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The Effect of Government Apparatus Competence and the Effectiveness of Government Internal Control Toward the Quality of Financial Reporting in Local Goverment

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Abstract
This study aims to explain how the effect of government apparatus competence and the effectiveness of goverment internal control toward the quality of financial reporting (relevant, reliable, understandable and comparable). This paper develops a theoretical framework as the basis of a hypothesis, to answer the above research questions: (1) how is the effect of government apparatus competence on the quality of financial reporting and (2) how is the effect the effectiveness of goverment internal control of the quality of financial reporting. This study is scheduled to be conducted in all local goverment unit in Tegal city Central Java Province. This research was conducted by census. The data is primary data collected through questioner. Data analysis methods to test the hypothesis was regression analysis using SPSS. This study will use the hypothesis with a significance level of = 0.05.
Keywords: Government Apparatus Competence, The Effectiveness of Government Internal Control, The Quality of Financial Reporting .

1.Introduction

Public sector organizations are organizations engaged in the public service and the Organization of the State in the framework to implementation the Constitution of the country. (Mahmudi, 2011). Futhermore Bastian (2010) Public sector organizations in Indonesia is an organization use public funds and local governments is part of public sector organizations. Bastian (2010) said that characteristics public sector organizations have a purpose to prosper society gradually, basic needs or other needs, and public service activities in the fields of education, health, security, law enforcement, and the provision of food.

Main purpose of financial reporting is provide high quality financial statements relating to information about economic entities, the financial condition of the real beneficial for decision (FASB, 1999; IASB, 2008). Provide information of high quality financial reporting is very important because the quality of financial reporting will give positive effect on capital providers and other stakeholders in making investment, credit, allocation of existing resources and the decision to increase the overall efficiency of the market. (IASB, 2006; IASB, 2008). Many people will rely on the information in the financial statements published by the local government as a basis for decision making. (Suwardjono, 2005).

Azhar Susanto (2004) said that information had-quality characteristics : accurate, timely, relevant, and complete. Accurate is the information will reflect the actual situation. Timely is the information will be available, or existed each times the information is needed. Relevant is the information will give information as the requirements. Complete is the information will be given full.

Mahmudi (2011) defined Financial statements is output of the accounting systems that are useful for providing information for interested parties will be informed of such materials as financial decision-making. The financial report is a form of transparency which is supporting the accountability requirements of government scrutiny of the activities of the management of public resources (Mardiasmo, 2006).

Huang et al. (1999) in Xu et al. (2003) States that the information will be useful if such information can support decision making and can be understood by users.

Gumawan Fauzi (2011) said : poor administration, financial reporting and financial reporting system highlighted the holding of local governments that tend to be inefficient both in terms of time or budget. Futhermore Hadi Poernomo (2011), Chairman of the corruption eradication Commission (Chairman of BPK) said : local government financial reports are bad, this statement supported with data findings relate the low quality of financial reporting in local goverment, find the weakness of the internal control System, and find non-compliance toward Statutory provisions. Futhermore Sri Mulyani Indrawati (2009) said : The quality of financial reporting at the level of local government is deteriorating. Based on the report of Board the Financial Examiner, the number of financial reports in local government get a reasonable opinion without exceptions is decreases and the number of financial reports in local government get disclaimer status and unnatural status increases.

Empirical studies examining the influence of previous US GAAP and IFRS to the quality of the financial report shows positive, not significant, and the negative influence (Barth et al., 2008; Van der Meulen et al., 2007; Barth et al., 2006; Bartov et al., 2005; Psaros & Trotman, 2004; Amir et al., 1993; Ashbaugh and

Olsson, 2002). For example Barth et al., (2006) examines that rules from US firms reveals the quality of accounting in IAS. Leuz (2003) presents no difference insignificant between the IAS and US firms.

The purpose of this study is to develop a model to find out the answer or evidence of the following problems : (1) how is the effect of government apparatus competence on the quality of financial reporting and (2) how is the effect of the effectiveness of goverment internal control on the quality of financial reporting.

2. Review of Literature.

2.1. The Government Apparatus Competence

Law No. 13 of 2003 on Labor article 1 paragraph 10 States competence is the ability of each individual's work covers aspects of knowledge, skills and attitude to work in accordance with the standards established.

Spencer & Spencer (2008) Competency is an underlying characteristic of an individual that is causally related to criterion-referenced effective and /or superior performance in a job or situation.

Nadler as the person who first conceived the term Human Resource Development (HRD) in1969 in Samsudian (2005), distinguish between mean Training, Education, and Development as follows :Training : Learning to present job. Education : Learning to prepare the individual for a different but identified job. Development : learning for growth of the individual but not releted to a specific present or future job.

Boutler *et al.* (1999) said that competence is the underlying characteristic of someone. Competence is the underlying characteristics of person can demonstrate a good working achievements in the field of employment, the role or a particular situation (Boutler et al, 1999). Furthermore Cheng et al. (2002) said that competency is a person who has knowledge (education, experience and skills) and ethical behavior in the works. Competency means employees have the knowledge and skills to do his job (Azhar Susanto, 2004).

Agoes and Ardana (2009) said that competence and skills in proficiency means running a job or profession. In a broader sense, competence includes mastery of knowledge and skills (skill) to adequate, have well attitude and behaviour to do job or profession. Competence covers three areas, namely: cognitive (knowledge/knowledge), affection (attitudes and behaviour/attitude include: ethical, emotional and spiritual intelligence) and psychomotor (physical/technical skills), (Agoes and Ardana, 2009).

According Cheng et al. (2002) the competence includes four components namely functional expertise, broad sector prespective, leadership qualities, personal and atributes. It is in line with the Nur Afiah (2004), a component of competence covers the knowledge, the experience, the quality of leadership is a subjective and an objective ethics ethics and skills.

The knowledge obtained from the education, expertise, and training. Definition of Man Power Services Commission (1981) in Nur Afiah (2004) for education are: Activities which aim at developing the knowledge, skills, values and moral understanding requaired in all aspects of life rather than a knowledge and skills relating to only a limited field of activity. Definition training expressed by Man Power Services Commission (1981) in Nur Afiah (2004) is as follows: A planned process to modify attitute, knowledge or skill behavior through learning experience to achieve performance in an activity or range of activities. Its purpose, in the work situation, is to develop the abilities of the individual and to satisfy the current and future needs of the organisation.

2.2. The Effectiveness of Government internal control

An effective internal control process must be comprehensive and involve people at all levels in the company (Deloitte Touche LLP & et al., 2004). According The Committee of Sponsoring Organizations of The Treadway Commission or COSO (2013), internal control is a process, effected by an entity's Board of Directors, management and other personnel, designed to provide adequate confidence about the achievement of goals relate to operations, reporting, and compliance. Internal control System is an integral process in actions and activities performed continuously by the leadership and the entire staff in order to provide sufficient assurance on the achievement of a goal the Organization through effective and efficient activities, the reliability of financial reporting, the State asset security, and adherence to the laws of invitation (Mahmudi , 2011).

The reason for management to design an effective internal control system are three main goals, namely: (1) reliability of financial statements, (2) effectiveness and efficiency of company's operations, and (3) compliance to laws and regulations (Messr et al, 2006).

An internal control consists of policies and procedures designed to provide a reasonable assurance to management that the company has accomplished its goals and objectives (Elder et al, 2010). The components of internal control are design and implement by management to assure reasonably that the goals of internal control will be achieved (Arens, 2008). Furthermore Arens, Elder & Beasley (2012) Control built from five components as follows: 1) control environment; 2) risk assigment; 3) control Activities; 4 information and communication); 5) monitoring. A good control consists of a structured system, operation and supervision of the company s can: 1) meet the long-term objectives, 2) consider and attention the interests of employees, 3) environment and the local community, 4) seeks to maintain good relations with customers and suppliers, 5) maintain compliance with

applicable laws and regulations (Sheridan & kendall, 1996). An internal control system consists of some components, namely: a) the control environment, (b) the entity's risk assessment process, (c) the information systems and communications, (d) the control activities, and (e) the monitoring and controls (Bodnar & Hoopwod, 2010).
In Indonesian, The effectiveness of government internal control accordance with government regulations No. 80 of 2008, consist of : 1) control environment; 2) risk assigment; 3) control Activities; 4 information and communication); 5) monitoring.

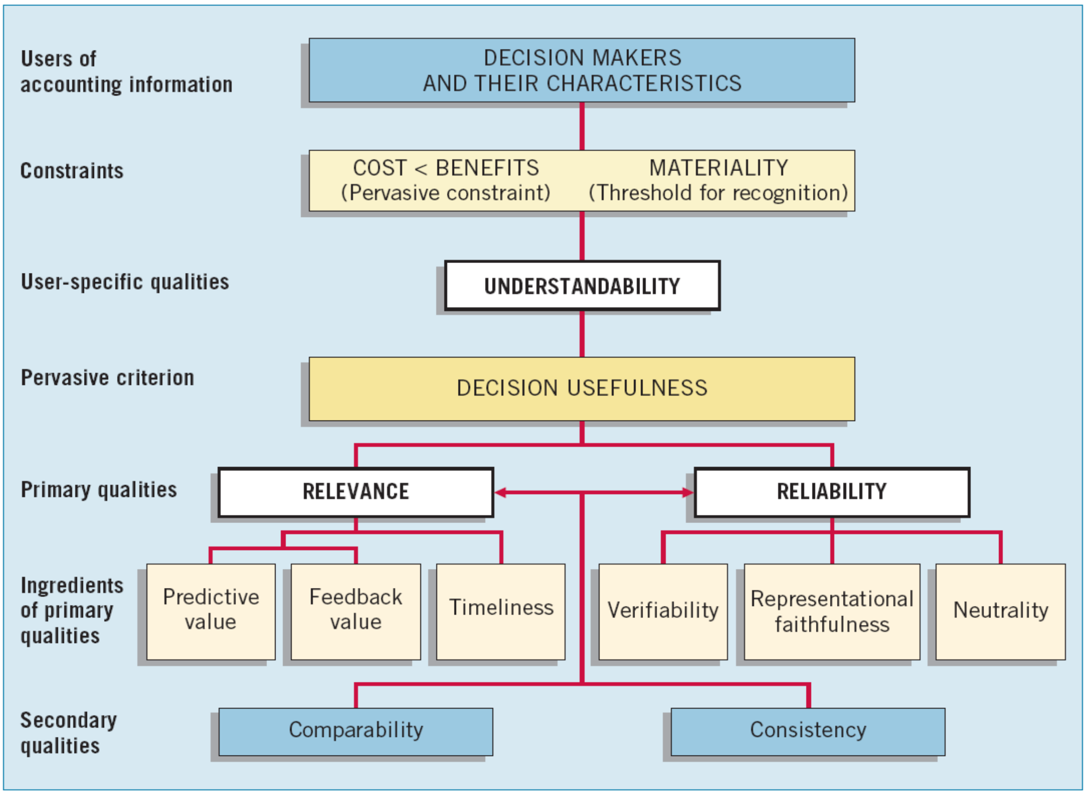
2.3 The Quality Of Financial Reporting

The quality of financial reporting is generate useful information for their use : information which the characteristics of quality information or financial information quality characteristics (IPSAS, 2010; Belkaoli, 2004, Jonas and Blanchet, 2000, Mc Daniel et al., 2010).
The quality of financial reporting is complete and transparent information, designed not mislead to users (Jonas and Blanchet, 2000).

Based on IFRS (2010), SFAC No. 8 (2010) and the IPSASB (2010) the qualitative Characteristics of financial information/quality which is the dimension of the quality of financial reporting consisting of: 1. the Fundamental qualitative characteristics (Relevance, materiality, Faithful respresentation). 2. Enhancing qualitative characteristics (comparability, verifiability, Timeliness, Understandability), the cost constraint on useful financial reporting. The dimensions of the quality of financial reporting is Relevance, Faithful representation, Understanability, Comparability.

Relevance is referred to as the capability "of making a difference in the decisions made by users in their capacity as capital providers" (IASB, 2008: 35), To faithfully represent economic phenomena that information purports to represent, annual reports must be complete, neutral, and free from material error (IASB,2008: 36). understandability, will increase when information is classified, characterized, and presented clearly and concisely. Understandability is referred to, when the quality of information enables users to comprehend their meaning (IASB, 2008). Comparability is the quality of information that enables users to identify similarities in and differences between two sets of economic phenomena" (IASB, 2008: 39). in Beesst, 2009. The dimensions of quality financial reporting based on Government accounting standards (SAP) (2010) are: 1. Relevant 2. Reliable, 3. Comparable 4. Understandable.

Definition FASB qualitative characteristics can look at the picture below:



Source: "Qualitative Characteristics of Accounting Information", Statement of Financial Accounting Concepts No. 2 in Intermediate Accounting 13th edition (2010: 35).

In Indonesian, the quality of financial reporting accordance with Government Regulation No. 24 of 2005 revised Government Regulation No. 71 of 2010 describes the qualitative characteristics of financial statements are : Relevan, Reliable, Comparable, Understandable.

3. Theoritical Framework

3.1. The effect of government apparatus competence to the quality of financial reporting.

Guy et al. (2002), competence is the knowledge and skills required to accomplish the task. Competence an adequate human resources in terms of quantity and quality of content will increase the value of information in the government of financial reporting.

According to Tausikal (2007) the financial statements must be prepared by personnel who have the competence in the field of financial management and accounting system, so as to generate financial information of benefit to the users.

3.2. The Effectiveness of Government internal control to the quality of financial reporting.

Public Company Accounting Oversight functions Board (PCAOB) defines internal control over financial reporting is a process designed to provide assurance that management adequately over the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles.

The effectiveness of internal control over financial reporting financial reporting for more reliability through prevention and detection procedures and error estimation (Doyle et al., 2007; DeFond and Jiambalvo, 1991).

Internal control over financial reporting includes policies and procedures to keep the recording of accounting, authorization of expenditures as well as the receipt and secure the assets (PCAOB 2004). PCAOB (2004) States there are some of the benefits of the effectiveness of internal control over financial reporting : a. The financial information Reporting can reliable make decisions. b. give better chance of detecting and preventing irregularities.

The effectiveness of internal control over financial reporting as the weakness of internal control (Elbanon, 2009).

Jeffrey Doyle, Weili Ge, Sarah McVay (2007), suggests that the weakness of internal control will effect positive the weakness of financial reporting.

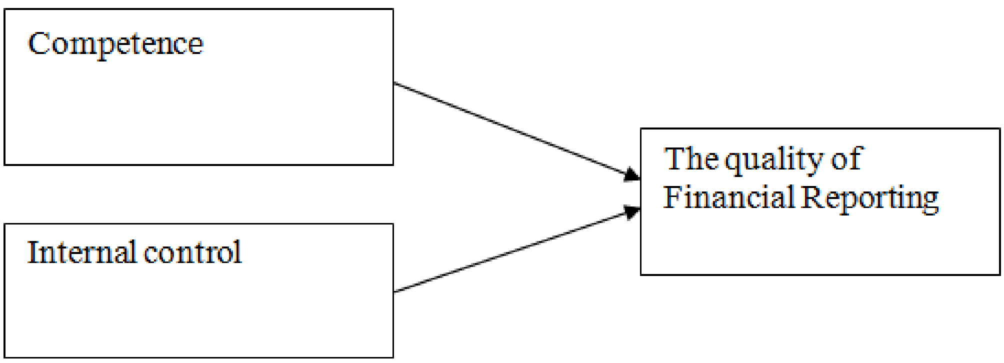
Wei Wang, Shi Rencheng, (2011), explain that the ineffective of internal control over financial reporting ensure the company chose financial financing from outside rather than inside underfunded.

Altamuro dan Beatty (2010) said : improvements of monitoring and reporting on internal control to improve the quality of financial reporting on the banking industry. The importance of internal control over financial reporting in realizing the quality of financial reporting is also expressed COSO, 2013; Agami, 2006; Michelman, 2008; Olach, 2009; Rittenberg, 2007; Elbannan, 2009.

Chambers, et.al (2010) States five researchers (Lobo & Zhou, 2006; Cohen, et.al, 2008; Bartov & Cohen, 2009; and Chambers & Payne, 2009) attest to the Sarbanes-Oxley Act to improve the quality of financial reporting. In the Sarbanes_Oxley Act section 302 and 304 discuss on internal control over financial reporting and the quality of financial reporting.

4. Study Models and Hypothesis

Based on the prior literature, the conceptual model is shown in figure below :



Hypothesis :

According to Sekaran (2010: 103), the hypothesis is: "Logicaly conjectured relationship between two or more variables expressed in the form of a testable statement". the hypothesis fits the above definition is the alleged

relationship between two variables is logically or more that can be tested empirically.
To test this model, the following hypotheses were proposed as follows :
H. 1:
Government apparatus Competence affect the quality of financial reporting.
H. 2:
The effectiveness of government internal control affect the quality of financial reporting.

5. Methodology

The research object are Government Apparatus Competence, Goverment Internal Control Effectiveness and The Quality Financial Reporting. The population in this study consists of all unit local government in the Tegal City – Central Java Province. Observation units is composed of personnel involved in the implementation of accounting, namely accounting staff and accounting manager.

Sample were taken with census sampling techniques. This study uses primary data collected by distributing questionnaires to each respondent in all unit of local government in the Tegal City - Central Java Province. The Data obtained were then tested for validity and reliabily, so that the data is valid for processing. The Data then analyzed descriptively to describe the characteristics of each variable. The Data will be analyzed using path analysis with consideration of the patterns of correlative relationships between variable and recursive causality. T statistic was used to test the significance of the effect of each independent variable on the dependent variable. From the test results, then we compare the t- value with the table value of t- at 95% confidence level ($\alpha = 0.05$) with the decision criteria : If $t \leq t$ table : Ho is accept and Ha os reject, and if t-count > t-table : H0 is reject and the Ha is accept. Each hypotheses will be tested through statistical t-test : Ho is reject if $t >$ t-critical, $\alpha = 0.05$ level.

6. Conclusions

The model developed in this study may explain the effect Government Apparatus Competence, Goverment Internal Control Effectiveness and The Quality Financial Reporting. (relevant, reliable, understandable and comparable). This Model is able to predict whether the possible dimensions and indicators of adequate government apparatus competence and internal control effectiveness have been applied in the quality of financial reporting. The result are then in particular will shows the dimensions of the Government Apparatus Competence and Goverment Internal Control Effectiveness which are major causes of weak the quality of financial reporting in all units of local government. Thus, based on these research findings, the author will propose some suggestions to improve the quality of financial reporting, so that the quality of financial reporting can be better.

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