a work unit has competent employees who are supported by commitment High organization will produce quality financial reports. The results of this study support the results of studi Manullang (2016), Aditya (2017), Alminanda & Marfuah (2018) states that organizational commitment moderates the internal control system on the quality of financial statements of regional apparatus organizations. Organizational commitment can strengthen the influence of the internal control system on the quality of local government financial statements because an employee who is highly committed to the goals of his organization will influence his actions and performance, realizing adequate internal control in providing confidence about the reliability and quality of financial statements.

Hypothesis 4 test results show that organizational commitment is able to moderate the relationship of internal control systems to the quality of financial statements, this is indicated by the original sample value of 0.380 with a t-statistic value of 1.696 (> 1.64) and p-value of 0.045 (< 0.05), so it can be concluded that an organization will produce quality financial reports if it has a good internal control system that is supported by the organizational commitment of its employees.

CONCLUSION

This research investigates the factors that affect the quality of financial statements. The factors used are the quality of human resources, internal control systems and organizational commitment to the local government of Belu. This study used 90 research respondents spread across 40 regional government organizations, consisting of 21 board, 6 agencies, 2 secretariats, 1 regional hospital, inspectorate, and 9 sections. Results showed that the factors that influence the quality of financial statements are a good internal control system and HR competence will affect the quality of financial statements if employees already have high organizational commitment. Based on the results of the study, then when the Belu regency government wants to improve the quality of regional financial reports, it is necessary to improve the internal control system and increase employee commitment to the institution.

Limitation of this study is that the scope of this study was only carried out in Belu regency so that the results of this study could not be generalized with other local governments and this study used a questionnaire, so there might be weaknesses encountered such as inaccurate respondent answers and answering every statement not regardless of the perception of each respondent that is subjective.

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