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# QUALITY OF INDONESIA GOVERNMENT FINANCIAL STATEMENTS

**Sri Dewi Anggadini**

Department of Accounting, Universitas Komputer Indonesia, Indonesia

**Afif Syarifudin Yahya**

Department of Local Government Administration, Institut Pemerintahan Dalam Negeri, Indonesia

**Asep Saepudin**

Department of Management, Universitas Langlang Buana, Indonesia

**Surtikanti, Surtikanti**

Department of Accounting, Universitas Komputer Indonesia, Indonesia

**Sari Damayanti**

Department of Sharia Business Management, Institute Agama Islam Shalahuddin Al-Ayyub, Indonesia

**Eley Suzana Kasim**

Accounting Research Institute and Faculty of Accountancy UiTM, Malaysia

## ABSTRACT

This research aimed to determine the financial accounting system's effect and human resources' value regarding the quality of government financial reports. The method used is descriptive and verification of several methods. The unit of analysis is the local government apparatus, and then the observation unit of the regional government agencies. The data processing method uses SEM, and the data used is the primary data. The results indicate an effect of the applicable financial accounting system and the quality of human resources on the value of government financial reports. The result shows that an optimal financial accounting system and competent human resources can influence quality financial reports. This research is expected to be valid for local governments in making decisions to realize effective and efficient financial reporting management.

**Keywords:** regional financial accounting system; quality of local government financial statements; quality of human resources

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## INTRODUCTION

Financial reporting is the most important part of the financial reporting process (Surtikanti, 2020). The financial statements in full consist of a balance sheet, income statement, statement of changes in financial position that can be presented in a variety of cash flow statements, memos and other statements. Financial statements (Indonesian Institute of Accountants, 2015), Quality of financial statements has many advantages and information that users and readers can easily understand. Also, it can be assumed to have sufficient knowledge of economic, business, and accounting activities. It can be learning the information carefully. In financial statements, Useful information must be relevant to meet users' needs in the decision-making process (Anggadini, 2015). Problems that still often occur are errors in recording the financial statements and inaccuracies made by human data sources. Following Government Accounting Standards Regulation No. 71 2010, financial statements must be reliable if information in the financial statements presents every fact honestly, honestly, and verifiably. According to public accounting standards based on accrual accounting, the purpose of financial statements is to provide information in the event of a change in the financial position of the reporting entity, whether the position increases or decreases, and also about the sustainability of the activities.

According to Anggadini (2017), Quality is the dynamic state of things, including products, services, human resources, processes and environments, meeting or exceeding expectations. On the other hand, human resources constitute a fundamental and overarching force in the activities of individual thinking and physical strength. Behaviour and nature are determined by heredity and environment. The quality of human resources, namely human resources who have good quality, understand of accounting and finance and have an education with an appropriate background in their responsibilities, namely accounting, and finance, will affect good financial management (Ganapati & Reddick, 2018). In addition, an accounting system is also needed preparation of financial statements, because a local financial accounting system is required where local financial reports are prepared (Odunayo &

Festus, 2020). Quality of financial statement is an activity based on the qualitative characteristics of financial information with full and fair disclosure, which aims to protect owners and meet the needs of users of financial statements. (Linsmeier, 2011).

This research is consistent with research by Muthaheer (2019), Zeyn (2018), and Boban & ušak (2015). Completing the application of the Regional Financial Accounting System have positively and significantly impact on the quality of local government accounting. Good government accounting standards will make financial management accountable (Kurniati & Suryanto, 2022). So that can be improved the quality of financial statements. The results of the research by Dasi et al. (2018), said that local governments must have a reliable accounting system in order to facilitate and put in order a report, relevant, understandable, and trustworthy financial statements. system can make the resulting financial statements less reliable and less relevant when used as material for decision-making. Data processing requires a tool or system to make more accurate financial statements. Local government financial statements are of quality if they follow the provisions of Government Accounting Standards, as stated by Zergaw's research (2018).

Furthermore, Vithana et al. (2021) concluded quality of human resources has affected with positively and significantly influence on the quality of financial reporting of local governments. Higher the quality of human resources, the better the quality of local government financial reporting which is explaining about the existence of quality human resources in preparing financial statements can save time in making financial statements because these human resources already know and understand what will be done correctly so that financial statements can be shown on time. This is reinforced by research by Ganapati & Reddick (2018), which states quality of human resources will certainly affected by the preparation process and expected results of the financial statements. Each individual has different abilities, so the level of competence of each individual in their field will affect their performance and contribution in preparing financial statements. Errors or mistakes can occur if the human resources responsible for the



field are incompetent and can not perform their duties according to their functions. They were explained by Faradisa & Khafid (2017) in their research, The quality of human resources reflects the quality of the financial statements prepared. The higher the quality of human resources relevanced with higher quality of the prepared financial statements. With talented human resources, the preparation of financial statements is carried out effectively and efficiently. So that the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements, errors or mistakes can occur if the human resources responsible for the field are incompetent so that they are unable to carry out their duties according to their functions. In their study, Faradisa & Khafid (2017) It is explained that the quality of human resources is reflected in the success of the quality of the financial statements compiled. In other words, the better the quality of human resources, the better the quality of the financial statements produced. With talented human resources, the preparation of financial statements is carried out effectively and efficiently. So that the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements, errors or mistakes can occur if the human resources responsible for the field are incompetent so that they are unable to carry out their duties according to their functions. Competent human resources ensure that the preparation of financial statements is carried out efficiently and effectively.

Therefore, this research was conducted because it has differences from previous studies that are used as novelties in this study, namely the indicators studied from the regional financial accounting system variables, namely conformity with government accounting standards, accounting recording procedures based on generally accepted recording standards and making periodic financial statements. These indicators are used to measure the impact of the use of regional financial accounting systems and quality of human resources on the quality of local government financial statements by using multiple regression analysis methods through descriptive, and verification analysis approaches. The study used multiple regression analysis to

measure the magnitude of the impact of independent variables on independent variables, furthermore, in providing an overview and testing the acceptance or rejection of hypotheses, using descriptive and verification analysis approaches.

## LITERATURE REVIEW

### Regional Financial Accounting System

According to the Regulation of the Minister of Home Affairs Number 64 of 2013, which stipulates that the local government accounting system can be defined as a set of procedures that begin with the process of collecting data, recording, summarizing financial statements so that they can later be accounted for in the implementation of the Regional Revenue and Expenditure Budget, which can be done manually or using a computer application. According to Abushamsieh et al. (2013), Local financial accounting means the process by which local government agencies identify, measure, record and report financial transactions in relation to economic decision-making required by external parties (Suryana & Surtikanti, 2020). Regional financial accounting plays a role in making economic decisions required by external parties. Still, according to Abushamsieh et al. (2013), indicators for applying regional financial accounting systems include recording, summarizing, and reporting. The recording is carried out using a double-entry recording system, using a cash basis during the fiscal year and making adjustments at the end of year based on an accrual basis for recognizing government liabilities, equity, and assets. Summarizing is the activity of journalize then post to general ledger according estimated number. While reporting is the final part, after all processes are completed, a financial statement will be obtained (Surtikanti et al., 2021). Financial statements are provided in Budget Realization Reports, Balance Sheets, Cash Flow Reports, and Financial Statements.

### Quality of Human Resources

Blaga & Jozsef (2014), The quality of human resources is the level of competence and progress that can be shown in each batch / generation needed over time by the company. In line with Boxall (2013), The quality of human

resources is viewed based on a person's abilities, skills, experience, and knowledge that can be used to generate a person's professional level. Human resources can be of high quality when carrying out authority and responsibility. Still, according to Boxall (2013), A measure of the quality of human resources considered in terms of physical ability (health) is the ability to perform tasks that require endurance, skill, strength, similar characteristics, and intellectual ability (intelligence) is the ability to perform various behaviours. Ability. It is about how to think, reason, and solve a problem. In a society or an organization, people tend to place high scores on intelligence for good reasons and are usually used as leaders.

### Quality of Local Government Financial Statements

According to De Vlaminck & Sarens (2015), Financial statements describe a business's financial condition and results at a particular point in time or period. The best-known types of financial statements are the balance sheet, income or income statement, statement of cash flows, and changes in financial position. Understanding financial statements according to Financial Accounting Standards (2017), The financial statements can clearly present the position of the financial structure and the financial results of the enterprise. Every entity, the Regional Government financial statement provides an overview of the entity's prepared financial condition and performance (Ihor, 2018). Reporting is a form of accountability for public funds financial operations, changes in conditions, position. For financial actors, it is very useful in making economic strategy decisions (Anggadini, 2015; Elvisa & Sanel, 2021). According to Government Regulation No. 71 of 2010, the indicators used to measure the quality of information on local government financial statements are presented as relevant, reliable, understandable, comparable, and following the lines for the preparation of Regional Government Financial Statements (Anggadini, 2017; Thuong et al., 2018). The quality of regional financial reporting is inseparable from the regional financial accounting system in place and the human resources of the regional government. So that hypotheses can be proposed, namely:

- H1: Implementation of the Regional Financial Accounting System affecting the quality of Local Government Financial Statements
- H2: Quality of Human Resources affecting the quality of report Local Government Financial Statements.

### METHODOLOGY

The approach used is the quantitative method. The data obtained from research can understand, solve and predict a problem. The methods used in this study are descriptive and verifiable. To knowing there is a meaningful relationship between the research variables, the conclusion will clarify the picture of the research object (Sekaran & Bougie, 2020). Intended to test the hypothesis by using statistical calculations. This study examined the effect of the variables X1, X2, and Y, on what will be studied. Verification means testing the theory by testing whether it can be accepted or rejected. Statistical test tools to test the hypothesis using the Verification method. This study uses primary data because the researcher collects the needed data and comes directly from the first object studied (Kothari, 2004). The data will be collected during the research—the data results from questionnaires and observations will be processed to become information for researchers. The scale used by the author in this study uses an ordinal scale. It has the aim that research can provide information in the form of values in answers. These variables are measured by ordinal scales that meet the rating scale type statements.

The population for this study is 53 full-time employees from departments that deal directly with financial statements in Indonesia's Financial and Asset Management Agency, such as the Bandung region, for example. This study uses the probability sampling technique with the type of purposive sampling method, a sampling method with special considerations that can serve as a sample. The formula used in sampling is Slovin with an error rate of 5%, following the Slovin formula:

$$n = \frac{N}{1+N(e)^2} \quad (1)$$

The total population for this study was 53 full-time employees, so the swing percentage used was 5%, and the results of the calculations may be rounded to achieve compliance. So, to know the study sample, with the following calculations:

$$n = \frac{53}{1+53(0,05)^2} = 46.79; \tag{2}$$

adjusted to 47 samples

Based on calculations, the sample of respondents became 47 samples, and used is the descriptive and verification analysis methods. Descriptive analysis is the analysis used to

analyze data by describing or describing the collected data as it is without drawing conclusions that apply to the subject or generalize (Sekaran & Bougie, 2020). In comparison, verification analysis is used to test hypotheses using statistical calculations. A verificative analysis is a research method to determine the relationship two or more variables (Sekaran & Bougie, 2020). The verification method tests the hypothesis using a statistical test tool, the Structural Equation Model (SEM) based on variance. Considerations because of its ability to regulate the construct through indicators and analyze indicator OF variables, latent variables, and measure other else. Ultimately the relationship between variables in Figure 1, below:

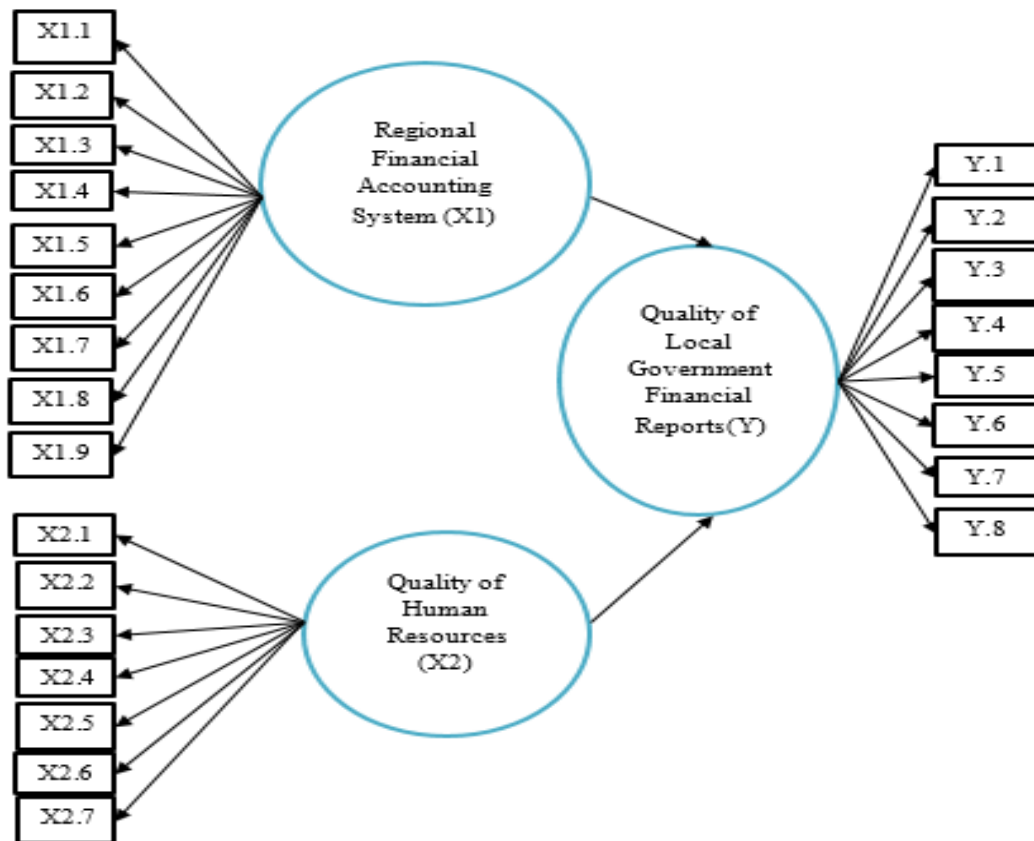


Figure 1: Overall Research Variable Analysis Structure

Source: Constructed by authors

**RESULTS AND DISCUSSION**

The research measuring instrument is a series of quantitative analyses relevant to the research objectives. The data analysis method that the

author uses is the Structural Equation Model (SEM) method with a variant-based structural equation test model or Partial Least Square (PLS) using the Smart-PLS v3.3.3 software application.

In Structural Equation Modeling, two models have formed: the measurement model or evaluation of measurement model or outer model, also structural model or evaluation of structural model or inner model. In this study, there are three latent variables with 24 manifest variables. Among them, there are nine manifest

variables in the latent variables of the implementation of the Regional Financial Accounting System (X1), seven manifest variables on the latent variable quality of Human Resources (X2), and eight manifest variables on the latent variable of the quality of Local Government Financial Statements (Y).

Table 1: R-Square. Test Results

Endogenous Variables	R-Square. Value
Quality of Local Government Financial Statements (Y)	0.417

Source: PLS-SEM Calculation Results, 2021

Then the model of the manifest variable and latent variable, loading factor analysis, and R<sup>2</sup>

value is illustrated in Figure 2 in the form of a path diagram as follows:

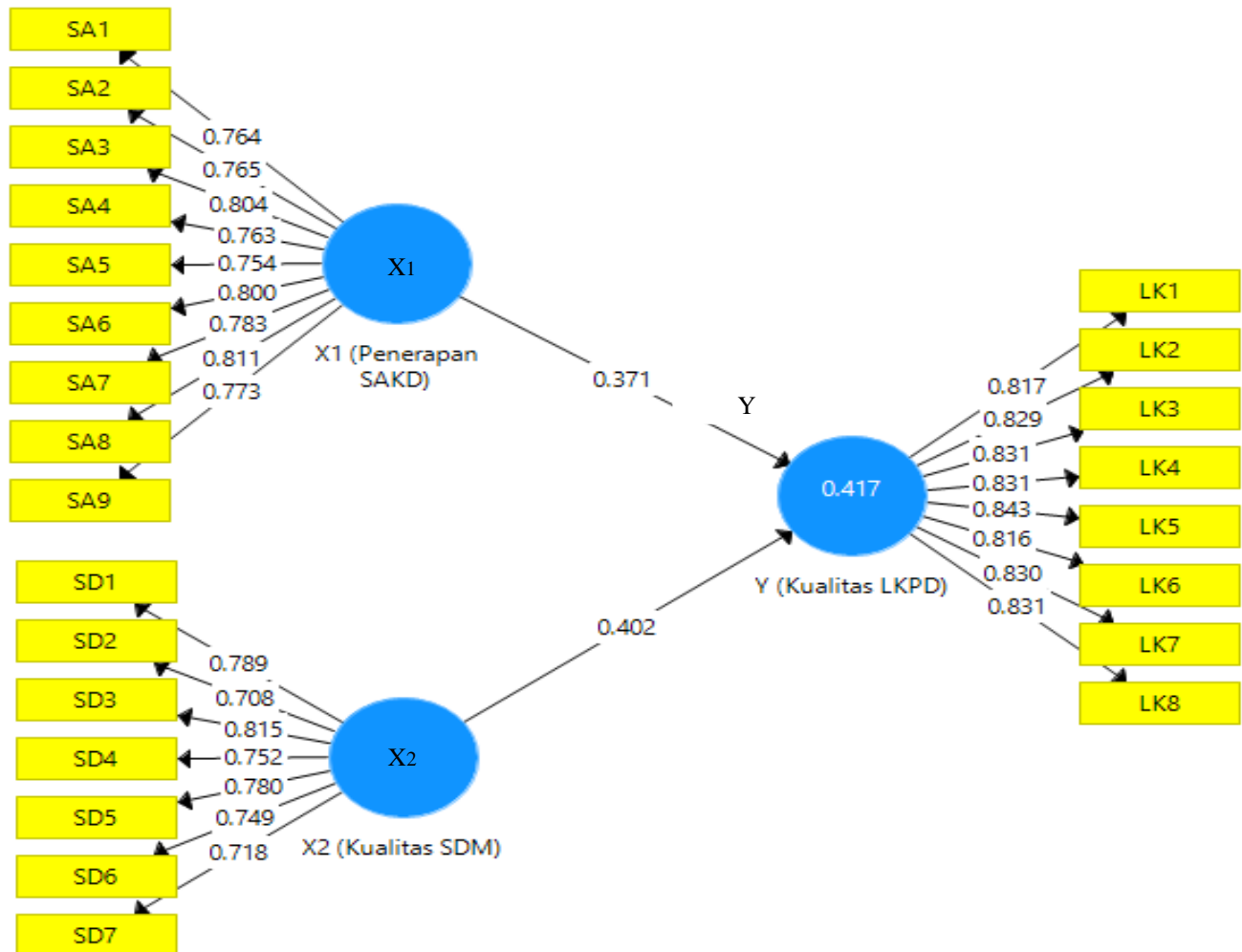


Figure 2: Manifest Variable Correlation Path Diagram and Latent Variable

Source: Author work's

The measurement method evaluates the structural model, commonly called the inner model test, which includes r-square ( $R^2$ ), path coefficient, and t-statistical test measurements. The value of  $R^2$  or the coefficient of determination explains how much the hypothesized exogenous variable in the equation can explain the endogenous variable. The magnitude of  $R^2$  is never negative and is equal to one ( $0 \leq R^2 \leq 1$ ). More details are in Table 1 and Figure 2, as shown above.

Based on the R square calculation results, it is known that the value is 0.417 or 41%, which means this is included in the moderate or

moderate category because it is at  $0.16 < R^2 < 0.49$ . This means that the effect of the application of the Regional Financial Accounting System (X1) and the quality of Human Resources (X2) together have an effect of 41.7% on the quality of Local Government Financial Statements (Y). In comparison, the remaining 58.3% is the influence given by other factors not examined by the author.

The contribution can determine the influence of each exogenous latent variable on the endogenous latent variable, and it can be described as follows:

**Table 2:** Effect of Exogenous Latent Variables on Endogenous Latent Variables

	Structural Path Coefficient	R-Square. Value	Effect with Exogenous Latent Variables		Sig. (%)
			X1	X2	
Application of Regional Financial Accounting System (X1): Quality of Local Government Financial Statements (Y)	0.371	$(0.371)^2 \times 100 = 13.7\%$		5.95%	19.65%
Quality of Human Resources (X2): Quality of Local Government Financial Statements (Y)	0.402	$(0.402)^2 \times 100 = 16.1\%$	5.95%		22.05%
<b>Total</b>					<b>41.7%</b>

Source: Primary data that has been processed by the author, 2021

The values presented in Table 2 can be explained as follows:

- 1) Application of the Regional Financial Accounting System (X1) gives partial affecting by 19.65% on the quality of Local Government Financial Statements (Y) with details of 13.7% direct influence and 5.95% indirect influence through the quality of Human Resources.
- 2) Quality of Human Resources (X2) has a partial effect of 22.05% on the quality of Local Government Financial Statements (Y), with details of 16.1% direct influence and 5.95%

indirect influence through the application of the Regional Financial Accounting System.

#### Path Coefficient Test

The path coefficient is a standard regression coefficient (standard Z) which shows the effect of exogenous variables on endogenous ones that have been arranged in the path diagram. Here are the results of the calculation of the path coefficient through the PLS Algorithm in Table 3:

**Table 3:** Path Coefficient Test Results

	Quality of Local Government Financial Statements (Y)
Regional Financial Accounting System (X1)	0.371
Quality of Human Resources (X2)	0.402

Source: PLS-SEM Calculation Results, 2021

Based on the results of the path coefficient test in Table 3, the variable applying the regional financial accounting system to the quality variable of the financial statements of the regional governments has a value of 0.371. It shows that the relationship between the two variables has a positive effect of 37%. While the variable quality of Human Resources on the variable Quality of Local Government Financial Statements has a value of 0.402, it shows that the relationship between the two variables has a

positive effect of 40%. Furthermore, the other 23% were influenced by external factors or other variables, which were not discussed in this study.

#### T-Statistic Test

Find a partial hypothesis and be able to hypothesize the relationship between the variables of regional financial accounting system adoption and regional government financial reporting quality, as shown in Table 4 :

**Table 4:** Statistical T-Test Results

	Path Coefficient	P Values	T table	T statistics	Decision	Conclusion
Regional Financial Accounting System (X1) Quality of Local Government Financial Statements (Y)	0.371	0.000	2,030	3,561	H0 Rejected	Significant
Quality of Human Resources (X2) Quality of Local Government Financial Statements (Y)	0.402	0.001	2,030	3,480	H0 Rejected	Significant

Source: PLS-SEM Calculation Results, 2021

Based on Table 4, to test the hypothesis about the effect in implementing of regional financial accounting system on the financial reporting quality of local government obtained a significant value of  $0.000 < 5\%$  or  $0.000 < 0.05$ ; then  $H_0$  is rejected to test the hypothesis about the effect of Regional Financial Accounting System implementation on the quality of Local Government Financial Reporting obtained a significant value. To test the hypothesis of the influence of the quality of Human Resources on the quality of Local Government Financial Statements, a significant value of  $0.001 < 5\%$  or  $0.001 < 0.05$  was obtained; then  $H_0$  was rejected, meaning is a significant influence between quality Human Resources on the quality of Local Government Financial Statements.

#### DISCUSSION

According to Mabil's (2019) research, this research supports previous research, which mentions that the Regional Financial Accounting System also has a positively affected on the

quality of financial reporting of regional governments. According to Bruno & Lapsley (2018), a partial study shows that the Regional Financial Accounting System positively and significantly affected the quality of Regional Government Financial Statements. The results indicate that the Regional Financial Accounting System can improve the quality of Regional Government Financial Statements, according to Caruana & Farrugia's (2018) research. The regional Financial Accounting System partially affects the quality of the Regional Government Financial Statements.

Based on previous research, Thuong (2018) states that the higher the quality of Human Resources will partially improve the quality of Local Government Financial Statements. These results can be explained that the existence of quality human resources in preparing Financial Statements can save time in making Financial Statements because these human resources already know and understand what will be done correctly so that the presentation of financial statements can be on time. Odunayo & Festus

(2020) and Blaga & Jozsef (2014) support this opinion by stating in their research that each individual has different abilities, so the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements (Sri Dewi Anggadini et al., 2022).

### CONCLUSION AND RECOMMENDATION

The application of the Regional Financial Accounting System positively and significantly impacted the quality of the Regional Government Financial Statements in Indonesia. This better implementation of the Regional Financial Accounting System, the quality of the Regional Government Financial Statements will increase. This research has revealed that problems such as wrong inputs or recording errors are still found in Regional Financial Statements, where recording is one of the Regional Financial Accounting System indicators, meaning one of the normative prerequisites. Government financial statements can meet the quality of financial statements so that financial statements can be said to be relevant, reliable, understandable, and comparable. On the other hand, the quality of Human Resources affected positively and significantly impacts the quality of Local Government Financial Statements. It can be better because the quality of Human Resources and the quality of Local Government Financial Statements will increase. This research has also revealed problems, namely the inaccuracy of the reporting section in making financial statements in management information system, where skills in reporting financial statements are one indicator of the quality of Human Resources is getting better skills.

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## ABOUT THE AUTHORS

Sri Dewi Anggadini, email:

[sri.dewi@email.unikom.ac.id](mailto:sri.dewi@email.unikom.ac.id)

**Sri Dewi Anggadini**, is an Associate Professor and Academic at Universitas Komputer Indonesia. She teaches Finance and Accounting Information System.

**Surtikanti Surtikanti**, is an Academic at Universitas Komputer Indonesia. She teaches Finance and Advance.

**Afif Syarifudin Yahya**, is an Academic at Institut Pemerintahan Dalam Negeri. He teaches Government Science

**Diva Anindita Apriliani**, Department of Accounting, Universitas Komputer Indonesia, Bandung, Indonesia.

**Sari Damayanti**, is an Academic at Institut Agama Islam Shalahuddin Al-Ayyub. She teaches Sharia Accounting.

**Eley Suzana Kasim**, is an Academic at the Accounting Research Institute and Faculty of Accountancy UiTM, Malaysia.

# QUALITY OF INDONESIA GOVERNMENT FINANCIAL STATEMENTS

**Sri Dewi Anggadini**

Department of Accounting, Universitas Komputer Indonesia, Indonesia

**Afif Syarifudin Yahya**

Department of Local Government Administration, Institut Pemerintahan Dalam Negeri, Indonesia

**Asep Saepudin**

Department of Management, Universitas Langlang Buana, Indonesia

**Surtikanti, Surtikanti**

Department of Accounting, Universitas Komputer Indonesia, Indonesia

**Sari Damayanti**

Department of Sharia Business Management, Institute Agama Islam Shalahuddin Al-Ayyub, Indonesia

**Eley Suzana Kasim**

Accounting Research Institute and Faculty of Accountancy UiTM, Malaysia

## ABSTRACT

This research aimed to determine the financial accounting system's effect and human resources' value regarding the quality of government financial reports. The method used is descriptive and verification of several methods. The unit of analysis is the local government apparatus, and then the observation unit of the regional government agencies. The data processing method uses SEM, and the data used is the primary data. The results indicate an effect of the applicable financial accounting system and the quality of human resources on the value of government financial reports. The result shows that an optimal financial accounting system and competent human resources can influence quality financial reports. This research is expected to be valid for local governments in making decisions to realize effective and efficient financial reporting management.

**Keywords:** regional financial accounting system; quality of local government financial statements; quality of human resources

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## INTRODUCTION

Financial reporting is the most important part of the financial reporting process (Surtikanti, 2020). The financial statements in full consist of a balance sheet, income statement, statement of changes in financial position that can be presented in a variety of cash flow statements, memos and other statements. Financial statements (Indonesian Institute of Accountants, 2015), Quality of financial statements has many advantages and information that users and readers can easily understand. Also, it can be assumed to have sufficient knowledge of economic, business, and accounting activities. It can be learning the information carefully. In financial statements, Useful information must be relevant to meet users' needs in the decision-making process (Anggadini, 2015). Problems that still often occur are errors in recording the financial statements and inaccuracies made by human data sources. Following Government Accounting Standards Regulation No. 71 2010, financial statements must be reliable if information in the financial statements presents every fact honestly, honestly, and verifiably. According to public accounting standards based on accrual accounting, the purpose of financial statements is to provide information in the event of a change in the financial position of the reporting entity, whether the position increases or decreases, and also about the sustainability of the activities.

According to Anggadini (2017), Quality is the dynamic state of things, including products, services, human resources, processes and environments, meeting or exceeding expectations. On the other hand, human resources constitute a fundamental and overarching force in the activities of individual thinking and physical strength. Behaviour and nature are determined by heredity and environment. The quality of human resources, namely human resources who have good quality, understand of accounting and finance and have an education with an appropriate background in their responsibilities, namely accounting, and finance, will affect good financial management (Ganapati & Reddick, 2018). In addition, an accounting system is also needed preparation of financial statements, because a local financial accounting system is required where local financial reports are prepared (Odunayo &

Festus, 2020). Quality of financial statement is an activity based on the qualitative characteristics of financial information with full and fair disclosure, which aims to protect owners and meet the needs of users of financial statements. (Linsmeier, 2011).

This research is consistent with research by Muthaaher (2019), Zeyn (2018), and Boban & ušak (2015). Completing the application of the Regional Financial Accounting System have positively and significantly impact on the quality of local government accounting. Good government accounting standards will make financial management accountable (Kurniati & Suryanto, 2022). So that can be improved the quality of financial statements. The results of the research by Dasi et al. (2018), said that local governments must have a reliable accounting system in order to facilitate and put in order a report, relevant, understandable, and trustworthy financial statements. system can make the resulting financial statements less reliable and less relevant when used as material for decision-making. Data processing requires a tool or system to make more accurate financial statements. Local government financial statements are of quality if they follow the provisions of Government Accounting Standards, as stated by Zergaw's research (2018).

Furthermore, Vithana et al. (2021) concluded quality of human resources has affected with positively and significantly influence on the quality of financial reporting of local governments. Higher the quality of human resources, the better the quality of local government financial reporting which is explaining about the existence of quality human resources in preparing financial statements can save time in making financial statements because these human resources already know and understand what will be done correctly so that financial statements can be shown on time. This is reinforced by research by Ganapati & Reddick (2018), which states quality of human resources will certainly affected by the preparation process and expected results of the financial statements. Each individual has different abilities, so the level of competence of each individual in their field will affect their performance and contribution in preparing financial statements. Errors or mistakes can occur if the human resources responsible for the

field are incompetent and can not perform their duties according to their functions. They were explained by Faradisa & Khafid (2017) in their research, The quality of human resources reflects the quality of the financial statements prepared. The higher the quality of human resources relevanced with higher quality of the prepared financial statements. With talented human resources, the preparation of financial statements is carried out effectively and efficiently. So that the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements, errors or mistakes can occur if the human resources responsible for the field are incompetent so that they are unable to carry out their duties according to their functions. In their study, Faradisa & Khafid (2017) It is explained that the quality of human resources is reflected in the success of the quality of the financial statements compiled. In other words, the better the quality of human resources, the better the quality of the financial statements produced. With talented human resources, the preparation of financial statements is carried out effectively and efficiently. So that the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements, errors or mistakes can occur if the human resources responsible for the field are incompetent so that they are unable to carry out their duties according to their functions. Competent human resources ensure that the preparation of financial statements is carried out efficiently and effectively.

Therefore, this research was conducted because it has differences from previous studies that are used as novelties in this study, namely the indicators studied from the regional financial accounting system variables, namely conformity with government accounting standards, accounting recording procedures based on generally accepted recording standards and making periodic financial statements. These indicators are used to measure the impact of the use of regional financial accounting systems and quality of human resources on the quality of local government financial statements by using multiple regression analysis methods through descriptive, and verification analysis approaches. The study used multiple regression analysis to

measure the magnitude of the impact of independent variables on independent variables, furthermore, in providing an overview and testing the acceptance or rejection of hypotheses, using descriptive and verification analysis approaches.

## LITERATURE REVIEW

### Regional Financial Accounting System

According to the Regulation of the Minister of Home Affairs Number 64 of 2013, which stipulates that the local government accounting system can be defined as a set of procedures that begin with the process of collecting data, recording, summarizing financial statements so that they can later be accounted for in the implementation of the Regional Revenue and Expenditure Budget, which can be done manually or using a computer application. According to Abushamsieh et al. (2013), Local financial accounting means the process by which local government agencies identify, measure, record and report financial transactions in relation to economic decision-making required by external parties (Suryana & Surtikanti, 2020). Regional financial accounting plays a role in making economic decisions required by external parties. Still, according to Abushamsieh et al. (2013), indicators for applying regional financial accounting systems include recording, summarizing, and reporting. The recording is carried out using a double-entry recording system, using a cash basis during the fiscal year and making adjustments at the end of year based on an accrual basis for recognizing government liabilities, equity, and assets. Summarizing is the activity of journalize then post to general ledger according estimated number. While reporting is the final part, after all processes are completed, a financial statement will be obtained (Surtikanti et al., 2021). Financial statements are provided in Budget Realization Reports, Balance Sheets, Cash Flow Reports, and Financial Statements.

### Quality of Human Resources

Blaga & Jozsef (2014), The quality of human resources is the level of competence and progress that can be shown in each batch / generation needed over time by the company. In line with Boxall (2013), The quality of human

resources is viewed based on a person's abilities, skills, experience, and knowledge that can be used to generate a person's professional level. Human resources can be of high quality when carrying out authority and responsibility. Still, according to Boxall (2013), A measure of the quality of human resources considered in terms of physical ability (health) is the ability to perform tasks that require endurance, skill, strength, similar characteristics, and intellectual ability (intelligence) is the ability to perform various behaviours. Ability. It is about how to think, reason, and solve a problem. In a society or an organization, people tend to place high scores on intelligence for good reasons and are usually used as leaders.

### Quality of Local Government Financial Statements

According to De Vlaminck & Sarens (2015), Financial statements describe a business's financial condition and results at a particular point in time or period. The best-known types of financial statements are the balance sheet, income or income statement, statement of cash flows, and changes in financial position. Understanding financial statements according to Financial Accounting Standards (2017), The financial statements can clearly present the position of the financial structure and the financial results of the enterprise. Every entity, the Regional Government financial statement provides an overview of the entity's prepared financial condition and performance (Ihor, 2018). Reporting is a form of accountability for public funds financial operations, changes in conditions, position. For financial actors, it is very useful in making economic strategy decisions (Anggadini, 2015; Elvisa & Sanel, 2021). According to Government Regulation No. 71 of 2010, the indicators used to measure the quality of information on local government financial statements are presented as relevant, reliable, understandable, comparable, and following the lines for the preparation of Regional Government Financial Statements (Anggadini, 2017; Thuong et al., 2018). The quality of regional financial reporting is inseparable from the regional financial accounting system in place and the human resources of the regional government. So that hypotheses can be proposed, namely:

- H1: Implementation of the Regional Financial Accounting System affecting the quality of Local Government Financial Statements
- H2: Quality of Human Resources affecting the quality of report Local Government Financial Statements.

### METHODOLOGY

The approach used is the quantitative method. The data obtained from research can understand, solve and predict a problem. The methods used in this study are descriptive and verifiable. To knowing there is a meaningful relationship between the research variables, the conclusion will clarify the picture of the research object (Sekaran & Bougie, 2020). Intended to test the hypothesis by using statistical calculations. This study examined the effect of the variables X1, X2, and Y, on what will be studied. Verification means testing the theory by testing whether it can be accepted or rejected. Statistical test tools to test the hypothesis using the Verification method. This study uses primary data because the researcher collects the needed data and comes directly from the first object studied (Kothari, 2004). The data will be collected during the research—the data results from questionnaires and observations will be processed to become information for researchers. The scale used by the author in this study uses an ordinal scale. It has the aim that research can provide information in the form of values in answers. These variables are measured by ordinal scales that meet the rating scale type statements.

The population for this study is 53 full-time employees from departments that deal directly with financial statements in Indonesia's Financial and Asset Management Agency, such as the Bandung region, for example. This study uses the probability sampling technique with the type of purposive sampling method, a sampling method with special considerations that can serve as a sample. The formula used in sampling is Slovin with an error rate of 5%, following the Slovin formula:

$$n = \frac{N}{1+N(e)^2} \quad (1)$$

The total population for this study was 53 full-time employees, so the swing percentage used was 5%, and the results of the calculations may be rounded to achieve compliance. So, to know the study sample, with the following calculations:

$$n = \frac{53}{1+53(0,05)^2} = 46.79; \quad (2)$$

adjusted to 47 samples

Based on calculations, the sample of respondents became 47 samples, and used is the descriptive and verification analysis methods. Descriptive analysis is the analysis used to

analyze data by describing or describing the collected data as it is without drawing conclusions that apply to the subject or generalize (Sekaran & Bougie, 2020). In comparison, verification analysis is used to test hypotheses using statistical calculations. A verificative analysis is a research method to determine the relationship two or more variables (Sekaran & Bougie, 2020). The verification method tests the hypothesis using a statistical test tool, the Structural Equation Model (SEM) based on variance. Considerations because of its ability to regulate the construct through indicators and analyze indicator OF variables, latent variables, and measure other else. Ultimately the relationship between variables in Figure 1, below:

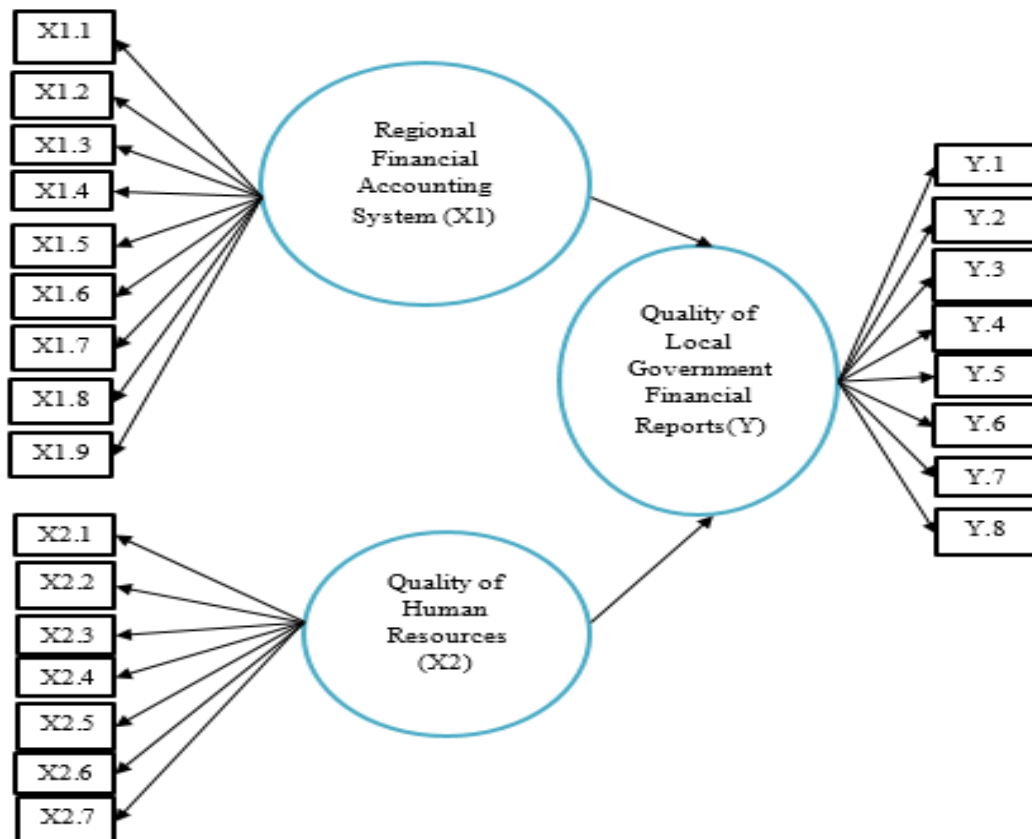


Figure 1: Overall Research Variable Analysis Structure

Source: Constructed by authors

## RESULTS AND DISCUSSION

The research measuring instrument is a series of quantitative analyses relevant to the research objectives. The data analysis method that the

author uses is the Structural Equation Model (SEM) method with a variant-based structural equation test model or Partial Least Square (PLS) using the Smart-PLS v3.3.3 software application.

In Structural Equation Modeling, two models have formed: the measurement model or evaluation of measurement model or outer model, also structural model or evaluation of structural model or inner model. In this study, there are three latent variables with 24 manifest variables. Among them, there are nine manifest

variables in the latent variables of the implementation of the Regional Financial Accounting System (X1), seven manifest variables on the latent variable quality of Human Resources (X2), and eight manifest variables on the latent variable of the quality of Local Government Financial Statements (Y).

Table 1: R-Square. Test Results

Endogenous Variables	R-Square. Value
Quality of Local Government Financial Statements (Y)	0.417

Source: PLS-SEM Calculation Results, 2021

Then the model of the manifest variable and latent variable, loading factor analysis, and R<sup>2</sup>

value is illustrated in Figure 2 in the form of a path diagram as follows:

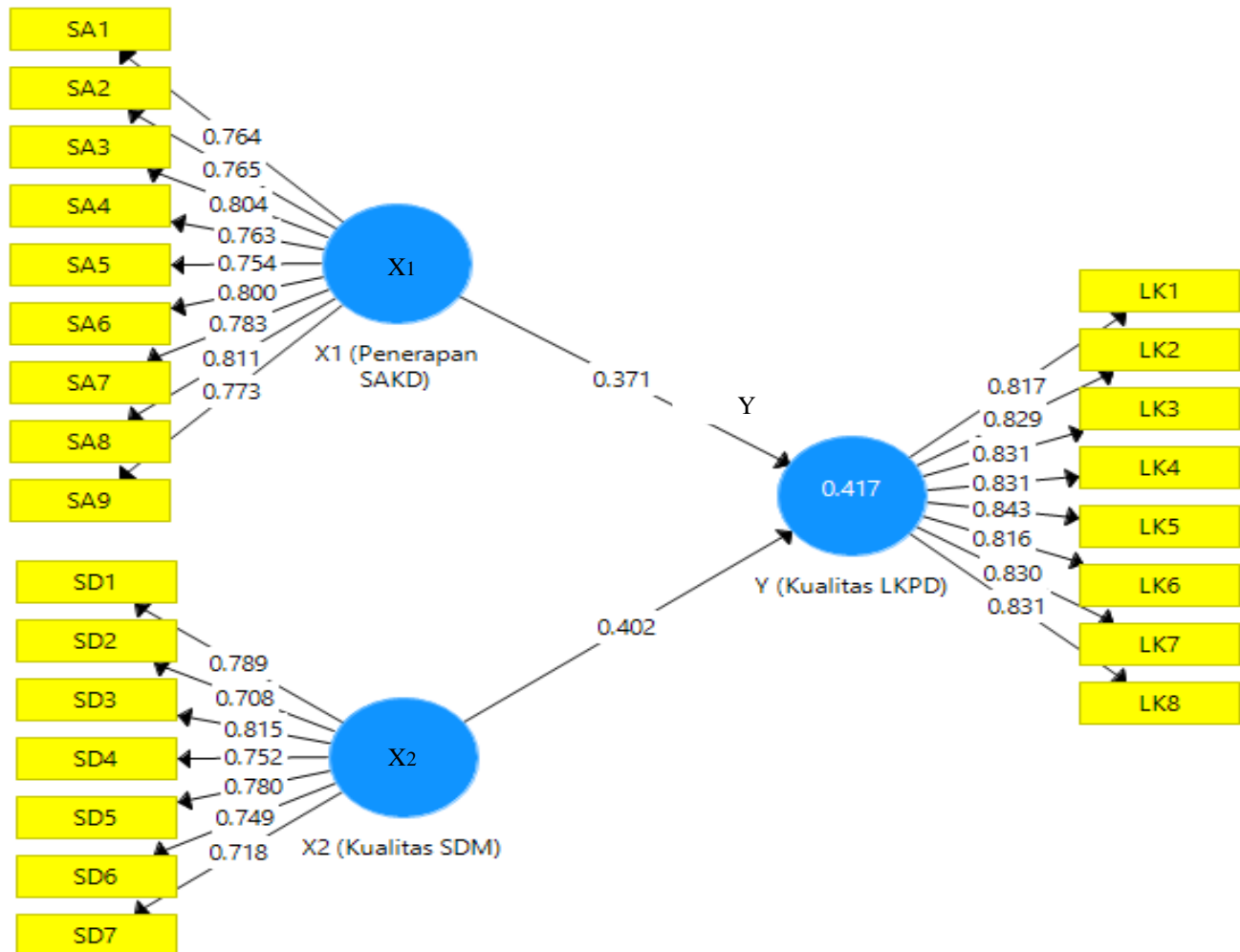


Figure 2: Manifest Variable Correlation Path Diagram and Latent Variable

Source: Author work's

The measurement method evaluates the structural model, commonly called the inner model test, which includes r-square ( $R^2$ ), path coefficient, and t-statistical test measurements. The value of  $R^2$  or the coefficient of determination explains how much the hypothesized exogenous variable in the equation can explain the endogenous variable. The magnitude of  $R^2$  is never negative and is equal to one ( $0 \leq R^2 \leq 1$ ). More details are in Table 1 and Figure 2, as shown above.

Based on the R square calculation results, it is known that the value is 0.417 or 41%, which means this is included in the moderate or

moderate category because it is at  $0.16 < R^2 < 0.49$ . This means that the effect of the application of the Regional Financial Accounting System (X1) and the quality of Human Resources (X2) together have an effect of 41.7% on the quality of Local Government Financial Statements (Y). In comparison, the remaining 58.3% is the influence given by other factors not examined by the author.

The contribution can determine the influence of each exogenous latent variable on the endogenous latent variable, and it can be described as follows:

**Table 2:** Effect of Exogenous Latent Variables on Endogenous Latent Variables

	Structural Path Coefficient	R-Square Value	Effect with Exogenous Latent Variables		Sig. (%)
			X1	X2	
Application of Regional Financial Accounting System (X1): Quality of Local Government Financial Statements (Y)	0.371	$(0.371)^2 \times 100 = 13.7\%$		5.95%	19.65%
Quality of Human Resources (X2): Quality of Local Government Financial Statements (Y)	0.402	$(0.402)^2 \times 100 = 16.1\%$	5.95%		22.05%
<b>Total</b>					<b>41.7%</b>

Source: Primary data that has been processed by the author, 2021

The values presented in Table 2 can be explained as follows:

- 1) Application of the Regional Financial Accounting System (X1) gives partial affecting by 19.65% on the quality of Local Government Financial Statements (Y) with details of 13.7% direct influence and 5.95% indirect influence through the quality of Human Resources.
- 2) Quality of Human Resources (X2) has a partial effect of 22.05% on the quality of Local Government Financial Statements (Y), with details of 16.1% direct influence and 5.95%

indirect influence through the application of the Regional Financial Accounting System.

#### Path Coefficient Test

The path coefficient is a standard regression coefficient (standard Z) which shows the effect of exogenous variables on endogenous ones that have been arranged in the path diagram. Here are the results of the calculation of the path coefficient through the PLS Algorithm in Table 3:

**Table 3:** Path Coefficient Test Results

	Quality of Local Government Financial Statements (Y)
Regional Financial Accounting System (X1)	0.371
Quality of Human Resources (X2)	0.402

Source: PLS-SEM Calculation Results, 2021



Based on the results of the path coefficient test in Table 3, the variable applying the regional financial accounting system to the quality variable of the financial statements of the regional governments has a value of 0.371. It shows that the relationship between the two variables has a positive effect of 37%. While the variable quality of Human Resources on the variable Quality of Local Government Financial Statements has a value of 0.402, it shows that the relationship between the two variables has a

positive effect of 40%. Furthermore, the other 23% were influenced by external factors or other variables, which were not discussed in this study.

#### T-Statistic Test

Find a partial hypothesis and be able to hypothesize the relationship between the variables of regional financial accounting system adoption and regional government financial reporting quality, as shown in Table 4 :

**Table 4:** Statistical T-Test Results

	Path Coefficient	P Values	T table	T statistics	Decision	Conclusion
Regional Financial Accounting System (X1) Quality of Local Government Financial Statements (Y)	0.371	0.000	2,030	3,561	H0 Rejected	Significant
Quality of Human Resources (X2) Quality of Local Government Financial Statements (Y)	0.402	0.001	2,030	3,480	H0 Rejected	Significant

Source: PLS-SEM Calculation Results, 2021

Based on Table 4, to test the hypothesis about the effect in implementing of regional financial accounting system on the financial reporting quality of local government obtained a significant value of  $0.000 < 5\%$  or  $0.000 < 0.05$ ; then  $H_0$  is rejected to test the hypothesis about the effect of Regional Financial Accounting System implementation on the quality of Local Government Financial Reporting obtained a significant value. To test the hypothesis of the influence of the quality of Human Resources on the quality of Local Government Financial Statements, a significant value of  $0.001 < 5\%$  or  $0.001 < 0.05$  was obtained; then  $H_0$  was rejected, meaning is a significant influence between quality Human Resources on the quality of Local Government Financial Statements.

#### DISCUSSION

According to Mabil's (2019) research, this research supports previous research, which mentions that the Regional Financial Accounting System also has a positively affected on the

quality of financial reporting of regional governments. According to Bruno & Lapsley (2018), a partial study shows that the Regional Financial Accounting System positively and significantly affected the quality of Regional Government Financial Statements. The results indicate that the Regional Financial Accounting System can improve the quality of Regional Government Financial Statements, according to Caruana & Farrugia's (2018) research. The regional Financial Accounting System partially affects the quality of the Regional Government Financial Statements.

Based on previous research, Thuong (2018) states that the higher the quality of Human Resources will partially improve the quality of Local Government Financial Statements. These results can be explained that the existence of quality human resources in preparing Financial Statements can save time in making Financial Statements because these human resources already know and understand what will be done correctly so that the presentation of financial statements can be on time. Odunayo & Festus

(2020) and Blaga & Jozsef (2014) support this opinion by stating in their research that each individual has different abilities, so the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements (Sri Dewi Anggadini et al., 2022).

### CONCLUSION AND RECOMMENDATION

The application of the Regional Financial Accounting System positively and significantly impacted the quality of the Regional Government Financial Statements in Indonesia. This better implementation of the Regional Financial Accounting System, the quality of the Regional Government Financial Statements will increase. This research has revealed that problems such as wrong inputs or recording errors are still found in Regional Financial Statements, where recording is one of the Regional Financial Accounting System indicators, meaning one of the normative prerequisites. Government financial statements can meet the quality of financial statements so that financial statements can be said to be relevant, reliable, understandable, and comparable. On the other hand, the quality of Human Resources affected positively and significantly impacts the quality of Local Government Financial Statements. It can be better because the quality of Human Resources and the quality of Local Government Financial Statements will increase. This research has also revealed problems, namely the inaccuracy of the reporting section in making financial statements in management information system, where skills in reporting financial statements are one indicator of the quality of Human Resources is getting better skills.

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## ABOUT THE AUTHORS

- Sri Dewi Anggadini, email: [sri.dewi@email.unikom.ac.id](mailto:sri.dewi@email.unikom.ac.id)
- Sri Dewi Anggadini**, is an Associate Professor and Academic at Universitas Komputer Indonesia. She teaches Finance and Accounting Information System.
- Afif Syarifudin Yahya**, is an Academic at Institut Pemerintahan Dalam Negeri. He teaches Government Science.
- Asep Saepudin**, is an Academic at Universitas Langlang Buana. He teaches Management.
- Surtikanti Surtikanti**, is an Academic at Universitas Komputer Indonesia. She teaches Finance and Advance.
- Sari Damayanti**, is an Academic at Institut Agama Islam Shalahuddin Al-Ayyub. She teaches Sharia Accounting.
- Eley Suzana Kasim**, is an Academic at the Accounting Research Institute and Faculty of Accountancy UiTM, Malaysia.



August 22, 2022

**Senny Luckyardi**

Universitas Komputer Indonesia  
Bandung, Indonesia

Dear Ms. Senny Luckyardi:

Congratulations! Fifteen manuscripts presented during the **“5th International Conference on Business, Economics, Social Sciences, and Humanities (ICOBEST) held on May 30-31, 2022,”** submitted to the Journal of Eastern Europe and Central Asia Research ([JEECAR](#)) is accepted and considered for publication in Vol.10 No.1 January 2023 JEECAR’s Special issue. (See the provided list)

The Journal JEECAR is registered by the Library of Congress, listed in the Directory of Open Access Journals, and indexed with the Web of Science: Emerging Sources Citation Index, SCOPUS, ProQuest, CABELLS, EBSCO, Ulrich, Google Scholar, Norwegian Register for Scientific Journals, OAI WorldCat Digital Collection, and positively evaluated in Citefactor indexing. All articles are assigned a Crossref DOI number.

As an Editor-in-Chief, I have reviewed the provided submissions and found them very informative and relevant to the topics required by the JEECAR journal. Please be advised that the Conference articles will be assigned to two separate Peer-Reviewers and Article Editor to continue the editorial process. The publication procedure requires a double blind, peer-review process that takes four to six weeks to complete.

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Thank you for your hard work and interest in our Journal.

Respectfully,

Nikolay Megits, Ph.D.  
IEECA President and  
JEECAR Editor-in-Chief



# QUALITY OF INDONESIA GOVERNMENT FINANCIAL STATEMENTS

**Sri Dewi Anggadini**

Department of Accounting, Universitas Komputer Indonesia, Indonesia

**Afif Syarifudin Yahya**

Department of Local Government Administration, Institut Pemerintahan Dalam Negeri, Indonesia

**Asep Saepudin**

Department of Management, Universitas Langlang Buana, Indonesia

**Surtikanti Surtikanti**

Department of Accounting, Universitas Komputer Indonesia, Indonesia

**Sari Damayanti**

Department of Sharia Business Management, Institute Agama Islam Shalahuddin Al-Ayyub, Indonesia

**Eley Suzana Kasim**

Accounting Research Institute and Faculty of Accountancy UiTM, Malaysia

## ABSTRACT

This research aimed to determine the financial accounting system's effect and human resources' value regarding the quality of government financial reports. The method used is descriptive and verification of several methods. The unit of analysis is the local government apparatus, and then the observation unit of the regional government agencies. The data processing method uses SEM, and the data used is the primary data. The results indicate an effect of the applicable financial accounting system and the quality of human resources on the value of government financial reports. The result shows that an optimal financial accounting system and competent human resources can influence quality financial reports. This research is expected to be valid for local governments in making decisions to realize effective and efficient financial reporting management.

**Keywords:** regional financial accounting system; quality of local government financial statements; quality of human resources

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## INTRODUCTION

Financial reporting is the most important part of the financial reporting process (Surtikanti, 2020). The financial statements in full consist of a balance sheet, income statement, statement of changes in financial position that can be presented in a variety of cash flow statements, memos and other statements. Financial statements (Indonesian Institute of Accountants, 2015), Quality of financial statements has many advantages and information that users and readers can easily understand. Also, it can be assumed to have sufficient knowledge of economic, business, and accounting activities. It can be learning the information carefully. In financial statements, Useful information must be relevant to meet users' needs in the decision-making process (Anggadini, 2015). Problems that still often occur are errors in recording the financial statements and inaccuracies made by human data sources. Following Government Accounting Standards Regulation No. 71 2010, financial statements must be reliable if information in the financial statements presents every fact honestly, honestly, and verifiably. According to public accounting standards based on accrual accounting, the purpose of financial statements is to provide information in the event of a change in the financial position of the reporting entity, whether the position increases or decreases, and also about the sustainability of the activities.

According to Anggadini (2017), Quality is the dynamic state of things, including products, services, human resources, processes and environments, meeting or exceeding expectations. On the other hand, human resources constitute a fundamental and overarching force in the activities of individual thinking and physical strength. Behaviour and nature are determined by heredity and environment. The quality of human resources, namely human resources who have good quality, understand of accounting and finance and have an education with an appropriate background in their responsibilities, namely accounting, and finance, will affect good financial management (Ganapati & Reddick, 2018). In addition, an accounting system is also needed preparation of financial statements, because a local financial accounting system is required where local financial reports are prepared (Odunayo &

Festus, 2020). Quality of financial statement is an activity based on the qualitative characteristics of financial information with full and fair disclosure, which aims to protect owners and meet the needs of users of financial statements. (Linsmeier, 2011).

This research is consistent with research by Muthaheer (2019), Zeyn (2018), and Boban & ušak (2015). Completing the application of the Regional Financial Accounting System have positively and significantly impact on the quality of local government accounting. Good government accounting standards will make financial management accountable (Kurniati & Suryanto, 2022). So that can be improved the quality of financial statements. The results of the research by Dasi et al. (2018), said that local governments must have a reliable accounting system in order to facilitate and put in order a report, relevant, understandable, and trustworthy financial statements. system can make the resulting financial statements less reliable and less relevant when used as material for decision-making. Data processing requires a tool or system to make more accurate financial statements. Local government financial statements are of quality if they follow the provisions of Government Accounting Standards, as stated by Zergaw's research (2018).

Furthermore, Vithana et al. (2021) concluded quality of human resources has affected with positively and significantly influence on the quality of financial reporting of local governments. Higher the quality of human resources, the better the quality of local government financial reporting which is explaining about the existence of quality human resources in preparing financial statements can save time in making financial statements because these human resources already know and understand what will be done correctly so that financial statements can be shown on time. This is reinforced by research by Ganapati & Reddick (2018), which states quality of human resources will certainly affected by the preparation process and expected results of the financial statements. Each individual has different abilities, so the level of competence of each individual in their field will affect their performance and contribution in preparing financial statements. Errors or mistakes can occur if the human resources responsible for the

field are incompetent and can not perform their duties according to their functions. They were explained by Faradisa & Khafid (2017) in their research, The quality of human resources reflects the quality of the financial statements prepared. The higher the quality of human resources relevanced with higher quality of the prepared financial statements. With talented human resources, the preparation of financial statements is carried out effectively and efficiently. So that the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements, errors or mistakes can occur if the human resources responsible for the field are incompetent so that they are unable to carry out their duties according to their functions. In their study, Faradisa & Khafid (2017) It is explained that the quality of human resources is reflected in the success of the quality of the financial statements compiled. In other words, the better the quality of human resources, the better the quality of the financial statements produced. With talented human resources, the preparation of financial statements is carried out effectively and efficiently. So that the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements, errors or mistakes can occur if the human resources responsible for the field are incompetent so that they are unable to carry out their duties according to their functions. Competent human resources ensure that the preparation of financial statements is carried out efficiently and effectively.

Therefore, this research was conducted because it has differences from previous studies that are used as novelties in this study, namely the indicators studied from the regional financial accounting system variables, namely conformity with government accounting standards, accounting recording procedures based on generally accepted recording standards and making periodic financial statements. These indicators are used to measure the impact of the use of regional financial accounting systems and quality of human resources on the quality of local government financial statements by using multiple regression analysis methods through descriptive, and verification analysis approaches. The study used multiple regression analysis to

measure the magnitude of the impact of independent variables on independent variables, furthermore, in providing an overview and testing the acceptance or rejection of hypotheses, using descriptive and verification analysis approaches.

## LITERATURE REVIEW

### Regional Financial Accounting System

According to the Regulation of the Minister of Home Affairs Number 64 of 2013, which stipulates that the local government accounting system can be defined as a set of procedures that begin with the process of collecting data, recording, summarizing financial statements so that they can later be accounted for in the implementation of the Regional Revenue and Expenditure Budget, which can be done manually or using a computer application. According to Abushamsieh et al. (2013), Local financial accounting means the process by which local government agencies identify, measure, record and report financial transactions in relation to economic decision-making required by external parties (Suryana & Surtikanti, 2020). Regional financial accounting plays a role in making economic decisions required by external parties. Still, according to Abushamsieh et al. (2013), indicators for applying regional financial accounting systems include recording, summarizing, and reporting. The recording is carried out using a double-entry recording system, using a cash basis during the fiscal year and making adjustments at the end of year based on an accrual basis for recognizing government liabilities, equity, and assets. Summarizing is the activity of journalize then post to general ledger according estimated number. While reporting is the final part, after all processes are completed, a financial statement will be obtained (Surtikanti et al., 2021). Financial statements are provided in Budget Realization Reports, Balance Sheets, Cash Flow Reports, and Financial Statements.

### Quality of Human Resources

Blaga & Jozsef (2014), The quality of human resources is the level of competence and progress that can be shown in each batch / generation needed over time by the company. In line with Boxall (2013), The quality of human



resources is viewed based on a person's abilities, skills, experience, and knowledge that can be used to generate a person's professional level. Human resources can be of high quality when carrying out authority and responsibility. Still, according to Boxall (2013), A measure of the quality of human resources considered in terms of physical ability (health) is the ability to perform tasks that require endurance, skill, strength, similar characteristics, and intellectual ability (intelligence) is the ability to perform various behaviours. Ability. It is about how to think, reason, and solve a problem. In a society or an organization, people tend to place high scores on intelligence for good reasons and are usually used as leaders.

### Quality of Local Government Financial Statements

According to De Vlaminck & Sarens (2015), Financial statements describe a business's financial condition and results at a particular point in time or period. The best-known types of financial statements are the balance sheet, income or income statement, statement of cash flows, and changes in financial position. Understanding financial statements according to Financial Accounting Standards (2017), The financial statements can clearly present the position of the financial structure and the financial results of the enterprise. Every entity, the Regional Government financial statement provides an overview of the entity's prepared financial condition and performance (Ihor, 2018). Reporting is a form of accountability for public funds financial operations, changes in conditions, position. For financial actors, it is very useful in making economic strategy decisions (Anggadini, 2015; Elvisa & Sanel, 2021). According to Government Regulation No. 71 of 2010, the indicators used to measure the quality of information on local government financial statements are presented as relevant, reliable, understandable, comparable, and following the lines for the preparation of Regional Government Financial Statements (Anggadini, 2017; Thuong et al., 2018). The quality of regional financial reporting is inseparable from the regional financial accounting system in place and the human resources of the regional government. So that hypotheses can be proposed, namely:

- H1: Implementation of the Regional Financial Accounting System affecting the quality of Local Government Financial Statements
- H2: Quality of Human Resources affecting the quality of report Local Government Financial Statements.

### METHODOLOGY

The approach used is the quantitative method. The data obtained from research can understand, solve and predict a problem. The methods used in this study are descriptive and verifiable. To knowing there is a meaningful relationship between the research variables, the conclusion will clarify the picture of the research object (Sekaran & Bougie, 2020). Intended to test the hypothesis by using statistical calculations. This study examined the effect of the variables X1, X2, and Y, on what will be studied. Verification means testing the theory by testing whether it can be accepted or rejected. Statistical test tools to test the hypothesis using the Verification method. This study uses primary data because the researcher collects the needed data and comes directly from the first object studied (Kothari, 2004). The data will be collected during the research—the data results from questionnaires and observations will be processed to become information for researchers. The scale used by the author in this study uses an ordinal scale. It has the aim that research can provide information in the form of values in answers. These variables are measured by ordinal scales that meet the rating scale type statements.

The population for this study is 53 full-time employees from departments that deal directly with financial statements in Indonesia's Financial and Asset Management Agency, such as the Bandung region, for example. This study uses the probability sampling technique with the type of purposive sampling method, a sampling method with special considerations that can serve as a sample. The formula used in sampling is Slovin with an error rate of 5%, following the Slovin formula:

$$n = \frac{N}{1+N(e)^2} \quad (1)$$

The total population for this study was 53 full-time employees, so the swing percentage used was 5%, and the results of the calculations may be rounded to achieve compliance. So, to know the study sample, with the following calculations:

$$n = \frac{53}{1+53(0,05)^2} = 46.79; \tag{2}$$

adjusted to 47 samples

Based on calculations, the sample of respondents became 47 samples, and used is the descriptive and verification analysis methods. Descriptive analysis is the analysis used to

analyze data by describing or describing the collected data as it is without drawing conclusions that apply to the subject or generalize (Sekaran & Bougie, 2020). In comparison, verification analysis is used to test hypotheses using statistical calculations. A verificative analysis is a research method to determine the relationship two or more variables (Sekaran & Bougie, 2020). The verification method tests the hypothesis using a statistical test tool, the Structural Equation Model (SEM) based on variance. Considerations because of its ability to regulate the construct through indicators and analyze indicator OF variables, latent variables, and measure other else. Ultimately the relationship between variables in Figure 1, below:

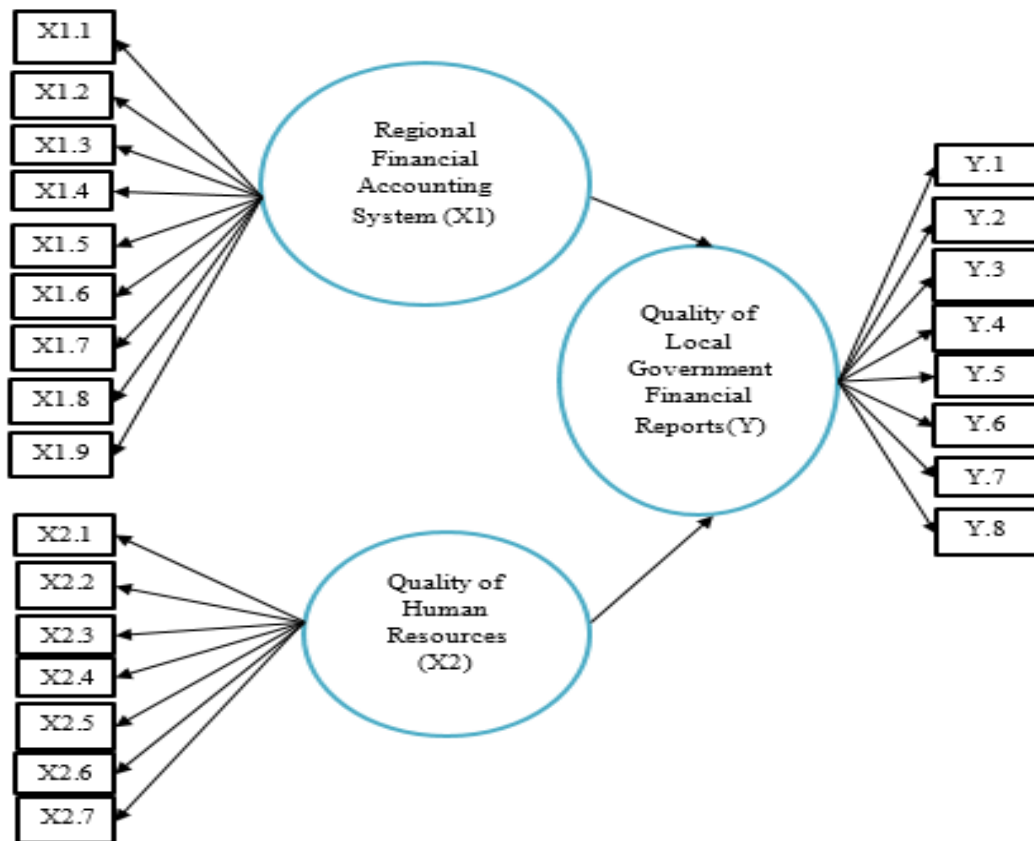


Figure 1: Overall Research Variable Analysis Structure  
Source: Constructed by authors

**RESULTS AND DISCUSSION**

The research measuring instrument is a series of quantitative analyses relevant to the research objectives. The data analysis method that the

author uses is the Structural Equation Model (SEM) method with a variant-based structural equation test model or Partial Least Square (PLS) using the Smart-PLS v3.3.3 software application.

In Structural Equation Modeling, two models have formed: the measurement model or evaluation of measurement model or outer model, also structural model or evaluation of structural model or inner model. In this study, there are three latent variables with 24 manifest variables. Among them, there are nine manifest

variables in the latent variables of the implementation of the Regional Financial Accounting System (X1), seven manifest variables on the latent variable quality of Human Resources (X2), and eight manifest variables on the latent variable of the quality of Local Government Financial Statements (Y).

Table 1: R-Square. Test Results

Endogenous Variables	R-Square. Value
Quality of Local Government Financial Statements (Y)	0.417

Source: PLS-SEM Calculation Results, 2021

Then the model of the manifest variable and latent variable, loading factor analysis, and R<sup>2</sup>

value is illustrated in Figure 2 in the form of a path diagram as follows:

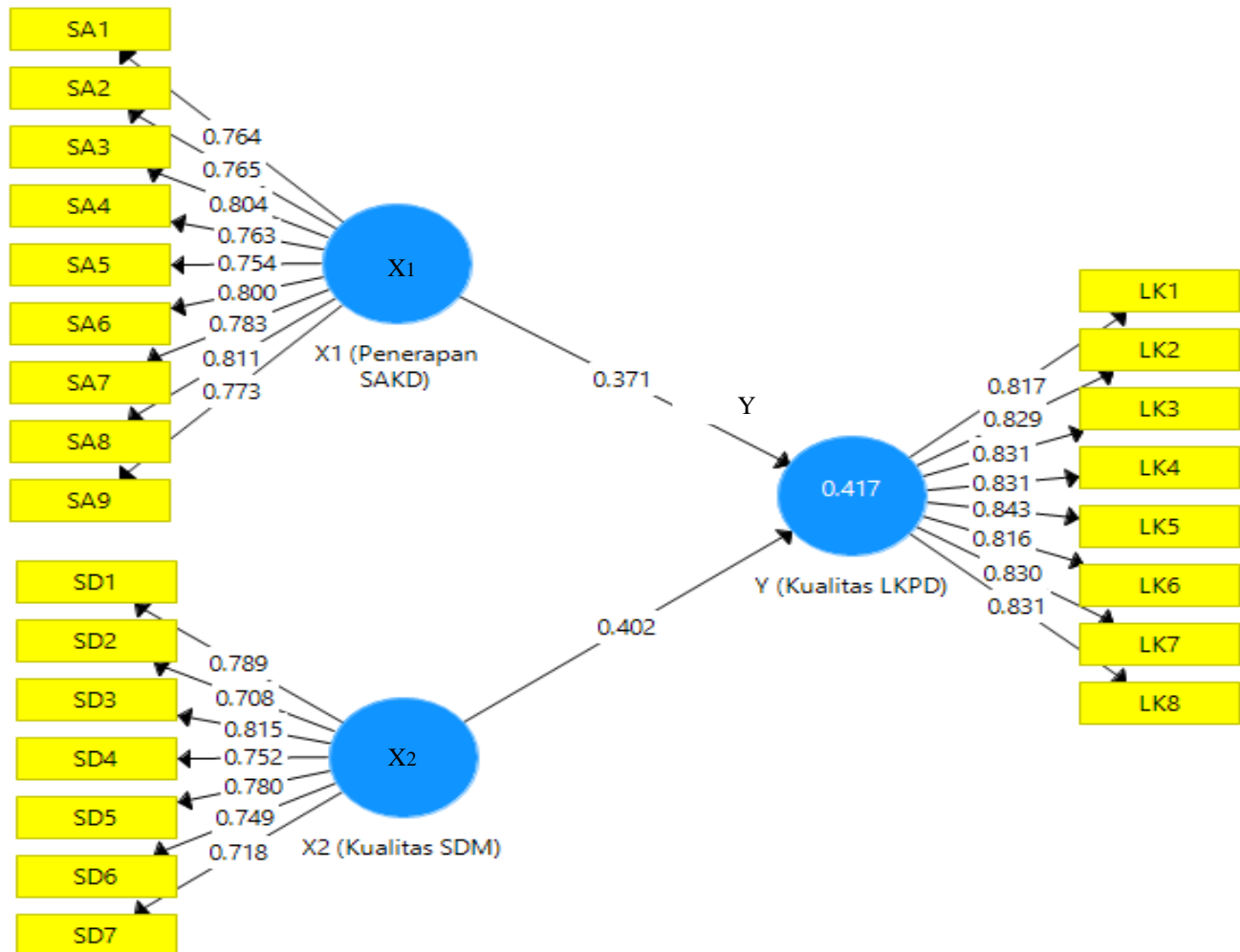


Figure 2: Manifest Variable Correlation Path Diagram and Latent Variable

Source: Author work's

The measurement method evaluates the structural model, commonly called the inner model test, which includes r-square ( $R^2$ ), path coefficient, and t-statistical test measurements. The value of  $R^2$  or the coefficient of determination explains how much the hypothesized exogenous variable in the equation can explain the endogenous variable. The magnitude of  $R^2$  is never negative and is equal to one ( $0 \leq R^2 \leq 1$ ). More details are in Table 1 and Figure 2, as shown above.

Based on the R square calculation results, it is known that the value is 0.417 or 41%, which means this is included in the moderate or

moderate category because it is at  $0.16 < R^2 < 0.49$ . This means that the effect of the application of the Regional Financial Accounting System (X1) and the quality of Human Resources (X2) together have an effect of 41.7% on the quality of Local Government Financial Statements (Y). In comparison, the remaining 58.3% is the influence given by other factors not examined by the author.

The contribution can determine the influence of each exogenous latent variable on the endogenous latent variable, and it can be described as follows:

**Table 2:** Effect of Exogenous Latent Variables on Endogenous Latent Variables

	Structural Path Coefficient	R-Square Value	Effect with Exogenous Latent Variables		Sig. (%)
			X1	X2	
Application of Regional Financial Accounting System (X1): Quality of Local Government Financial Statements (Y)	0.371	$(0.371)^2 \times 100 = 13.7\%$		5.95%	19.65%
Quality of Human Resources (X2): Quality of Local Government Financial Statements (Y)	0.402	$(0.402)^2 \times 100 = 16.1\%$	5.95%		22.05%
<b>Total</b>					<b>41.7%</b>

Source: Primary data that has been processed by the author, 2021

The values presented in Table 2 can be explained as follows:

- 1) Application of the Regional Financial Accounting System (X1) gives partial affecting by 19.65% on the quality of Local Government Financial Statements (Y) with details of 13.7% direct influence and 5.95% indirect influence through the quality of Human Resources.
- 2) Quality of Human Resources (X2) has a partial effect of 22.05% on the quality of Local Government Financial Statements (Y), with details of 16.1% direct influence and 5.95%

indirect influence through the application of the Regional Financial Accounting System.

#### Path Coefficient Test

The path coefficient is a standard regression coefficient (standard Z) which shows the effect of exogenous variables on endogenous ones that have been arranged in the path diagram. Here are the results of the calculation of the path coefficient through the PLS Algorithm in Table 3:

**Table 3:** Path Coefficient Test Results

	Quality of Local Government Financial Statements (Y)
Regional Financial Accounting System (X1)	0.371
Quality of Human Resources (X2)	0.402

Source: PLS-SEM Calculation Results, 2021

Based on the results of the path coefficient test in Table 3, the variable applying the regional financial accounting system to the quality variable of the financial statements of the regional governments has a value of 0.371. It shows that the relationship between the two variables has a positive effect of 37%. While the variable quality of Human Resources on the variable Quality of Local Government Financial Statements has a value of 0.402, it shows that the relationship between the two variables has a

positive effect of 40%. Furthermore, the other 23% were influenced by external factors or other variables, which were not discussed in this study.

#### T-Statistic Test

Find a partial hypothesis and be able to hypothesize the relationship between the variables of regional financial accounting system adoption and regional government financial reporting quality, as shown in Table 4 :

**Table 4:** Statistical T-Test Results

	Path Coefficient	P Values	T table	T statistics	Decision	Conclusion
Regional Financial Accounting System (X1) Quality of Local Government Financial Statements (Y)	0.371	0.000	2,030	3,561	H0 Rejected	Significant
Quality of Human Resources (X2) Quality of Local Government Financial Statements (Y)	0.402	0.001	2,030	3,480	H0 Rejected	Significant

Source: PLS-SEM Calculation Results, 2021

Based on Table 4, to test the hypothesis about the effect in implementing of regional financial accounting system on the financial reporting quality of local government obtained a significant value of  $0.000 < 5\%$  or  $0.000 < 0.05$ ; then  $H_0$  is rejected to test the hypothesis about the effect of Regional Financial Accounting System implementation on the quality of Local Government Financial Reporting obtained a significant value. To test the hypothesis of the influence of the quality of Human Resources on the quality of Local Government Financial Statements, a significant value of  $0.001 < 5\%$  or  $0.001 < 0.05$  was obtained; then  $H_0$  was rejected, meaning is a significant influence between quality Human Resources on the quality of Local Government Financial Statements.

#### DISCUSSION

According to Mabil's (2019) research, this research supports previous research, which mentions that the Regional Financial Accounting System also has a positively affected on the

quality of financial reporting of regional governments. According to Bruno & Lapsley (2018), a partial study shows that the Regional Financial Accounting System positively and significantly affected the quality of Regional Government Financial Statements. The results indicate that the Regional Financial Accounting System can improve the quality of Regional Government Financial Statements, according to Caruana & Farrugia's (2018) research. The regional Financial Accounting System partially affects the quality of the Regional Government Financial Statements.

Based on previous research, Thuong (2018) states that the higher the quality of Human Resources will partially improve the quality of Local Government Financial Statements. These results can be explained that the existence of quality human resources in preparing Financial Statements can save time in making Financial Statements because these human resources already know and understand what will be done correctly so that the presentation of financial statements can be on time. Odunayo & Festus

(2020) and Blaga & Jozsef (2014) support this opinion by stating in their research that each individual has different abilities, so the level of competence of each individual in their field will affect their performance and contribution in the process of preparing financial statements (Sri Dewi Anggadini et al., 2022).

### CONCLUSION AND RECOMMENDATION

The application of the Regional Financial Accounting System positively and significantly impacted the quality of the Regional Government Financial Statements in Indonesia. This better implementation of the Regional Financial Accounting System, the quality of the Regional Government Financial Statements will increase. This research has revealed that problems such as wrong inputs or recording errors are still found in Regional Financial Statements, where recording is one of the Regional Financial Accounting System indicators, meaning one of the normative prerequisites. Government financial statements can meet the quality of financial statements so that financial statements can be said to be relevant, reliable, understandable, and comparable. On the other hand, the quality of Human Resources affected positively and significantly impacts the quality of Local Government Financial Statements. It can be better because the quality of Human Resources and the quality of Local Government Financial Statements will increase. This research has also revealed problems, namely the inaccuracy of the reporting section in making financial statements in management information system, where skills in reporting financial statements are one indicator of the quality of Human Resources is getting better skills.

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## ABOUT THE AUTHORS

Sri Dewi Anggadini, email:  
[sri.dewi@email.unikom.ac.id](mailto:sri.dewi@email.unikom.ac.id)

**Sri Dewi Anggadini**, is an Associate Professor and Academic at Universitas Komputer Indonesia. She teaches Finance and Accounting Information System.

**Afif Syarifudin Yahya**, is an Academic at Institut Pemerintahan Dalam Negeri. He teaches Government Science.

**Asep Saepudin**, is an Academic at Universitas Langlang Buana. He teaches Management.

**Surtikanti Surtikanti**, is an Academic at Universitas Komputer Indonesia. She teaches Finance and Advance.

**Sari Damayanti**, is an Academic at Institut Agama Islam Shalahuddin Al-Ayyub. She teaches Sharia Accounting.

**Eley Suzana Kasim**, is an Academic at the Accounting Research Institute and Faculty of Accountancy UiTM, Malaysia.