

ANTECEDENTS OF THE QUALITY OF GOVERNMENT FINANCIAL STATEMENT: THE ROLE OF REGIONAL ASSETS MANAGEMENT, INTERNAL CONTROL SYSTEMS, AND STAFF COMPETENCY

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Abstract

The aim of this research is to analyze the influence of the role of Regional Assets Management, Internal Control Systems, and Human Resource Competency on the Quality of Sibolga City Government Financial Reports. The method used in this study employs a quantitative approach; the data collection method uses a survey, and the data used are primary data (questionnaires). The total population in this study comprised 80 Sibolga City Government Regional Apparatus Organization Property Managers, comprising 30 Regional Apparatus Organization Property Administrators, 17 sub-district property administrators, 10 junior high school property administrators, and 23 elementary school property administrators. From the results of collecting the questionnaires, 46 questionnaires were obtained, which could be processed using SPSS software, version 25. The data analysis employed descriptive statistical data analysis, multiple linear regression techniques, and hypothesis testing. Based on the research results, it is shown that the Management of Regional Assets, Internal Control Systems, and Human Resource Competency have a positive and significant effect on the Quality of Financial Reports of the Sibolga City Government.

Keywords : *Human Resource Competence, Internal Control Systems, Management of Regional Assets, Quality of Financial Statement.*

1. INTRODUCTION

Financial reports are prepared to provide relevant information regarding the financial position and all transactions carried out by a reporting entity during one reporting period, in accordance with Government Regulation of the Republic of Indonesia Number 71 of 2010, as outlined in Attachment One. The Regional Government Financial Report (LKPD) must have accurate information so that the financial report can be relied on. The Audit Board of the Republic of Indonesia (BPK-RI) is required to conduct an annual audit of the Regional Government Financial Report (LKPD). Government financial reports are often prepared using highly technical terms and concepts that are difficult for the general public to understand without a strong financial

background. This creates an information gap between the government and the public, which can reduce public accountability and participation in the decision-making process (Rahim et al., 2020).

Furthermore, Rahim et al. (2020) stated that problems of delays and inaccuracies in the preparation of financial reports often occur. The process of collecting and reporting government financial data can be very complicated and time-consuming, especially if there are inefficient systems or a lack of adequate infrastructure. As a result, financial reports are often late or inaccurate, which can be detrimental to stakeholders who rely on the information to make informed decisions. Non-compliance with applicable accounting standards is also a significant problem (Nurlinda et al., 2020). Governments often have complex and changing accounting standards; not only that, but issues of manipulation or fraud also often arise in the context of government financial reports. A dishonest or corrupt government may intentionally manipulate its financial statements to cover up non-compliance or unauthorized use of funds. The Chairman of the Corruption Eradication Commission (KPK), Firlil Bahuri, said that based on data as of September 11, 2023, the total number of corruption cases found by the KPK in the regions reached 1,462 cases. "Corruption is mostly found in gratification and bribery, at most around 65 percent or 958 new cases occurred." In addition to gratification, other criminal acts of corruption in the regions are related to the procurement of goods and services amounting to 324 cases, misuse of budget amounting to 57 cases, money laundering (TPPU) amounting to 57 cases, levies or extortion amounting to 28 cases, licensing reaching 25 cases, and obstructing the KPK process amounting to 13 cases (<https://news.harianjogja.com/>). Some local governments also face problems of weak financial management, such as a lack of adequate internal controls (Nurlinda et al., 2020), which can lead to reporting errors and increase the risk of fraud (Nurlinda et al., 2020; Nurlinda & Erlina, 2023). In addition, the level of public understanding of government financial reports is also low.

From the problems raised previously, it can be concluded that to produce quality financial reports that are able to meet the qualitative elements of financial reports, namely relevance, reliability, comparability, and understandability, the government must have a commitment (Nurlinda et al., 2019), have reliable and competent human resources, have a good internal control system (Nurlinda et al., 2020), and implement government accounting standards in accordance with applicable laws and regulations (Nurlinda & Erlina, 2023). If all these elements are weak, it will affect the quality of government financial reports, especially in decision-making. The results of the study found that good management of regional assets plays a role in improving the quality of reports (Mukharofah & Kaukab, 2022; Nandoeng, 2023). Research conducted by Amaliah et al. (2019) shows that the management of regional assets cannot improve the quality of government financial reports. In addition, the implementation of an internal control system has an impact on improving the quality of reports (Nurlinda et al., 2020) and the quality of information systems (Napitupulu et al., 2016). Meanwhile, research conducted by Sumaryati et al. (2020) shows that the internal control system cannot improve the quality of financial reports, and human resource competence has an impact on improving the quality of reports (Rahman & Permatasari, 2021; Shintia & Erawati, 2017; Sa'adah & Nasrullah, 2021; Napitupulu, 2015). Research conducted by Kusumawardhani and Muanas (2020) shows that human resource competence cannot improve the quality of financial reports.

This study refers to previous studies related to the quality of financial reports, Sundari (2018) showed that the management of regional assets has a partially positive impact on improving the quality of financial reports. The magnitude of the ability of regional asset management to improve the quality of reports is 35.3%, while the remaining 64.7% is influenced by other variables. Mukharofah and Kaukab (2022) explained that regional asset planning, regional asset assessment, supervision and control of regional assets, and human resource competency have a positive impact on the quality of regional financial reports, but regional asset administration does not have an impact on the quality of regional financial reports. Nandoeng (2023) showed that by optimizing the management of regional assets, the quality of financial reports can be improved. Human resource competence, management of regional assets, and leader commitment can significantly improve the quality of financial reports. Sumaryati et al. (2020) indicated that human resource competence has an impact on improving the quality of financial reports, while the implementation of accounting information systems and

internal control cannot improve the quality of financial reports. The implications of this study show the benefits of human resources in improving local government financial reports. Meanwhile, the research results of Kusumawardhani and Muanas (2020) show that human resource competence and optimal utilization of information technology can significantly improve the quality of financial reports by ensuring accuracy, compliance, integrity, better analysis, and operational efficiency. In previous studies, there were different results from each variable of the quality of government financial reports, and the number of studies conducted related to the quality of financial reports was still limited. Therefore, this study was re-examined with the title "Analysis of the Influence of the Role of Regional Asset Management, Internal Control Systems, and Human Resource Competence on the Quality of Financial Reports of the Sibolga City Government."

2. LITERATURE REVIEW

Compliance Theory

Compliance theory is an approach to organizational structure that integrates some ideas from the classical and participatory management models. According to compliance theory, organizations can be classified based on the types of capabilities they use to direct or control the behavior of their members and the type of involvement of their participants. Lunenburg (2012) and Sumaryati et al. (2020) further stated that compliance theory is a theory that states that every agency is obliged to comply with applicable regulations because the party that makes the laws has the right to determine behavior (normative through legitimacy or normative commitment through legitimacy).

Financial Report

According to the Indonesian Institute of Accountants (2017), financial reports are a structured presentation of the financial position presented by an entity or organization. The purpose of financial reports is to provide financial information that will be used for economic decision-making. Financial reports are also used to show the results of management's accountability for the use of resources entrusted to them. Financial statements are the primary means by which an entity communicates its financial information to parties outside the entity. These statements present the condition of the company as measured in the financial statements. The most frequently presented financial statements are (1) the statement of financial position, (2) the income statement (or statement of comprehensive income), (3) the statement of cash flows, and (4) the statement of changes in equity. Notes to the financial statements are an integral part of every financial statement (Kieso et al., 2014). Meanwhile, the government financial reports regulated in Government Regulation Number 71 are the Budget Realization Report, the Report on Changes in the Excess Budget Balance, the Balance Sheet, the Operational Report, the Cash Flow Report, the Report on Changes in Equity, and Notes to the Financial Statements.

Quality of Financial Statements

Referring to Government Regulation Number 71 of 2010, SAP 1 on Government Accounting Standards explains that the qualitative characteristics of financial reports are normative measures that need to be realized in accounting information so that it can meet its objectives. The following four characteristics are normative prerequisites needed for government financial reports to meet the desired quality, namely relevance, reliability, comparability, and understandability.

Management of Regional Assets

Regional Assets or Goods are one of the important elements in the implementation of government and services to the community. Regional property is one of the most vital assets owned by the region to support the operational running of the regional government. This is because, with regional property, national development achievements can be achieved for the welfare of society in general and regional communities in particular. Therefore, regional assets must be managed properly and correctly so that transparent, efficient, accountable, and economical management of regional assets is achieved, ensuring certainty of value (Minister of Home Affairs Regulation Number 19 of 2016).

Regional asset management is a determining factor in healthy government performance. It requires the implementation of asset optimization with identification, legal audits, accurate assessments, and an integrated control system regarding regional asset management. Management of regional assets has an important role in improving the quality of government financial reports due to the direct relationship between assets and financial reports. The government has various assets that are owned and managed for the benefit of the community (Sinurat, 2015). According to government accounting standards number 7, these assets can be in

the form of land, buildings, public facilities, vehicles, and other goods needed to run public services. Good management of regional assets is very important because it not only affects the performance of public services but also the financial health of the government. Effective asset management can ensure that assets are properly recorded in the financial statements, including accurate recording of purchases, maintenance, and depreciation of assets. Accurate asset recording enables financial reports to provide a clear picture of the net worth of the local government. Furthermore, good management also includes strong internal control.

Implementation of Internal Control System

According to Government Regulation Number 60 of 2008 concerning the Internal Control System, the Government defines the internal control system as an integral process in actions and activities carried out continuously by management and all employees to provide adequate assurance and achieve organizational goals through effective and efficient activities. Internal controls are designed and implemented to reduce the risk of fraud. The definition of internal control, according to COSO (Moeller, 2011, p. 157) in Napitupulu (2023), is a process influenced by the board of directors, management, and other personnel of an entity, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

The implementation of internal control systems also plays an important role in securing government assets. For example, by implementing policies that require tiered approval for each expenditure of funds, the risk of budget misuse can be reduced. This not only protects government assets but also provides confidence to stakeholders that public funds are being managed well (Cris, 2022). Furthermore, internal controls help ensure compliance with applicable regulations and policies. For example, by having clear procedures related to budget management, tax collection, or financial reporting, local governments can ensure that they comply with applicable accounting standards and tax regulations. This is important not only to ensure legal compliance but also to maintain the reputation and integrity of the government. In addition, internal control systems can help detect and prevent potential fraud or misappropriation. For example, by conducting regular internal audits, local governments can find indications of fraud more quickly and take necessary preventive measures. This helps ensure that the financial statements presented are not affected by unethical practices. Overall, it can be concluded that the internal control system plays an important role in improving the quality of government financial reports by maintaining the accuracy of financial records, protecting government assets, ensuring compliance with regulations, and preventing fraud. By implementing effective internal controls, local governments can ensure that the financial information presented is reliable, transparent, and can be trusted by stakeholders (Nur et al., 2023).

Human Resources Competency

Decree of the Head of the State Civil Service Agency number 46 A of 2003 states that competence is the ability and characteristics possessed by a civil servant in the form of knowledge, skills, attitudes, and behavior required in carrying out their duties and position. Indicators of human resource competency consist of Knowledge, namely facts and figures behind technical aspects; Skills, namely the ability to demonstrate tasks at an acceptable level of criteria continuously with the least amount of activity; Attitude, namely that which is shown to superiors or others that the person concerned is capable of being in their work environment. According to the Minister of Finance of the Republic of Indonesia, Sri Mulyani, one of the steps to improve the quality of the Financial Reports of Ministries and Institutions is to improve the competence of human resources (Ternalemta et al., 2021).

Human resources are an element that greatly determines development and are the people in an organization who carry out all activities within it to achieve organizational goals and the success of an organization. Nowadays, human resources are not seen as mere resources, but as assets or capital (human capital) for an organization or institution. Expertise in accounting enables HR to understand complex accounting principles and apply them correctly in recording financial transactions, to have a deep understanding of applicable accounting standards, and to perform careful analysis of financial data (Sa'adah & Nasrullah, 2021). This is important because government financial reports must comply with established standards to ensure consistency and compliance. Competent Human Resources can ensure that the recording, reporting, and auditing processes are carried out with high accuracy. They implement effective internal controls to avoid errors and inaccuracies in financial records. In addition, they are also able to prepare financial reports in a clear and easy-to-understand format, making it easier for stakeholders to understand the government's financial condition (Warsito, 2008).

Management of Regional Assets and Quality of Financial Reports

Regional asset management is a determining factor in healthy government performance, requiring the implementation of asset optimization through identification, legal audits, accurate assessments, and an integrated control system regarding regional asset management (Larasati, 2023). Management of regional assets plays an important role in improving the quality of government financial reports because of the direct relationship between assets and financial reports. The government owns and manages various assets for the benefit of the community. These assets can be in the form of land, buildings, public facilities, vehicles, and other goods needed to carry out public services (Dewi et al., 2023). Good management of regional assets is very important because it not only affects the performance of public services but also the financial health of the government. Effective asset management can ensure that assets are recorded correctly in financial reports, including the accurate recording of asset purchases, maintenance, and depreciation. By accurately recording assets, financial reports will provide a clear picture of the local government's net worth. Good management also includes strong internal controls.

This involves limiting access to assets, monitoring asset use, and enforcing appropriate policies and procedures. In addition, good management of regional assets also contributes to transparency and accountability. By having complete and detailed records of assets, regional governments can provide clear information to the public about how these assets are used for the benefit of the community. Effective management of regional assets can help in long-term financial planning. With a good understanding of the assets they own, local governments can develop appropriate strategies to maintain, renew, or replace existing assets. This helps in managing the risks associated with asset depreciation or the need for major investments over a period of time. Overall, good management of the regional property has a direct impact on the quality of government financial reports by ensuring accurate recording, strong internal controls, high transparency, and accountability, as well as sustainable financial planning. Thus, it is important to ensure that regional assets are managed properly to support the integrity and reliability of government financial reports. Research conducted by Mukharofah & Kaukab (2022), Nandoeng (2023), and Dewi et al. (2023) shows that the management of regional assets can improve the quality of government financial reports.

H1. Management of Regional Assets Influences the Quality of Financial Reports

Implementation of Internal Control System and Quality of Financial Reports

The implementation of internal control systems also plays an important role in securing government assets. For example, by implementing a policy that requires tiered approval for each expenditure of funds, the risk of budget misuse can be reduced. This not only protects government assets but also gives stakeholders confidence that public funds are being managed well. Furthermore, internal controls help ensure compliance with applicable regulations and policies. For example, by having clear procedures related to budget management, tax collection, or financial reporting, local governments can ensure that they comply with applicable accounting standards and tax regulations. This is important not only to ensure legal compliance but also to maintain the reputation and integrity of the government. In addition, internal control systems can help detect and prevent potential fraud or misappropriation. For example, by conducting regular internal audits, local governments can detect indications of fraud sooner and take necessary preventive measures, which helps ensure that the financial statements presented are not affected by unethical practices. Overall, it can be concluded that the internal control system plays an important role in improving the quality of government financial reports by maintaining the accuracy of financial records, protecting government assets, ensuring compliance with regulations, and preventing fraud. By implementing effective internal control, local governments can ensure that the financial information presented is reliable, transparent, and can be trusted by stakeholders. Research conducted by Nur et al. (2023), Kuntadi et. al. (2022), and Moreira Monteiro et al. (2021) shows that the internal control system can improve the quality of financial reports.

H2. Implementation of Internal Control System affects the Quality of Financial Reports

Human Resources Competency and Financial Report Quality

Human resources are people in an organization who carry out all activities to achieve the organization's goals, development, and success. Nowadays, human resources are no longer seen as mere resources, but as assets or capital (human capital) for an organization or institution. Expertise in accounting enables human resources to understand complex accounting principles and apply them correctly in recording financial transactions. They have a deep understanding of applicable accounting standards and are able to perform careful analysis of financial data. This is important because government financial reports must comply with established standards to ensure consistency and compliance. Competent Human Resources can ensure that the

recording, reporting, and auditing processes are carried out with high accuracy. They implement effective internal controls to avoid errors and inaccuracies in financial records. In addition, they are also able to prepare financial reports in a clear and easy-to-understand format, making it easier for stakeholders to understand the government's financial condition. The existence of competent human resources also contributes to increasing transparency and accountability. They can explain clearly and comprehensively to the public about the use of government funds and cash flow. This helps build public trust in the government and ensures that funds are managed well in accordance with the stated objectives. Competent human resources can also provide recommendations for improving existing processes and policies, based on in-depth analysis of the government's financial performance. They can identify areas where efficiency can be improved or risks can be minimized, thereby helping the government make better decisions related to financial management. The results of various studies show that human resource competence can improve the quality of government financial reports (Rahman & Permatasari, 2021; Shintia & Erawati, 2017; Sa'adah & Nasrullah, 2021; Ternalemta et al., 2021; Sumaryati et al., 2020).

H3. Human Resource Competency influences the Quality of Financial Reports

3. RESEARCH METHODS

This research is survey research, which was conducted on all 80 Sibolga city government property administrators. The administrators consisted of 30 property administrators from all Regional Apparatus Organizations, 17 sub-district property administrators, 10 junior high school property administrators, and 23 elementary school property administrators. Data collection used a questionnaire instrument with respondent answer levels of strongly disagree, disagree, neutral, agree, and strongly agree, and then processed using SPSS. To find the level of achievement of respondents' answers in this study, the formula was used:

$$\text{respondent achievement level} = \frac{\text{Average Score}}{\text{Ideal Score}} \times 100\%$$

Furthermore, the results of the comparative calculation between the actual score and the ideal score are described in the following table:

Table 1. Percentage of Respondents' Answer Category Score

No	Percentage of Score	Score Category
1	20.00% - 36.00%	Not Good
2	36.01% - 52.00%	Less Good
3	52.00% - 68.00%	Quite Good
4	68.01% - 84.00%	Good
5	84.01% - 100%	Very Good

4. RESULT AND DISCUSSION

The results of the respondents' answers can be described as in Table 2.

Table 2. Descriptive Analysis Data

	N	Minimum	Maximum	Sum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
BMD X1	46	27.00	35.00	1409.00	30.6304	2.78375
SPI X2	46	19.00	25.00	1031.00	22.4130	2.30532
SDM X3	46	24.00	40.00	1490.00	32.3913	4.64987
The Quality of Financial Statement (QFS)	46	38.00	55.00	2170.00	47.1739	3.59817
	N	Minimum	Maximum	Sum	Mean	Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic
Valid N (listwise)	46					

Source: Data Processed from SPSS 25, 2024

Based on table 2, the description of the research variables from the mean, standard deviation, minimum, and maximum of each variable can be explained as follows:

- 1) The quality of financial reports (Y), with a total N of 46 respondents has an average value of 47.17, approaching the maximum value of 55.00, which indicates that the quality of financial reports has a good value. While the standard deviation value is 35.98, smaller than the statistical mean value of 47.17, indicating that the level of data deviation in the variable Quality of financial reports is low or can be said to be evenly distributed.
- 2) The variable of Regional Asset Management (X1), with a total N of 46 respondents has an average value of 30.63, approaching the maximum value of 35.00, which indicates that the variable of Regional Asset Management has a good value. While the standard deviation value is 2.783, smaller than the mean value of 30.63, indicating that the level of data deviation in the variable of Regional Asset Management is low, meaning that the distribution is even.
- 3) The Internal Control System variable (X2), with a total N of 46 respondents has an average value of 22.41, approaching the maximum value of 25.00, which indicates that the Internal Control System variable has a good value. While the Standard deviation value is 2.305, smaller than the mean value of 22.41, indicating that the level of data deviation in the Internal Control System variable is low, so the distribution is even.
- 4) Human Resource Competence (X3), with a total N of 46 respondents has an average value of 32.39, approaching the maximum value of 40.00, which indicates that the Human Resource Competence variable has a good value. While the standard deviation value is 4.649, smaller than the mean value of 32.39, indicating that the level of data deviation in the Human Resource Competency variable is low, so it is called an even distribution.

Testing the research hypothesis to determine the influence of independent variables partially on the dependent variable can be seen from the coefficient of determination test, where the significance value in the test can be compared with the degree of significance used, which is 5% (0.05).

Table 3. Result of t-Test

Model	R Square	t Count	Sig.
BMd → QFS		2.938	0.005
SPI → QFS	0.194	2.301	0.026
SDM → QFS		4.077	0.000

Source: Data Processed from SPSS 25, 2024

The results of the t-test conducted show that all independent variables, namely management of regional assets, internal control systems, and human resource competencies, have a positive effect on the quality of financial reports. This is evident from the significance value of the test, which is smaller than the predetermined alpha value of 5%.

The Influence of Regional Asset Management on the Quality of Financial Reports

The results of the t-test for Regional Asset Management (H1) show that the results have an influence on the quality of financial reports. This means that the research hypothesis is accepted. The results of this research are in line with research by Nandoeng (2023), which shows that optimizing the management of regional property can improve the quality of financial reports. In the context of Permendagri No. 19 of 2016, management of regional assets includes a series of activities, including planning needs and budgets, procurement, use, utilization, maintenance and security, administration, transfer, disposal, as well as supervision and control. Therefore, to produce accurate and high-quality financial reports, the Sibolga City Government needs a good and integrated regional asset management system.

The Sibolga City Government realizes that good management of regional assets requires the support of reliable and competent civil servants, as well as supportive leaders. The ability to manage data is very important to produce accurate information for financial statement users. The process of managing regional property is in accordance with statutory regulations, starting from planning needs and budgets, which must be prepared in accordance with the real needs of regional apparatus organizations. Recording of procurement of

goods is a crucial component in regional financial reporting. Reporting problems often arise due to negligence in formulating planning in accordance with standard needs and prices. This study shows that the management of regional assets must comply with regulations, including planning, data collection, recording, inventory, and optimal supervision and control. This study is also in accordance with previous research related to the quality of financial reports conducted by Sundari (2018) which shows that both partial management of regional assets has a positive impact on improving the quality of financial reports.

The Influence of Implementing Internal Control Systems on the Quality of Financial Reports

The test results for the Internal Control System variable (H2) show that the significance value is smaller than the alpha value set at 5%, indicating that the Internal Control System has a partial positive effect on the quality of the Sibolga City Government's financial reports. The implementation of the Internal Control System in Sibolga City refers to Government Regulation Number 60 of 2008, covering the control environment, monitoring, risk assessment, control activities, as well as information and communication. Although the implementation of the internal control system is considered very good with respondents' responses reaching 89.65%, there is one dimension, namely control, which shows a low average score. Problems related to internal control in Sibolga City include a lack of segregation of duties, the absence of transaction review and approval, and inadequate accounting procedures.

This result is in line with the research of Nurlinda and Erlina (2023), which shows that the implementation of an internal control system contributes to improving the quality of financial reports. Internal auditors and the Sibolga City Inspectorate are expected to be more active in supervision and evaluation to improve the quality of financial reports in a sustainable manner.

The Influence of Human Resource Competency on the Quality of Financial Reports

The test results on Human Resource Competency show a significance value smaller than the alpha value of 0.05, thus this research has proven that Human Resource Competency has a significant effect on the quality of government financial reports. Failure to understand and apply accounting can lead to financial reporting errors and delays in the reporting process. To improve the quality of financial reports, not only the number of Human Resources is needed but also their competence. Government Regulation Number 101 of 2000 concerning Civil Servant Education and Training explains that training aims to improve the capabilities of Civil Servants. Respondent responses indicate that the competence of Human Resources in Sibolga City is good, with a score of 81.20%, but there are shortcomings in the knowledge dimension, indicating the need to improve employee understanding of the material. The results of this study are in line with the research of Rahman and Permatasari (2021), which shows that Human Resource competence can improve the quality of government financial reports. Optimal goods management performance requires competent Human Resources so that financial reports are relevant, reliable, comparable, and understandable to users.

5. CONCLUSION

Based on the research results, it was found that all variables of regional asset management, internal control systems, and human resource competencies have an effect on the quality of the Sibolga City Government's financial reports. The results of this study found that the better the arrangement of regional asset management, an effective internal control system, and increasingly competent human resources, funds, and quality funds, the quality of the Sibolga City Government's financial reports will increase. Thus, to maintain the quality of the Sibolga City Government, it is hoped that it will continue to strive to improve the quality of existing resources because quality resources will be able to run the city's asset management system and the control system for managing financial reports will also be better. The role of the Government is to improve this by increasing training and job rotation, adjusted to the capabilities of existing human resources.

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