

## EFFECT OF GOVERNMENT ACCOUNTANTS COMPETENCY AND IMPLEMENTATION OF INTERNAL CONTROL TO THE QUALITY OF GOVERNMENT FINANCIAL REPORTING

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### ABSTRACT

*This paper study the problem that occur in financial reporting of government agencies. The study analyze the effect of the competence of government accountants and implementation of internal control over financial reporting quality. The phenomenon occurs is that there are still many government accountants who prepare financial reporting without having sufficient accounting education background. Likewise, internal control problems is also suspected to affect the financial reporting quality. This research was conducted in Bandung City Government , and the analysis unit are the Regional Work Unit (SKPD) Bandung City. With approximately 60 SKPD and districts in the city of Bandung, the researchers took samples of non-district unit work (30 SKPD). The methodology used is Multiple Regression Analysis. The results shows that there is significant effect of the government accountant competency to the financial reporting quality. Internal control also has significant effect on Financial Reporting quality.*

**Key words:** Government Accountants Competence, Internal Contro, Financial Reporting

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### Introduction

Nowadays people demand on more clean and transparent governance has become a global issue. The development of government accounting became one tool that is expected to be a solution to fulfill the demands of transparency of the government's performance in terms of accountability (Aaron M, 2009: 7). Accountability is a jargon which is very popular in OECD (Organization for Economic Co-operation and Development) countries. The concept of accountability is regarding relevant to illustrate the performance of public sector. The public sector is demanded to provide accountability reporting of all its activities to all interested parties, such as taxpayers, buyer services, government, and parliament (Aaron 2009: 9).

The concept of New Public Management (NPM) began in the early 1980s when the Prime Minister Margaret Thatcher reigned in UK and also in some local governments in United States, while the economic recession (Groot and Budding, 2001). Australia and New Zealand subsequently follow NPM reform agenda. Upon the success of these countries practicing NPM, made other countries to include the NPM as their agenda. Thus NPM is a movement which is first performed by practitioners to improve the public administration.

NPM later evolved into the concepts as expressed in his book Public Sector Accounting (Mardiasmo, 2009: 56), as *managerialism* (Pollit, 1993); Market Based Public Administration (Lan, Zhiyong and Rosenblom); Post-bureaucratic paradigm (Barzley, 1992) and entrepreneurial Government (Osborne and Gaebler, 1992). New Public Management (NPM) focuses on the management of public sector policies performance-oriented. Therefore, part of the NPM reform is a performance-based management. The focus of performance-based management is the measurement of the performance of public sector whit results oriented organizations, (Mahmudi, 2007).

Along with the development of New Public Management, governments across the world in the last decade have begun implementing accrual-based accounting in its financial report as a basis for the reform in financial management architecture (Carlin, 2003). It has been long time for public entity practiced on the cash basis of accounting until about the 1980s, when it seem more appropriate to move closer to commercial accounting practices. This change is due to the higher demand for government and other public sector to be more accountable (Bontas, et al., 2009). In Indonesia demands for accountable public sector has become a central theme voiced by society and all stakeholders from government entities.

Goevernement accounting reforms chosen by many countries is the adoption of the accrual basis (Halim, 2012). This reform is the first step towards adoption of the budgeting system. Reform has been implemented in various countries with different scope. According to the OECD (1993), the accrual basis of accounting is expected to meet matters related better accounting system and to support decision-making and long-term consequences of a government policy. The accrual basis is considered to be able to provide better results than the cash basis has been used in Indonesia. Public sector reform makes the government needs to consider financial statement not only for the concern of cash, but also for a basis of decision making.

In 2015 Indonesia government has enforce all the government sector to implement a full accrual based accounting in regard with Regulation (Peraturan Pemerintah /PP) No. 64 in 2013. Accounting for government in Indonesia is regulated in the Code of Government Accounting Standards (PSAP), which was defined by the Government Accounting Standards Committee (GASC).

Accounting for government sector needs to be specifically standardized because of the differences in the characteristics of the accounting profit sector with the public sector accounting

Conceptual framework of the PSAP No. 1 describes the government accounting environment, a form of government entity and the separation of powers, self-governing system and transfer income, political influence and the relationship between taxes and also government services (Halim, 2012).

Similarly, in determining whether a commercial financial report quality, then the qualitative characteristics of government financial report must be relevant, reliable (accountability), comparable (comparability) and understandable (understandability) (Halim, 2012).

The problem is that some government entity financial reporting does not yet meet the qualitative characteristics. There are still many problems associated with the phenomenon of government financial report. As expressed by the chairman of the BPK (Government Auditor) Rizal Djalil (2014) that the central government's financial report card is not green yet. He said that the cause is the existence over oil and gas lifting of receivables and contact contractor cooperation issues. Representation head of BPK Jakarta

Vice Chairman of BPK Hasan Bisri (2013) found a weakness of Internal Control System (ICS) and non-compliance with laws and regulations in the investigation of financial statements of ministries/ institution. Hasan said that problem related to the weakness of ICS, especially in the management of fixed assets and social assistance.

Vice President Boediono (2011) said that based on reports received, the lack of qualified human resources with the ability to make high quality financial reports is the main reason to the poor financial report quality in government institution. From the discussion above we can conclude that there are still many problems related to financial report in both the commercial institutions (companies) as well as in government institutions. From some of the causes that give rise to these problems include inaccuracies placement of human resources who manage government finances and internal control issues. Based on the discussion above, the author will research with the title:

**"The Influence of Government Accountants Competence and Implementation of Internal Control of the Financial Report Quality"**

#### **Formulation of the problem**

Based on the research background, then the problem can be identified in this study are:

1. How is the influence of Government Accounting Competence effect the Quality to Financial Reporting
2. How is the influence of Implementation of Internal Control to the Quality of Financial Reporting.

#### **Purpose and Objective**

This study intends to obtain empirical evidence about the effect of competence government accountant and implementation of internal control over financial report quality.

1. Effect of Government Accountants Competence for Quality Financial Reporting
2. Effect of Implementation of Internal Control of the Quality of Financial Reporting

## **II. THEORY**

### **Competence of Government Accountants**

David McClelland (1973) as a psychologist in the field of competence, defined competency is a personal characteristics, motive, behavior or knowledge which proven to boost excellent job. While Spencer and Spencer (1993) defined competency as A competency is an underlying characteristic of an individual that is causally related to criterion-referenced effective and/ or superior performance in a job or situation. Underlying characteristic means the competency is a fairly deep and enduring part of the person's personality and can Predict behavior in a wide variety of situational job task. Causally related means that a competency causes or Predicts behavior and performance. Criterion- referenced means that the competency actually predicts who does something well or poorly, as measured on specific criterion or standard.

Das et.al (2012) stated that Competency is one of the most essential concepts for business to Achieve Success in any of the day-to-day job responsibilities performance from task management to recruiting, from training and development.

In a definition discussed above we conclude that there are two types of competence : (a) individual competencies (knowledge, skills and abilities of the individual); and the organization competence (the collective character at the organizational level).

Ennis (2008), defined the competency as the capability of applying or using knowledge, skills, abilities, behaviors, and personal characteristics to successfully perform critical work tasks, specific functions, or, operate in a given role or position.

From the definition above it can be concluded that competence is a character or motive both individual and organizations to achieve superior job performance. Therefore the competence of government accountants are competencies possessed by government accountants in this case relates to the processing of governmental financial reporting.

### **Internal control**

During this time the emphasis of internal control much focused only on public companies. In fact, internal control is an important issue for all kind of organizations (Graham, 2008: 1). According to the COSO (Committee of Sponsoring Organizations) internal control is defined as a process that: (1) affected by the company's directors, management and other personnel, and; (2) designed to provide reasonable assurance to the purpose of the operation, reporting and compliance.

INTOSAI (guideline for Public Sector, Belgium, 2004) defined internal control as an integral process which affected the management and personnel; and designed to provide reasonable assurance with the company's mission. The general purpose of internal control are: (1) undergo operating regularly ethic, economic, effective and efficient; (2) fulfill the obligation of accountability; (3) comply with applicable laws and regulations; (4) securing resources from loss, error-use and

Further explained that internal control is a dynamic integral process which ongoing basis to adapt with the changes faced by an organization. Management and personnel of any level should be involved in the process to avoid risks and provide adequate confidence in order to achieve company goals (INTOSAI, 2004).

On the Indonesian Government Regulation No. 60 Year 2008 about Government Internal Control System, internal control is defined as a process that is integral to the actions and activities carried out continuously by management and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient, the reliability of financial report, the safeguarding of state assets, and compliance with laws and regulations. Government Internal Control System, hereinafter shortened GICS, is the Internal Control System which is held as a whole in the central government and local governments.

Internal control is a continuous process of an organization that aims to obtain reasonable assurance will guarantee security of existing resources committed by all elements of management personnel within the organization.

### **Financial report**

Kieso et.al and M. Saeed defined financial report as a system used by the users of financial statements in order to take a decision. The user of financial statements is external or providers of funds (capital) for the company. Kohler's Dictionary also stated that the financial report contains all matters relating to the financial information that ultimately helps the user to interpret those statements for decision-making purposes.

Based on the definition of the experts above, it can be concluded that the financial report is a system that reports on business activity of a business with the aim to meet the information needs of the user Thus the financial report are considered qualified if they meet the needs of users in the decision making process.

Kieso sees the quality characteristics of the IASB's financial report as the main characteristic of which consists of relevant and faithful representation; and supporting characteristics consist of comparability, verification, timeliness and understandability. Jane L. Reimers (2008) stated that a good financial report is useful for users to meet such things are relevant, reliable comparable and consistent. In his research, Abhijit Barua (2006) used the dimensions of qualitative characteristics of financial report in accordance with FASB characteristic. As well as Nobes and Stadler (2014) in their research used qualitative characteristics of financial report issued by the IASB.

### **The Effect of Government Accounting Competence to Financial report Quality**

Ninlaphay and Salakijit (2011) found that accounting practice focus on regulatory implementation and orientation awareness of professional ethics significantly has positive impact on the financial report quality; and the financial report quality had a significantly positive impact on the usefulness of the information. However, the research found that the improvement of accountant skills had no impact on the quality of financial report. Accountant competencies act as a moderator in the relationship between consciousness implements and quality of financial report, but learning to be competitive not a moderator of the relationship between the financial report quality with the usefulness of the information.

While Hari (2013) found that the competence of internal accountant has a significant impact on the financial report quality. The opposite was found in the study Eka (2015) found that the competency of human resources does not affect the quality of local government financial report.

Muhammad and Nunuy (2013) found that simultaneously there is a positive relationship between the personnel competence, use of information technology and internal control over financial report quality.

From the discussion above, we can see that there is a relationship between the human resources competence involved in the processing of financial report on the quality of financial report.

### **Effect of Internal Control to the Financial Reporting Quality**

Stephen.H and Steven.B (2005), in his research regarding the characteristics of companies with material weaknesses in internal control: according to Section 4040 of SOA (Sarbanes Oxley Act), stated that the SOA, companies are still doing earning management through profit pro forma. Internal control still has not managed to function for reconcile estimated earnings.

Doyle et.al (2007) suggested in other studies that the relationship between the weak internal controls and low accrual quality driven by weakness disclosures related to the level of control of the company as a whole. In another study Doyle et.al (2007) states that companies with a serious control problem usually smaller, younger, and financially weak. Doneleson et.al (2015) examined how weak internal control can increase the risk of fraudulent financial report by the top managers.

From the above discussion of his research we can see that there is relationship between internal control and financial reporting.

### III. Research Methods

According to Kothari (2004: 33), a variable is a concept which can take on different quantitative values. While Uma Sekaran (2006: 115) said that the variable is anything that can differentiate or bring variation in value. Value can be different at different times for the same object or person, or at the same time for different object or person. The object of this research is the competence of human resources part of financial report, implementation of internal controls and the financial report quality. Study was conducted in Working Units at Local Government of Bandung City.

The design of this study is causal or hypothesis testing research also called *explanatory research*, which is to explain the relationship between variables by testing the assumptions of the (hypothetical). The study use Multiple Regression Analysis method to analyse the data.

### IV. Study Results

Table 1: Survey Respondents

No	Description	Amount	Percentage
1.	Number of questionnaires distributed to each SKPD and/institution SKPD level of non-Districts	34	
2.	Number of questionnaires returned	30	88%
3.	Number of questionnaires can be processed	30	88%

From Table 1 we can see the number of questionnaires distributed were 34, with only 30 copies return. The amount of the questionnaires processed is 30 copies. The questionnaires were given to 34 SKPD's in the Local Government of Bandung City. Respondents who answered was a chief financial officer or the person who is responsible for financial reporting on the unit.

Before the survey data is processed, we first test the validity and reliability of the research instrument. The test is performed to verify whether the instruments used have high levels of reliability and validity value to be able to measure what is supposed to be in measuring function. With Alpha Cornbach values above 0.70, then the three variables tested in the category reliable.

The criteria to declare a validity item of the questionnaire is the use of the critical value (limit) 0.3, which is obtained from the r table with  $\alpha = 0.05$  and  $df = N-2 = 28$ . So that items that have correlations below 0.3 considered invalid and will be excluded from testing. The validity of the test results of all variables indicator of the three variables tested showed that the questionnaire is valid.

Table 2: Variable Competence Research Instruments Recapitulation of Government Accountants

Dimension/ Indicator	Score Average	Criteria
<b>Relevance</b>		<b>Good</b>
a. Have Feedback	4.00	Good
b. On Time	4.07	Good
d. Comprehensive information	4.07	<b>Good</b>
<b>Faithfull Representation</b>		Good
a. Honest Presentment	<b>3.97</b>	Good
b. Verifiable and testable	4.37	Good
c. Information is neutral	4.07	Good
<b>Comparability</b>		
a. Consistency of application of accounting policies	4.20	Good
b. Internal comparisons over time	4.20	Good
c. External comparisons between entities	4.03	Good
<b>Timeliness</b>		
a. Timely of financial reporting completion	4.03	Good

<i>Understandability</i>		
a. Utilization	3.90	Good
b. The form and terms are understandable	3.73	Good

Descriptive analysis of study variables

In Table 2 we can see that the most of respondents have knowledge and skills in the category Good. Knowledge dimensions have a total score of 3.66 under the skill dimension with a value of 4.03. For the highest dimension is a statement about the social skills the most of them have a good ability to socialize with colleagues in the environment in which they work.

The smallest number is a statement about the educational background which is only 3.33. From the questionnaire and interviews result with several departments, they claimed that the finance department and financial reporting does not have an adequate educational background in accounting. Placement system is not based on expertise, but directly placed by the central government. As such they require a greater effort to understand the accounting process especially with the enactment of a new government accounting system to an accrual basis.

Table 2: Variable Instruments Recapitulation of Competence Government Accountants

Dimension/ <b>Indicator</b>	Score Average	Criteria
<b>Knowledge</b>	<b>3.66</b>	<b>Good</b>
a. Education Background	3.33	Good
b. Procedure Knowledge	3.67	Good
c. Technical Services Knowledge	4.00	Good
<b>Skill</b>	<b>4.03</b>	<b>Good</b>
a. Administrative Skill	4.10	Good
b. Managerial Skill	3.97	Good
c. Technical Skill	3.77	Good
d. Social Skill	4.27	Good

Table 3: Research Instruments recapitulation Internal Control Variables

Dimension/ <b>Indicator</b>	Score Average	Criteria
<b>Control Environment</b>	<b>3.96</b>	<b>Good</b>
a. Enforcement of integrity and ethical values	4.27	Good
b. Competence Commitment	3.60	Good
c. Conducive Leadership	4.30	Good
d. The establishment of an organizational structure that fits the needs	3.90	Good
e. The proper authority and responsibility delegation	3.73	Good
f. Formulation and implementation of fine policies on human resource development	4.00	Good
g. Effectiveness embodiments of the role of internal control apparatus government	3.90	Good
<b>Risk Assessment</b>	<b>3.98</b>	<b>Good</b>
a. Overall Institution Goal Determination	4.17	Good
b. Objectives Determination In Depth activities	4.20	Good
c. Risk Identification	3.73	Good
d. Risk Analysis	3.83	Good
<b>Control Activities</b>	<b>3.98</b>	<b>Good</b>
a. General Comments / Notes Application	4.20	Good
b. Control over the management of information systems	4.23	Good
c. Physical control over assets	4.07	Good

d. Determination and review the authorization for transactions	4.10	Good
e. Accurate recording	4.10	Good
f. Restrictions on access to resources	3.30	Good
j. Accountability of resources and recording	3.87	

Table 3 shows the summary of research instruments Internal Control variables. In Control Environment dimension, we can see that average respondents are included in either category (average rate 3.96). The highest number is on conducive leadership statement (4.30). Thus the respondents found the leaders in their workplace support the financial reporting process. While the smallest number that is the statement of a competence commitment. A statement that their work is always concerned with the competence has the smallest average value that of 3.60.

Risk assessment is the second dimension in Internal Control Variable. The highest average value (4.20) is in the statement that in every place they work has a goal set for each activity. Whereas the result with the lowest average value is that the risk assessment on their workplace. This could indicate that the unit does not consider into account the risks that arise in each activity.

The last dimension of the test variable internal control is Control Activities. The highest average values contained in the statement that in every unit where they work controls the information processing system (4.20). As for the lowest score (3.30) is the expression by that there is limited access to the resources. Thus the respondents stated that the statement about restrictions accessing the resources has the smallest average value.

Table 4: Variable Competence Research Instruments Recapitulation of Government Accountants

Dimension/Indicator	Score Average	Criteria
<b>Relevance</b>		<b>Good</b>
c. Have Feedback	4.00	Good
d. On Time	4.07	Good
d. Comprehensive information	4.07	<b>Good</b>
<b>Faithfull Representation</b>		
d. Honest Presentment	<b>3.97</b>	Good
e. Verifiable and testable	4.37	Good
c. Information is neutral	4.07	Good
<b>Comparability</b>		
a. Consistency of application of accounting policies	4.20	Good
b. Internal comparisons over time	4.20	Good
f. External comparisons between entities	4.03	Good
<b>Timeliness</b>		
a. Timely of financial reporting completion	4.03	Good
<b>Understandability</b>		
a. Utilization	3.90	Good
b. The form and terms are understandable	3.73	Good

For financial reporting variables, the highest average value of respondents there is the statement that the reports they made can be verified/ tested. They believe that they are faithfully regarding the financial reporting process. For the lowest average value of the instrument variable Financial Reporting is in the statement that the financial reporting generated is easily understanddable by users of financial reporting. Thus on overall, the respondents still in doubt whether the user has the ability to understand the financial reporting financial reporting that they produce.

### **Influence of Government Accountants Competency Testing and Implementation of Internal Control of the Quality of Financial Reporting**

The method used to test the effect of the Government Accounting Competence and Implementation of Internal Control on the Quality of Financial Reporting is multiple linear regression method. This method required the model to free from the classical assumption test that include: multicollinearity test, autocorrelation test and heteroskedasitas test.

Multicollinearity test is to see whether the independent variable in the model is correlated each other. The table results of SPSS 21, found that there are no high correlation between variables. Thus it is considered that the model is free from problems multicollinearity. Autocorrelation test is conducted to see if there is a correlation between the error term in period t with the previous period t-1. The results test showed the the value of Durbin Watson on SPSS 21 statistical results showed of 2,084 which indicates the absence of autocorrelation in the model.

The next classic assumption test is heteroscedacity. Testing is done by looking at the distribution of data in the scatterplot diagram. In results, the diagram shown that residual randomly distributed around zero, thus indicating the absence of heteroscedacity problem.

Having performed classical assumption then the next step is to conduct multiple regression analysis. The analysis Regression is basically a study of the dependence of the dependent variable with one or more of the data by the research model as follows:

The model of this study are as follows:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where,

Y = Quality of Financial Reporting

a = constant

X1 = Competence of Government Accountants

X2 = Implementation of Internal Control

From the data in Table 5 it can be seen that the model study was as follows:

$$Y = 3.532 + 0.36X_1 + 0.158X_2 + e$$

Competence Accountants Variable has significant effect on Quality of Financial Reporting; where we can see the figures of significance is greater than 0.05. It can be concluded that the Government Accounting Competence effect the quality of the financial reporting quality. The government accountant should have a sufficient accounting background to prepare the financial reporting. They have to attend the usefull training regarding the financial reporting processing. The new concept of Government accounting using accrual basis accounting need more knowledge to apply.

Internal control variable also has significant results less than 0.05. It can be concluded that the good internal controls implementation will generate good quality financial reporting. The problem of internal control will lead to the problem of the financial reporting quality. The government enforce the implementation of internal control by the regulation PP (Government regulation).

Government try its best effort to improve the quality of financial reporting in order to increase public accountability. Thus efforts were made in order to achieve that goal. From this study it appears that the quality of financial reporting is influenced among others by the quality of government accounting and internal control ilmplementation.

Tabel 5: Coefficients<sup>a</sup>

Model	Unstandardized Coefficient		Syandardized Coefficient	t	Sig.
	B	Std. Error	Beta		
(Constant)	3.532	.566		6.239	.000
CompetencyAccountant	.036	.136	.060	.267	.002
Internal Control	.096	.158	.136	.009	.004

### Conclusion and Recommendation

Government Accountants Competence variable significantly related to the quality of financial reporting. Thereby increasingly competency of an government accountant which involved in financial reporting process, it will produce good quality of the reporting. Similarly, implementation of internal controls that will either produce good quality financial reporting.

For further research it is recommended to add other variables that influence the quality of financial reporting and also increase the number of respondents to have a better results in the future study.

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