The Quality of Financial Reporting through Increasing the Competence of Internal Accountants and Accrual Basis

Hari Setiyawati (1)
Diah Iskandar (2)
Yusuf S. Basar (3)

1,2 Universitas Mercu Buana, Indonesia
3 Email: yusuf.s.basar@gmail.com
Email: hari_setiyawati@mercubuana.ac.id
Email: diah.iskandar@mercubuana.ac.id

ABSTRACT

This research was conducted against the background of a phenomenon that occurred based on the audit results of the Audit Board of the Republic of Indonesia, namely the poor quality of financial reporting, especially in the local government, provinces and cities / districts. The survey was conducted in the provincial / district government in West Java and Banten as many as 37 regional governments. The results showed that internal accountant competencies had a positive effect on the quality of financial reporting, especially in local governments. Likewise with the application of accrual based government accounting standards is also influential, and the direction of its influence is also positive.

Keywords: Financial reporting, Internal accountants

JEL Classification: M41

DOI: 10.20448/802.51.31.39


Copyright: This work is licensed under a Creative Commons Attribution 3.0 License

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

History: Received: 17 September 2018/ Revised: 22 October 2018/ Accepted: 27 November 2018/ Published: 19 December 2018

Publisher: Online Science Publishing
1. INTRODUCTION

The poor quality of financial reporting is a phenomenon that occurs in Indonesia nationally, namely in local governments, ministries, institutions and also companies that are characterized by poor auditor opinion and delays in submitting financial reports to the IDX. The government has sought to overcome the phenomenon of the poor financial reporting mentioned above, namely the drafting of the Law on financial reporting (Ahmad, 2014). The bill does not only regulate Public Accountants but also compiles financial statements, especially for state-owned enterprises, companies and issuers (Bambang, 2012). According to national supervisory board of Indonesian Accountants member (Setiawan, 2013) the most important thing in the bill is the qualification of financial report presenters. The poor quality of the financial statements is marked by the results of the Audit Board of the Republic of Indonesia audit opinion as outlined in the Summary of Semester I Examination Results of 2016 on the few Local Government Financial Statements that obtain unqualified opinions. The development of the quality of financial reports and the accountability of Local Government Financial Statements has not met the expectation. This can be seen from the opinions on Local Government Financial Statements provided by the Audit Board of the Republic of Indonesia which still have a disclaimer opinion or do not give any opinions. In the 1st Semester IHPS of 2016 it was stated that one of the most difficult obstacles to obtain a unqualified opinion is primarily an asset problem of discrepancies between records with the physical presence of assets, and the value of assets that has not been revalued become a note in each audit conducted by the Audit Board of the Republic of Indonesia. This is due to the lack of competency of the accounting staff at the Regional Work Unit level so that recording assets is not conducted in accordance with Government Accounting Standards. The competency factor of accounting personnel is the determinant in producing quality financial reports. Human resource competencies are competencies related to knowledge, ability and personality characteristics that directly affect their performance (Mangkunegara, 2012).

The application of accrual-based Government Accounting Standards that was implemented in 2015 has not run optimally (Kumolo, 2015). The Minister of Home Affairs (Kumolo, 2015) said, there were several obstacles faced by the regions in implementing the new Accounting Standards. Constraints faced include the quantity of financial management human resources, competence, and commitment of regional heads in encouraging the optimization of the implementation of accrual-based financial statements in the regions. The problems formulated in this study are whether internal accountant competence has a positive effect on the quality of financial reporting, As well as the application of accrual based Government Accounting Standards. The research objective to be achieved through this research is to find out and obtain empirical evidence of research so that answers to the research problems regarding to the influence of Internal Accountant Competence and the application of Accrual Based Government Accounting Standards on the Quality of Financial Reporting.

2. LITERATURE REVIEW, THEORITICAL FRAMEWORK AND HYPOTHESES

According to Hitt et al. (1999) "Competence is a combination of knowledge, skills, attitudes and experience". Competence is the ability of individuals who are associated with superior performance in roles or jobs, which includes knowledge, intellectual skills, strategies or a combination of the three that can be applied to each work unit. In other words, competence is a characteristic of an individual as an effective cause or superior performance. Competence is a characteristic that underlies people and indicates how to behave or think, generalize in all situations, and survive for a long period. "Wibowo (2012) suggests that competence is" an ability to carry out a job based on skills and knowledge and is supported by the work attitude demanded by the job. "Internal accountant competence is a combination of knowledge, skills, attitudes and experience possessed by accountants who work in an organizational unit or internal company. The term internal accountants in the regency, city and provincial
government are called accounting implementers. If it is associated with the local government, internal accountant competence is the knowledge, skills and experience and attitudes possessed by the accounting executor.

Minister of Home Affairs Regulation No. 64 of 2013 Article 1 paragraph (10) explains that an accrual basis is an accounting basis that recognizes the effect of transactions and events when the transactions and events occur, regardless of when cash or cash equivalents are received or paid. Abdul and Muhammad (2012) conclude that the accrual basis is able to meet reporting objectives that cannot be met by the cash basis; the purpose of the reporting is managerial and supervisory objectives. Accrual basis results in accounting measurements based on substance and incidence, not when cash is received or paid, besides that it also increases relevance, neutrality, timelines, completeness, comparability (Kieso, 2018). Government Regulation Number 71 Year 2010 Article 1 paragraph (8) states that: Accrual-based government accounting standards are government accounting standards that recognize income, expenses, assets, debt, and equity in accrual-based financial reporting, as well as recognizing income, expenditure, and financing in the reporting of budget execution based on the basis set in the State Budget / Regional Income and Expenditure Budget. Accrual basis, according to Statement of Government Accounting Standards 01, is "The accounting base that recognizes the effect of transactions and other events when the transaction and event occur, regardless of when cash or cash equivalents are received or paid".

Kieso (2012) suggested that the quality of financial reporting refers to the quality of accounting information, namely the qualitative characteristics of accounting information. Information quality is classified into four classes: 1) variable quality: accuracy, objectivity, believability, and reputation. 2) Accessibility quality: access, and security, 3) contextual quality: relevance, added value, timeliness, completeness and amount of data, and 4) quality representation: interpretation, ease of understanding, concise representation, and consistent representation). Halls (2011) stated that: "the dimensions of information quality consist of: relevance, timeliness, accuracy, completeness, and summarizing." According to Hall, the dimensions in the quality of accounting information are relevant, timeliness, accuracy, completeness and summary. Moreover, Gelinaset, criteria for quality information according to Indra (2010) are: "Some important qualities of information contained in financial statements according to Government Accounting Standards are understandability, relevance, reliability and comparability." Research on the quality of financial reporting has been widely carried out, among others by Fardinal and Syafrida (2017) which links it to the quality of accounting information. The results of his research stated that the quality of financial reporting is influenced by the quality of accounting information.

Internal accountant competence influences financial reporting quality as expressed by Kharis (2010) which explains that internal accountant competence is the ability of accountants to carry out the duties and responsibilities given to them with sufficient knowledge, experience and skills. The competent accountant will be able to understand the accounting logic well. Failure of internal accountants, especially in the Regional Government in understanding and applying accounting logic will have an impact on the financial statements made and non-conformity of the report with the standards set by the government (Warisno, 2008). This certainly affects the quality of financial reporting.

Accrual-based government accounting standards are accounting standards that recognize income, expenses, assets, debt, and equity in accrual-based financial reporting, as well as recognizing income, expenditure, and financing in the reporting of budget execution based on the basis set in the State Budget / Regional Income and Expenditure Budget. If the preparation of the financial statements of the central and regional governments has followed government accounting principles, the quality of the financial statements will improve. The link between the internal accountant competencies, the application of accrual based government accounting standards, and the quality of financial reporting can be seen in the following figure:
Based on the framework of thought that has been stated earlier, the research hypotheses can be prepared as follows:

H1: The Internal Accountant Competencies Affect the Quality of Financial Reporting

H2: The Application of Accrual Based Government Accounting Standards Influenced on The Quality of Financial Reporting

3. RESEARCH METHODS

This research is exploratory study with a type of causal study investigation in which the researcher wants to find the cause of one or more problems (Sekaran and Roger, 2010). In this study, it will be tested the effect of internal accountant competencies and the application of accrual based government accounting standards on the quality of financial reporting.

This study entered the realm of explanatory research because this study intends to explain causal relationships between variables through testing hypotheses. Several things that will be discussed include: the object of research, research methods, population and sample, types and sources, data collection techniques, data testing and data analysis methods, as summarized in the fishbone diagram research flow chart, the following:
The target population as a whole unit of analysis in this study is all provincial / District / City Governments in West Java and Banten regions totaling 37 entities. The observation unit in this study is Regional Asset and Financial Management Agency. Regional Asset and Financial Management Agency are used as an observation unit because Regional Asset and Financial Management Agency are the lowest sub-organization in the provincial / district / city regional governments that prepare Regional Government Financial Reports. The analysis used in this study is as follows: 1) Descriptive Statistical Analysis; 2) Data quality test (Validity Test and Reliability Test); 3) Classic Assumption Test (Normality, Multicollinearity, Heteroscedasticity); 4) Determination Coefficient Analysis; 5) Hypothesis Test (Statistics F Test and T-Statistic Test); 6) Multiple Linear Regression Analysis

4. DISCUSSION

Internal accountant competencies are measured by four dimensions, namely (1) knowledge, (2) skills, (3) attitude and (4) experience in the local government is good enough. The results of testing hypotheses prove that internal accountant competencies have a positive effect on the quality of financial reporting. The results of this study are in line with Celviana and Rahmawati (2010) study which states that human resource competence has a positive effect on the reliability of local government financial reporting. In line with the research of Fariziah (2008) which states that the ability of human resources and team organization has a significant effect on the quality of financial information of the work unit. Xu et al. (2003) also examined the key factors of the quality of accounting information, the results of his research stated that human resources, systems, organizations and external factors are critical factors in determining the quality of accounting information. With the existence of good internal accountant competencies, especially in local governments, it can improve the quality of financial reporting. From the results of the previous audit by the Audit Board of the Republic of Indonesia examination, it was revealed that one of the most difficult obstacles to obtain unqualified opinions, is especially asset issues, incompatibility between records and the physical existence of assets, and the value of assets that has not been revalued became the notes in each audit conducted by the Audit Board of the Republic of Indonesia. This is due to the lack of competence of accounting staff at the Regional Asset and Financial Management Agency level so that recording assets is not in accordance with Government Accounting Standards.

The application of Accrual Based Government Accounting Standards, measured in three dimensions, namely (1) recognition, (2) recording, (3) measurement in the local government that has been implemented well. The results of hypothesis testing prove that the application of accrual basis government accounting standards has a positive effect on the quality of financial reporting. This means that if the Accrual Based Government Accounting Standards is implemented properly, the quality of financial reporting will increase, and vice versa. The high score of respondents' responses regarding to the adoption of accrual based government accounting standards (very good) was due to the issuance of Government Regulation Number 71 of 2010 concerning Government Accounting Standards which requires each reporting and accounting entity to carry out accounting records using an accrual basis. Based on the facts in the field it is known that the regional governments of West Java and Banten Provinces still have the Audit Board of the Republic of Indonesia audit opinions other than unqualified opinion. This is due to the lack of human resources mastering accrual-based accounting systems and there are still many accounting heads who are led by people who do not have an accounting background. Based on the summary of the results of the second semester examination 2016 the financial statements of local governments that have not obtained unqualified opinion are due to having weaknesses in the presentation of financial statements in accordance with government accounting standards. The results of this study are in line with Nugraheni and Subaweh (2008) research which states that the application of accrual-based accounting systems has a positive effect on the quality of financial reporting.
information. The same results were also found in Adhi and Suhardjo (2013) research in the study entitled the effect of application of government accounting standards and quality of regional government apparatus on the quality of financial reports (case study in Yogyakarta city government). The result is that the application of government accounting standards (SAP) affects the quality of financial statements. The phenomenon of the poor quality of local government financial reports in the provinces of West Java and Banten turned out to be, one of them, caused by a lack of human resources who master accrual-based accounting systems.

5. TABLES AND FIGURES

![Figure-3. Normality Test Chart]

Source: SPSS Statistics Output

![Figure-4. Probability Plot]

Source: SPSS Statistics Output
Table 1: One-Sample Kolmogorov-Smirnov Test

<table>
<thead>
<tr>
<th></th>
<th>CIA</th>
<th>GAS</th>
<th>QFR</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>34</td>
<td>34</td>
<td>34</td>
</tr>
<tr>
<td>Normal Parameters</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mean</td>
<td>.63.794</td>
<td>.43.529</td>
<td>.60.500</td>
</tr>
<tr>
<td>Std. Deviation</td>
<td>8.4487</td>
<td>4.4329</td>
<td>3.8553</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Absolute</td>
<td>.114</td>
<td>.370</td>
<td>.210</td>
</tr>
<tr>
<td>Positive</td>
<td>.084</td>
<td>.370</td>
<td>.122</td>
</tr>
<tr>
<td>Negative</td>
<td>-.114</td>
<td>-.366</td>
<td>-.210</td>
</tr>
<tr>
<td>Test Statistic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>.200&lt;sup&gt;c,d&lt;/sup&gt;</td>
<td>.000&lt;sup&gt;c&lt;/sup&gt;</td>
<td>.001&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
</tbody>
</table>

Source: SPSS Statistics Output

Table 2: Multicollinearities Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>Correlations</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
</tr>
<tr>
<td>1</td>
<td>CIA</td>
<td>.26813</td>
<td>.6.421</td>
<td>4.176</td>
</tr>
<tr>
<td></td>
<td>GAS</td>
<td>.216</td>
<td>.110</td>
<td>.248</td>
</tr>
</tbody>
</table>

Source: SPSS Statistics Output

Table 3: Coefficient Determination (R²) Test

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.725&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.526</td>
<td>.479</td>
<td>2.7841</td>
</tr>
</tbody>
</table>

Source: SPSS Statistics Output

Table 4: F Statistical Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>257.969</td>
<td>3</td>
<td>85.990</td>
<td>11.094</td>
<td>.000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>292.531</td>
<td>30</td>
<td>7.751</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>490.500</td>
<td>33</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SPSS Statistics Output

<sup>a</sup> Dependent Variable: KPK
<sup>b</sup> Predictors: (Constant), GAS, CIA
Table 5. T Statistical Test Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>t</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>26.813</td>
<td>6.421</td>
<td>4.176</td>
<td>4.176</td>
</tr>
<tr>
<td>CIA</td>
<td>.122</td>
<td>.067</td>
<td>.268</td>
<td>1.822</td>
</tr>
<tr>
<td>GAS</td>
<td>.216</td>
<td>.110</td>
<td>.248</td>
<td>1.966</td>
</tr>
</tbody>
</table>

Source: SPSS Statistics Output

6. CONCLUSIONS AND RECOMMENDATIONS

The conclusion of this study answers the formulation of the problem, namely the competence of internal accountants has a positive effect on the quality of financial reporting. The phenomenon of the low quality of financial reporting, especially in local governments, is answered by the lack of good internal accountant competencies. With the existence of good internal accountant competencies, especially in the local government environment, it can improve the quality of financial reporting.

Whereas the application of accrual based government accounting standards has a positive effect on the quality of financial reporting. The poor quality of local government financial reporting that occurs in general in Indonesia is partly due to a lack of human resources mastering accrual-based accounting systems.

The recommendations given related to this research are the government should strive to improve the competence of internal accountants through both ongoing training and advanced education for existing accountants and recruit new accountants who are truly competent. In accordance with the findings of the Audit Board of the Republic of Indonesia the majority of the causes of bad financial statements are caused by accounting personnel who are less competent so they cannot record in accordance with Government Accounting Standards, especially the recording of government assets. In relation to the Application of Accrual Based Government Accounting Standards, the government should tighten the supervision of its implementation. This is because the application of Accrual Based Government Accounting Standards is an obligation as stated in the Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning: Accrual Based Government Accounting Standards which must be applied by all government agencies.

7. ACKNOWLEDGMENTS

This research is a Grant Research from the Directorate General of Higher Education which is included in the Higher Education Primary Research scheme. Therefore, we would like to express our deepest gratitude to the Directorate of Research and Community Service at the Directorate General of Higher Education for funding this research. Thanks are also conveyed to the Mercu Buana University Research Center which has facilitated the implementation of this research. Likewise to the parties who have assisted in the implementation of this research which cannot be mentioned individually.

REFERENCES


Fardinal and Syafrida, 2017. The influence of control, information and communication activities on the quality of accounting information systems and their impacts on the quality of financial statements (Case Study at the Audit Board of Republic of Indonesia). Profita, 10(3): 426-437.


Setiawan, S.D., 2013. It Needs to be Encouraged to Discuss the Financial Reporting Bill of Online Accounting15 April 2013.

