

## Quality of Local Government Financial Reports in Indonesia from the Perspective of Reporting, Monitoring and Examination Entity

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### ABSTRACT

*The purpose of this research is to see and analyze the qualitative characteristics of local government financial reports from the perspective of the Reporting Body (OPD), Internal Supervisory Agency (Inspectorate) and External Supervisory Agency (BPK-RI) in North Sumatra Province. The population of this study was all Regional Apparatus Organizations (OPD), Inspectorates and Representatives of the The Audit Board of the Republic of Indonesia (BPK RI) Representative of the Province of North Sumatera. The sample for this research was all OPD, Level One Inspectorate and Representatives of the Supreme Audit Board of the Republic of Indonesia (BPK RI) of North Sumatra Province amounted to 320 samples. This research is quantitative. Data collection techniques using a questionnaire. Data analysis techniques used descriptive analysis and t-test to compare statements or responses from OPD, the Inspectorate and the The Audit Board of the Republic of Indonesia (BPK RI) Representative of the Province of North Sumatera. The results of the study indicate that there are differences of views between the Regional Apparatus Organizations (OPD), the Inspectorate of North Sumatra Province and the Supreme Audit Agency of the Republic of Indonesia (BPK RI) Representative of North Sumatra Province regarding the financial quality of regional financial reports in terms of the qualitative characteristics of local government financial reports. This study also concludes that in addition to the four qualitative characteristics according to Government Regulation of the Republic of Indonesia Number 71 of 2010, indicators of compliance with regulations also improve the quality of local government financial reports.*

*Keywords: Relevant; reliable; comparable; understandable; obey the rules*

### INTRODUCTION

The results of the 2018 The Audit Board of the Republic of Indonesia (BPK RI) examination for the Province of North Sumatera only provided 14 Fair Unqualified Opinions (WTP) from 34 reporting entities. This number indicates that there are problems with the government's financial reports. Financial reports are information media that must be available and accountable and free from misstatements and fraudulent practices. The risk of the government's financial reports experiencing losses includes problems with inefficiency of budget users, the oversight function that does not work, input errors and a lack of understanding and low loyalty of financial managers to the application of government accounting. This problem ultimately creates public distrust of the quality of the financial reports produced.

In general, The Audit Board of the Republic of Indonesia (BPK RI) audit findings based on the The Audit Board of the Republic of Indonesia (BPK RI) Audit Report (2018) for semester 1 of 2018 included 9,908 cases consisting of a) Weaknesses in the Internal Control System (SPIP); b) Non-compliance with statutory provisions c) Findings of inefficiency, ineffectiveness. The accounts in the financial statements presented are not in accordance with Government Accounting Standards (SAP) and / or are not supported by sufficient evidence such as current assets, fixed assets accounts, other assets, liabilities, income and expenditure.

Overall audit findings include, recording errors and misstatement of transactions, improper recognition and valuation of assets, procurement work that does not match volume, inadequate management of accounts receivable, unreliable realization of expenditure on goods and services, improper capitalization after acquisition, the initial assets are presented correctly, the preparation of financial statements is not in accordance with applicable government accounting standards, government accountability, financial management, delivery of financial reports that are not timely and large revenue budgets, but cannot be realized.

The data shows that there are still misstatements, material enough in the financial statements produced by the entity so that the quality of financial statements is unsatisfactory (Erlina et al. 2019), (Nurlinda et al. 2020) which fails Regional Apparatus Organizations (in Indonesia it is called OPD) to obtain unqualified (in Indonesia it is called WTP) opinion. Quality financial statements must be free from material misstatements, be accurate and be accountable (Mutiana et al. 2017). When the local government gets unqualified opinion from the Supreme Audit Board (BPK RI), it shows that the financial statements have been presented and disclosed in a fair and quality manner (Yusniar et al. 2016). The quality of a financial statement can be measured from the assessment of the Supreme Audit Agency (BPK RI) through audit opinions obtained (Yusniar et al. 2016).

The Audit Board of the Republic of Indonesia (BPK RI) gives opinion based on (1) compliance with Government Accounting Standards (SAP), (2) adequacy of disclosure (adequate disclosure), (3) compliance with statutory regulations and (4) effectiveness of Internal Control System (SPI) (Law Number 15 2004); (Suwanda et al. 2017); (Anggriawan & Yudianto 2018).

The audit results show that there are still many findings that are the homework of the North Sumatra Provincial Government to produce financial reports that are relevant, reliable, easy to understand, and comparable. This finding allegedly occurred due to differences in information on each of these entities. Information asymmetry that occurs in budgeting entities, accounting entities, reporting entities and monitoring entities indicates that the qualitative characteristics of financial reports have not been fulfilled. non-compliance with regulations that occurred also contributed to the sub-optimal administration of financial reports in local governments.

This research is very important to do considering the financial statements are one of the information that supports and forms the basis for every decision making. Quality financial reports will contribute to making the right decisions, otherwise if the financial reports are not of good quality then the decisions taken will be wrong. In addition, quality financial reports will protect entities and stakeholders from information asymmetry problems and most importantly, quality financial reports show that all entity assets are properly protected, recorded fairly and the risk of fraud that is detrimental to corruption can be avoided. In Indonesia, the quality of local government financial reports still does not show the same quality as the private sector. The issuance of Government Regulation Number 71 of 2010 concerning Government Accounting Standards became the starting point for reform in the preparation of financial reports. The emergence of Minister of Home Affairs Regulation Number 64 of 2013 concerning Application of Accrual-Based Government Accounting Standards in Regional Government has become an important foundation for accrual-based implementation in the Government Sector. However, in its implementation after the issuance of the regulation it still showed unsatisfactory results, even though changes were made for the better. The Regional Apparatus Organization (OPD) is still confused about interpreting these rules, the Inspectorate is also confused about the extent of supervision carried out so that the results of the studies that have been carried out can answer the needs of the BPK's audit. Based on the explanation above, the problem of the quality of financial reports is interesting to study. So the question whether there are differences in perceptions between reporting entities, monitoring entities, auditing entities regarding the quality of regional financial reports can be answered. The contribution of this research is to unravel the fundamental problems related to

why the quality of Local Government Financial Reports (LKPD) is still inadequate and to try to present solutions to these problems to local governments.

## LITERATURE REVIEW

### AGENCY THEORY

Quality financial reports are needed by external parties. In agency theory, accounting information is used for two purposes. First, it is used for decision making by principals and agents. And secondly, it is used to evaluate and share results in accordance with work contracts that have been made and approved. This is what is called the role of performance evaluation which can motivate agents to try their best (Raharjo 2007).

This theory is a concept that explains the contractual relationship between principal and agent. Thoughts about financial performance in the form of quality financial reports rest on this theory, company management is carried out in accordance with applicable rules and regulations (Rachmad 2011). Zimmerman & Wieder (1977) agency problems also exist in the context of governmental organizations. The people as principals give a mandate to the government as agents, to carry out governmental tasks in order to improve people's welfare. The implication of this theory is that principals, both the people, need to directly supervise agents, both the government and politicians. Politicians as actors also need information to evaluate the running of government. Fadzil & Nyoto (2011) also stated that there is a principal-agent relationship between the central government and local governments. The central government is the principal and local governments act as agents. Because, as a unitary state, the local government is responsible to the people as voters and also to the central government. The principle-agent theory has broad aspects when it is associated with the public sector Petrie (2002) consisting of legislative relations with the people, Regional People's Representative Assembly (DPRD) with the government, regional heads with the Ministry of Development, President and ministries, or contractual relations between superiors and the government. leadership level below. Eriadi et al. (2018). This contractual relationship produces a problem known as the agency problem (adverse selection and moral hazard) and this agency problem begins with the existence of information asymmetry between parties (Attila 2014).

Jensen & Meckling (1976) stated that agency relationships arise when the principal cooperates with the agent, where the principal will provide facilities and delegate decision-making and policy authority to the agent. K et al. (2009) states that in an agency relationship, the agent is required to provide periodic performance reports to the principal, then the principal will assess the agent's performance based on the financial reports submitted.

#### ENTITY THEORY

Entity theory according to Paton (1962) focuses on the management concepts of “stewardship” and “accountability” where businesses pay attention to the level of business continuity and business financial information for owners to fulfill legal requirements and maintain good relations with these owners, with the hope that in the future it will be easy to get funds Tandiontong (2016). Paton further (1970) defines entity theory as “an organization that is considered an independent economic entity or entity, acting on its own behalf, and its position is separate from the owner or other party who invests funds in the organization” (Swardjono 2014). Thus the economic entity is certainly the center of attention or object of accounting. In addition, accounting certainly has an interest in the financial reporting of non-owner business entities. On the other hand, a business entity is the party responsible for reporting to the owner. The business unit is the responsibility center, while the responsibility medium is the financial report (Umar & Nasution 2018).

Fogarty & Kalbers (1993) states that every business entity, in this case the Regional Government, carries out activities to meet the needs of various interested parties (stakeholders) (Tandiontong 2016). If related to the preparation of Local Government Financial Reports (LKPD), the application of this theory has been implemented, it is proven that the term reporting entity is contained in the elucidation of Article 51 paragraph (2) and paragraph (3) of Law (UU) Number 1 of 2004 concerning the State Treasury. The explanation states that “every State Ministry/Institution is a reporting entity that is not only required to carry out accounting, but is also required to submit an Accountability Report in the form of financial reports. Based on Appendix 1 of Financial Accounting Standards (SAP) points (21) and (22) strictly separate accounting and reporting entities, where:

1. An accounting agency is a unit within the government that manages the budget, assets and obligations that organizes accounting and presents financial reports based on organized accounting
2. Reporting is a government unit consisting of one or more accounting entities which according to the provisions of laws and regulations are required to present accountability reports in the form of general purpose financial reports consisting of:
  - a. Central government
  - b. Local government
  - c. Every state ministry or agency within the central government
  - d. Organizational units within the central/regional government or other organizations, if according to laws and regulations the organizational units are required to present financial reports.

Points (21) and (22) clearly show that there is a relationship between the accounting entity and the reporting entity itself, but there is a clear separation of

functions between the accounting entity and the reporting entity, where not all accounting entities are reporting entities. This explanation is also confirmed in point (23) of the Financial Accounting Standards (SAP) which states that “In determining the reporting entity, it is necessary to pay attention to the provisions of management, control and control of the reporting entity over certain assets, jurisdiction, duties and missions, by separating the forms of responsibility and authority from other reporting entities”.

If it is associated with agency theory where the entity’s management acts as an agent who has a contract with the Principal to carry out activities or represent the interests of the Principal for their benefit through delegating some decision-making authority to the agent, of course reporting. be important. information for school principals to protect the authority that has been given, as well as for the entity is a tool to account for the authority received.

#### QUALITY OF FINANCIAL STATEMENTS

According to (Santoso 2008) Public sector financial statements prepared are mainly used to compare the realization of revenue, expenditure, transfers, and financing with a predetermined budget, assess financial conditions, evaluate the effectiveness and efficiency of a reporting entity and help determine compliance with laws and regulations. The definition of quality according to Mulyana (2010:96) is “Quality is defined as conformance to standards, measured based on the degree of non-conformity, and achieved through inspection”. The qualitative characteristics of financial statements are normative measures that need to be realized in accounting information so that they can meet their objectives. According to PP Nomor 24 Tahun 2005 (2005) states that financial statements are prepared to provide relevant information about the financial position and all transactions carried out by a reporting entity for one reporting period, whereas according to (Azlim & Usman 2012), financial statements are said to be of good quality and useful in decision making, reflected in the qualitative characteristics of financial statements that meet quality.

As for the qualitative characteristics of financial statements which constitute normative measures that need to be realized in accounting information in meeting its objectives consist of 4 characteristics according to [PP Nomor 71 Tahun 2010]; PP Nomor 24 Tahun 2005; Mahmudi (2016); Erlina et al. (2017); Fauziah (2018) namely “Relevant, Reliable, Comparable, Understandable”. In addition to the four characteristics, company management is carried out in compliance with applicable rules and regulations Rachmad (2011). Onyulo (2017) includes the element of compliance with laws and regulations as one of the criteria that affect the quality of financial statements. Quality financial reports are financial reports that comply with the rules and regulations that have been set. which are normative measures that need

to be realized in accounting information in meeting its objectives, consisting of 4 characteristics according to PP No. 71 of 2010, namely:

Information presented in the financial statements also has constraints. According to PP No. 71 of 2010, the constraints of accounting information and financial statements are any circumstances that do not allow the realization of ideal conditions in realizing accounting information and financial reports that are relevant and reliable due to limitations (limitation) or for reasons of practicality (Erlina et al. 2017). According to PP No. 71 of 2010, three things cause obstacles in accounting information and government financial reports, i.e

1. Materiality

Although ideally all information, government financial statements are only required to contain information that meets the materiality criteria. Information is considered material if the failure to record or errors in recording the information can affect the economic decisions of users taken based on financial statements.

2. Consideration of Costs and Benefits

The benefits generated by information should exceed the cost of its preparation. Therefore, government financial statements should not present all information whose benefits are less than the cost of preparation. However, the evaluation of costs and benefits is a substantial consideration process. Costs also do not have to be borne by information users who enjoy the benefits, benefits may also be enjoyed by other users besides those who are the purpose of the information, for example providing further information to creditors might reduce the costs borne by a reporting entity.

3. The balance between qualitative characteristics.

A balance between qualitative characteristics is needed to achieve an appropriate balance between the various normative objectives that are expected to be fulfilled by government financial statements. The relative importance between characteristics in different cases, especially between relevance and reliability. Determining the level of importance between the two qualitative characteristics is a matter of professional judgment.

#### RELEVANCE

Financial statements are said to be relevant if the information contained in them can influence user decisions by helping users evaluate past or present events, and predict the future, and confirm or correct the results of user evaluations in the past. Indicators that support these characteristics according to [PP Nomor 71 Tahun 2010); PP Nomor 24 Tahun 2005); Mahmudi (2016); Erlina et al. (2017); Fauziah (2018) are as follows:

1. Have feedback (feedback value). Information allows users to confirm or correct their expectations in the past.

2. Has Predictive Benefits (Predictive value). Information can help users to predict the future based on past results and current events.
3. On time. Information presented on time, so that it is influential and useful in decision making.
4. Complete. Government financial accounting information is presented as completely as possible, including all accounting information that can influence decision making, and the information is disclosed clearly to avoid mistakes.

#### RELIABLE

Information in the financial statements is free from misleading and materially wrong notions, presents every fact honestly, and can be verified. Indicators that support these characteristics are according to [PP Nomor 71 Tahun 2010); PP Nomor 24 Tahun 2005); Mahmudi (2016); Erlina et al. (2017); Fauziah (2018) are as follows:

1. Honest Presentation of Information. Information honestly describes transactions, as well as other events that are presented fairly.
2. Can be verified (verifiability).
3. The information presented in the financial report can be tested, and will show results that are not much different if tested by different parties.
4. Neutrality of information. Information is directed at general needs and does not favor certain needs

#### COMPARABILITY

Information in the financial statements will be more useful if it can be compared with the financial statements in the previous period or the financial statements of other reporting entities in general. Indicators that support these characteristics according to [PP Nomor 71 Tahun 2010); PP Nomor 24 Tahun 2005); Mahmudi (2016); Erlina (2017); Fauziah (2018) are as follows:

1. Internal comparison. Internal comparisons can be made if the entity applies the same policy year after year.
2. Comparison externally. External comparisons can be made if the entity being compared applies the same accounting policy.
3. Consistent in applying accounting principles. The implementation of the policy is carried out consistently, and if the entity will implement a better policy then the change must be disclosed in the period of the change.

#### UNDERTANDABILITY

The information presented in the financial statements must be understandable to users and expressed in terms and terms that are tailored to the limits of the user's understanding. Indicators that support these characteristics according to [Government Regulation Number 71 of 2010); Government Regulation Number

24 of 2005); Mahmudi (2016); Erlina et al. (2017); Fauziah (2018) are as follows:

1. The information presented can be understood by the user.
2. Information stated in the form and technical language by following the level of understanding of its users.

#### OBEY THE RULES

In government entities, quality financial reports are prepared in accordance with established rules and regulations (Rachmad 2011). Onyulo (2017) adds an element of compliance with laws and regulations as one of the criteria that affects the quality of financial reports. Meanwhile, the order to comply with regulations is also contained in Government Regulation Number 60 of 2008. This Government Regulation (PP) states that control efforts are carried out by regional governments to realize effective, efficient, transparent and accountable state financial management, one of which is by comply with laws and regulations (Government Regulation Number 60 of 2008). The implementation of this regulation is to force government entities to obey and obey the policies that have been set, such as, a) carry out activities after the budget is approved; b) the budget is prepared in accordance with the policies that have been set; c) preparation of the

budget refers to the General Cost Unit (SBU) stipulated by the Ministry of Finance of the Republic of Indonesia; or d) the budget is prepared in accordance with the Standard Unit Price (SSH) stipulated by governor regulations for Regional Governments; e) the activities to be carried out refer to the Terms of Reference (TOR) and other relevant regulations that have been stipulated.

#### RESEARCH DESIGN

The population of this study was all Regional Apparatus Organizations (OPD), first-level regional inspectorate and The Audit Board of the Republic of Indonesia (BPK RI) Representatives of North Sumatra Province. This research was conducted in North Sumatra Province. The underlying reason is that North Sumatra Province is one of the largest provinces in Indonesia with 33 second-level regions and one first-level region. In addition, at the time this research was conducted, the number of financial statements that received an unqualified opinion was only 44%. Financial Reports that received Unqualified Predicate were also not spared from these findings. Various records from the audit results show that the financial reports produced are still not optimal. The research sample is the entire population or saturated sample, which consists of:

TABLE 1. Sample distribution

No	Sample	Respondent	Total
1	The Audit Board of the Republic of Indonesia (BPK RI) for the North Sumatra region	supervisor	13
2	Regional Inspectorate level one of North Sumatra Province	first-level regional inspectorate	91
3	36 of Regional Apparatus Organization (OPD)	Leadership, Head of Finance, Treasurer (each OPD consists of 6 respondents)	216
	Total		320

- The selection of respondents is based on:
1. The Audit Board of the Republic of Indonesia (BPK RI) for the North Sumatra region supervisors, are people/institutions whose duties and responsibilities are to examine OPD financial reports. This sample was chosen considering the opinion generated is one proof that financial reports can be said to be of high quality.
  2. Inspectorate, is the person or team that supervises and is responsible for overseeing the implementation of internal control in OPD. The inspectorate was chosen as the sample because of the role of the inspectorate as the person/institution tasked with overseeing the successful implementation of the Government Internal Control System (SPIP), as well as the person/institution that reviews regional financial reports. Government (LKPD) before being audited by BPK.

3. Regional Apparatus Organizations (OPD) are units that carry out and report financial reports. OPD is a unit that is required to implement an Internal Control System (SPIP) and is required to comply with Government Accounting Standards (SAP) in preparing Regional Financial Reports (LKPD).

The sample selection above is to represent reporting entities, monitoring entities, and inspection entities. This study was a quantitative research. Data collection techniques used questionnaires and closed interview.

The quality of local government financial reports is analyzed using indicators sourced from Government Regulation no. 71/2020 consisting of a) Relevant; b) Reliable; c) Comparable; d) Understandable and also adopting one indicators sourced from Onyulo (2017) that is obey the rules. Data collection using a questionnaire. The questionnaire was prepared by asking questions using the following indicators:

TABLE 2. Operational definition

Variable	Operational definition	Dimensions	Indicators
Quality of Regional Financial Reports (LKPD)	Report quality financial report is the suitability of financial statements with standards that are measured using qualitative characteristics, as well as achieved through inspection (Government Regulation Number 71 of 2010)	Relevant	1. Get feedback 2. Has Benefits 3. Be on time 4. Complete
		Reliable	1. Honest presentation 2. Verifiable 3. Neutrality
		Comparable	1. can be compared internally, and 2. can be compared internally comparable
		Understandable	1. Information is easy to understand, 2. Information in appropriate technical language.
		Obey the rules (Onyulo 2017)	1. Compliance with regulations 2. Compliance with the established budget.

Data analysis uses descriptive analysis to compare statements or responses from Regional Apparatus Organizations (OPD), first-level regional inspectorate and The Audit Board of the Republic of Indonesia (BPK RI). In addition, to better support the conclusions from the results of the descriptive analysis, a t test will be carried out.

## RESULTS

The description of the respondent's data shows the following information:

Questionnaire sent	: 320
Unreturned questionnaires	: <u>79</u>
Questionnaire back	: 241
Incomplete questionnaire	: 4
The questionnaire is broken	: <u>4</u>
The number of questionnaires that can be processed	: 231

Table 3 shows the differences in perceptions about the extent to which the quality of local government financial reports in terms of perceptions of Regional Apparatus Organizations Regional Apparatus Organizations (OPD), internal auditors (Inspectorate) and external auditors (The Audit Board of the Republic of Indonesia). The average value of 3.7, the Regional Apparatus Organizations (OPD) assessment is strengthened by the perception of internal auditors which shows an average value of 4.4 is a very good interval. This assessment shows that the inspectorate as an internal auditor believes that the financial statements produced by the Regional Apparatus Organizations (OPD) are adequate. different from the average value of the external auditor. Indonesian

Financial Audit Board (BPK RI) Representatives of the Province of North Sumatera as an external auditor assume that the financial statements of the Government of North Sumatera Province are inadequate. This perception is indicated by an average value of 2.7 which is in the interval is not good. The perception of The Audit Board of the Republic of Indonesia (BPK RI) is in line with the results of The Audit Board of the Republic of Indonesia (BPK RI) opinion for the financial statements of North Sumatera Province which found that there are still many findings that must be followed up by the Regional Apparatus Organizations (OPD) despite obtaining a Fairly Unqualified opinion (WTP).

TABLE 3. The quality characteristics of financial statement

Instrument's	OPD		Inspectorate		BPK RI	
	Average	Criteria	Average	Criteria	Average	Criteria
Relevance	3.5	Good	3.9	Good	2.8	Not Good
Reliability	3.4	Not Good	4.5	Very Good	2.3	Poor
Comparability	3.9	Good	4.4	Very Good	2.4	Poor
Understandability	4.2	Good	4.6	Very Good	3.5	Good
Obey The Rules	3.5	Good	4.5	Very Good	2.3	Poor
	18.3		21.9		13.2	
Average	3.7	Good	4.4	Very Good	2.6	Not Good

Table 4 shows the distribution of respondents' responses to the questionnaire distributed to each entity. From this table, it can be seen that the relevant dimensions of maximum responses (scores 4-5) from the highest percentage average were answered by the Inspectorate entity at 89.6%, the Regional Apparatus Organizations (OPD) at 67.3% and the examiner namely

the The Audit Board of the Republic of Indonesia (BPK RI) at 38.5%. For the lowest response (Score 1-2) in the relevant dimension is the The Audit Board of the Republic of Indonesia (BPK RI) entity at 53.9%% while for the Regional Apparatus Organizations (OPD) entity is 19.2% and the least response in this range is in the Inspectorate entity at 9.1%.

TABLE 4. Relevance

Score	OPD (Reporting unit)		Inspectorate (Internal Auditor)		BPK RI (External Auditor)	
	Total Respondance	%	Total Respondance	%	Total Respondance	%
1	18	12.8	5	6.5	5	38.5
2	9	6.4	2	2.6	2	15.4
3	19	13.5	1	1.3	1	7.7
4	79	56.0	60	77.9	1	7.7
5	16	11.3	9	11.7	4	30.8
Total	141	100	77	100	13	100

Table 5 shows responses to the Reability indicator that were responded differently by the three entities. The highest score (score 4-5) was 87% by the Inspectorate entity, while the Regional Apparatus Organizations (OPD) responded by 50.3% and The Audit Board of the Republic of Indonesia (BPK RI) responded by 23.1%. Whereas the

answer for the lowest score (Score 1-2). The Inspectorate responded by 10.4%, Regional Apparatus Organizations (OPD) responded by 22.7% and the most responses stated that the Regional Apparatus Organizations (OPD) financial report was not reliably provided by The Audit Board of the Republic of Indonesia (BPK RI) RI by 61.5%

TABLE 5. Reliability

Score	OPD (Reporting unit)		Inspectorate (Internal Auditor)		BPK RI (External Auditor)	
	Total Respondance	%	Total Respondance	&	Total Respondance	%
1	26	18.4	7	9.1	7	53.8
2	6	4.3	1	1.3	1	7.7
3	38	27.0	2	2.6	2	15.4
4	34	24.1	3	3.9	0	0.0
5	37	26.2	64	83.1	3	23.1
Total	141	100	77	100	13	100

Table 6 shows responses to comparable indicators, where these indicators were responded differently by the three entities. The highest score (score 4-5) comes from responses of respondents from the inspectorate by 80.5%, Regional Apparatus Organizations (OPD) responded by 58.8% and the lowest was a response from The Audit Board of the Republic of Indonesia (BPK RI)

of 15.4%. Respondents' responses to the lowest score (1-2) came from the inspectorate of 10.4%, the Regional Apparatus Organizations (OPD) of 21.2% and who stated that the respondent's financial statements were the least comparable were The Audit Board of the Republic of Indonesia (BPK RI) 61.6%.

TABLE 6. Comparability

Score	OPD (Reporting unit)		Inspectorate (Internal Auditor)		BPK RI (External Auditor)	
	Total Respondance	%	Total Respondance	%	Total Respondance	%
1	15	10.6	3	3.9	3	23.1
2	15	10.6	5	6.5	5	38.5
3	28	19.9	7	9.1	3	23.1
4	10	7.1	8	10.4	1	7.7
5	73	51.8	54	70.1	1	7.7
Total	141	100	77	100	13	100

Table 7 shows the data distribution of respondents' responses to understandable indicators that were responded differently by the three entities. The highest score (score 4-5) came from inspectorate responses of 88.3%, the Regional Apparatus Organizations (OPD) of 70.2% and The Audit Board of the Republic of Indonesia

(BPK RI) responses of 30.8%. Respondents' responses to the lowest score (1-2) came from the inspectorate of 11.7%, the Regional Apparatus Organizations (OPD) of 7.8% and The Audit Board of the Republic of Indonesia (BPK RI) who stated that the respondent's financial statements could not be understood the most was of 7.7%.

TABLE 7. Understandability

Score	OPD (Reporting unit)		Inspectorate (Internal Auditor)		BPK RI (External Auditor)	
	Total Respondance	%	Total Respondance	%	Total Respondance	%
1	9	6.4	1	1.3	1	7.7
2	2	1.4	8	10.4	0	0.0
3	31	22.0	0	0.0	8	61.5
4	9	6.4	9	11.7	0	0.0
5	90	63.8	59	76.6	4	30.8
Total	141	100	77	100	13	100

Table 8 shows the distribution of respondents' responses to the Obedient Regulation. For scores 4-5, the Inspectorate responded that 88.4% of the financial statements prepared by the Regional Apparatus Organizations (OPD) had followed the applicable rules, while the Regional Apparatus Organizations (OPD) itself stated that 56% followed the rules while The Audit Board of the Republic of Indonesia (BPK RI) believed that the financial statements of Regional Apparatus Organizations

(OPD) which follow the rules is only 30.8%. Other data shows that respondents responded with a score of 1-2, where The Audit Board of the Republic of Indonesia (BPK RI) believes 69.2% of the financial statements prepared by the Regional Apparatus Organizations (OPD) have not followed the applicable regulations, while the inspectorate and the Regional Apparatus Organizations (OPD) said they did not follow the regulations of 11.7% and 24.1 %.



TABLE 8. Obey the rules

Score	OPD (Reporting unit)		Inspectorate (Internal Auditor)		BPK RI (External Auditor)	
	Total Respondance	%	Total Respondance	%	Total Respondance	%
1	26	18.4	7	9.1	7	53.8
2	8	5.7	2	2.6	2	15.4
3	28	19.9	0	0.0	0	0.0
4	33	23.4	1	1.3	1	7.7
5	46	32.6	67	87.0	3	23.1
Total	141	100	77	100	13	100

The conclusion using the t test is obtained by comparing the calculated t value with the t table value. If the calculated t value is greater than the t table value, it

means that there is a difference, whereas if the t calculated value is less than the t table value, there is no difference. The results of the t test show the following information:

TABLE 9. OPD VS Inspectorate

Indicator	t-count	t-table	Results
Relevant	-2.529	1.9719	There is a difference
Reliable	-6.069	1.9719	There is a difference
Comparable	-3.037	1.9719	There is a difference
Understandable	-2.784	1.9719	There is a difference
Obey the Rules	-5.527	1.9719	There is a difference

The results of the t-test between the Regional Apparatus Organizations (OPD) and The Inspectorate show that there are differences in the qualitative

characteristics of financial reports in each dimension. all t-count values are lower than t-table (Table 9).

TABLE 10. OPD VS BPK

Indicator	t-count	t-table	Results
Relevant	1.984	1.9757	There is a difference
Reliable	2.533	1.9757	There is a difference
Comparable	3.407	1.9757	There is a difference
Understandable	2.106	1.9757	There is a difference
Obey the Rules	2.677	1.9757	There is a difference

The results of the t test between the Regional Apparatus Organizations (OPD) and the Audit Board of the Republic of Indonesia (BPK RI) for the North Sumatra region (Table 10), show that there are different points

of view. This can be seen from the t test on qualitative characteristics. The difference lies in the dimensions of reliable, comparable, understandable and Obey the Rules. all t count values are lower than t table.

TABLE 11. BPK VS Inspectorate

Indicator	t-count	t-table	Results
Relevant	3.408	1.9873	There is a difference
Reliable	5.654	1.9873	There is a difference
Comparable	5.776	1.9873	There is a difference
Understandable	4.568	1.9873	There is a difference
Obey the Rules	5.681	1.9873	There is a difference

The results of the t-test between the Audit Board of the Republic of Indonesia (BPK RI) for the North Sumatra region and the Level I Inspectorate for North Sumatra Province show that there is a difference in perspective between supervisors and examiners entity. This can be seen from the t test on the qualitative characteristics of financial statements which show the results of all t-count values that are greater than t-table values (Table 11).

## DISCUSSION

### ANALYSIS OF THE QUALITY OF FINANCIAL

There are differences in perceptions between the Regional Apparatus Organizations (OPD), first-level regional inspectorate and the Audit Board of the Republic of Indonesia (BPK RI). This is caused by differences in perceptions in understanding the applicable regulations and standards as shown in point 5 in Table 3 where the criteria show different results for the Compliance with Regulations indicator. In addition, referring to the educational background of the OPD and the Inspectorate, only 18 people or 7.79% actually have an educational background in accounting, indicating that an understanding of quality financial reports and an understanding of quality auditing standards may be just needs to be revisited.

The demand to produce quality financial reports as a form of accountability for budget management forces OPD to apply the methods, systems and standards required by regulations. Like it or not, the phenomenon of the rise of examiners' findings on financial statement audits must be taken seriously. There needs to be comprehensive participation from all layers of the OPD and of course internal examiners to correct the gaps in the quality of the resulting financial reports. OPD as the smallest organizational unit of government is a benchmark for the success of financial management and financial reporting in local governments.

Descriptive analysis of respondents' responses to the quality of financial reports based on OPD entities, the Inspectorate and The Audit Board of the Republic of Indonesia (BPK RI) Representatives for North Sumatra Province showed different results. Of the five indicators that are variables for the quality of financial reports (Table 3), respondents from OPD responded to indicators that were relevant, reliable, comparable, understandable and

in accordance with the provisions of the average answer "Good". Respondents' answers from the inspectorate meet the criteria of "Very Good". However, different responses were obtained from respondents from BPK RI, where the respondents' responses were in the "Not Good" criteria. This difference in income indicates the existence of loose information or differences in perceptions between the parties preparing the financial statements, those who supervise and those who examine the applicable regulations and standards.

Table 4 shows that there are differences in perceptions of the quality of financial reports from reporting entities (OPD), internal control entities (inspectorates) and examination entities (BPK). This is also reinforced by the results of the t test between the Regional Apparatus Organization (OPD) and the Inspectorate (Table 9) it can be stated that there are differences in perceptions about the quality of financial reports. OPD considers that the financial reports prepared are of high quality with an average score in the good category, while the Inspectorate considers the financial reports it examines to be in the very good category. The results of the t test between the Regional Apparatus Organizations (OPD) and the Supreme Audit Agency of the Republic of Indonesia (BPK-RI) Regional Representatives of North Sumatra Province (Table 10) also show differences in the quality of financial reports. The OPD stated that the financial reports that had been prepared were good, but the BPK stated that they were not good.

When viewed from the perspective of internal (Inspectorate) and external (BPK) supervision, there are different perspectives regarding regional financial reports (Table 10). Different viewpoints indicate different duties, functions and job descriptions. Based on the mandate of Article 23 paragraph (5) of the 1945 Constitution, BPK is tasked with examining the management and accountability of state finances carried out by the Central Government, Regional Governments, other State Institutions, Bank Indonesia, State-Owned Enterprises, Business Entities, Public Service Agencies, Regional Owned Enterprises, and other institutions or entities that manage state finances. The financial audit by the BPK is intended to provide an opinion statement regarding the fairness of the information presented in the government's financial reports. The objective of a financial audit is to provide reasonable assurance that the financial statements are presented fairly in all material respects, in accordance

with generally accepted accounting principles or a comprehensive basis of accounting other than generally accepted accounting principles in Indonesia. While the function of the regional inspectorate is an internal supervisor who also assists the Regional Government in preparing financial reports. Based on North Sumatra Governor Regulation Number 21 of 2019 article 2 paragraph 2 (b) it is stated that the function of the Regional Inspectorate is to carry out internal supervision of performance and finance through audits, reviews, evaluations, monitoring and other supervisory activities. The Inspectorate's findings provide recommendations for improvements that are different from the BPK which guarantees the fairness of the presentation of Regional Government financial reports. This shows that the OPD and the Regional Inspectorate are partners in ensuring the preparation of financial reports that are relevant, reliable, easy to understand and comparable.

The difference in function between internal and external supervisors is certainly one of the triggers for differences in perspectives on the quality of regional financial reports, considering that the findings of internal supervisors are followed up with recommendations for improvement, while the findings of external supervisors determine opinions on the report. audited financial statements. The following is a detailed explanation for each indicator of the quality of local government financial reports.

#### RELEVANT

Table 4 shows the five indicators forming the construct of the quality of financial statements. The table shows differences in respondents' perceptions. The OPD and the Inspectorate assessed each respondent in the good and very good ranges for the relevant financial report indicators. However, different responses were obtained from respondents from the Audit Board of the Republic of Indonesia (BPK RI) who were in the unfavorable criteria. In theory, relevant reports should provide feedback, have predictive value, be timely, and be complete. However, BPK's findings highlight a lack of timeliness, lack of coordination, erroneous planning, incomplete paperwork and erroneous asset recognition. Respondents stated that delays in sending Statements of Responsibility (SPJ), delays in data, timeliness of accountability affect the accuracy in preparing financial reports. This timeliness reflects a lack of proper coordination between departments, coupled with weak oversight from related agencies and differences in perceptions between OPD and oversight agencies, which also pose risks to the resulting financial reports. This weak oversight ultimately led to planning and realization errors which in turn led to discrepancies between realization and planning which led to Compensation Claims (TGR) and allegations of corruption. Errors in planning ultimately lead to errors in evaluation and future budget projections which have an

impact on the relevance of financial reports produced by the regions.

It was further explained that the Regional Apparatus Organization (OPD) and the inspectorate stated that the resulting financial reports could be used as a basis for revising potential budget projections, both revenue and expenditure budgets in the past and could be used to predict budgets. and performance of Regional Devices in the future. However, the Audit Board of the Republic of Indonesia (BPK RI) for the North Sumatra region is of the opinion that financial reports that have feedback and predictive benefits are contained in the financial reports produced by Regional Apparatus Organizations (OPD) with Unqualified Opinion (WTP), because the financial reports of Regional Apparatus Organizations (OPD) have been prepared and reported independently, timely and completely. Financial reports that are prepared in a timely and complete manner are useful for entities to make decisions, especially regarding budget planning in accordance with the needs of the Regional Apparatus Organization (OPD), whereas for OPDs that do not get an Unqualified Opinion indicate financial reports that are less relevant.

The adoption of accrual recording ultimately helps The Regional Apparatus Organizations (OPD) to be able to record assets and liabilities appropriately. This recording is ultimately able to present financial statements fairly. However, the lack of Human Resources (HR) who have an understanding and knowledge of accounting becomes an obstacle to the implementation of accrual recording in a proper manner. both on Regional Apparatus Organizations (OPD) who get qualified opinion or disclaimer. Accrual recording and value relevance ultimately become an important point in producing quality financial reports. The use of the accrual concept also ultimately encourages the use of fair value in recording transaction mainly related to recording assets. Fair value is one of the concepts that is important enough to increase relevance in addition to the value of benefits from quality financial statements (Beest et al. 2009). Beest et al. (2009) state that accrual models and value relevance can be used to assess the quality of financial reporting.

#### RELIABLE

The data in Table 5 shows the respondents' responses where it was found that the inspectorate assumed that the financial statements prepared by the Regional Apparatus Organizations (OPD) were reliable, but the The Audit Board of the Republic of Indonesia (BPK RI) did not think so. The Audit Board of the Republic of Indonesia (BPK RI) stated that the financial statements prepared by the Regional Apparatus Organizations (OPD) were "not good". The financial response is based on the reliability of the financial statements by referring to the results of the financial audit of the Regional Apparatus Organizations (OPD) entity. The Audit Board of the Republic of Indonesia (BPK RI) then divides the Regional Apparatus

Organizations (OPD) into two groups namely Regional Apparatus Organizations (OPD) with unqualified (WTP) and qualified (WDP) opinions.

The Audit Board of the Republic of Indonesia (BPK RI) states that Regional Apparatus Organizations (OPD) with unqualified (WTP) opinion honestly presents transactions in financial statements and presents fairly every other financial event. The opposite results are found in Regional Apparatus Organizations (OPD) with qualified opinion or disclaimer. The Audit Board of the Republic of Indonesia (BPK RI) also responded to the extent to which the information presented in the Regional Apparatus Organizations (OPD) financial statements could be tested by an independent examiner. The Audit Board of the Republic of Indonesia (BPK RI) believes that if Regional Apparatus Organizations (OPD) receives unqualified opinion, then the financial statements presented can be tested for accuracy by an independent examiner, but not for Regional Apparatus Organizations (OPD) who receives qualified opinion or disclaimer. In addition, if Regional Apparatus Organizations (OPD) receives unqualified opinion, the resulting financial statements will be free from misleading notions and material errors and the financial statements will present information that is not in favor of the needs of certain parties, but this does not apply if the Regional Apparatus Organizations (OPD) receives WDP opinion or disclaimer.

Broadly speaking, the The Audit Board of the Republic of Indonesia (BPK RI) responded to three important points related to reliable indicators consisting of honest presentation of information, verifiability and information neutrality. An honest presentation including honest recording of transactions and other events that are presented fairly can ultimately free financial statements from biased information. Although the financial statements are not truly able to be free from the bias caused by the conditions of the transaction are often measured in conditions of uncertainty (the budget is a projection). The inability to be completely free of these biases ultimately requires a minimum limit of acceptable bias. Determination of reasonable materiality figures and consideration of relevant costs and benefits as well as a balance between good qualitative characteristics will further enhance the reliability of financial statements produced by The Regional Apparatus Organizations (OPD). With the determination of this minimum threshold, ultimately the budget planning that is prepared tends to be able to approach the actual economic phenomenon. When the budget compiled approaching the actual needs, it will ultimately have an impact on the presentation of the financial statements honestly.

The importance of truth testing conducted by third parties (audit entities) becomes one of the points stating the financial statements presented by Regional Apparatus Organizations (OPD). Applying accounting principles correctly can ultimately improve the quality of financial statements. The Regional Apparatus Organizations (OPD) understands and uses measurement methods correctly

ultimately able to avoid and detect misstatements. Beest et al. (2009) states that when the compiler fully understands the measurement methods used related to the application of accounting principles, the reliability of financial statements can be declared valid.

Understanding the neutrality of financial statements refers to the provision of information directed at the general needs of the open to certain parties. The Audit Board of the Republic of Indonesia (BPK RI) highlighted that for Regional Apparatus Organizations (OPD) who received unqualified (WTP) opinions, the financial statements presented were completely neutral, but differed from Regional Apparatus Organizations (OPD) with the opinion status qualified (WDP). For organizations with qualified (WDP) status, the information generated is sometimes Neutral, sometimes not, but for Regional Apparatus Organizations (OPD) with a disclaimer opinion status, the resulting financial reports are not neutral. Beest et al. (2009) state that the absence of bias indicates the neutrality of financial statements to achieve the intended results and to encourage desired behavior. Neutrality refers to the intention of the compiler to present an objectivity of activity.

#### COMPARABLE

The “comparable” indicator shows the extent to which financial statements produced by Regional Apparatus Organizations (OPD) are comparable. In this study respondents were asked to respond to several statements about the extent to which the financial statements produced are able to compare. Table 6 shows data that the supervisory entity stated that the financial statements produced by the Regional Apparatus Organizations (OPD) can be compared (80.5%), but the Regional Apparatus Organizations (OPD) actually has a different response even though as much as 58.8% stated that the financial statements they compiled can be compared but this figure tends to be low. The Audit Board of the Republic of Indonesia (BPK RI) itself responded very low with a position of 15.4%.

The Audit Board of the Republic of Indonesia (BPK RI) still classifies Regional Apparatus Organizations (OPD) into the status of unqualified (WTP) and qualified (WDP) opinion. For The Audit Board of the Republic of Indonesia (BPK RI), the Regional Apparatus Organizations (OPD) with their unqualified (WTP) Opinion status states that the financial statements produced can be compared both in, out and financial statements are consistent in applying accounting principles. An important point in supporting “comparability” is consistency. When the same activities are presented together and different activities are presented differently, it can be said that the Regional Apparatus Organizations (OPD) has been consistent.

Consistency refers to the application of the same accounting procedure every year. When the Regional Apparatus Organizations (OPD) presents the budget report

with its realization as well as with the previous year, and the balance sheet is presented by comparing the current year with the previous year showing the consistency of the Regional Apparatus Organizations (OPD). The resulting financial statements can be compared both in and out. Beest et al. (2009) states that when an entity provides an overview that compares financial statements from different years consistently in estimates, valuations or accounting policies it will increase the value of “comparability” in the resulting financial statements.

#### UNDERSTANDABLE

The “understandable” indicator shows the extent to which financial statements produced by the Regional Apparatus Organizations (OPD) are able to be understood by users. Table 7 shows data that the supervisory entity states that financial reports produced by the Regional Apparatus Organizations (OPD) can be compared (88.3%), the Regional Apparatus Organizations (OPD) gives a response of 70.2%. Both of these entities assume that the resulting financial statements are able to be understood by the report users. The Audit Board of the Republic of Indonesia (BPK RI) itself responds quite low with a position of 30.8%.

The Audit Board of the Republic of Indonesia (BPK RI)’s assessment on this indicator is quite high compared to the previous indicators. The statement about the Regional Apparatus Organizations (OPD) financial statements has contained information that can be understood by the user and the financial statements have been presented in terms and terms that can be understood by the user to get a fairly good response. However, for statements regarding the Regional Apparatus Organizations (OPD) financial report users who have sufficient knowledge of operational activities related to financial transactions and / or have an understanding of accounting and finance, it is quite low. This shows that human resources who have adequate knowledge and understanding of accounting and finance are very minimal in the Regional Apparatus Organizations (OPD).

The need for financial statements that are classified, characterized and presented clearly and briefly will increase user understanding. Jonas & Blanchet 2000; Iu & Clowes 2004; Courtis 2005; IASB 2006 states that transparency and clarity of information presented in the report can improve user understanding (Beest et al. 2009). Providing narration, adding table and graphic formats to explain the numbers recorded in the Balance Sheet and other financial statements will help the user in understanding the information presented in the financial statements. The use of easy-to-understand terms is certainly related to the fact that not all report users are people with an accounting or financial education background and thus financial statements must be avoided from terms that are not understood.

#### OBEY THE RULES

Table 8 shows the distribution of respondents’ responses to the Regulatory indicators. The Inspectorate stated that the Regional Apparatus Organizations (OPD) had complied with regulations (88.4%), but the the Regional Apparatus Organizations (OPD) itself stated that they were not fully compliant with regulations (56%), while The Audit Board of the Republic of Indonesia (BPK RI) assumed that the the Regional Apparatus Organizations (OPD) was obedient by 30.8%. In this study it can also be proven that the addition of the “rule-abiding” indicator has proven to be able to make one of the indicators that construct the construct of financial report quality in addition to the relevant, reliable, comparable and understandable indicators. The addition of this indicator can be used as a recommendation in strengthening the quality of the financial statements produced.

The Audit Board of the Republic of Indonesia (BPK RI) Representative of the Province of North Sumatera gave interesting responses related to indicators of compliance with this regulation. From the results of their examination so far they have concluded that the the Regional Apparatus Organizations (OPD) who received the unqualified (WTP) opinion showed that all transactions presented in the Regional Apparatus Organizations (OPD) financial report were carried out after the budget was approved, but not for the the Regional Apparatus Organizations (OPD) who received the WDP opinion let alone a disclaimer. This shows that there are still the Regional Apparatus Organizations (OPD) that carrying out transactions where the budget is still in the submission or even there is no budget for the transaction.

This finding answers the allegations why there are still significant findings after the examination, even though the internal control system and government accounting standards have been implemented by the the Regional Apparatus Organizations (OPD) coupled with the use of financial aid applications such as Regional Management Information System (SIMDA) and E-Finance. This indication shows that in the the Regional Apparatus Organizations (OPD) that does not get a unqualified (WTP) opinion, the financial statements that are presented have not been free from un-budgeted transactions which are different from the the Regional Apparatus Organizations (OPD) that gets unqualified (WTP) where the financial statements that are presented are free from transactions that are not budgeted. Financial statements prepared by the the Regional Apparatus Organizations (OPD) with unqualified (WTP) opinion have also presented transactions in accordance with statutory regulations, guidelines, applicable technical guidelines and the Tor of Reference (TOR), but this is different from the the Regional Apparatus Organizations (OPD) with qualified (WDP) opinion let alone a disclaimer.

The problem of non-compliance with regulations is caused by the absence of a firm and consistent reward and punishment system implemented by the Regional Apparatus Organization (OPD). Non-compliance by Regional Apparatus Organizations (OPD) with regulations will have an impact on the resulting financial reports. The resulting financial reports have the potential to occur invalid data which leads to fraud or material misstatement. However, when the reward and punishment system is applied consistently, it will lead to compliance with the rules so as to reduce state losses due to ignorance or fraud in the resulting financial reports. This will have an impact on the reliability of financial reports and will ultimately have an impact on obtaining a Qualified Opinion (WTP). Thus it can be concluded that "Obey the Rules" is an indicator that can strengthen the quality of regional financial reports in addition to indicators that are relevant, reliable, comparable and easy to understand. The addition of this indicator can be used as a recommendation to strengthen the quality of the financial reports produced, because regulatory compliance is a condition in which an entity complies with the budget that has been prepared and other regulations used to manage finances and prepare budgets such as general cost units (SBU), Price Standard (SSH), Minister of Finance Regulation (PMK), Terms of Reference (TOR) and other regulations.

#### CONCLUSION

The results of the study found that there were differences in the quality of financial reports using qualitative characteristics, namely relevant, reliable, comparable, understandable between Regional Apparatus Organizations (OPD), first-level regional inspectorate, The Audit Board of the Republic of Indonesia (BPK RI) Representative of the Province of North Sumatera. These differences indicate that reporting entities, monitoring entities, and audit entities do not have the same perception of the quality of regional financial reports. Differences in perspectives on Regional Apparatus Organizations also show different organizational behavior when obtaining Unqualified Opinion (WTP) with Regional Apparatus Organizations obtaining Fair Opinion (WDP) let alone being discriminated against. The results of other studies found that obey the rules can be an indicator of success in preparing quality financial reports.

The practical implication of the results of this study is that it is necessary to carry out technical guidance, outreach and assistance to reporting entities and monitoring entities so that there is no gap in perception with the examining entity. This will build the same perception of each of these entities towards quality regional financial reports. The theoretical implication of this study is to recommend obey the rules to be one of the qualitative characteristics of local government financial reports. The results of this study indicate that the characteristics of the quality of

financial reports are not only formed by indicators that are relevant, reliable, comparable and easy to understand, but the addition of obey the rules indicators also improves the quality of local government financial reports. Obey the rules includes compliance with the budget that has been prepared in accordance with the work program of the relevant public agency which will assist the agency in achieving its targeted work objectives. Compliance with the budget will also produce financial reports that will ensure that the transactions presented are the transactions listed in the budget. In addition to budget compliance, obey the rules also includes ensuring that the financial reports presented are prepared in accordance with laws and regulations, minister of finance regulations, regional regulations so that all transactions are legally recognized transactions.

The limitation of this research is the use of a questionnaire as a tool used to collect data which has limited respondents' answers which may be biased. The process of collecting data, sometimes having to leave the interview book and retrieve it some time later (face-to-face interviews cannot be conducted) causes a decrease in the quality of the answers, because it is possible that the questionnaire has been filled in by inappropriate respondents. In addition, the group of respondents who are not balanced between reporting entities, monitoring entities, and inspection entities can affect the quality of the tests carried out in this study. Therefore, for future research to be able to redesign some of the questions/statements in the questionnaire, they are arranged consistently so that the same intervals are obtained, in order to reduce bias in further research. Future research can also design a representative and balanced number of respondents for each entity in order to further improve the quality of research results.

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#### APPENDIX 1

In general, the audit findings for the Province of North Sumatera are seen as follows:

1. There is a cash shortage in the treasurer of expenses;
2. Management of cash at the 2017 regional treasury is disorderly;
3. Inventory expenses have not been recorded in Operational statements (in Indonesia abbreviated as LO);
4. The Recording of inventories has not been orderly;
5. Presentation of receivables and allowance for receivables does not follow the provisions;
6. Administration of rural and urban property tax (in Indonesia abbreviated as PBB) receivables (Land and Building Tax) is inadequate and validation has not been done;
7. Incomplete data collection of assets
8. The asset is not believed to be true because there is a difference in the value of the balance sheet with the supporting value;
9. Assets are presented at Rp. 0.00;
10. Assets are not supported by adequate details, land under roads and irrigation areas has not been presented in the balance sheet and the rehabilitation value of fixed assets is not attributed to the initial acquisition of fixed assets;

11. Capitalization of expenditure after initial acquisition of fixed assets is not added or attributed to the value of the initial assets but as new assets;
12. Accumulated depreciation is not by the following of Government Accounting Standards (in Indonesia abbreviated as SAP);
13. Lack of work volume on procurement of variable services;
14. The execution of work is not according to the contract specifications (in capital expenditure);
15. Administration of property tax (PBB) receivables is also inadequate and has not been validated;
16. Realization of goods and services expenditure cannot be trusted because it does not show the actual conditions, and is not supported by complete and valid documents;
17. Accountability of regional government financial management in question is still a lot of shortcomings;
18. Submission of reports to The Audit Board of the Republic of Indonesia (BPK RI) is not timely;
19. Regency Government has a lot of debt to third parties;
20. The income seems great, even though there are no funds, resulting in a budget deficit