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Determinants of the Quality of Financial Statements With Accounting Information System as Intervening Variables

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Abstract: The objective of this study is to prove empirically the influence of leadership, organizational culture, and human resource competence on the quality of financial reports which was mediated by accounting information systems. This study applied purposive sampling method. Researchers conducted a survey towards 31 Regional Apparatus Organizations (OPD) in the Serang city and research sample involved the head of finance department and the treasurer. Data was collected through interviews and distributing questionnaires, then analyzed using SEM PLS with Smart PLS software version 3.2.8. The results showed: (1) leadership, organizational culture, human resource competence, accounting information system had a positive and significant effect on the quality of financial reports, (2) leadership, organizational culture, human resource competence had a positive and significant effect on accounting information systems (3) the accounting information system was not able to mediate leadership with the quality of financial reports. (4) the accounting information system was able to mediate organizational culture with the quality of financial reports, (5) the accounting information system was not able to mediate the competence of human resources with the quality of financial reports.

Keywords: Leadership, Organizational Culture, Human Resource Competence, Quality of Financial Reports, Accounting Information System

INTRODUCTION

The implementation of regional autonomy based on Government Regulation number 23 of 2014 concerning regional government, shows that government paid serious attention in reforming the government system by giving greater authority to autonomous regions in managing finances independently. The implementation of all responsibilities of the Regional Budget and Revenue and Expenditure (APBD) is realized in the form of financial reports.

Financial statements provide information about the financial position and results achieved by the organization. Regulation of the minister of home affairs of the republic of Indonesia number 77 of 2020 concerning technical guidelines for Regional Financial Management states that regional government financial reports (LKPD) are submitted to the Supreme Audit Agency (BPK) no later than 3 (three) months after the end of the fiscal year. BPK conducts 3 types of audits, namely financial audits, performance audits and audits with specific objectives. The assessment of the quality of the financial statements is stated in the form of an audit opinion.

The phenomenon of the quality of financial statements is an interesting discussion for further study. The chairman of the BPK (Djanegara, 2018) revealed the problems that induced non-compliance in the preparation of financial reports, including lack in accounting control system, inaccurate records and the process in preparing report was not in accordance with the provisions since it had not been supported with adequate and competence human resources.

The representative head of BPK Banten province (Wibowo, 2019) mentioned that the investigation results of LKPD in fiscal year 2018 throughout the Banten Province, had met the requirements for the WTP opinion. These entities include Serang city. However, based on the audit results, it found several issues that need to be fixed, including the management of BOS funds, tax receivables, management and administration of fixed assets. In addition, BPK also highlighted that the Regional Government did not have a reliable information system which induced the recording of fixed assets incompatibility with the actual conditions.

Based on the BPK publication, the LKPD of Serang City has shown improvement, which proved by achieving the Predicate of "Reasonable Without Acception" (WTP) for five consecutively in 2021. This is a pride for the local government of Serang city, which is the capital of Banten province. Although LKPD of Serang city could achieve this predicate, it does not mean that there no findings in audit. Based on the results of the 2019 audit, there were a number of records regarding state losses that must be returned. This finding was due to a number of Letters of Accountability (SPJ) which were not clearly designated. BPK Banten also found several issues in the LKPD of Serang City in 2020, namely administrative findings at the public health office.

The demand for performance of local government from community is increasing significantly. Therefore, the government needs to pay attention to the quality of financial reports. Robinson et al (2020) stated that the quality of financial reports is related to the quality of information contained in the financial statements. There are four characteristics as prerequisites for normative measures that must be realized in order to meet the required report quality, namely relevant, reliable, comparable, and understandable (Hasanah & Fauzi, 2017).

There are several factors which might influence the quality of financial reports, namely: leadership, organizational culture, human resource competence and accounting information systems. It is expected that leadership could motivate employees to work more transparently and responsibly in preparing financial reports. Organizational culture is an organizational value system that influences employees to behave. If the government officers unable to understand and

apply accounting logic, it will have an impact on errors in the financial statements and incompatibility between report and the standards defined by the government (Hullah & Pontoh, 2017). The development of accounting information systems has a real impact on data processing from manual systems to computer systems and provision of accounting software will help the users to generate financial reports.

Based on the explanation that mentioned above, the researcher intended to conduct study on the influence of leadership, organizational culture and human resource competence towards the quality of financial reports mediated by the accounting information system in the local government of Serang city. It is expected that this study results could provide an obvious explanation for further researchers about optimizing accounting information systems for the quality of financial reports as well as it can be utilized as supportive input particularly for local governments to find out the root cause of inadequate financial reports.

LITERATURE REVIEW

Stewardship Theory

Stewardship theory (Donaldson & Davis, 1991) describes a situation of management who was not motivated by individual goals but addressed to their primary goals for the organization benefit. The implication of stewardship theory for this research is local governments can responsible for the mandate related to financial management through a high quality of financial reports.

The key factors to support stewardship are the availability of competent human resources and a adequate accounting information system. A good leadership is able to motivate employees to work more transparently, and eventually help them to focus on the objective of organization. While the development of organizational culture in an organization is absolutely necessary to achieve the vision and mission which had been determined to gain benefit of the organization.

The Quality of Financial Reports

Robinson (2020) explained that Financial reporting quality pertains to the quality of information contained in financial reports. High quality financial reporting provides decision useful which is relevant and faithfully represents the economic reality of the company's activities. Meanwhile, Herat & Albarqi (2017) explain that financial reporting quality represents financial statements that provide accurate and fair information about the underlying financial position and economic performance of an entity.

Leadership

Robbins & Coulter (2018) suggested that leaders is someone who can influence others and who has managerial authority. Leadership is what leaders do. Leadership is the process of leading a group and influencing the group to achieve its goals. However, most scientists and behavioral practitioners are believe that leadership is a real phenomenon that is important for organizational effectiveness (Yukl, 2016). Bass & Avolio in (Sazly & Ardiani, 2019) stated that transformational leadership refers to the ability of a leader to transform an idea into reality or transform a concept into real action.

Organizational Culture

According to Robbins & Coulter (2018), organizational culture is defined as the values, principles, traditions, and attitudes that influence how the organization's members take action. Meanwhile, Laudon & Laudon (2020) explained that organizational culture is a powerful unifying force that restrains political conflict and promotes common understanding, agreement on procedures, and common practices.

Human Resource Competence

Brian (Sudarmanto, 2015) defined competence as knowledge, expertise, ability, or individual personal characteristics that can directly affect job performance. According to Wiley in (Sembiring, 2013), human resources is defined as the main supporting pillar as well as the driving force of the organization to realize the vision and mission as well as the goals of the organization.

According to Mangkunegara (2016), human resource competencies are competencies related to knowledge, skills, abilities and characteristics that directly affect their performance.

Accounting Information System

Romney & Steinbart (2018) suggested that an accounting information system is a means in the process of collecting, recording, storing, and processing accounting data and other data to produce information for decision makers. Meanwhile, Azhar Susanto (2017) mentioned that an accounting information system can be defined as a collection (integration) of sub-systems/components both physical and non-physical that are interconnected and work together in harmony with each other to process transaction data related from financial problems into financial information.

Theoritical Framework

Based on the description above, the framework of thinking can be seen in picture 1.
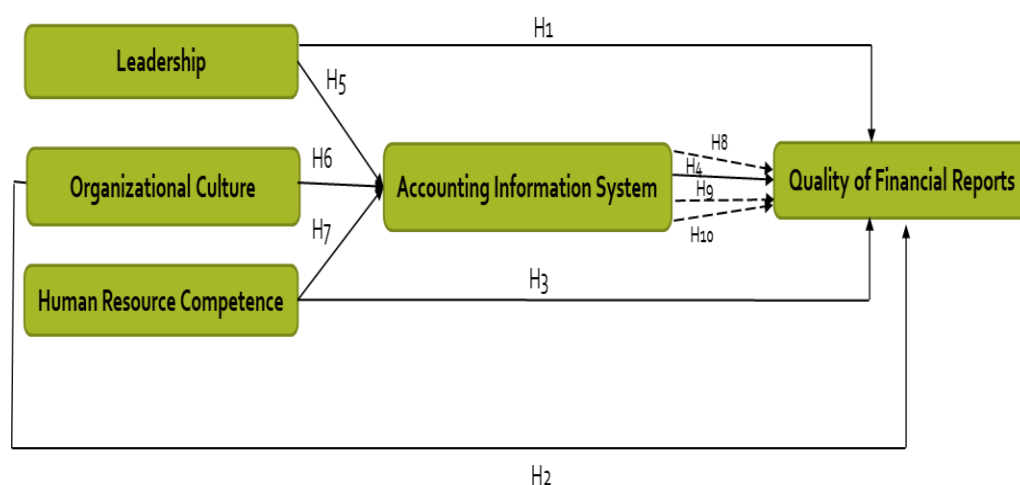
Picture 1. Framework of Thinking
Source: Processed data

RESEARCH METHODS

This is quantitative research based on the calculation of percentages, averages, and other calculations.

Table 1. Variable Operational

Variable	Dimension	Indicator
Leadership (X_1) Bass & Avolio in (Sazly & Ardiani, 2019)	Idealized influence	Employee respect
		Trust
		Can be an Example
	Inspirational motivation	Motivator
		Goal Setting
	Intellectual stimulation	Creative Idea
		Problem Solver
	Individualized consideration	Career Development
		Creating a Good Work Environment
		Relations with Employees
Organizatonal Culture (X_2) McShane & Glinow (2015); Robbins & Coulter (2018)	Attention to detail	Appropriate
		Analysis
	Outcome orientation	Action Oriented
		High Expectations
		Results Oriented
	People orientation	Honesty
		Tolerance
	Team orientation	Team orientation
		Team oriented
	Aggressivenes	Competitive
		Low pressure on social responsibility
	Stability	Predictable
		Secure
		Rule Oriented
	Innovation and risk taking	Experiment
		Looking for Opportunities
		Taking Risk
Human Resource Competence (X_3) Moeheriono (2018)	Skill	Attend Training
		Education
	Knowledge	Level of Education
		Understand Work Rules and Procedures
		Carry Out Clear Duties and Functions
	Ability	Able to Adapt to New Systems
		Able to Work in Groups
		Achieve User Expectations
Quality of Financial Reports (Y) PP No. 71 tahun 2010	Relevant	As Needed
		Available on Time
		Complete Information
	Reliable	Describe the Actual Condition
		Produce the Same Conclusion
		Generally Acceptable
		Become a Complete Source of Information
	Comparable	Comparatively Presented
		Can be used as evaluation material
	Understandable	Presented in Clear Language
		No questions from readers
Variable	**Dimension**	**Indicator**
Information Accounting System (Z) Susanto (2017)	Hardware	Completeness of Physical Equipment Used
		Employee knowledge
		Help Operational
	Software	Give Hand
		Easy to Understand
		Access Restrictions
	Brainware	Skill
		Implemetation
		Operational
	Database	Authorized Database
		Good and Safe Storage
		Update Database

The number of population in this study were 31 Regional Apparatus Organizations (OPD) in Serang city. This study applied purposive sampling method with the head of finance and treasurer as the sample. Data was collected through interviews and distributing

questionnaires containing 58 questions. The data obtained from the questionnaire is ordinal data with a likert scale for the answers to each instrument.

The data was analyzed through SEM-PLS with SmartPLS software version 3.2.8. Partial Least Square (PLS) is an adequate analytical method, because it does not assume that the data must be measured at a certain scale, with a small sample size (Ghozali, 2016). This research is multi-path and reflective with 3 (three) independent latent variables, 1 (one) dependent latent variable and 1 (one) intervening variable.

FINDINGS AND DISCUSSION

There were 73 questionnaires distributed, and 64 (88%) questionnaires were returned and analyzed. The results of the study show that 38 (59%) was female respondents and 26 (41%) was male respondents. Based on age, there were 1 (2%) respondent was under 26 years, 9 (14%) respondents were 26-35 years, 35 (55%) respondents were 36-45 years, and 19 (30%) respondents were over 45 years. Total respondents with education background of accounting was 12 (19%), IT was 4 (6%), management was 5 (8%), and others were 43 (67%). Respondents with the latest education of diploma was 3 (5%), undergraduate was 30 (47%), postgraduate was 16 (25%), and others was 15 (23%). Based on years of service, respondents who have served less than 6 years was 5 (8%), 6-15 years was 44 (69%), 16-25 years was 6 (9%), and more than 25 years was 9 (14 %).

Descriptive Statistics

Descriptive statistics are intended to describe and present briefly information from a huge number of data (Daito, 2007). The assessment criteria were categorized into 5 aspects by calculating the average with a range of 0.8 (Sturges formula).

Table 2. Descriptive Statistics

	N	Mean	Minimum	Maximum
L	64	3,86	1,00	5,00
OC	64	3,64	1,00	5,00
HRC	64	4,06	1,00	5,00
FRQ	64	3,74	1,00	5,00
AIS	64	3,63	1,00	5,00

Source: Processed Primary Data (*Output Smart*PLS)

Table 2 described that the highest average value was obtained from the HRC variable which was 4.06 (good). Meanwhile, the lowest average value was obtained from the AIS variable, which was 3.63 (good). These results indicate that the majority of respondents assessed that L, OC, HRC, QoFR and AIS have been implemented well in the local government of Serang city.

Outer Model Test Result

Convergent Validity

It can be said that the indicator has a good validity if its value is greater than 0.70, while a loading factor of 0.50 to 0.60 can be considered sufficient (Ghozali, 2016).

Table 3. Loading Factor

Leadership		Organizational Culture				Human Resource Competence		Quality of Financial Reports		Accounting Information System	
L.1.1	0,929	OC.1.1	0,914	OC.6.1	0,914	HRC.1.1	0,821	QoFR.1.1	0,960	AIS.1.1	0,967
L.1.2	0,916	OC.1.2	0,890	OC.6.2	0,958	HRC.1.2	0,891	QoFR.1.2	0,941	AIS.1.2	0,890
L.1.3	0,935	OC.2.1	0,944	OC.6.3	0,915	HRC.2.1	0,885	QoFR.1.3	0,957	AIS.1.3	0,951
L.2.1	0,880	OC.2.2	0,931	OC.7.1	0,906	HRC.2.2	0,892	QoFR.2.1	0,971	AIS.2.1	0,934
L.2.2	0,915	OC.2.3	0,932	OC.7.2	0,785	HRC.2.3	0,879	QoFR.2.2	0,960	AIS.2.2	0,937
L.3.1	0,880	OC.3.1	0,950	OC.7.3	0,915	HRC.3.1	0,884	QoFR.2.3	0,943	AIS.2.3	0,947
L.3.2	0,894	OC.3.2	0,937			HRC.3.2	0,852	QoFR.2.4	0,907	AIS.3.1	0,906
L.4.1	0,931	OC.4.1	0,868			HRC.3.3	0,907	QoFR.3.1	0,948	AIS.3.2	0,944
L.4.2	0,890	OC.4.2	0,956					QoFR.3.2	0,973	AIS.3.3	0,947
L.4.3	0,911	OC.5.1	0,848					QoFR.4.1	0,957	AIS.4.1	0,888
		OC.5.2	0,937					QoFR.4.2	0,955	AIS.4.2	0,914
										AIS.4.3	0,930

Source: Processed Primary Data (*Output Smart*PLS)

Based on the table above, it shows that all indicators have a loading factor value more than 0.7, which means that it is valid as a measuring tool for research variables, namely L, OC, HRC, QoFR, and AIS.

Discriminant Validity

Discriminant validity can be accepted if the square root value of the AVE is greater than the correlation value of latent variable with all other latent variables (Fornell and Larcker, in Ghozali, 2016).

Table 4. Fornell Larcker

	L	OC	HRC	QoFR	AIS
L	**0,908**				
OC	0,729	**0,913**			
HRC	0,274	0,238	**0,877**		
QoFR	0,783	0,803	0,496	**0,952**	
AIS	0,677	0,707	0,455	0,868	**0,930**

Source: Processed Primary Data (Output SmartPLS)

Based on the table above, it shows that the square root value of AVE has a greater value, which means that it is overall valid.

Cronbach's Alpha and Composite Reliability

Table 5. Cronbach's Alpha and Composite Reliablity

	Cronbach's Alpha	Composite Reliablity
L	0,976	0,979
OC	0,987	0,988
HRC	0,957	0,964
QoFR	0,990	0,991
AIS	0,986	0,987

Source: Processed Primary Data (Output SmartPLS)

This table shows that all variables have a value greater than 0.70, which means that all variables are declared reliable.

Inner Model Test Result

R Square (R^2)

R^2 is a goodness fit test (GoF) model for endogenous latent variables (Hair et al., in Ghozali, 2016).

Table 6. Structural Model Evaluation

Variable	R^2	Information
QoFR	0,871	Strong
AIS	0,625	Moderate

Source: Processed Primary Data (Output SmartPLS)

The test results show the R^2 QoFR value of 0.871, which is above 0.75 (strong). These results explain that 87.1% of QoFR is influenced by L, OC, HRC and AIS while the remaining 12.9% is influenced by other factors not examined in this study. While the R^2 AIS value is 0.625 (moderate), meaning that 62.5% AIS is influenced by L, OC, HRC, while the remaining 37.5% is influenced by other factors not observed in this study.
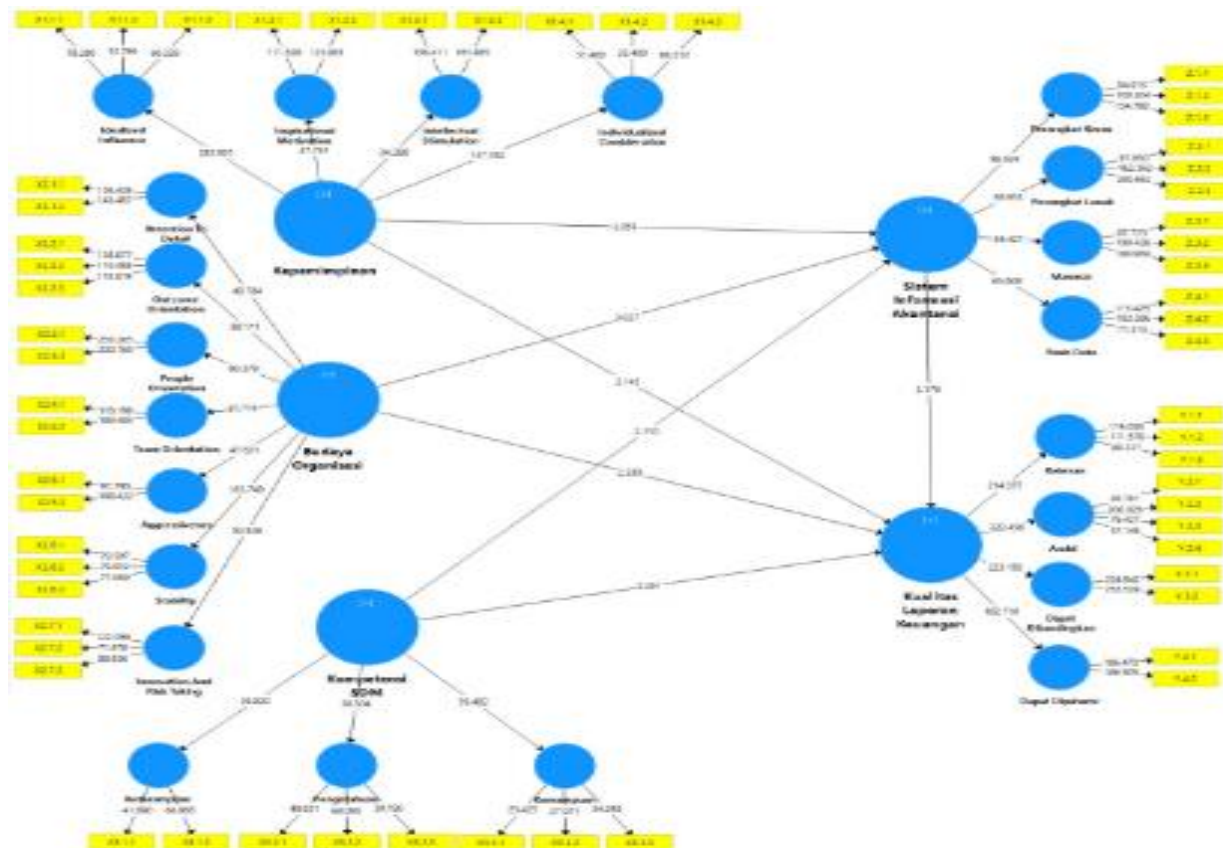
Source: Output SmartPLS
Picture 2. Boothstrapping

Predictive Relevance (Q^2)

It can be said that Q^2 has predictive relevance value if $Q^2 \geq 0$ and does not have predictive relevance if $Q^2 < 0$ (Ghozali & Latan, 2015).

The calculating of Q^2 used following formula:

$$Q^2 = 1 - (1 - R^2_1)(1 - R^2_2)$$
$$Q^2 = 1 - (1 - 0{,}871)(1 - 0{,}625) = 0{,}952$$

Based on the results of calculations above, the Q^2 value of 0.952 means that this model is appropriate and relevant.

Goodness of Fit Index

GoF values range from 0-1 with the interpretation of this value is 0.1 (Small GoF), 0.25 (Moderate GoF), and 0.36 (Large GoF) (Ghozali & Latan, 2015).

Table 7. Goodness of Fit Model

Variable	Communalities	R^2
L	0,825	-
OC	0,833	-
HRC	0,769	-
FRQ	0,907	0,871
AIS	0,865	0,625
Average	**0,840**	**0,748**
GoF Value	**0,792** 0,018	
Conclusion	Large GoF	

Source: Processed Primary Data (Output SmartPLS)

This table shows that the GoF value of 0.792 means that the model meets the goodness of fit criteria and has strong predictive power.

Hypothesis Testing

The results of hypothesis testing are significant, if the T statistic is > 1.96, while the hypothesis is accepted, if the P value < 0.05.

Table 8. Hypothesis of Direct Effect

Variable Relationship	Original Sample	T Statistics	P Values	Results
L -> FRQ	0,238	2,145	0,016	Accepted
OC -> FRQ	0,287	2,330	0,010	Accepted
HRC -> FRQ	0,169	2,291	0,011	Accepted
AIS -> FRQ	0,426	3,176	0,001	Accepted
L -> AIS	0,286	2,051	0,020	Accepted
OC -> AIS	0,433	3,037	0,001	Accepted
HRC -> AIS	0,274	2,110	0,018	Accepted

Source: Processed Primary Data (*Output Smart*PLS)

Table 9. Hypothesis of Indirect Effect

Variable Relationship	Original Sample	T Statistics	P Values	Results
L -> AIS -> FRQ	0,122	1,455	0,073	Rejected
OC -> AIS -> FRQ	0,185	2,234	0,013	Accepted
HRC -> AIS -> FRQ	0,117	1,532	0,063	Rejected

Source: Processed Primary Data (*Output Smart*PLS)

CONCLUSION AND RECOMMENDATION

In overall, the results of this study provide several empirical evidences, as following: (1) leadership, organizational culture, human resource competence, accounting information systems had a positive and significant effect on the quality of financial reports. This result means that with an adequate and good leadership, organizational culture, human resource competencies, and accounting information systems, it can help the local government of Serang city to improve the quality of its financial reports. (2) leadership, organizational culture, and human resource competence had a positive and significant effect on accounting information systems. Currently, the SIMRAL application has been carried out by the local government of the city of Serang. (3) The accounting information system has not been able to mediate between leadership and the quality of financial reports. Based on descriptive analysis of respondents, it shows that there was only 4(6%) respondents who have an IT educational background, which means that leaders in the government office of Serang city may not understand the existing accounting information system, which cause they were not able to inform and give direction to their subordinates to use accounting information systems optimally in generating a qualified financial reports. (4) The accounting information system was able to mediate the relationship between organizational culture and the quality of financial reports. (5) The accounting information system has not been able to mediate the competence of human resources with the quality of financial reports. Based on the results of the descriptive analysis of respondents, there was only 12 (19%) respondents possess an accounting education background, which means that there were still many head of finance department and treasurers who do not come from an education that appropriate with their position. The questionnaire results on respondents responses indicate that the overall indicators of assisting operations were good. However, there were still 25 respondents who considered that the existing accounting information system could not help their task, especially in generating financial reports.

In terms of future research, it would be interesting to further explore the other variables that might have an influence on the quality of financial reports and expand the scope of research not limited to OPD but also to LKPD supervisory and inspection institutions such as BPKP. Meanwhile, for OPD in Serang city, researcher suggests to develop an accounting information system according to user needs and provide regular training to existing human resources in order to provide the opportunity for employees to explore themselves in line with the changes in existing policies.

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