

EFFECT OF HUMAN RESOURCES COMPETENCE, THE USE OF INFORMATION TECHNOLOGY, AND INTERNAL CONTROL SYSTEM OF THE QUALITY OF LOCAL GOVERNMENT FINANCIAL REPORTING

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ABSTRACT

The objective of this study is to determine the effect of the competence of human resources, use of information technology, and systems of internal control of the quality of local government financial reporting. The samples of this study were the Local Government Unit (LGU) City of Cirebon. Determination of these samples was using an incidental sampling method. The samples in this study were 55 respondents from 39 Regional Government Organization (RGO) City of Cirebon. The data used in this study are primary data, namely providing questionnaires to each of LGU. The hypothesis testing in this study was using multiple linear analysis programs Statistics Program and Service Solution (SPSS) version 25 and 5% significance level. The results of the partial research on the competence of human resources have a significant effect on the financial quality of local governments with a significance level of 0.039, the use of information technology has a significant effect on the quality of financial reporting of local governments with a significance level of 0.002, and the internal control system has no significant effect on the level of significance of financial reporting quality of local governments with a significance level of 0.157 which is greater than the 0.05 significance level.

Key words: Competence of Human Resources, Information Technology Utilization, Internal Control Systems, and Quality of Government Financial Reporting

INTRODUCTION

Statement of the Statement of Financial Accounting Standards (PSAK) 1 (Revised 2009) regarding how to present financial statements that are structured from the financial position and financial performance in a company. From the quoted definition, it can be seen that the financial statement becomes an information to assess how the company's financial statement condition is. Information such as the state of assets, liabilities, entity equity, revenues, expenses, gains and losses that occur outside the company.

In Law Number 32 of 2004 concerning how local governments make decisions that financial reports must be made individually by the central and provincial governments. In Law Number 17 Year 2003 there is a decision that the President, Governors, Regents and Mayors are required to make and present their own accountability reports in the model of Realization of State and Regional Budget Revenues and Expenditures, Cash Flow Reports, Balance Sheet, and Notes to Financial Statements.

In Government Accounting Standard Statement No. 1, the objective in financial statements is to show the financial position, budget realization, cash flow, and financial performance in a company's reporting to check out the company. PP No. 71 of 2010 states that Government Accounting Standards are accounting principles that must be established when preparing and presenting the financial statements of a Regional Government. With this SAP is very necessary and used for general provision for each local government. The quality of financial statements is an indicator to reduce the occurrence of corruption, and the Indonesian Accounting Association (IAI) states that the quality of the financial statements is still low. This condition is related to research conducted on the quality of local government financial reporting. To reduce these problems, the Supreme Audit Board (BPK) must improve the pattern of rigorous audits. Then the auditor is guided again to always monitor and carry out regular checks on the financial reporting. Thus, the quality of financial reporting can run well and also creates good results.

As in accordance with some of the results of research conducted by previous studies using similar independent variables:

No	Variable	Nama dan Tahun Penelitian	Result
1.	Human Resources Competence	MaryAnne M, et al (2003)	Not Significant (-)
		Hardyansyah & Ansyarif K (2016)	Significant (+)
		Freddie Lasmara & Sri Rahayu (2016)	Significant (+)
2.	The Use of Information Technology	Tatiana Mazza, et al (2014)	Significant (+)
		Lilis Setyowati, et al (2016)	Not Significant (-)
		Rasyidah Nadir & Hasyim (2017)	Significant (+)
3.	Internal Control System	Teuku Fahrion Nagor, et al (2015)	Significant (+)
		Giovanna Michelon, et al (2015)	Not Significant (-)
		Ahmad Faishol (2016)	Significant (+)

Research Formulation:

1. Does Human Resources Competence affect the Quality of Local Government Financial Reporting?
2. Does the use of information technology affect the quality of local government financial reporting?
3. Does the Internal Control System affect the Quality of Regional Government Financial Reporting?

Research purposes:

1. To empirically test the effect of Human Resources Competence on the Quality of Regional Government Financial Reporting.
2. To empirically test the effect of the Use of Information Technology on the Quality of Financial Reporting of Local Governments.
3. To empirically test the effect of the Internal Control System on the Quality of Local Government Financial Reporting.

LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

Local Government Theory

In Law Number 23 Year 2014 which explains about Regional Government it can be interpreted that the Regional Government is the regional head whose regional government organizers are the executing leaders of various regional government affairs namely the implementation of government affairs from the government stand on the broadest principle of autonomy. on the system and principles of the Unitary Republic of Indonesia (Republic of Indonesia) as intended in the 1945 Constitution.

Based on Law Number 32 of 2004 concerning regional governments that the regional government as the organizer dealing with the government of the regional government and the DPRD according to the principle of autonomy and also the task of assistance based on the principle of autonomy that has been made widely in a system and principles of the Unitary Republic of the Republic Indonesia as intended in the 1945 Constitution.

The regional government also understands government as well as among other things the government is a system to exercise authority and power in regulating social, economic and political life, one country or its parts. Understanding the government itself is a collection of people that jointly bear limited responsibility, to use power.

The government itself includes governors, regents, or mayors and various regional apparatus as elements of regional government administrators. Related in this case, this sector of regional governance has a role in the regional autonomy in the act of rights, authority, and the obligation of the regional governance in regulating and managing all the government affairs as well as the local matter based on the laws.

Local Government Financial Report Theory

The financial statements of the regional government are said to reflect the condition and performance of regional finances in a certain period. The presentation of the Regional Government Financial Report (LKPD) is one of the local government's attempts for taking in the transparency and accountability in the sector of financial management (*Ferriyanti, et al 2015*).

The Financial statement of Government Accounting Standards (SAP) explains that a tool that is used by government-specific entities for account used in financial performance to those who have an interest (public) (*Hardyansyah, 2016*). In the people region's perspective, the regional government financial reports prepared in accordance with SAP describe the government manages finance in carrying out development to improve community welfare. These standards were confirmed by issuing the Government Regulation Number 71 of 2010 concerning Government Accounting Standards.

According to *Faud (2016 p. 5)* In practice, financial reports by local governments are not made haphazardly, but must be made and arranged according to applicable rules or standards. This needs to be done so the financial statements are easy to read and understand. The financial statements presented by the company are very important for the government and related parties. In the case of financial reports, it is the duty of every local government to make and report its finances for a certain period. Reported matters are then analyzed so that conditions and current financial conditions or positions can be identified. Then, financial statements could also determine what steps are taken by local governments now and in the future, by looking at various existing problems, both their weaknesses and their strengths.

Theory Quality of Local Government Financial Reporting

Government Regulation No. 71 of 2010 explains Financial statements must be submitted qualitatively, and consider financial information that can be determined and clear. These four characteristics are the normative prerequisites needed for a government financial report to meet the desired quality: relevant, reliable, comparable, and understandable.

Human Resources Competency Theory

Human resources are human capital in the organization. Human capital is a person's knowledge, competence and capability could be used for producing professional services and economic rent. Innovation and ideas are the source of human capital. Employees with high human capital are more likely to provide consistent and high-quality services (*Arsyati, 2008*). Human resource competency is to be able to do the job and responsibility that has been given to them with their education, training and enough experience. The competent human resource could understand the accounting logic clearly. The failure of human resource in region governance is by the understanding and implementing the accounting logic could bring a fallacy of financial statement that has been made and incompatibility reports with the standard applied by the governance (*Warisno, 2008*).

Based on the Minister of Home Affairs Regulation No. 108 of 2017, Competency is an ability and characteristic which are owned by civil servants in the form of education, skills and attitude that is needed to perform their duties in the office, so the civil servants are able to do the duties in a professional way.

Theory of Utilization of Information Technology

Information technology is commonly called IT. Information technology can be interpreted as technology that is able to help people to create, store, change, and spread information. Nevertheless, there are some opinions of experts about the definition of information technology. (*Haag and Keen, 1996*) define information technology as a set of tools that help you to work with information and perform tasks related to information processing. According to *Rahardjo (2002, p. 74)* Information technology is the same as other technologies, only information is a commodity that is processed with that technology. In this case, technology has the connotation of having economic value that has a sale value. According to *Kadir (2006)* from several explanations, it shows that sometimes information, implicitly or explicitly, is not just in the form of computer technology, but also covers telecommunications technology. In other words, information technology is a combination of computer technology and telecommunications technology.

The criteria and elements forming information's quality that make the information of government's financial statement has a value or benefits, have been mentioned in Government Regulation Number 71 of 2010 concerning Government Accounting Standards section of the Conceptual Framework for Government Accounting, In Appendix I SAP (par. 33-37) consists from:) relevant means that information needs to be relevant if the information contained therein can influence users' agreement with helping them evaluate the past and present events, also helping them confirms or correcting the past and present evaluations in the past; i) reliably, means the information of financial statement is no misleading notion and misleading material, showing the fact genuinely, and could be verifiable; ii) can be compared, meaning that means that information that contained in the financial report much useful if compared with previous financial statement or the general entities of financial statement; v) can be understood, means that the information's granted is presented in financial statement that able to interpret by users and stated in customized form and terms with the limits of user understanding

Theory of Internal Control Systems

According to *Awe (2005)*, in *Ajala et al. (2013, p. 17)*, defines Internal Control is a policy, procedure, practice, and organizational structure that is applied to provide reasonable assurance that the organization's business goals are achieved and risky events can be prevented or detected and corrected based on compliance or initiative as a management concern. COSO released the latest version of the concept of internal control (internal control - integrated framework: the "2013" framework). Declaring that internal process is an action which is influenced by the board of directors, management and another company personnel, which is arranged to implement reasonable certainty in the accomplishment of objectives related to operations, reporting and consent.

Internal controls are carried out and started by those who are moved, so they can be moved effectively and efficiently, reliable financial report and compliance and regulations according to *Yadiati & Mubarok (2017, p. 107)*. In Indonesia, the provisions and practices of internal control develop in line with inspection standards issued and applied in Indonesia. In 1983 the Indonesian Accountant (IAI) first published an audit standard called the Accountant Audit Norms.

The Government's Internal Control System in Government Regulation Number 60 Year 2008 is in terms of Internal Control System is inherent throughout the activities, is influenced by human resources, and only provides adequate confidence, not absolute confidence. Based on these thoughts, an element of the International Control System was developed which serves as a guideline for the implementation and benchmarks for testing the effectiveness of the implementation of the International Control System. The development of elements of the International Control System needs to consider the aspects of cost and benefit, human resources, clarity of criteria for measuring effectiveness, and the development of information technology and are carried out comprehensively. The reason or background for the issuance of Government Regulation Number 60 Year 2008 concerning the Government's Internal Control System (SPIP) is as a guideline implementing the State Financial Reform Package towards Good Governance or Good Governance. The Government's Internal Control System is adopted from the concept of an external control issued by the COSO (The Committee of Sponsoring Organizations of the Treadway Commission) which sought to improve the performance and governance of the organization using Integrated Risk Management (Enterprise Risk Management), Internal Control and Prevention Fraud Deterrence. COSO has the basic principles of good risk management and external control are necessary for the long-term success of all organizations. The elements contained in SPIP refer to the SPI elements which already practiced in governmental environments in various countries which include the Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring of Internal Control.

Hypothesis:

H1: Human Resources Competence has a positive influence on the Quality of Local Government Financial Reporting.

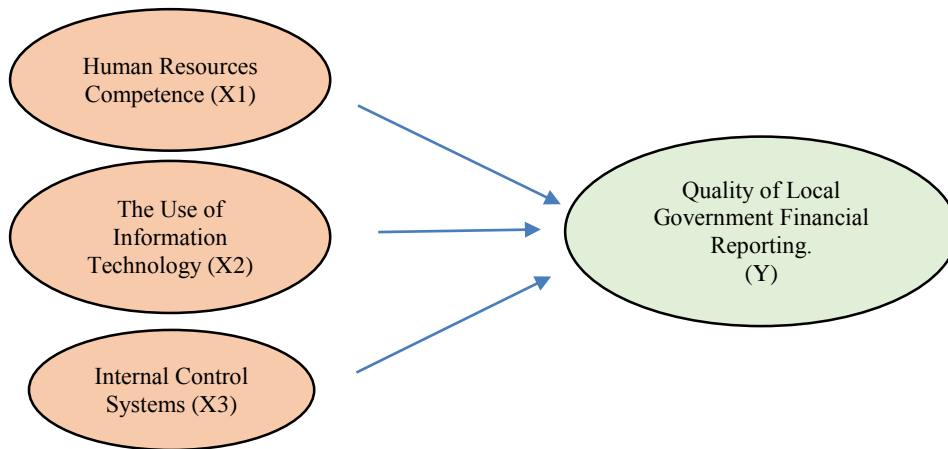
H2: The use of information technology has a positive effect on the Quality of Local Government Financial Reporting.

H3: Internal Control Systems have a positive effect on the Quality of Local Government Financial Reporting.

RESEARCH METHODS

Research design

The following is a series of studies on the Effects of Competence in Human Resources, Utilization of Information Technology, and Internal Control Systems on the Quality of Local Government Financial Reporting:



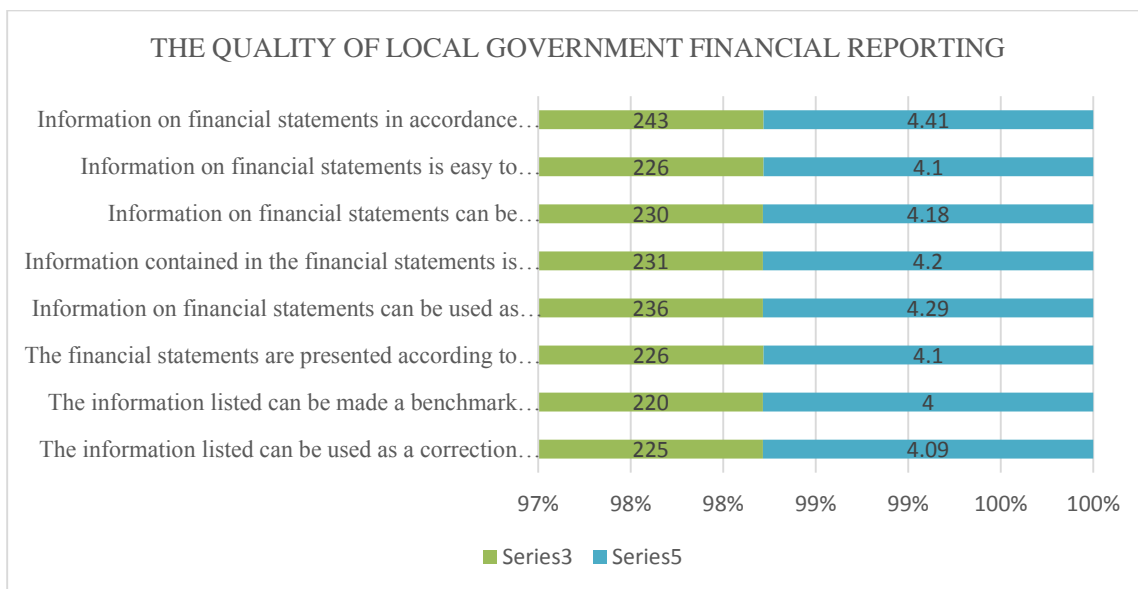
Population and Sample

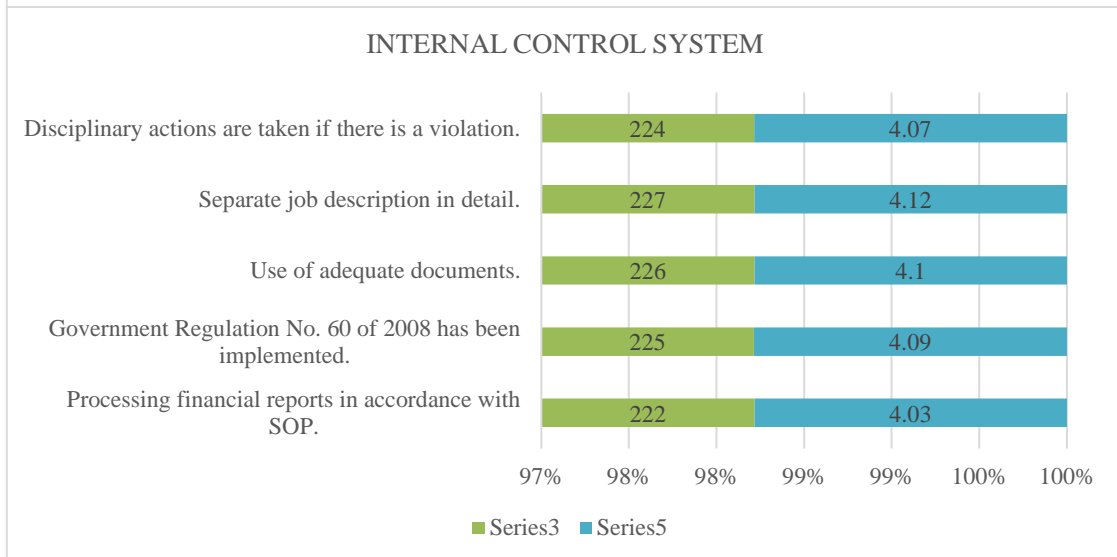
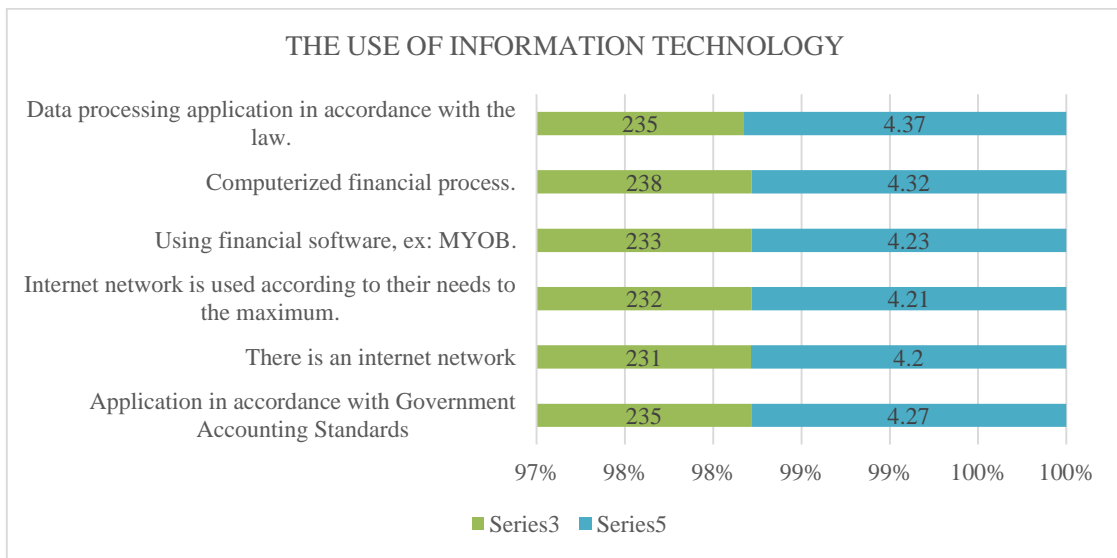
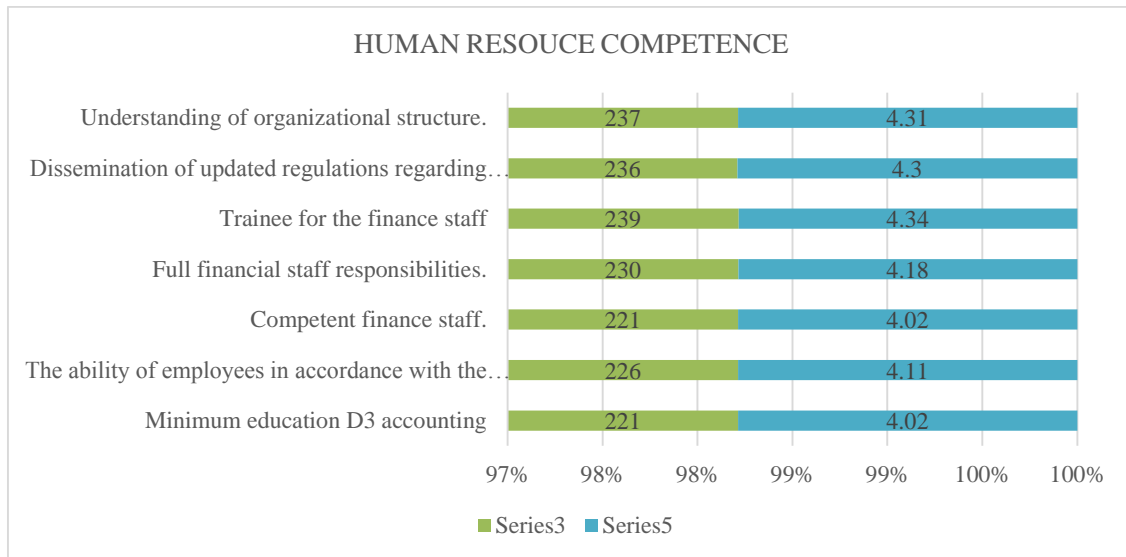
The population in this study was conducted in the city of Cirebon, in collaboration with the local Regional Apparatus Organization. Also using the Incidental Sampling method, which is by giving a random questionnaire, with any member of the Cirebon City Regional Organization who are competent and have work experience (at least) for one year.

Data Collection Technique

This study uses quantitative techniques, using primary data that is data obtained with a questionnaire given directly to respondents without other intermediaries, the questionnaire was submitted directly to the Regional Organization of Cirebon City. The questionnaire was made using a Likert scale.

The following statistical data regarding the quality of local government financial reporting based on a questionnaire provided:





Data Analysis Technique

Data Competency Test

Validity and reliability tests are carried out to ensure each instrument will reflect the specified construct (construct validity).

1. Test Validity
An initial step is done when starting research, to find out whether or not a data is valid. If valid, then the questions listed can be a benchmark for a questionnaire. (Ghozali, 2018, p. 51).
2. Reliability Test
This test is carried out to measure the questionnaire as an indicator of these variables. (Ghozali, 2018, p. 45).

Descriptive Statistical Analysis

Descriptive Statistics are statistical data that are used to analyze data collected without making general conclusions. (Sugiyono, 2012).

Classic assumption test

1. Normality Test
To measure whether the data collected is normally distributed. (Ghozali, 2018 p. 161).
2. Multicollinearity Test
To detect whether there is a correlation in the data collected, both the independent variable or the dependent variable. (Ghozali, 2018 pp. 107-108).
3. Heteroscedasticity Test
The heteroscedasticity test is performed to test the regression model if there are differences in variance from one observation to another. (Ghozali, 2018, pp. 137-142).
4. Autocorrelation Test
The autocorrelation test is performed to test the regression model for whether there is a correlation of disturbance errors in the t period with the t-1 period (the previous year). (Ghozali, 2018, p. 111).

Multiple Linear Regression Analysis

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

Information:

- Y = Quality of Local Government Financial Reporting (KLKPD)
- α = Constant
- β_1 = Regression Coefficient of Human Resources Ability
- β_2 = Regression Coefficient of Information Technology Utilization
- β_3 = Regression Coefficient of Internal Control System
- X1 = Human Resource Competence (KSDM)
- X2 = Utilization of Information Technology (PTI)
- X3 = Internal Control System (SPI)
- e = Error

Goodness of Fit Test

The accuracy of the regression function in determining the sample can be measured from Goodness of Fit. At least this data can be measured by the coefficient of determination, the calculation of data that is said to be significant is that if the statistical test is in a critical area (H_0 is rejected), and vice versa if the statistical test is in an uncritical or insignificant area then H_0 is accepted. (Ghozali, 2018, p. 97).

Determination Coefficient Test (Adjusted R^2)

This test measures the extent to which the ability of the model can accompany variations in the dependent variable. The small coefficient R^2 value means that the information capability of the independent variable is needed to predict the dependent variable. (Ghozali, 2018, p. 97).

Significance Test of Individual Parameters (t Test)

To find out the influence between variables, is it significant or not. (Ghozali, 2018, p. 179).

RESULTS AND DISCUSSION

In this research, the object of research was the Regional Government Work Unit (SKPD) in each of the Cirebon City Organization. The total number of DPOs in Cirebon is 70, this study only obtained 39 DPOs in the region. Samples obtained were 55 people as respondents.

Sampling was done randomly to SKPDs from 39 DPOs in the Cirebon area, because this data collection technique used incidental sampling which gave questionnaires to anyone SKPD who accidentally met. Questionnaires were given to respondents

by means of researchers giving directly to each SKPD concerned when conducting consultations on the making of Notes to Financial Statements (CALK) during the period of work practice in the city of Cirebon, as well as attaching a research paper from the University.

Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
1		
(Constant)		
Kompetensi SDM	0.546	1.832
Pemanfaatan Teknologi nformasi	0.568	1.759
Sistem Pengendalian nternal	0.555	1.801

a. Dependent Variable: Kualitas LKPD

The tolerance value from the test results above shows that the tolerance value > 0.10 , and VIF for the three independent variables shows the value of $VIF < 10$.

Model	t	Sig.
1		
(Constant)	1.796	.078
Kompetensi SDM	2.116	.039
Pemanfaatan Teknologi nformasi	3.344	.002
Sistem Pengendalian nternal	1.436	.157

Hypothesis measurement is said to be significant as $t_{count} > t_{table}$ and significance level < 0.05 , then:

Hypothesis 1 Human Resources Competence

This variable has a $t_{count} > t_{table}$ ($2,116 > 2,007$), significance level with a value of $0.039 < 0.05$, then this variable has a significant effect.

Hypothesis 2 Utilization of Information Technology

This variable has $t_{count} > t_{table}$ ($3.344 > 2.007$), significance level with a value of $0.002 < 0.005$, then this variable has a significant effect.

Hypothesis 3 Internal Control Systems

This variable has $t_{count} < t_{table}$ ($1.426 < 2.007$). The level of significance with a value of $0.157 > 0.05$, then this variable has no significant effect.

CONCLUSIONS AND RECOMMENDATIONS

Conclusion

This study aims to analyze how the significance of the independent variables under study against the dependent variable specified.

From the analysis and testing of goodness of fit, it can be concluded that:

1. The first hypothesis is stated to have a significant effect, employee performance will affect how the quality of financial statements is presented properly.
2. The second hypothesis is stated to have a significant effect, as well as utilized an information technology to support the performance of workers, the better the results of the financial statements presented.
3. The third hypothesis is stated not to have a significant effect. if the internal control is good, the better the effect will be on the quality of financial reporting presented.
4. Countries other than Indonesia can certainly learn through this research, because the quality of financial reporting in each region or country must be given its standardization, and it must be assessed to what extent the quality of the financial statements is to benchmark the development of a country.

Limitations and Suggestions

In this study, of course there are some limitations experienced by researchers when making observations or when processing data, it is hoped that further researchers can conduct better research. Research limitations include:

- a. Because the instrument used is a questionnaire, it must be explained in advance to the respondent related to the contents of the questionnaire provided. So, it is quite time consuming, and not all respondents easily understand in a short span of time.
- b. There is an independent variable that has no significant effect, which indicates that the independent variable does not become a supporting factor of the dependent variable determined in this study.
- c. Not all Cirebon Municipal Organizations can be given questionnaires prepared by researchers.

Based on research that has been done, researchers have some suggestions for future researchers if they want to raise a similar topic:

1. The researcher adds the independent variables to be examined such as the role of external audit, accountability, the quality of the regional apparatus, and regional financial supervision.
2. Future studies are expected to examine how implementation in the management of local government financial reports, so that they can contribute more in the budget field of a public sector organization.
3. It is expected that the head of the finance department will continue to supervise every SKPD in charge of preparing financial reporting, so that it can be detected immediately if there is an error in the financial reporting results of the local government.

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