

# The Quality of Accounting Information through Completion of Audit Findings and Budget Execution

Hari Setiyawati, Dien Noviany Rahmatika, Dewi Indriasih

**Abstract**— This research was conducted against the background of the phenomenon that occurs, namely the poor quality of financial reports, especially in local governments as well as the low completion of BPK audit findings and disorderly budget execution. This research was undertaken through a survey and was designed to examine the quality of accounting information related to the completion of audit findings and the implementation of the budget. This study aims to determine the effect of completing audit findings and budget execution on the quality of accounting information. The population in this study were all Regional Work Units (SKPD) Tangerang City and Bogor City and the sampling method used was purposive sampling with a total sample of 45 SKPD. Smart PLS is used as an analysis tool in this research. The research data used came from questionnaires collected from the head of the department and the head of the accounting department who were respondents in this study. The results of this study conclude that the completion of audit findings does not significantly influence on the quality of accounting information while the budget execution has a significant effect on the quality of accounting information.

**Index Terms**— Quality of Accounting Information, Completion of Audit Findings and Budget Execution

## I. INTRODUCTION

In the last five years (2014-2018), the opinion of the Regional Government Financial Report (LKPD) has improved. LKPD who obtained unqualified opinion rose as much as 47 percent. Meanwhile, the number of LKPDs who received qualified and disclaimer opinions decreased by 30 percent and 4 percent respectively [1]. However, there was a decrease in the opinion of unqualified in the provincial government from 33 LKPD to 32 LKPD [1]. This means that the phenomenon of the poor quality of financial statements, especially in local governments, still occurs. The quality of financial statements reflects the quality of accounting information. The completion of the audit findings of the Supreme Audit Agency (BPK) is still relatively low. Based on the results of monitoring the follow-up of the results of examinations at the local government, the BPK monitored 92,889 recommendations for the results of the 2015-2017 period worth Rp 28.06 trillion to 542 local governments. Of this amount, recommendations that have been followed up in accordance with recommendations are 52,622 recommendations (56.6%) valued at Rp 5.56 trillion (Warta BPK, April 2018). Completion of audit findings is an activity

carried out by the head of the institution examined to carry out the recommendations of the BPK audit results. Completion of audit findings is identical to the term in practice is a follow-up of the results of the examination. The purpose of the follow-up activities on the results of the inspection is the creation of improvements / improvements in the quality of the weaknesses found during the audit process. Law Number 17 of 2003 concerning State Finances states that one of the concrete efforts to achieve transparency and accountability in the management of state finances is the submission of government financial accountability reports that meet the principles of being on time and compiled by adhering to Government Accounting Standards [2]. The government is required to prepare financial reports as a form of accountability for the implementation of the State Budget (APBN) and / or the Regional Budget (APBD) as a consequence of the application of Law Number 17 of 2003. Regarding the budget, there were six problems found by BPK in the 2015 Central Government Financial Report, one of the findings of the problem encountered was the recording and presentation of records and physical Over Budget Balance (SAL) was inaccurate so that the BPK could not believe the reasonableness of the transaction and / or the related balance SAL of IDR 6.6 trillion (Harry, 2016). In managing the DKI Jakarta Regional Revenue and Expenditure Budget, there are still budget bubbles that not only occur in the Education Office and the Public Works Office, but also in other regional work units (SKPD), reaching IDR 1.8 trillion of the total budget of IDR 72 trillion. Based on the above problems, the formulation of this research problem is: Is there any effect of the completion of audit findings and the accuracy of budget execution on the quality of accounting information?

## II. THEORETICAL REVIEW

### A. The Quality of Accounting Information

The value of information is directly linked to how it helps decision makers achieve their organization's goals. Valuable information can help people and their organizations perform their tasks more efficiently and effectively [3]. The quality of accounting information is directly related to how accounting information helps decision makers achieve their organizational goals [4]. According to Keyso (2017) the quality of financial reporting refers to the quality of accounting information that is the qualitative characteristics of accounting information [5]. According to Hall (2011) "the dimensions of information quality consist of: relevance, timeliness, accuracy, completeness, and summarizing [6]." Government Regulation Number 71 of 2010 concerning Government Accounting Standards, states the quality of financial statements, namely "Qualitative characteristics of financial statements are normative measures that need to be

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realized in accounting information so that they can meet their objectives [7]." There are four characteristics that become normative prerequisites needed so that government financial reports can meet the desired quality, namely: relevant, reliable, comparable, understandable.

### B. The Completion of Audit Findings

Auditi activity in order to meet the auditor's recommendations contained in the results of the examination is called a follow-up audit results [8]. Audit findings are facts found by the auditor as a result of a comparison between the conditions encountered by the auditor and the criteria that have been determined in accordance with the objectives of the audit. The audit findings are the result of the implementation of an audit evidence testing program in the field. Based on BPK RI Decree Number 5 / K / I - XIII.2 / 8 / 2010 concerning Technical Guidance on Audit Findings, the audit of financial reports produces an audit report that reveals findings of weaknesses in the internal control system and findings on non-compliance with laws and regulations [9]. The amount of benefits derived from audit work does not lie in reported audit findings or recommendations made, but lies in the effectiveness of the resolutions undertaken by the entity being examined [10].

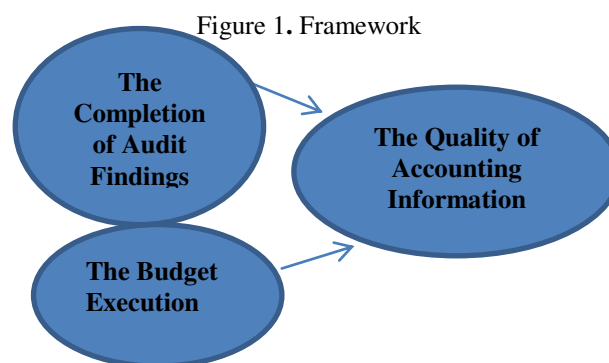
### C. The Budget Execution

Bragg, Stephen. M (2017: 1) states that: A budget is a document that forecasts the financial results and financial position of a business for one or more future periods [11]. Alan & Gliberti (2008) states that: "A Budget is a formal written statement of management's plans for the future expressed in financial terms [12] ". Another case with Hansen and Mowen (2011) states "Budget are financial plans for future; they identify objectives and actions needed to achieve them [13] ". Law Number 17 of 2003 Concerning State Finances, the Regional Budget (APBD) is the annual financial plan of the regional government approved by the Regional Representative Council [2]. Meanwhile, according to the Minister of Home Affairs Regulation No. 13 of 2006 concerning Guidelines for Regional Financial Management, the Regional Revenue and Expenditure Budget is the annual financial plan of the regional government which is discussed and agreed upon jointly by the regional government and the Regional People's Representative Council (DPRD) , and determined by regional regulations[14] .

### D. Framework

Research on the quality of accounting information is mostly done with different proxies. Chaney (2011) examines the quality of accounting information in companies related to politics. According to Chaney, the quality of accounting information in companies related to politics is significantly worse than that which is not related to politics [15] . Lee & Masulis (2009) examined the quality of accounting information associated with expected flotation costs. The results of his study stated that the quality of accounting information is poor if the cost of flotation is higher [16] . The quality of accounting information can also be proxied by the quality of financial statements, as is often done by the researchers mentioned below. Completion of audit findings is a follow-up to the results of the examination, the aim is to

create improvements / quality improvements for weaknesses found during the inspection process. BPK's recommendations are not only to resolve the issues revealed in the audit reports, but also to improve accountable and transparent financial management systems so that no weaknesses in internal control are found and non-compliance with laws and regulations [17]. Completion of audit findings has a significant effect on the quality of financial statements, as examined by Sari (2012) [17]. , Wulandari and Bandi (2015) [18] , Tresnawati and Apandi (2016) [19] . Internal audit influences the quality of financial statements (Cecilia & Nunuy, 2017) [20] . On the contrary Nurdiono et al (2016) results of his research prove that the completion of audit findings does not have a significant effect on the quality of financial statements [21] . Accountability for APBD in one period in a region is required financial reports that contain elements of the quality of financial statements. Regulations governing the financial statements can be Law No. 17 of 2003 concerning State Finance, article 31. This law explains that the form of accountability for implementing the APBD from the Regional Government to the DPRD is in the form of financial reports that have been audited by BPK RI [2] . Research related to the implementation of the budget was conducted by Neco Fransisca et.al (2016) which stated that the level of weakness of the control system of the implementation of the revenue and expenditure budget had an influence on the quality of the financial statements of the local government [22] . Nurdiono et.al (2016) revealed that the proportion of the public budget has a negative influence on the results of the unqualified audit opinion on LKPD, this means that if there is a greater public budget allocation it is likely to have a negative impact on the quality of LKPD because it cannot be accounted [21]. Santha et.al (2016) states that there is a positive and significant impact on the clarity of budget targets on the quality of financial statements [23] . The research model can be seen in the following figure:



Based on the thought framework outlined above, the following hypotheses can be arranged:

- H1: There is a significant effect of the completion of audit findings on the quality of accounting information
- H2: There is a significant influence of the implementation of the budget on the quality of accounting information

III. METHOD

This research is exploratory (exploratory study) with a type of causal study investigation where researchers want to find the cause of one or more problems [24]. In this study the effect of: completion of audit findings and budget execution on the quality of accounting information will be tested in this study. The population in this study were all SKPDs in the Tangerang city totaling 43 SKPDs and all SKPDs in the Bogor city totaling 35 SKPD so the total population was 78 SKPD. Samples were taken using a purposive sampling method that is outside the districts and hospitals with a total sample of 45 SKPD. Data is processed using Partial Least Squares software which includes stages of the outer model (measurement model) to test the validity and reliability; Inner model (structural model) to see the relationship between construct, significance value and R-square of the research model. The structural model is evaluated using R-square for the dependent construct and t test as well as the significance of the coefficient of structural path parameters.

IV. RESULTS AND DISCUSSION

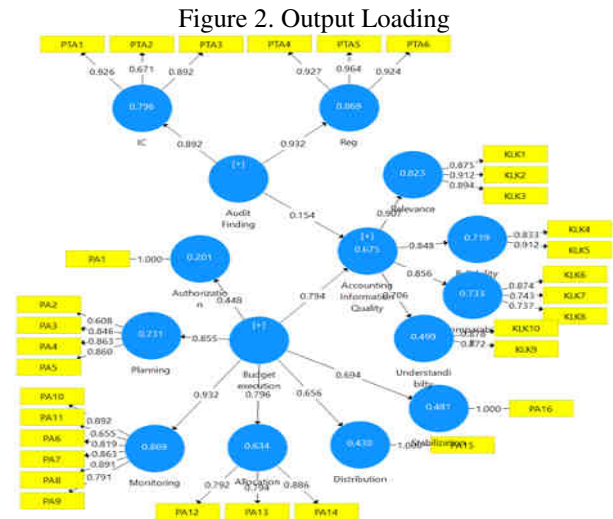
A. Description of Statistics Analysis

Completion of audit findings is an activity carried out by the head of the entity being examined and / or other competent parties to carry out the recommendations of the BPK audit results. Variable completion of audit findings of 4.30 intervals in very high criteria. This means that the perception of the State Civil Apparatus or officials who are inspected on average has completed the BPK audit findings which consist of the follow-up of the results of the examination of the Internal Control System and the follow-up of the results of the examination of compliance with laws and regulations. The variable of budget execution in this study has 6 dimensions and 16 indicators.

The budget execution variable, the value of the category "Very High" is an average value of 4.45. This shows that the implementation of the budget in the Tangerang City and Bogor City Government has been going well. The variable quality of accounting information has 10 indicators. The accounting information quality variables, all indicators or 100% have the value of the category "Very High" with an average value of 4.69. This shows that the Regional Government of Tangerang City and Bogor City have produced very good quality accounting information.

B. Test of Validity and Reliability

The following are the results of the output factor loading construct of the analysis of the quality of accounting information through the completion of audit findings and the implementation of the budget on Smart PLS:



Based on the output in the path diagram above, the loading factor has fulfilled convergent validity that is the indicator factor above 0.5. All loading factors are significant at the 5% level. The reliability test results can be seen in the table below:

Table 1. Reliability Test

Variable	AVE	Cronbach's Alpha	Composite Reliability	Description
The Audit Findings Completion (X1)	0.66	0.892	0.920	Reliable
The Budgeting Execution (X2)	0.58	0.926	0.936	Reliable
The Quality of Accounting Information (Y)	0.51	0.894	0.914	Reliable

Source: Primary Data Processed, 2020

The results of the reliability output above, proving the variable completion of audit findings, budget execution and the quality of accounting information have Cronbach's Alpha above 0.6 and Composite Reliability above 0.7 means that the indicators used in each dimension have the reliability good enough or able to measure the construct.

C. Evaluation of Goodness of Fit Structural Model (Inner Model).

Table 2. R Square

Variable	R Square
The Quality of Accounting Information (Y)	0.675

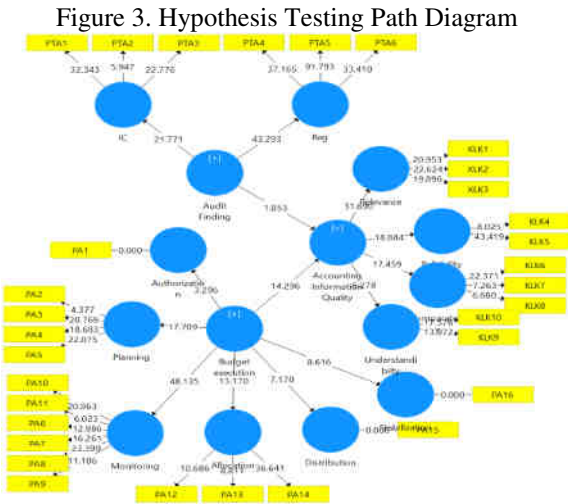
Source: Primary Data Processed, 2020

The value of R2 for the variable quality of accounting information of 0.675 means that the variable quality of

accounting information is explained by the variable completion of audit findings and implementation of the budget 67.5%, the remaining 32.5% is influenced by other variables not contained in the research model.

**D. Hypothesis Testing**

The following is a path diagram for hypothesis testing:



Hypothesis testing path diagram above, all dimensions on each variable have a T-statistik value greater than 1.92 so that these dimensions are able to measure each construct.

To find out the significance of the effect of completing audit findings and budget execution on the quality of accounting information, see the following table 3:

Table 7. Path Coefficients

Relationship Between Variables	Coefficient of Parameters	T Statistics	P Values	Description
Audit Findings Completion => Quality of Accounting Information	0.154	1.853	0.065	No significant effect
Budgeting Execution => Quality of Accounting Information	0.794	14.296	0.000	Significantly influential

Note: Significant at the 5% level

The path parameter coefficient obtained from the effect of the variable completion of audit findings on the quality of accounting information is 0.154 with a statistical value of 1.853 <1.92 and the value of P Value 0.065 > 0.05 means that there is no effect of the completion of audit findings on the quality of accounting information. The path parameter coefficient obtained from the influence of budget execution variables on the quality of accounting information is 0.794 with a statistical value of 14.296 > 1.92 and this P Value 0.000 means that there is an influence of budget implementation on the quality of accounting information

**E. Discussion**

Hypothesis testing results indicate that there is no significant effect of the completion of audit findings on the quality of accounting information. This means that the higher the completion of audit findings in a government agency will not necessarily make the quality of accounting information better. Completion of audit findings is an activity carried out by the head of the entity being examined and / or other competent parties to carry out the recommendations of the BPK audit results. The BPK Audit Reports revealed findings on the weaknesses of the Internal Control System and findings on non-compliance with laws and regulations. Findings on the Internal Control System show cases of weaknesses in the Internal Control System which can be grouped as follows: (a) weaknesses in the accounting and reporting control system, (b) weaknesses in the control system for the implementation of the revenue and expenditure budget, and (c) weaknesses in the internal control structure. Findings on non-compliance with statutory provisions can be grouped as follows: (a) regional losses, (b) potential regional losses, (c) lack of revenue, and (d) administrative irregularities. BPK's recommendations for improving the management and responsibility of state finances have not been acted upon in a tangible and complete manner by the entity or official examined. When the old BPK recommendations have not been followed up, new recommendations will emerge over the results of the next inspection so that the number of BPK recommendations that have not been completed will accumulate. This can be seen in the indicator of the follow-up recommendations of the audit results for regional losses that have the lowest average value, which means that the average entity or state civil apparatus that has been inspected has not followed up on BPK's recommendations related to regional losses including overpayment, implementation of expenditure not in accordance with the provisions, management and administration of assets that are not orderly. The effort to complete the audit findings requires a short amount of time, especially for old findings that are not immediately followed up. The audited entity or state apparatus must immediately respond either by providing a quick and accurate answer or explanation of each BPK's recommendations. Weaknesses in completing the audit findings do not necessarily make the BPK assume that the quality of the entity's financial statements is not good as long as the entity can show the progress of the follow-up results of the BPK audit even though weaknesses are still found in the process of completing the audit findings. The results of this study are in line with Nurdiono, Halim, Sugiri, and Gudono (2015) stating that the completion of audit findings does not affect the quality of financial statements [25]. This is due to BPK's recommendation to improve the management and responsibility of state finances, which has not yet been fully responded by the central government and regional governments so that it does not affect the quality of financial statements. But different results obtained from Sari (2012) [17], Wulandari and Bandi (2015) [18], Tresnawati and Apandi (2016) [19] research prove that the completion of audit findings affects the quality of financial statements. This is because the completion of audit findings is useful for creating accountability and transparency in the management and accountability of state finances so that it has an impact on improving the quality of financial statements.

Based on the results of hypothesis testing that has been done that the implementation of the budget has a significant effect on the quality of accounting information. Budget implementation in a local government has a very important role in determining the quality of a financial report. Budget execution is a cycle that starts from budget planning, organizing, mobilizing, controlling up to the accountability of public funds used by regional governments in the context of regional development. Deviations that occur in the implementation of the budget can cause a decrease in trust from the public and can lead to state losses. The results of this study are in line with the research of Neco et.al (2016) which states that the implementation of the revenue and expenditure budget has a positive influence on the quality of local government financial reports [22] . Research by Santha et.al (2016) shows that there is a positive and significant influence on the clarity of the budget target variable with the quality of financial statements, which means the better the clarity of the budget targets in the work units under the coordination of BMKG Region II Denpasar-Bali good quality of financial statements [23] . The same results were also obtained from research by Nurdiono et.al (2016) [21] , Warsito (2009) [26] , and Cecilia (2014) [20] .

#### CONCLUSIONS AND SUGGESTIONS

Based on the discussion described above it can be concluded the following matters: Completion of audit findings does not significantly influence the quality of accounting information. This is due to the lack of commitment to follow up on the BPK audit results recommendations by the head of the entity and / or the official being examined. Improving the quality of accounting information must be followed by a real action plan and the commitment of relevant officials to follow up on BPK's recommendations completely. Budget execution has a significant effect on the quality of accounting information. The implementation of the budget, especially in a local government, has an important role in determining the quality of financial reports, because this is related to the management of public funds aimed at the development of a region. If the implementation of the budget goes well, the quality of financial statements will also improve.

All leaders of the Regional Apparatus in the Tangerang City and Bogor City Government must be highly committed in following up the BPK Audit Reports by providing answers or explanations quickly and accurately on every BPK recommendation, conducting a review of the main causes of the problem, establishing intensive communication with the inspectorate and the BPK, and ensuring all audit findings have been followed up in accordance with BPK recommendations.

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