ANALYSIS OF FACTORS AFFECTING THE QUALITY OF FINANCIAL STATEMENTS USING INFORMATION TECHNOLOGY AS MODERATED VARIABLES IN THE GOVERNMENT OF THE SOUTH NIAS REGENCY

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Abstract: The objective of this study is to analyse and determine the factors that affect the quality of financial statements by the use of information technology as a moderating variable in the Regional Government of South Nias Regency. The independent variables in this study are human resource competencies and internal control systems. The population in this study was 28 Regional Apparatus Organizations found in the regency government of southern Nias. The sampling technique uses saturated samples with a total sample of 105 questionnaire samples collected. Data is processed using SEM method. The results of this study indicate that human resource competence does not affect the quality of financial statements while the internal control system has a significant positive effect on the quality of financial statements. Utilization of information technology is not able to strengthen or weaken the effect of human resource competencies on the quality of financial statements while the use of information technology is able to weaken the effect of the internal control system on the quality of financial statements in the south Nias regency government.

Keywords: Human Resources Competence, Internal Control Systems, Utilization of Information Technology, Quality of Financial Statements.

1. Introduction

Law Number 8 of 2017 concerning State Finances which requires the form and filling of accountability reports on the implementation of the State Budget (SB) or the Regional Budget (RB) is prepared and presented with government accounting standards set by government regulations. The government issued a special law for regional government regulated in Act Number 23 of 2014 where based on the Act, the government issued Government Regulation Number 71 of 2010 concerning Government Accounting Standards (GAS) regulating standards for government entities in the preparation and presentation of financial statements on an accrual basis that was carried out starting in the 2015 fiscal year. Based on these regulations, in addition to being required to prepare a Budget Realization Report (BRR), Balance Sheet, Cash Flow Report, and Notes to Government Financial Report, the government is also presented with preparing and presenting Operational Reports, Statements of Changes in Over Budget Balance, and Statements of Changes in Equity. The BRR presents income, expenditure and financing on a cash basis, while the Operational Reports presents income and expenses on an accrual basis.
The results of Audit Board inspection in the first semester of 2018, the Audit Board examined 542 local government financial reports in 2017. On this local government financial report obtained Unqualified Opinion of 411 local government financial reports, received Qualified Opinion of 113 local government financial reports, received Disclaimer Opinion of 18 local government financial reports. From 34 provincial governments, 33 local government financial reports received Unqualified Opinion and 1 local government financial report received Qualified Opinion. Out of 415 district governments, 298 local government financial reports received Unqualified Opinion and 99 local government financial reports received Qualified Opinion. While from 93 city governments, 80 local government financial reports received Unqualified Opinion and 13 local government financial reports received Qualified Opinion (BPK, 2018). The factors that are suspected to influence the quality of financial statement information are human resource competencies, internal control systems, quality of government apparatuses, utilization of information technology, effectiveness of supervision (Sianturi, 2016), (Agustina, 2015), (Suwanda, 2015).

The Governor of North Sumatra Province advised the South Nias Regency Government to conduct good financial management. Local government financial report audits by the Audit Board (BPK) to provide adequate assurance that regional financial reports have been fairly presented in all respects. The final result of the Audit Board (BPK) audit process is to give an opinion/opinion on the fairness of financial information local government financial reports. BPK's opinion on local government financial reports of the South Nias Regency Government from 2012 to 2017 can be seen through the Table.

**Table 1. Audit Board Opinion on Local Government Financial Report of South Nias Regency Government**

<table>
<thead>
<tr>
<th>Tahun</th>
<th>Opini Audit</th>
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<tbody>
<tr>
<td>2012</td>
<td>Disclaimer Opinion</td>
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<tr>
<td>2013</td>
<td>Disclaimer Opinion</td>
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<td>2014</td>
<td>Disclaimer Opinion</td>
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<tr>
<td>2016</td>
<td>Disclaimer Opinion</td>
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<tr>
<td>2017</td>
<td>Disclaimer Opinion</td>
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</tbody>
</table>

Based on the table above, it shows the financial statements of the South Nias District Government from 2012 to 2017 where the Audit Board (BPK) gave an audit opinion Disclaimer Opinion. The Disclaimer Opinion means that there are irregularities in certain items, however such irregularities do not affect the reasonableness of the financial statements as a whole, therefore the shortcomings or weaknesses that must be corrected in the South Nias Regency Government financial management. From the findings of the Audit Board (BPK) there are four things that underlie giving Disclaimer Opinion opinion namely, conformity to Government Accounting Standards (GAS), adequacy of disclosure, compliance with legislation, and effectiveness of internal control.

Human resource competence is very important in managing and presenting financial information so that the financial statements that are presented are more timely. The problem of competency in human resources is a challenge for every
employee in the field of finance in the South Nias area. The phenomenon found is that there is still a gap between competencies as a basic requirement that must be owned by employees. This is in line with research which states that human resource competence has a significant positive effect on the quality of financial statement information (Sianturi, 2016), but in contrast to research which states that human resource competency has a significant positive effect on the quality of financial statement information (Agustina, 2015).

Government Regulation No. 60 of 2008 concerning the understanding of the Internal Control System is an integral process of actions and activities that are continuously carried out by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets and obedience to legislation. If the internal control of the government is weak, it will be difficult to detect fraud in the accounting process. This is in line with research which states that the internal control system has a positive effect on the quality of financial statements (Sianturi, 2016), but is different from research which states that the internal control system does not affect the quality of financial statement information (Suwanda, 2015).

Utilization of Information Technology that has not been maximized will also affect the quality of local government financial statement information. Today, technology is very sophisticated, whether computers or laptops can help human work at work. Information technology consists of parts used to process data, including in processing, obtaining, compiling, storing, manipulating data in various ways to produce quality information (Saragih, 2016). The explanation above is in line with research which states that the use of information technology has a significant positive effect on the quality of information on financial statements (Agustina, 2015), in contrast to research which states that the use of information technology has no effect on the quality of information on financial statements (Puspitawati, 2016).

2. Literature Review
2.1 Decision Usefulness Theory

In this research, the basis or grand theory is decision usefulness theory. Decision usefulness theory has the view that if financial statements that cannot be prepared theoretically are correct, at least they can prepare more useful historical financial statements. In this theory there are two questions that must be answered in its application, namely:

1. Who is the user of financial statements?

In preparing the financial statements must know who will use the financial statements later. The users of financial statements are usually creditor investors, managers, governments, the public, and so on. It is intended that later the financial statements can be used by users of financial statements that should be.

2. What are the decision problems faced by users of financial statements?

By understanding the decision issues, the accountant can prepare the information needed by the users of financial statements. Preparation of information in accordance with the needs will be able to facilitate the decision making process,
although the information needs of each group of users of financial statements differing information presented in the financial statements must be general in purpose to meet the information needs of all user groups, so it is not structured to meet specific needs of each user group. Conflicts often occur between the government and the community. Officials in government as those who carry out public services have more information so that they can make decisions or policies that only concern the government and the authorities and ignore the interests and welfare of the people. To reduce this problem, the effort that must be done by local governments is to present financial reports in a transparent and accountable manner.

The theory of decision-use of accounting information must contain components that must be considered by presenters of accounting information in order to meet the needs of decision makers in making economic decisions. SFAC No. 2 about Qualitative Characteristics of Accounting Information describes the hierarchy of the quality of accounting information in the form of primary quality, content and secondary quality. The primary quality of information that is useful in economic decision making is the value of relevance and reliability. The FASB states that value is relevant and reliability. There are two main qualities that make accounting information useful in decision making. Relevant value is classified as the capacity of information to make a difference in decision making by the user while reliability is defined as the quality of the guarantee that the information is rationally free from errors and biases, and represents what will be described. The FASB states that in order to be relevant for investors, creditors, and others in the context of investment, credit and similar decisions, accounting information must have the capability to make a difference in a decision. This is done by assisting users in forming predictions about the results of past, present and future events or to confirm or justify their expectations.

The primary quality content of accounting information decision-use includes content components of relevant values, namely timeliness, feed-back value, and predictive value, and components of content reliability, namely representational faithfulness, neutrality, and verifiability. In addition, there are also secondary qualities, as a link between primary quality, namely comparability and consistency.

2.2 Agency Theory

In this research, the foundation or grand theory is agency theory. In companies, agency theory is the relationship between shareholders (principal) and management (agents). In public sector accounting there is also a relationship between principle and agent. The central government acts as the principal while the regional government acts as the agent. Whereas in local government, the community or public is the principal and the regional government is the agent. The community as the principal has the right to provide an assessment and evaluate the performance and financial quality of the local government to be able to provide services and welfare to the community. As an agent, regional governments have been given responsibility and trust to present and report all activities and activities that have become their responsibilities through financial statements.

Conflicts often occur between agents and principals, where people are often dissatisfied and disappointed with the results of regional government performance
for various reasons. While the government is sometimes more concerned with their own interests. Therefore a regulation is needed to regulate these different interests.

### 2.3 Quality of Financial Report

Based on (Government Regulation No. 71 of 2010) concerning Government Accounting Standards (GAS) Appendix I Paragraph 26 states that government financial reporting should provide information for users in assessing accountability and making decisions both economic, social, and political decisions.

Qualitative characteristics of financial reports according to Government Regulation No. 71 of 2010 concerning Government Accounting Standards (GAS) Appendix I Paragraph 35 is normative measures that need to be realized in accounting information so that it can meet its objectives. The following four characteristics are the normative preconditions needed so that the local government financial report can meet the desired quality, including relevant, reliable, comparable, and understandable. Therefore, the quality of local government financial report is highly determined by the four characteristics of the quality of financial statements described below based on accrual-based GAS (PP No. 71 of 2010).

1. **Relevant**
   
   Financial statements are said to be relevant if the information contained in them can influence users' decisions by helping them evaluate past or present events and predict the future and confirm or correct their evaluation results in the past. Thus relevant financial statement information can be linked to the intent of its users. Relevant information is one that has feedback benefits, has predictive benefits, and is timely.
   
   a. Has the benefit of feedback (feedback value)
   b. Has predictive value (predictive value)
   c. On time

2. **Reliable**
   
   Information in financial statements is free from misleading notions and material errors, honestly presents every fact, and can be verified. Information may be relevant, but if the nature or presentation is not reliable then the user of the information can potentially be misleading. Reliable and fulfilling characteristics are honest, verifiable, and neutrality.
   
   a. honest presentation
      
      Information describes honestly transactions and other events that should be presented or that can reasonably be expected to be served.
   
   b. can be verified
      
      The information presented in the financial statements can be tested, and if the test is carried out more than once by different parties, the results still show conclusions that are not much different.
   
   c. Neutrality
      
      Information is directed at general needs and does not favor the needs of certain parties.

3. **Can be compared**
   
   The information contained in the financial statements will be more useful if it can be compared with the financial statements of the previous period or
the financial statements of other reporting entities in general. Comparisons can be done internally and externally. Internal comparisons can be made if an entity applies the same accounting policy from year to year. Externally comparisons can be made if the entity being compared applies the same accounting policy. If a government entity adopts an accounting policy that is better than the current accounting, the changes are disclosed in the period in which the changes occur.

4. Can be understood

The information presented in the financial statements can be understood by users and expressed in terms and terms that are adjusted to the limits of the user's understanding. For this reason, users are assumed to have sufficient knowledge of the activities and operating environment of the reporting entity, as well as the user's willingness to learn the information in question.

2.4 Utilization of Information Technology

Technology is a machine for running information systems. Technology captures input, runs models, stores and accesses data, generates and conveys outputs, and controls the entire system. Computer-based information systems, technology consists of three components, namely computers, data storage outside (auxiliary storage), telecommunications, and software (software) (Mulyadi, 2010).

Although in general there are many known benefits offered by an information technology such as transaction processing speed and report preparation, calculation accuracy, large amount of data storage, lower processing costs, multiprocessing capabilities, but the implementation of information technology is not cheap, if information technology If there is not or has not been able to be utilized maximally, the implementation of information technology becomes useless and increasingly expensive. These constraints that may be a factor in the utilization of information technology in government agencies are not optimal. Utilizing technological advancements not only in computer technology. The internet network can also be utilized in the management of local government finances and services to the general public, one of which is the ease of accessing local government profiles through the official website of the relevant local government. Government Regulation Number 65 of 2010 Article 1 regarding Regional Financial Information Systems stated that the site is a way to display profiles of local governments on the internet with the aim of, among others, announcing or notifying, providing services to the public, and receiving input from the public.

2.5 Human Resource Competencies

Regulation of the Minister of Home Affairs of the Republic of Indonesia Number 2 of 2013 Article 1 states that the capabilities and characteristics possessed by a Civil Servant in the form of knowledge, skills, and behavioral attitudes required in the implementation of the duties of his position, therefore civil servants can carry out their duties professionally, effectively and efficiently.

Decree of the Head of the State Civil Service Agency Number 46A of 2003 stipulates that competency is the ability and characteristics possessed by a civil servant in the form of knowledge, expertise, and behavioral attitudes required in the performance of the duties of his office.
1. Knowledge, namely facts and figures behind technical aspects.
2. Skills / Skills (skills), namely the ability to show tasks at the level of criteria that can be accepted continuously with the fewest activities.
3. Attitude, which is shown to customers and others that the person concerned is able to be in his work environment.

Good regional financial management, Regional Apparatus Organization must have competent human resources, supported by accounting education backgrounds, often attend education and training, and have experience in finance. This is needed to implement the existing accounting system. The competent human resources (HR) will be able to understand accounting logic well. The failure of human resources in the Regional Government in understanding and applying accounting logic will have an impact on the misrepresentation of financial statements and the incompatibility of reports with the standards set by the government (Warisno, 2008).

The indicators to measure Human Resources Competence are as follows:
   a. Understanding of regulations and standards
   b. Interaction with the system
   c. Control of Human Resources
   d. Education and training

2.6 Internal Control System (ICS)

PP No. 60/2008 defines internal control as an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and obedience to laws and regulations.

Internal control defined by COSO (1992) is a process, carried out by the board of directors, management, and other personnel of the entity, which is designed to provide reasonable guarantees regarding the achievement of objectives in the following categories:
   1. Effectiveness and efficiency of operations
   2. Reliability of financial reporting
   3. Compliance with applicable laws and regulations

Internal control systems are not new in government. Petrovits et al. (2011) state that internal control is broadly defined as the process carried out by management to provide reasonable guarantees regarding the achievement of effective and efficient operations, reliable financial reporting, and compliance with laws and regulations.

ICS is a control activity, especially for managing information systems that aim to ensure the accuracy and completeness of information.

Control activities on information management include:
   1. General control
      This control includes information system security, control of access, control over the development and change of application software, control of system software, segregation of duties, and continuity of service.
   2. Control of application
      This control includes authorization control, complete control, accuracy control, and control over the reliability of processing and data files.
2.7 Hypothesis
Based on the theoretical and conceptual framework, the hypotheses of this study are as follows:
H1: Human Resources Competence has a positive effect on the Quality of Financial Reports in the South Nias Regency Government
H2: The Internal Control System has a positive effect on the Quality of Financial Reports in the South Nias Regency Government
H3: Utilization of Information Technology is a moderating variable in the effect of Competence of Human Resources on the Quality of Financial Reports in the South Nias Regency Government
H4: Utilization of Information Technology is a moderating variable in the effect of the Internal Control System on the Quality of Financial Reports in the South Nias Regency Government

3. Method
This study aims to test hypotheses and is research that explains phenomena in the form of relationships between variables (Erlina, 2011). The population in this study were all Regional Apparatus Organizations in the South Nias District Government involved in the preparation of financial statements, namely 28 Regional Apparatus Organizations, consisting of 2 secretariats (regional secretariat, Regional Representative Assembly secretariat), 1 Inspectorate, 20 Service Offices, and 5 Agencies. Each Regional Apparatus Organizations will be given 5 (five) questionnaires to be filled in by the Head of Service, Secretary, Head of Finance, then to PPTK (Financial Administration Officer and treasurer of expenditure). Therefore the number of samples of this study is 140 respondents (28x5). This research is a descriptive statistical test, data quality test, and hypothesis testing.

4. Result and Discussion
4.1 Result
Based on the tests carried out the following are the results of frequency statistical testing, data quality testing, and hypothesis testing.

<table>
<thead>
<tr>
<th>Table 2. Descriptive Statistics</th>
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<tbody>
<tr>
<td>Quality of Financial Report (Y)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>105</td>
</tr>
<tr>
<td>Utilization of Information Technology (Z)</td>
</tr>
<tr>
<td>N</td>
</tr>
<tr>
<td>105</td>
</tr>
</tbody>
</table>
Descriptive statistical test results from the data that have been tested are all variables have a mean value that is almost the same with each other that is above 3.7 which means that the average respondent answers the questionnaire questions with neutral answers, agree to strongly agree.

4.2 Data Quality Test

In the data quality test there are two tests carried out namely, the validity test and the reliability test. Test the validity by looking at the average variance extracted (AVE) value and the AVE restriction value is 0.50. Based on the results of the validity test that has been done, all the variables in this study are included in the valid data category. Furthermore, data reliability testing. This test uses the Cronbach alpha (CA) and composite reliability (CR) values. The boundary values for CA and CR are 0.70. Based on the results of the reliability test that has been done, all the variables in this study are included in the category of reliable data.

4.3 Hypothesis testing:

Test the Effect of Significance

Significant test is performed to determine whether all independent variables used have an influence on the dependent variable. Significance test in this study uses the Bootstrapping approach which is to see the test results through the P-value. If the p value is below 0.05, the results have a significant effect. The results of the significance test can be seen in the following table:

<table>
<thead>
<tr>
<th>Original Sample (0)</th>
<th>P Values</th>
<th>Conclusion</th>
</tr>
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<tbody>
<tr>
<td>HR Competencies (X1) -&gt; Quality of Financial Report (Y)</td>
<td>0.028</td>
<td>0.446</td>
</tr>
<tr>
<td>Internal Control System (X2) -&gt; Quality of Financial Report (Y)</td>
<td>0.897</td>
<td>0.000</td>
</tr>
</tbody>
</table>

Determination Coefficient Test (R²)

The coefficient of determination test is a test conducted to see how much the effect independent variable has on dependent variable. The coefficient of determination test results in this study is the adjusted R² value of 0.866 which means that the independent variable in this study is able to influence the dependent
variable as much as the remaining 86.6% by 13.4% influenced by other variables outside this study.

4.4 Discussion
The Effect of Human Resource Competence on the Quality of Financial Reports

This test results that the competence of human resources does not significantly affect the quality of financial report. The results of this study are in line with research (Sianturi, 2016) which states that human resource competence does not significantly affect the quality of financial report.

This proves that every employee who works in the southern Nias regency government is inconsistent and has competence in the field of accounting in the preparation of financial reports. Competence is a basic characteristic in a person achieving better performance to carry out his work. The South Nias Regency Government must continue to make efforts to improve the quality and quantity of employees involved in the process of preparing financial reports so that they can continue to develop better.

The higher or lower competency of human resources in the southern Nias regency government will not affect the quality of the financial reports of the southern Nias regency government. This is because the employees are directly equipped with practices in preparing financial reports, not seen from how many competency certificates possessed by the employees.

The Effect of Internal Control Systems on the Quality of Financial Reports

The results of this test indicate that the internal control system has a positive effect on the quality of financial report. This is in line with research conducted (Sianturi, 2016). The internal control system is an activity including organizational planning, organizational procedures, and records that support the financial report that will be prepared reliably and reliably. Regional Government Organizations in the South Nias Regency Government have carried out internal control of the government very well, including carrying out accounting system activities that are in accordance with government accounting standards, starting from recording, authorization, and reporting.

A good internal control system has the characteristics of a control environment such as rules regarding the behavior and ethical standards of employees set by the leadership, existing risk assessments such as transactions that are inputted and processed into a computer but not yet authorized, then it has risks. The better internal control of the government will show that the quality of the financial report produced will give actual results.

Utilization of Information Technology as a Moderation Variable between the Effects of Human Resources Competence on the Quality of Financial Reports

The results of this study indicate that the use of information technology is not able to strengthen or weaken the effect of human resource competencies. South Nias Regency Government has used information technology but the use of information technology is not supported by the competence of existing human resources to make it easier to manage integrated data. The greater the competence of human resources supports the achievement of the quality of financial reports.
However, the use of information technology will not increase the competence of human resources in supporting the achievement of financial information quality. This is because the use of information technology which is carried out only as a basic job, therefore human resource competencies in the south Nias regency government will not develop.

**Utilization of Information Technology as a Moderation Variable between the Effects of the Internal Control System on the Quality of Financial Reports**

The results of this study indicate that the use of information technology is able to weaken the effect of the internal control system on the quality of financial report. The Regional Apparatus Organization of the South Nias Regency Government has used information technology efficiently and effectively to smooth the process of preparing the local government financial reports. With the use of computers and networks and the existence of good maintenance will greatly facilitate the deception of integrated data. But in the southern Nias district government the use of information technology has increasingly made the internal control system less improved. This is because the employees who work in the south Nias regency government do not utilize information technology and the apparatus who work as supervisors assume that with the information technology the control system will run well but the reality is not the case.

5. **Conclusion and Suggestion**

5.1 **Conclusion**

Based on data analysis and discussion carried out in the previous chapter, conclusions can be drawn:

1. Partially the competence of human resources does not significantly affect the quality of financial reports in the South Nias Regency Government.
2. Partially, the internal control system has a significant positive effect on the quality of financial reports in the South Nias Regency Government.
3. The use of information technology has been unable to strengthen or weaken the effect of human resource competencies on the quality of financial reports in the South Nias Regency Government.
4. The utilization of information technology is able to weaken the effect of the internal control system on the quality of financial reports in the South Nias Regency Government.

5.2 **Research Limitations**

The study realizes that there are limitations in this study, including:

1. This study uses a questionnaire instrument in which the answer is based on the perception of respondents' answers, so there is a possibility of bias or incompatibility with the actual situation and contains an element of subjectivity.
2. The independent variable in this study was only able to influence the quality of the financial reports of the southern Nias regency government by 86.6%, the rest was affected by other factors not examined in this study.
5.3 **Suggestion**

Based on the results of research conducted, it was found several suggestions that can be used as consideration as follows:

1. For further research it is expected to consider observation techniques, not only using questionnaires but adding techniques such as interviews and observations.
2. For further research, it is expected to be able to add other independent variables outside this research variable which are more influential and also to increase the number of respondents who are suspected to affect the quality of financial statements in the South Nias Regency Government.

**Reference**


https://doi.org/10.15408/akt.v9i1.3583

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