

Analysis of the Quality of Financial Statements and Their Impact on State Financial Accountability

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Abstract – The background of this research is the phenomenon that occurs, namely: obtaining a disclaimer opinion from the Supreme Audit Agency on the financial statements of State Ministries/Institutions for four consecutive times from 2016 to 2019, where this indicates an indication of poor financial governance. The reason for this research is to analyze and obtain appropriate evidence regarding the effect of implementing the internal control system, the competence of government apparatus, organizational culture on the quality of financial reports, and its impact on state financial accountability. This research uses quantitative research with survey methods at the Indonesian Maritime Security Agency. The population of this research is agencies within the scope of the Maritime Security Agency, using a saturated sampling technique where all individuals from the populace are utilized as samples. The source of the data used is the type of primary data with a questionnaire as the research instrument. The information was investigated utilizing the methodology, Partial Least Square (PLS), specifically the product SmartPLS rendition 3.0. The results of the study concluded that the implementation of the internal control system had no effect on the quality of financial reports, while the competence of government apparatus and organizational culture altogether affected the quality of financial reports. Likewise, the quality of financial reports significantly affects state financial accountability.

Index Terms — the internal control system, the competence of government apparatus, organizational culture, the quality of financial reports, state financial accountability.

I. INTRODUCTION

The Central Government Financial Report has been compiled since 2004 as a transparent and accountable state financial accountability for implementation of State Revenue and Expenditure Budget, where the Central Government Financial Statements are consolidated Financial Statements of State Ministries/Institutions. The Financial Statements of the Central Government from 2004 to 2008 received a Disclaimer of Opinion based on the Audit Result Report of the State Audit Board. Furthermore, from 2009 to 2015, the opinion on the Central Government Financial Statements increased to Fair with Exceptions, and only on the 2016 to 2019 Central

Government Financial Statements received Unqualified Opinions.

The quality of the Financial Reports of State Ministries/Institutions, which continue to increase can be seen from the number of State Ministries/Institutions that received Unqualified Opinions which have reached 96.4%, namely 84 State Ministries/Institutions from 87 State Ministries/Institutions. On the other hand, the Financial Reports of State Ministries/Institutions that receive Disclaimer of Opinions are decreasing from year to year until there is only one State Ministry/Institution in 2018 and 2019, namely the Maritime Security Agency. The Chairman of the Supreme Audit Agency, Agung Firman Saputra [1] stated that from 2016 to 2019 the Maritime Security Agency continuously received a Disclaimer of Opinion, where several elements caused the six findings and the most important was the finding of limitations on the scope of the examination. In this case, the Maritime Security Agency did not present the documents required by the State Audit Board, namely documents related to the previous year's procurement of goods which were charged to capital expenditures, so that the State Audit Board could not access these documents and as a result, the audit could not be carried out optimally.

Based on this phenomenon, it can be seen that one of the findings of the Supreme Audit Agency on the Central Government Financial Statements that must be followed up is related to the internal control system. Financial reports that have good quality information value are inseparable from the implementation of a good internal control system. In addition, the competence of human resources can also determine the quality of financial reports. Achieving a positive assessment requires the minimum capabilities produced by human resources. Organizational culture also has an important role in an organization, where organizational culture is the basis that encourages loyalty, decisions made, ways of doing work, creativity, leadership, communication, and collaboration. Furthermore, the preparation of financial reports is carried out to support transparency and accountability, where the better the quality of the presentation of financial statements in terms of disclosing successes and failures in the management of financial resources, the level of financial accountability is quite high.

Based on the description above, there is a phenomenon of obtaining a Disclaimer of Opinion from the Supreme Audit Agency on the Financial Statements of State Ministries/Institutions at the Maritime Security Agency for four periods since 2016, where disclaimer shows indications of good governance unfavorable finances at the State Ministry/Institution. The disclaimer opinion arises because the auditor could not investigate further on the financial statements, which indicates that the internal control system is quite weak. As a result of obtaining a disclaimer, the State

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Ministry/Agency cannot propose a larger budget because of good governance, where one of the pillars is accountability. In light of the issues over, the formulation of the problem in this research is whether the implementation of internal control systems, the competence of government apparatus, and organizational culture affect the quality of financial reports, and does the quality of financial reports affects state financial accountability?

II. THEORETICAL REVIEW

A. Stewardship Theory

Donaldson and Davis [2] developed the Stewardship Theory, which provides a new view of the existence of an understood relationship between corporate ownership and management, which is emerging as an important counterweight to Agency Theory. "Stewardship Theory states that there is no conflict of interest in the relationship between the manager and the owner and that the purpose of governance is to get a system and procedures to enable the coordination effective between the two parties". Stewardship Theory depends on the significant supposition that the manager's character is lined up with the principal's needs. In the public sector, the principal group is the community and the government as management, where Stewardship Theory for this research implies that the State Ministries/Institutions as the government receive the allocation of funds from the State Revenue and Expenditure Budget, can serve the community by good governance, and realize accountability of state financial management through the preparation of quality financial reports.

B. Quality of Financial Reports

As indicated by Kieso et al. [3, p. 4], "Financial reports are the main tool where parties outside the company can find out the financial information of a company. The general objective of financial reporting is to provide the information needed in making decisions for the benefit of the reporting entity by parties using financial statements such as equity investors, lenders and other creditors" [3, p. 6]. In financial statements, normative measures are needed which are referred to as qualitative characteristics so that the objectives can be met. In view of Government Regulation Number 71 of 2010 [4] concerning Government Accounting Standards, "there are four qualitative characteristics which are normative prerequisites needed so that government financial reports can meet the desired quality, namely a) relevant, meaning that they can influence user decisions; b) reliable, which is free from misleading understanding and material errors, presents every fact honestly and can be verified; c) can be compared, either with the financial statements of prior periods or with the financial statements of other reporting entities in general; and d) understandable, adapted to the limits of understanding of the users".

The opinion given by the Supreme Audit Agency through the results of the examination shows the quality of the government's financial reports. In the explanation of article 16 paragraph 1 of Law Number 15 of 2004 [5] concerning the Audit of State Finance Management and Responsibility, it states "the opinions that can be given by the State Audit Board are unqualified opinions, qualified opinions, unfair opinions, and statements refuse to give an opinion". Unqualified

Opinion is a reflection of the implementation of good governance principles.

C. Internal Control System

COSO [6, p. 1] states that "internal control is a process by which the board of directors, management, and other personnel of an entity have influence in providing reasonable assurance about the achievement of objectives related to operations, reporting, and compliance." Meanwhile, in view of Government Regulation Number 60 of 2008 [7], "The Internal Control System is 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 financial reporting, safeguarding state assets, and compliance with laws and regulations. The Government's Internal Control System aims to provide adequate assurance for the effectiveness and efficiency of achieving the objectives of state administration, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. The Government's Internal Control System consists of five elements, namely the control environment, risk assessment, control activities, information and communication, and monitoring activities".

D. Competence of the government apparatus

As indicated by Elliot et al. [8, p. 25], competence is a psychological motive that governs everyday experiences and shapes our self-concept. Based on the Regulation of the Minister for Empowerment of State Apparatus and Bureaucratic Reform Number 3 the Year 2020 [9] regarding Talent Management of the State Civil Apparatus, "competence is the ability, knowledge, and skills, and behavior possessed by every State Civil Apparatus Employee to carry out their duties effectively". While the definition of Government Apparatus or currently referred to as "State Civil Apparatus Employees are civil servants and government employees with a work agreement appointed by a staffing officer and entrusted with tasks in a government position or entrusted with other state duties and paid according to the laws and regulations". From the above understanding, "the competence of the government apparatus is the ability, knowledge, skills, and behavior possessed by every State Civil Apparatus Employee to be able to carry out their duties effectively in a government position or other duties".

E. Organizational Culture

According to Harrington [10, p. 34], organizational culture is the basis that drives loyalty, the decisions we make, how we do our work, our creativity, our leadership, our communication, and our collaboration. Hofstede in Sutrisno [11, p. 9] "using four types of values to differentiate between one nation's culture and another: 1) Power distance, 2) Individualism vs. collectivism, 3) Masculine vs. femininity, and 4) Rejection of uncertainty".

F. State Financial Accountability

According to Boven et al. [12, p. 4], "accountability is a critical rule and mechanism for enforcing social-psychological relationships between individual decision-makers on the one hand and social systems on the other". In view of Government Regulation Number 71 the

Year 2010 [4] concerning Government Accounting Standards, "accountability is being responsible for the management of resources and the implementation of policies entrusted to reporting entities in achieving the goals that have been set periodically". Halim [13] stated that, "financial accountability is accountability regarding financial integrity, disclosure, and compliance with laws and regulations". It can be concluded that, "state financial accountability is the Government's obligation to carry out the management of state finances in an orderly, obedient, efficient, economical, effective and transparent manner about a sense of justice and propriety".

G. Framework

The quality of financial reports and influencing factors such as internal control systems, human resource competencies, and organizational culture have become the object of research by previous researchers. "The Internal Control System is a system consisting of a series of procedures and policies that are carried out continuously by the leadership and all employees to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations". The results of previous studies prove that the internal control system positively affects the quality of financial reports, as shown by the results of research by Kewo & Afiah [14], Agbenyo et al. [15], Gamayuni [16], Sujana et al. [17] and Ahmad et al. [18]. However, research by Nurlis & Yudiati [19] showed different results, namely the effectiveness of internal control no affects the quality of financial reports.

The competence of human resources can determine the quality of financial reports. Several previous research results showed similar outcomes, including the aftereffects of exploration by Darwanis [20], Abbott et al. [21], Setiyawati [22], Armel et al. [23], Umar et al. [24], Setiyawati et al. [25], and Jachi & Yona [26]. However, the research results of Muda et al. [27] demonstrated that there was no sure and critical impact between two factors, in accordance with the results of Dewi & Hoesada's research [28].

Organizational culture also has an important role in an organization, where organizational culture is the basis that encourages loyalty, decisions made, ways of doing work, creativity, leadership, communication, and collaboration, including in the arrangement of quality financial reports. Previous research has shown that organizational culture has a positive and critical impact on the quality of financial reports, as shown by the aftereffects of exploration by Oktavianti et al. [29]. Notwithstanding, the aftereffects of examination by Lazuardi and Muhtarom [30], Patty [31], and Satriawan et al. [32] stated that organizational culture had no significant effect on the quality of financial reports.

The opinion of the Supreme Audit Agency can determine the quality of financial reports, where the highest criteria as a form of accountability in the management of state finances is an unqualified opinion. The results of previous studies that prove that the quality of financial reports affects financial accountability are the results of research by Fikrian [33] and Karyatni & Handajani [34]. The figure below shows the research model:

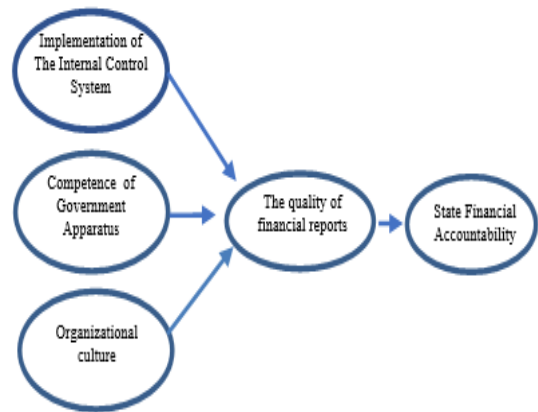


Fig.1 Framework

Regarding the structure over, the hypotheses proposed in this study are:

- H1: There is a significant effect of the implementation of the Internal Control System on the Quality of Financial Reports.
- H2: There is a significant influence of Government Apparatus Competence on the Quality of Financial Reports.
- H3: There is a significant influence of Organizational Culture on the Quality of Financial Reports.
- H4: There is a significant influence on the Quality of Financial Reports on State Financial Accountability.

III. METHOD

This research uses quantitative research. Sugiyono [35, p. 7] states that "quantitative research method is a scientific method because it has fulfilled scientific principles, namely concrete, objective, measurable, rational and systematic". This research is classified as a causal study that examines the possibility of a relationship between variables, as an effort to identify the functional relationship between cause and effect. The population of this study is all Commitment Making Officers, Internal Auditors, accounting staff, and financial management staff at 17 agencies within the Marine Security Agency, both at the central and regional levels as many as 52 people, where their duties and functions are related to the formation of financial report data that quality. The saturated sampling technique method was used in this study because the population was relatively small, while the data collection technique used a questionnaire. Sekaran & Bougie [36, p. 170], state that "a questionnaire is a pre-defined list of written questions, in which respondents will record their answers, usually in clearly defined alternatives". The data were analyzed using the approach, Partial Least Square (PLS), namely the software SmartPLS version 3.0. In PLS Path Modeling there are 2 models, namely the outer model to test the validity and reliability, and the inner model to predict the relationship between constructs, significance value, and R-square of the research model.

IV. RESULTS AND DISCUSSION

A. Description of Statistical Analysis

The variable of the implementation of the internal control system in this study has 5 aspects and 16 markers. The variable of the implementation of the internal control system is classified as very good because it has a mean of 4.29 which

is between 4.2 to 5. Four of the five variable dimensions have an average value of very good, but there is one dimension, namely control activities which have an average value of 4.17, namely the good category. This shows that the internal control system at the Maritime Security Agency has not run optimally.

The government apparatus competency variable in this study has 4 aspects and 9 markers. The government apparatus competency variable is classified as very good because it has a mean of 4.34 which is between 4.2 to 5. This shows that the Maritime Security Agency is aware of the importance of the role of government apparatus competence in managing state finances.

The organizational culture variable in this study has 4 aspects and 8 markers. The organizational culture variable is classified as very good because it has a mean of 4.36, which is between 4.2 to 5. This shows that the implementation of organizational culture at the Maritime Security Agency has been going well.

The financial report quality variable in this study has 4 aspects and 9 markers. The financial report quality variable is classified as very good because it has a mean of 4.37 which is between 4.2 to 5. This shows that the Maritime Security Agency has understood the importance of the quality of financial reports.

The variable of state financial accountability in this study has 5 aspects and 11 markers. The variable of state financial accountability is classified as very good because it has a mean of 4.37 which is between 4.2 to 5. This shows that the Maritime Security Agency has realized that state financial accountability has an important role and is closely related to the quality of financial reports.

B. Validity and Reliability Test

The figure below shows the results of the loading factor of each indicator:

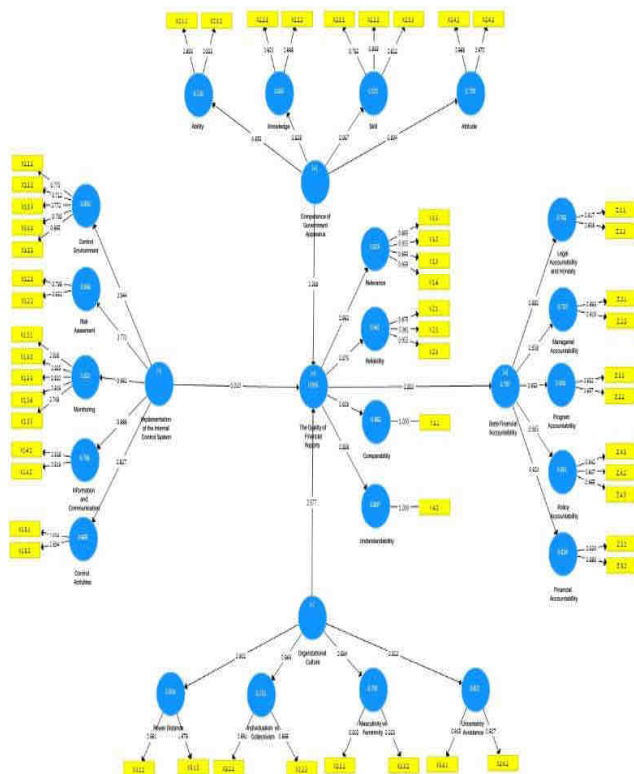


Fig.2 Output Loading Factor

From the picture above, it can be seen that the overall second-order CFA loading factor shows that the model has met its requirements, convergent validity because the value loading factor is more than 0.5. This suggests that all pointers are real as an assessing device for their specific variables. The results of the reliability test should be visible in the table underneath:

Table 1. Average Variance Extracted (AVE) test results and Reliability Test

Variable	AVE	Cronbach's Alpha	Composite Reliability	Description
Implementation of the Internal Control System (X1)	0.611	0.953	0.959	Reliable
Competence of Government Apparatus (X2)	0.637	0.927	0.940	Reliable
Organizational Culture (X3)	0.686	0.934	0.946	Reliable
The Quality of Financial Reports (Y)	0.828	0.974	0.977	Reliable
State Financial Accountability (Z)	0.725	0.960	0.966	Reliable

Source: Primary Data Processed, 2021

The results of the construct reliability test show the Composite Reliability and Cronbachs Alpha values of all latent variables > 0.7 so that all dimensions in measuring the latent variables in the estimated model are declared reliable.

C. Evaluation of Goodness of Fit (Inner Model)

Table 2. R-Square Value

Variable	R Square	R Square Adjusted	Q Square	GoF
State Financial Accountability	0.797	0.793	0.963	0.750
The quality of financial reports	0.816	0.804		

Source: Primary Data Processed, 2021

In light of Table 2 over, the test results show that the value of R² of state financial accountability of 0.797 > 0.50 includes robust, while the worth of R² the quality of the financial reports of 0.816 > 0.75 is very astounding. and R² Adjusted respectively 0.793 > 0.50 includes robust, and 0.804 > 0.75, including very strong. Meanwhile, the predictive relevance (Q²) of 0.963 > 0.35 is in the category strong. Thus, overall,

the Goodness of fit value is quite large ($0.750 > 0.35$). The value of R^2 adjusted, predictive relevance (Q^2), and Goodness of fit shows that the research model is robust. Thus it can be concluded that empirical conditions or models fit to support the research model.

D. Hypothesis Testing

The picture of the hypothesis testing path is as presented in the image below:

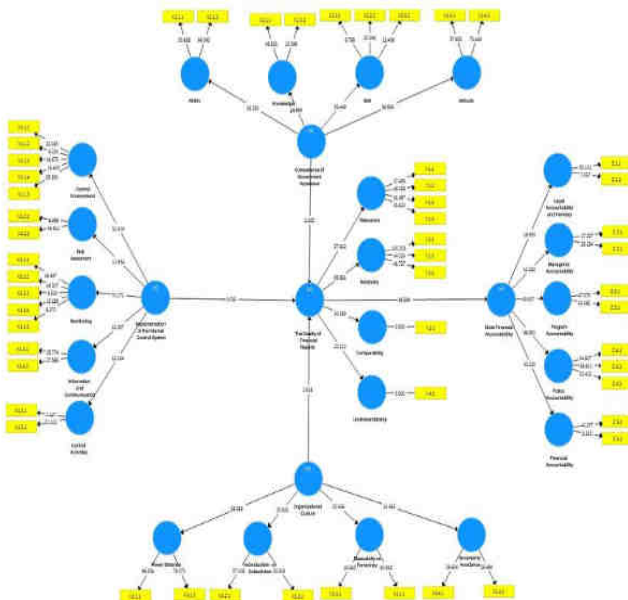


Fig.3 Hypothesis Testing Path Diagram

From the hypothesis testing path diagram above, it can be seen that only the internal control system implementation variable has a T-statistic value smaller than 1.96 and the P-value is greater than the 0.05 level of significance. While the other variables have a T-statistical value greater than 1.96 and a P-value smaller than a significance level of 0.05.

The significance of the influence of the implementation of the internal control system, the competence of government apparatus and organizational culture on the quality of financial reports, as well as the quality of financial reports on financial accountability can be seen in the table below:

Table 3. Path Coefficient and Significance

Relationship Between Variables	Coefficient of Parameters	T Statistics	P Values	Description
Implementation of Internal Control System → The Quality of Financial Reports	0.010	0.041	0.968	No significant effect
Competence of Government Apparatus → The Quality of Financial Reports	0.368	2.005	0.046	Significantly influential

Organizational Culture → The Quality of Financial Reports	0.577	2.618	0.009	Significantly influential
The Quality of Financial Reports → State Financial Accountability	0.893	18.389	0.000	Significantly influential

Source: Primary Data Processed, 2021

E. Discussion

The aftereffects of hypothesis testing indicate that the implementation of the internal control system does not affect the quality of financial reports, meaning that the implementation of the internal control system does not contribute to the quality of financial reports. This condition indicates that the function of the internal control system has not been running successfully. The reason is that one of the elements in the internal control system, namely control activities has not been running optimally, including periodic reviews of agency performance, policies or clear procedures regarding staffing, and proper separation of functions in carrying out an activity or financial transaction. For this reason, it is necessary to make efforts so that the implementation of the internal control system can run effectively by applicable regulations. Previous research conducted by Nurlis & Yudiati [19] also proved that the implementation of the internal control system did not affect the quality of financial reports. However, in general, the results of previous studies indicate the effect of implementing an internal system on the quality of financial reports, such as the results of research by Kewo & Afiah [14], Agbenyo et al. [15], Lari Dashtbayaz et al. [37], Gamayuni [16], Sujana et al. [17], and Ahmad et al. [18].

The aftereffects of hypothesis testing show that the competence of the government apparatus significantly affects the control quality of financial reports. The direction of the influence is positive, namely, the higher the competence of the government apparatus, the quality of financial reports will increase. "Competence is the ability, knowledge, and skills, as well as behavior possessed by every State Civil Apparatus Employee to carry out their duties effectively". In the arrangement of quality financial reports, the competence of the government apparatus has an important role. For this reason, in order to improve the competence of government officials, it is necessary to conduct socialization or training so that understanding of the provisions related to the management of state finances can be further improved. Thus, it is hoped that the findings of the Supreme Audit Agency in financial reports can be minimized because the level of compliance with regulations has been going well. This is in accordance with the exploration aftereffects of Darwanis [20], Abbott et al. [21], Setiyawati [22], Armel et al. [23], Umar et al. [24], Setiyawati et al. [25], and Jachi & Yona [26], which prove the influence of competence on the quality of financial reports. However, in contrast to the results of research by Muda et al. [27] and Dewi & Hoesada [28] which state that competence does not influence the quality of financial reports.

The aftereffects of hypothesis testing show that organizational culture significantly affects the quality of

financial reports. The direction of the influence is positive, namely, the higher the organizational culture, the quality of financial reports will increment. Organizational culture too has an important role in an organization, where organizational culture is the basis that drives loyalty, decisions made, ways of doing work, creativity, leadership, communication, and collaboration. The implementation of a good organizational culture is a significant component that influences the quality of financial reports, among which can be done by improving internal coordination in completing work, including in the arrangement of financial reports, as well as support or leadership commitment in encouraging employees to provide the best performance. The aftereffects of this study are in line with the examination of Oktaviyanti et al. [29] which shows that organizational culture influences the quality of financial reports. Be that as it may, the exploration by Lazuardi and Muhtarom [30], shows different results, namely organizational culture doesn't influence the quality of financial reports. While the consequences of exploration by Patty [31] and Satriawan et al. [32] showed that organizational culture had no significant effect on the quality of financial reports.

The aftereffects of hypothesis testing show that the quality of financial reports significantly affects state financial accountability. The direction of the influence is positive, namely, the higher the quality of financial reports, the greater state financial accountability will also be. The preparation of financial reports is carried out to support transparency and accountability. The opinion of the Supreme Audit Agency can determine the quality of financial reports, where the highest criteria as a form of accountability in the management of state finances is an unqualified opinion. Guided by Government Regulation Number 71 of 2010 [4] concerning Government Accounting Standards, "accountability is being responsible for the management of resources and the implementation of policies entrusted to reporting entities in achieving the goals that have been set periodically". From the quality data on the Financial Reports of State Ministries/ Institutions, it is known that from 2016 to 2019 the Maritime Security Agency has continuously received a Disclaimer of Opinion, where several elements of the cause have six findings and the most important is the finding of limitations on the scope of the examination. In this case, the Maritime Security Agency did not present the documents required by the State Audit Board, namely documents related to the previous year's procurement of goods which were charged to capital expenditures, so that the State Audit Board could not access these documents and as a result, the audit could not be carried out optimally. Consequently, the Maritime Security Agency should try to foster vital stages to work on the nature of its monetary reports, which will affect accomplishing an Unqualified Opinion as a form of accountability for state financial management. Research by Fikrian [33] and Karyatni & Handajani [34] show a similar outcome, to be specific that there is a significant effect between the quality of financial reports and the level of financial accountability.

V. CONCLUSION

From the discussion above, it can be concluded several things, namely, the implementation of the internal control system does not affect the quality of financial reports, meaning that the implementation of the internal control

system does not contribute to the quality of financial reports. This indicates the ineffective function of the internal control system. The competence of the government apparatus significantly affects the quality of financial reports, where the direction of the influence is positive, namely the higher the competence of the government apparatus, the quality of financial reports will increase. Organizational culture significantly affects the quality of financial reports, where the direction of the influence is positive, namely the better the implementation of organizational culture can influence the quality of financial reports. The quality of financial reports significantly affects state financial accountability, where the direction of the influence is positive, namely the better the quality of government financial reports as shown by the assessment got from the consequences of the assessment by the Supreme Audit Agency, the accountability will be realized. Unqualified Opinion on financial statements is a form of accountability in the management of state finances.

Given the results of the study indicate that the competence of government apparatus and organizational culture significantly affects the quality of financial reports, the Maritime Security Agency as a practitioner needs to make efforts to improve the competence of government apparatus and implement organizational culture, including holding regular socialization and involving government apparatus in education/ training in particular related to regulations on the management of state finances to improve competence. In addition, it is necessary to improve internal coordination between units within the Maritime Security Agency as well as high leadership commitment as an implementation of organizational culture, which can uphold the accomplishment of quality financial reports. Furthermore, it is necessary to develop strategic steps to improve the quality of financial reports, as risk mitigation based on the findings of the Supreme Audit Agency in previous years, including the accessibility of documents by the State Audit Board related to capital expenditures. Thus, it is hoped that an Unqualified opinion can be achieved as a form of accountability for state financial management.

Subsequent research should be able to use the variables of the application of the internal control system, considering the results of this study show that the hypothesis is not proven, and this is not following the theory that states that the internal control system will guarantee the reliability of financial statements and financial data so that it affects the quality of financial reports. For this reason, there need to be improvements in compiling questionnaires connected with the implementation of the internal control system, so that respondents are expected to understand more clearly. In addition, further research can use other variables that also affect the quality of financial reports, such as the application of accounting information systems in the scope of government, modernization of information technology, or other variables.

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