

FACTORS AFFECTING THE QUALITY OF FINANCIAL STATEMENTS TO IMPROVE LOCAL GOVERNMENT PERFORMANCE

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ABSTRACT

This study's goal is to examine the factors that influence the reliability of financial statements and how they impact the efficiency of local governments. The Cimahi Municipal Government's operating unit serves as the study's population. As part of the targeted sample technique, respondents who directly contribute to creating financial statements and have received up to 60 have been chosen as respondents. Data analysis to test the hypothesis uses structural modeling of partial least squares. The results showed that internal state control, the use of information technology, and human resource competency significantly enhanced the quality of municipal financial statements. At the same time, local government performance had no direct effect but significantly enhanced the quality of financial statements indirectly. High-quality financial statements are required to feel the effect of the Research on the performance of local government.

Keywords: Competence, Internal Control System, Quality of Financial Statements, Performance

1.0 Introduction

As many local governments need to spend the regional budget (APBD) as intended, the performance of local governments is under public scrutiny. It is consistent with the Ministry for the Strengthening and Reform of the State Apparatus' assessment of the Government Agency Accountability Performance Report (LAKIP) for the year 2021, one of the findings of which states that only the Yogyakarta Provincial Government has received an AA rating among local governments. The Cimahi Municipal Government received only a B rating in the 2021 LAKIP assessment.

Human resource competency is necessary to raise the caliber of financial statements produced by local governments. (Nirwana and Haliah, 2018) (Dewi et al., 2019a) (Jatmiko et al., 2020), Good internal control of the government (Afiah and Azwari, 2015a) (Ahmad et al., 2020) (Widaryani and Kiswanto, 2020) and the application of technology (Muda et al., 2017) (Atiningsih, 2020). The availability of qualified personnel, putting in place state internal controls, and efficient Information technology use will all affect state financial reports' quality. It will ultimately affect how valuable local government performance is.

This study's objective is to find empirical proof of the connection between human resource expertise, the use of state internal controls, the use of information technology, and the performance of local governments, as mediated by quality characteristics of the financial

statements. The difference with previous studies is that this study was carried out in 2023 in the municipality of Cimahi and uses the quality variable of the local government degrees as an *intermediary* variable.

2.0 Literature Review

2.1 Local Government Performance

A fundamental and significant issue in government financial management is performance measurement. (Christine et al., 2019) (Sutopo et al., 2017) (Brusca and Montesinos, 2016). In truth, the government's performance and financial management could be better and more efficient, falling short of expectations (Nirwana and Haliah, 2018).

Governmental effectiveness is influenced by its effectiveness in managing finances and operations. Financial results measure how well a work outcome in regional finance, which comprises regional revenue and expenditure utilizing a financial system decided by policies or requirements of laws and regulations for a one-period budget, was accomplished. (Nurhayati et al., 2021) (Martati et al., 2019) (Aswar, 2019). The accomplishment of local government affairs is known as governance. Administrative performance is the achievement of local government affairs measured by inputs, processes, outputs, outcomes, benefits, and impacts to produce reliable value (Sutopo et al., 2017).

2.2 Quality of Local Government Financial Statements

Accounting standards have been established in government organizations that control the creation of financial statements to raise the level of financial statement quality prepared by government agencies. These monetary guidelines are included in government regulations (PP) No. 71 Tahun 2010. The caliber of the report must match the financial statements' qualitative requirements, which call for relevance, dependability, comparability, and understandability (PP No 71 Tahun 2010). Studies on how financial statements' accuracy affects the effectiveness of local governments are done. Research on how the integrity of financial statements affects the effectiveness of local governments is done by (Christine et al., 2019) (Nirwana and Haliah, 2018). His study's findings indicate that the accuracy of their financial reporting influences local governments' performance. Based on the study's findings, theories can be proposed.

2.3 Human Resources Competence

Understanding human resource competency requires expertise, information, talents, and skills (Nurjaya et al., 2021). Competencies in knowledge, expertise, and ethics are necessary for human resources while creating financial statements (Ahmad et al., 2020).

Researchers are looking into how human resource competency affects the caliber of municipal budget reports (Nurjaya et al., 2021), (Ahmad et al., 2020), (Kusumawardhani and Muanas, 2020), (Jatmiko et al., 2019), (Dewi et al., 2019b), (Syamsuri Rahim, Hamzah Amad, 2019), (Sulila, 2019), (Umar et al., 2018), (Julita and Susilatri, 2018), (Nirwana and Haliah, 2018), (Andini Dewi and Yusrawati, 2016), (Anggriawan and Yudianto, 2018). His study's findings demonstrated that the caliber of government degrees is influenced by human resource competence. Sanny's Research examines how human resource literacy influences the

effectiveness of government, and she finds that resource literacy impacts the performance of local government (Sanny et al., 2022)

The following hypotheses can be made based on the study's findings.

H1: Human resource competence has a significant favorable influence on the quality of local government financial statements.

H2: Human resource competence has a significant positive effect on local government performance.

H3: Human resource competence has a positive and significant effect on the performance of local governments through the quality of financial statements.

2.4 Government Internal Control

Internal control is a way to control, monitor, and measure organizational resources and is crucial in preventing and detecting fraud. The indicators used to measure the implementation of the government's internal control system are control environment, risk assessment, control activities, information and communication, and monitoring. The implementation of control in the Indonesian government is based on regulations issued by the government (PP RI No 60 Tahun 2008, n.d.) Investigations examining the impact of government internal controls on the quality of financial statements are carried out by: (Raspati and Riyanto, 2021), (Ahmad et al., 2020), (Widaryani and Kiswanto, 2020), (Atiningsih, 2020), (Jatmiko et al., 2020), (Christine et al., 2019), (Dewi et al., 2019b), (Darmawan, 2019), (Julita and Susilatri, 2018), (Anggriawan and Yudianto, 2018)18 (Nusa Bangsa, 2018), (Afiah and Azwari, 2015b) (Priono et al., 2019). The study's results stated that internal control affects the quality of financial statements. Research related to the effect of internal control on local government performance has been conducted by Priono, who stated that government internal control affects local government performance (Priono et al., 2019).

Based on the results of the study, the following hypotheses can be put forward:

H4: The government's internal control significantly affects the quality of the local government financial statement.

H5: The government's internal control system positively and significantly affects local government performance.

H6: The government's internal control system has a positive and significant effect on the performance of local governments through the quality of financial statements.

2.5 Use of Information Technology

Information technology is the use of information technology in the form of computers and networks that are optimally used by people to simplify and speed up tasks and improve performance (Alminanda and Marfuah, 2018). Indicators for the use of information technology include (1) computer use and (2) networking (Alminanda and Marfuah, 2018). Studies investigating the impact of the use of information technology on the quality of municipal financial statements are carried out by (Raspati and Riyanto, 2021), (Nurjaya et al., 2021),

(Jatmiko et al., 2020), (Atiningsih, 2020), (Wijayanti et al., 2020), Sulila (2019) (Kusumawardhani and Muanas, 2020), (Syamsuri Rahim, Hamzah Amad, 2019), (Julita and Susilatri, 2018), (Anggriawan and Yudianto, 2018), (Handayani et al., 2020).

Based on the results of this Research, hypotheses can be put forward as follows.

H7: Information technology has a positive and significant effect on the quality of financial statements.

H8: The use of information technology has a positive and significant impact on the performance of local governments.

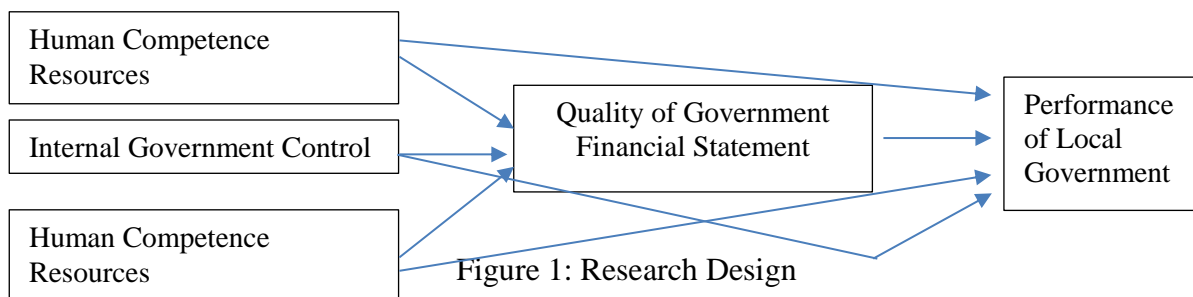
H9: Information technology has a positive and significant impact on the performance of local governments through the quality of financial statements.

H10: The quality of financial statements has a significant positive impact on the performance of local governments.

3.0 Methodology

The subject of the study is situated in Cimahi's municipal administration. This study uses survey methods and is both descriptive and verifiable. The quantitative explanatory survey is the applied research method. The Cimahi City Regional Apparatus Organization received the study's sample population. The sampling method used a Purposive method, and up to 60 respondents were chosen from each work unit in Cimahi City who were directly involved in creating financial accounts. The stages of Research include: The first stage formulates research problems and objectives and conducts literature and regulatory reviews to identify indicators of each variable. The second stage is to survey by distributing questionnaires to officers who play a role in preparing financial statements. The third stage, tabulation of survey result data, is detailed according to research variables. The fourth stage is to conduct data analysis with SEM Smart PLS 4.0.

3.1 Research Design



4.0 Results

4.1 Testing Measurement Models (Outer Model)

The variable measurement model is used reflectively. External model testing includes testing internal consistency, reliability, convergent validity, and discrimination following Hair's criteria (Hair et al., 2019). The internal consistency reliability test results of the variables used in this

variable have a composite reliability and a Cronbach alpha more significant than 0.7. The results of the convergent validity test, which includes checking the reliability of the indicator and the extracted average variance (AVE), are above 0.5, respectively. The discriminant validity test results, including cross-loading tests, are not strongly correlated with other constructs. The results of the Fornell-Larcker test criterion of the AVE root value for each variable are more significant than the correlation value between variable constructs. The test result of the heterotrait-monotrait ratio (HTMT) value for each pair of variables is less than 0.9.

4.2 Testing of Structural Models (Inner Model)

R-square, f2 size effect value, collinearity testing, and model fit assessment are used to test the structural model (inner model) (model fit). The R-square value is 0.5 and 0.75, indicating that the model's prediction accuracy has a moderate impact. Effect value size f2 Human Resources Competence -> Local Government Performance 0,041 (small), Human Resources Competence -> Quality of Government Financial Performance 0,232 (moderate), Internal Government Control -> Local Government Performance 0,015 (very small), Internal Government Control -> Quality Financial Performance 0,127 (small), Quality Financial Performance -> Local Government Performance 0,349 (moderate), Utilization Of Information Technology -> Local Government Performance 0,324;(moderate). Utilization Of Information Technology -> Local Government Performance 0,021 (small), Utilization Of Information Technology -> Quality Financial Performance 0,324 (moderate). According to the computation of the multicollinearity test using the Variance Inflation Factors value technique, there is no significant connection among the independent factors in the used SEM-PLS model. VIF levels under 5 demonstrate this. The Standardized Residual of Root Mean Square (SRMR) calculation result of 0.069 has a satisfactory model fit according to the model fit assessment.

4.3 Hypothesis Test Results

Table 2: Results of hypothesis testing with direct influence

Hypothesis	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STD EV)	P values
Human Resources Competence -> Quality of Government Financial Statement	0.347	0.344	0.128	2.714	0.007
Internal Government Control -> Quality of Government Financial Statement	0.266	0.280	0.090	2.960	0.003
Utilization of Information Technology -> Quality of Government Financial Statement	0.398	0.391	0.095	4.171	0.000
Human Resources Competence -> Local Government Performance	0.155	0.158	0.115	1.351	0.177
Internal Government Control -> Local Government Performance	0.091	0.095	0.100	0.915	0.360
Utilization Of Information Technology -> Local Government Performance	0.112	0.103	0.152	0.737	0.462

Quality Financial Performance -> Local Government Performance	0.563	0.569	0.136	4.137	0.000
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According to Table 2, the quality of financial statements is significantly impacted by human resource literacy, government internal control, and information technology, but local government performance is unaffected.

Table 3: Results of hypothesis testing of indirect influence

Hypothesis	Original	Sample	Standard	T statistics (O /STDEV)	P values
	sample (O)	mean (M)	Deviation (STDEV)		
Human Resources Competence -> Quality Financial Performance -> Local Government Performance	0.195	0.193	0.086	2.282	0.023
Internal Government Control -> Quality Financial Performance -> Local Government Performance	0.150	0.159	0.063	2.374	0.018
Utilization Of Information Technology -> Quality Financial Performance -> Local Government Performance	0.224	0.225	0.088	2.555	0.011

According to Table 3, the performance of local governments is positively and significantly impacted by the indirect effects of resources, human competency, government internal control, and information technology utilization through the Quality of Government Financial Statements.

5.0 Discussion & Conclusion

The level of municipal governance degrees is influenced by human resource literacy, internal governmental control, and information technology utilization, according to the findings of hypothesis testing. The study's findings are consistent with Darmawan's and Jatmiko et al. (2019), Dewi at. al. (2019), and Julita & Susilatri (2018). The performance of local governments is not affected, but if it is done through the accuracy of the financial statements, performance will be affected.

The results of this investigation indicate that to improve the performance of local governments, efforts must be made by qualified human resources, internal government control must be implemented, and information technology must be used to produce high-quality financial statements.

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