Determinant Quality Of Regional And Financial Statements (Study On Local Government Regency Of Lombok Timur)

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Abstract
This paper aims to test and evince from some previous researches: the influence of the SAP Application, the Regional Financial Information System and the Reconciliation of the Quality of Regional Financial Statements. This is an explanatory research with purposive sampling method of interpretation. Data analyzed method. Analyzed with SmartPLS 3.0, the results of this test showed that the Application of SAP and Regional Financial Information System has a positive and significant impact on the Quality of Regional Financial Reports. While different results show that Reconciliation is not significant affect the quality of financial statements. The results of these trials will then be re-examined in subsequent research with larger samples and Determinants of the quality of wider regional financial statements and their implications for decision making.

Keywords: Implementation of SAP, Regional Financial Information System, Reconciliation and Quality of Regional Financial Report.

Introduction
An increasing demand for public accountability has implications for management to inform the public. One of the information needed by the public is information about financial management that can be seen from the financial statements. Financial information serves to provide a basis for consideration for decision making. The financial statements are not the sole source of information for decision-making, but financial reports as a source of financial information have a profound effect on the quality of the resulting decisions. The financial statements are pragmatic actions, therefore the government financial statements should be evaluated in terms of the benefit of the report on the quality of the resulting decisions and the ease with which the financial statements are understood by the user.

But in fact, there are still many problems in the financial statements of local governments one of which is the delay in the preparation of financial statements that begins with the government regulations that require local governments to prepare financial statements by way of consolidation is to incorporate the financial reports of the Regional Device Work Unit (SKPD). In addition to the late preparation of the financial statements, there are some obstacles in the preparation of local financial statements (Suwanda, 2014: 104), namely weakness of financial accountability, insufficient evidence of expenditure accountability, weakness of accountability of fixed asset management, weakness of goods and services procurement process, weakness of human resources ), regulatory weaknesses, institutional weaknesses, system weaknesses.

Assessment of the quality of financial statements from the opinion on the financial statements provided by the Supreme Audit Agency (BPK) which is one of the signs that the financial statements are considered qualified if the BPK provides unqualified opinion (WTP). Nevertheless, the opinion of the WTP can not be used as a reference that the financial statements of a region free from mistakes. The same thing was conveyed by member of BPK RI Harry Azhar Azis who stated that "although the opinion on the financial statements of all regions get predicate WTP, but there are still some weaknesses and deficiencies owned by the region in the internal control system and compliance with the laws and regulations" (Lombok Post, 03 June 2017)

The results of the BPK-RI audit of West Nusa Tenggara Representative 2017 on the Regional Government Finance Report (LKPD) for the fiscal year 2016 at the East Lombok District
Government for the first time received an Unqualified Opinion (WTP) opinion. Although it has received WTP opinion, still found some weaknesses and shortcomings in the presentation of financial statements at the Regional Government of East Lombok regency.

Literature Review and Hypothesis Formulation

Theoretical basis

Grand theory underlying this research is Signaling Theory. According to Sharpe (1997: 211) and Ivana (2005: 16), the announcement of accounting information can signal that the company has good prospects in the future so that investors are interested in trading stocks, thus the market will react as reflected through changes in trading volume stock. Thus the relationship between the publication of information whether the financial statements, financial or socio-political conditions to fluctuations in trading volume of shares can be seen in efficiency.

According to Connelly, et al. (2011), Signaling theory is useful for describing behavior when two parties (individuals or organizations) have access to different information. Usually, one party (as the sender/signaler) must choose whether to communicate and how to communicate to an information, while on the other (as receiver), must choose how to interpret the signal.

The purpose of preparing the government financial statements is to present useful information in decision making and demonstrate the accountability of the reporting entity to the resources entrusted to it. A quality financial report indicates that the Regional Head is responsible in accordance with the authority assigned to him in the execution of the responsibility of managing the organization. The essential quality of information contained in the financial statements is the ease with which the users can be understood immediately.

This research will test empirically Quality of Financial Statement by using Signalling theory if seen from variable of Regional Financial Information System and reconciliation. How far, these variables contain the information required in the preparation and presentation of financial statements useful in decision making.

In addition to Signalling theory, the grand theory underlying this research is the theory of regulation, in which the theory shows the regulation which is the result of public demand for the correction of market failure. In this theory, the central authority, including the regulatory regulatory body, is assumed to have the best interests of the community. It is the best thing used to manage so as to maximize social welfare.

With the implementation of PP number 71 of 2010, there is a change of accounting system in entity financial reporting. With the change of accounting system is expected to provide more relevant and reliable financial information.

Regulation theory in research is used to analyze the compliance level of East Lombok Regency Government in preparing and presenting financial report in accordance with PP number 71 Year 2010.

To clarify the effect of each of these variables, then presented the model as follows:

![Figure 1. Research Model](image)

Development of Hypotheses

Application of Government Accounting Standards

Government Accounting Standards in accordance with Government Regulation no. 71 of 2010 is a mandatory reference in the presentation of the entity's financial statements to provide useful information in decision making and as a form of responsibility for the reporting entity of the resources entrusted to it. In accordance with the theory of regulation, where the central government has the authority in regulating the wheels of government so as to maximize social welfare.

The results of previous research conducted by Azlim, Darwani and Bakar (2012), Udiyanti, Atmadja and Darmawan (2014), Nurani and Sumiyati (2014), Mahaputra and Putra (2014), stated that the application of government accounting standards has a positive effect on quality of financial statements.
Based on grand theory, literature review and the result of the research, hence can be formulated hypothesis that is:

**H1 :** The application of SAP has a positive effect on the Quality of Financial Statements

**Regional Financial Information System**

Government Regulation of the Republic of Indonesia Number 56 Year 2005 regarding Regional Financial Information System (SIKD) states that Regional Financial Information System is a system that documents, administers, and processes data of regional financial management and other related data into information presented to the community and as a collection material decisions in the planning, implementation, and reporting of local government accountability. The existence of regional financial information system provides an overview of how the condition of an organization so that will provide a signal to users of information both internal and external. This is in accordance with the theory of signaling, which in this theory emphasizes the importance of information issued by the company to interested parties.

The results of previous research conducted by Yuliani, Nadirsyah and Bakar (2010), Setyowati and Isthika (2014), Siahaan and Fachruzamman (2014), Mahaputra and Putra (2014), Harefa (2015) stated that simultaneously local financial information system positively and significant to the quality of financial statements. Based on literature review, grand theory and previous research, it can be formulated hypothesis that is:

**H2 :** Regional Financial Information System has a positive effect on Quality of Financial Report

**Reconciliation**

Regulation of the Director General of Treasury Number PER / PB / 2009 concerning Guidelines for Reconciliation and Preparation of the Financial Statements of the State General Treasurer, reconciliation is one of the key in the preparation of credible financial statements. This is due to its important role in order to minimize the occurrence of recording differences that impact on the validity and accuracy of the data presented in the financial statements.

Appropriate Signalling theory that emphasizes the importance of information issued by the company where in essence the information presented in the form of information, notes or images both for the past, current and future circumstances of a company. Complete, relevant, accurate and timely information is needed by interested parties in making decisions. This reconciliation is a form of local government control so that it can assist and facilitate the examination either by Inspectorate, BPKP, or BPK.

Several previous studies that examined the effects of reconciliation on the quality of financial statements include Pradono and Basukianto (2015) stated that reconciliation had a positive effect on the quality of financial statements. Based on the literature, grand theory and research conducted by Pradono and Basukianto (2015), it can be formulated hypothesis that is:

**H3 :** Reconciliation has a positive effect on the Quality of Financial Statements

**Research Methodology**

**Population and Sample**

This pilot test uses the object of research at the Government of East Lombok Regency because there are still many findings - BPK findings related to the implementation of SAP or less optimal in reconciliation. The sampling technique in this test with Probability Sampling method is a technique that gives equal opportunity or opportunity for every element / member of the population to be elected as a member (Creswell: 220) thus in this test pilot using 30 respondents with the criteria of Finance Manager consist of: Financial Sub-Head of Treasury, Treasurer, Reporting Staff, and Cargo Manager.

**Method of collecting data**

The data were collected by a questionnaire survey based on the development of past research closely related to the variables in this test. The questionnaire is a set of systematically and standardized questions so that the same question can be asked to each respondent. Questionnaire is an effective data collection tool because it can be obtained standard data that can be accounted for the purpose of a thorough analysis of the characteristics of the population studied (Suprianto, 2000). In this Pilot test the
questionnaire is submitted directly to the financial manager and the goods manager who becomes the sample of this research.

**Data analysis method**

Data obtained from the questionnaires were processed using SmartPLS 3.0 support. PLS analysis by using SmartPLS is chosen because it is considered capable of assisting authors to obtain the value of latent variables for prediction purposes. Chin and Newsted 1999 in Ghozali and Latan explain that the formal model in PLS is to explicitly define latent variables with linear aggregates from observed variables or their indicators. Weight estimates for creating latent variable score components are obtained based on how inner and outer models are specified. The result is the residual variance of the endogenous variable diminished.

**Results and Discussion**

Outer Model Test (Evaluation of Measurement Model) Evaluation of the measurement model or outer model used to assess the validity and reliability of the construct. In Ghozali & Latan mentioned that validity testing includes the validity of convergent and discriminant. The convergent validity is the extent to which the size is positively correlated with alternative steps of the same construct. To measure the convergence validity by looking at the Loading Factor for each constructor indicator. In Hair et al. (2013) states that the value of the loading factor should be more than 0.7 because the latent variable can at least explain the variance of each indicator by 50%. The amount of Loading Factor in this test is shown in Figure 2 below:

![Figure 2. Loading factor](image_url)

In Hair et al mention loading between 0.40-0.70 should still be considered to be maintained. Thus, all indicators as shown in Figure 2 of the SAP Application, SIKD, Reconciliation and Quality of Financial Statement variables have met Convergent Validity as all Factor Loading is above 0.40. Furthermore, the discriminant validity test can be seen on crossloading by comparing the correlation of the indicator construct with the correlation of other indicators.

As shown in table 1 below:

**Table 1 : Crossloading**

| Source: Output PLS (versi student);2017 |

From this table shows that the correlation of the quality of the Regional Financial Report with the indicator has a higher value than the correlation of indicators of quality indicators of financial statements with other constructs. Likewise with other constructs. This indicates that reflexive indicators have met the discriminant validity.

While reliability testing aims to prove the accuracy, consistency and accuracy of the instrument in measuring the construct. To measure realibility can be done with Composite Realibility with value must be greater than 0.7 for confirmatory research. Results Realibility can be seen in table 2 as follows:

**Table 2 : Test Results Validity and Reliability**

| Source: Output PLS (versi student);2017 |

From this table it can be explained that the construction quality variable of local financial statements, regional financial information systems...
and reconciliation has met the value of reliability greater than 0.70 for each variable. (Ghozali & Latan: 77) whereas the construct variable of SAP implementation does not meet the value of reliability because less than 0.70. This is probably because there are other constructs that have not been tested.

**Inner Model Test (Evaluation of Structural Model)**

Structural model testing with PLS is seen from the R-Square value for each endogenous latent variable as the predictive power of the structural model. R-Square value in this research can be seen from table 3 below:

![Table 3: R-Square value (R²)](image)

**Hypothesis testing**

The results of hypothesis testing can be seen in table 4 below where this result obtained from bootstrapping testing with the help of SmartPLS 3.0 software to see the support of the hypothesis.

![Table 4: Path Coefficients](image)

The results of testing the first hypothesis shows that the application of SAP has a positive effect on the quality of local financial statements. This can be seen from table 4 where the value of T Statistic PSAP 2.585 which is greater than the value of T Table of 1.706 so it can be concluded the hypothesis accepted. Value P Value 0.005 is smaller than from alpha 5% which means significant. The result of the second hypothesis testing shows that the local financial information system has a positive effect on the quality of local financial statements. where the value of T Statistic financial information system area 3.905 where more than the value of T Table of 1.706 so it can be concluded the second hypothesis accepted. Value P Value 0.000 is smaller than from alpha 5% which means significant. The result of the third hypothesis testing shows that reconciliation does not affect the quality of regional financial report, where the value of T Statistic reconciliation 1.135 where less than T value equal to 1.706 so it can be concluded the third hypothesis is rejected.

**Discussion**

**The Effect of SAP Application on the quality of local financial statements.**

Based on the test results can provide empirical evidence that the application of SAP has a positive and significant impact on the quality of local financial statements. This is in line with the research of Azlim, Darwanis and Bakar (2012), Udiyanti, Atmadja and Darmawan (2014), Nurani and Sumiyati (2014), Mahaputra and Putra (2014), which states that the application of government accounting standards positively affect the quality of reports finance. The results of statistical analysis prove that the application of SAP has a positive and significant impact on the quality of local financial statements, it is intended that in preparing the financial statements should be referring to the applicable SAP is SAP in accordance PP no. 71 of 2010.

**Influence of Regional Financial Information System to Quality of Local Financial Report**

The results of analysis on the Regional financial information system has a positive effect on the quality of local financial statements. This is in line with the results of research conducted by Yuliani, Nadirsyah and Bakar (2010), Setyowati and Isthika (2014), Siahaan and Fachruzaman (2014), Mahaputra and Putra (2014), Harefa (2015) stated that simultaneously financial information system regions have a positive and significant impact on the quality of financial statements.

In preparing financial statements required a computerized and integrated system so that the
compiled report can be relevant and realibel useful for users of information both internal and external.

The Effect of Reconsolidation on Quality of Regional Financial Report

The results of statistical tests do not prove that reconciliation has a positive effect on the quality of local financial statements. This is not in line with Pradono and Basukianto’s research (2015) states that reconciliation has a positive effect on the quality of financial statements. Thus the third hypothesis is rejected.

Conclusion

Based on the results of data analysis, in this test shows that the application of SAP has a positive and significant impact on the quality of financial statements. This means that in preparing the financial statements required a regulation of guidelines for the preparation of financial statements. Regional financial information systems have a positive and significant impact on the quality of local financial statements. This means that in preparing financial statements required a computerized and integrated system so that the compiled report can be relevant and realibel. Reconciliation of the results of the analysis has no positive but insignificant effect on the quality of local financial statements. This means that the reconciliation has not been maximally expected because: 1). Human resources are still limited; 2). SIMDA BMD is still new in East Lombok District Government. The results of this test is expected to be a reference for the authors in the thesis research with the addition of larger variables and samples as well as higher level of data analysis (in Ghozali & Latan) in order to obtain better results. Nevertheless, the implications of this test can be an input for the local government of East Lombok Regency and the Indonesian government in general in order to improve the quality of financial statements of SAP implementation factor, regional financial information system and more optimize reconciliation so as to provide accurate information and complete.

Limitations of this test will provide direction for advanced researchers in thesis research, to be able to test the implications of the quality of local financial statements on decision making.

Referensi:


