

# Determinants of Local Government Financial Reporting Quality: Evidence from Jambi, Indonesia

Yuliusman<sup>1\*</sup> Gandy Wahyu Maulana Zulma<sup>2</sup>

Faculty of Economics and Business of Jambi University, Jambi, Indonesia

\* E-mail of the corresponding author: [yuliusman@unja.ac.id](mailto:yuliusman@unja.ac.id)

## Abstract

This study aims to analyze and empirically prove the influence of using accounting information systems, internal control, understanding of accounting, and work experience on the quality of financial reports in regional apparatus organizations in Jambi City. This research uses a questionnaire which then the data obtained is processed using SPSS 25 assistance. The population and samples taken in this study are the heads of finance subdivisions, staff and officials who make commitments to regional apparatus organizations in Jambi City. Sampling technique with saturated technique. Data analysis technique using multiple linear regression. The results showed that: (1) accounting information systems, internal controls, understanding of accounting, and internal controls affect the quality of financial reports, (2) accounting information systems affect the quality of financial reports, (3) internal controls affect the quality of financial reports, (4) understanding of accounting affects the quality of financial reports, (5) work experience affects the quality of financial reports.

**Keywords:** accounting information systems, understanding of accounting, internal control, understanding of accounting, work experience, and quality of financial reports.

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## 1. Introduction

Government accounting in Indonesia developed and found its form in 2005, marked by the passing of Government regulation (GR) No.24 of 2005 concerning Government Accounting Standards. (Effendi, 2021). Previously, Indonesia has experienced the development of government accounting. Problems regarding the quality of financial reports are increasingly being discussed, and the number of cases regarding the weak quality of local government financial reports in Indonesia is still a topic problem that must be studied more deeply (Hariani & Fakhrorazi, 2021). The government is still trying to change all aspects of achieving the country's prosperity, especially in managing reliable, accountable, and transparent state financial reports.

The role of the governmental unit is no longer limited to performing the traditional functions of the State; its operations have now been expanded to include the implementation of economic and social development activities and programs, an accounting information system that can provide reliable and transparent information for the control, accountability and decision-making of these government entities is needed. Therefore, the reform of government units starts with reforming the accounting information systems of different government units in order to improve their efficiency and responsiveness to changes in the economic, social, and political environment (Al-Hashimi, 2019).

The term Financial Reporting Quality (FRQ) does not have a universally accepted definition because there are different beliefs and perceptions of what might be considered useful and good information for different users of accounting information (Achim & Chiş, 2014). The financial accounting and reporting system is a series of manual and computerized procedures starting from data collection, recognition, recording, summarizing, and reporting. A good reporting system is needed in order to be able to monitor and control the manager's performance in implementing the set budget (Johnson et al., 2012).

According to the literature, a number of organizational (internal and external) context elements affect how relevant the financial information is provided in the financial reporting of public entities.

In the context of municipal government, this study in some ways supported these conclusions.

The empirical findings for Portuguese municipalities demonstrate that pressure from professional organizations and pressure from a national issue (both external factors with positive influence) as well as a lack of knowledge and appropriate training about the accounting information system - POCAL (internal organizational factor with negative influence) are factors with significant influence on the usefulness of the municipal financial reporting for decision-making by the primary internal decision-makers (S. P. S. Nogueira & Jorge, 2016).

The government is obliged to provide financial and other information that will be used for economic, social and political decision-making by interested parties. Quality financial reports must be prepared to increase accountability and improve the quality of decision making. The quality of financial reports can be seen from the aspect of qualitative characteristics, namely, relevance, reliability, comparability and understandability (IPSASB, 2014). The quality of the financial reports can be seen from the opinions on the financial reports provided by the

Supreme Audit Institution (BPK). One sign that financial reports are considered quality is when the BPK gives an unqualified opinion. The quality of government financial reports is strongly influenced by accounting information systems, accounting standards, internal controls, and understanding of accounting and work experience of existing human resources.

Local government financial reports are then submitted to the DPR/DPRD and the public after being audited by the BPK (Permendagri No.13 of 2006). Financial reports are the main government accountability tool that provides information to outsiders and the public regarding the efficiency of the use of the organization's economic resources. Accountability is the principle of accountability which means that the budgeting process starting from planning, preparation, and implementation, must truly be reported and accounted for to the DPRD and the public (Effendi, 2021).

One of the qualities of financial reports that must be achieved is the problem of relevance. The word relevant refers to the impact of information and its influence on the economic decisions of report users by helping them evaluate past, present and future events or correcting the results of their past evaluations so that relevant information can provide feedback and predictive benefits. Misrepresentation of information can lead to inaccurate financial report results (Kasim, 2015).

Changing cash-based accounting to accruals is not just a technical matter of recording transactions and presenting financial reports, but requires accounting treatment for a transaction, accounting choice, and designing or analyzing accounting systems that are There is. Therefore, the process of government financial reporting must be carried out by human resources who have adequate competence and experience in order to be able to compile and present quality LKPD (Local Government Financial Reports) (Dewi et al., 2019).

Given the slow progress in the quality of financial reports, increasing the competence of human resources and the role of financial supervisors as well as the effectiveness of government internal control is crucial. Regarding control issues, the government has issued GR No. 60 of 2008, regarding the government's internal control system (SPIP). By optimizing SPIP, it is hoped that internal control will be more effective so that it can mediate in overcoming the problem of low-quality financial information. Efforts to improve the quality of LKPD are also in line with Presidential Instruction No. 4 of 2011, regarding the acceleration of improving the quality of state financial accountability (Anggadini, 2018).

BPKP was given the task in one of its instructions to provide assistance to ministries/agencies/local governments to increase understanding for central/local government officials in managing state finances, improve compliance with laws and regulations, and improve the quality of financial reports and governance. Financial audits are carried out in order to provide an opinion on the fairness of the financial statement information presented in the financial statements (Muda et al., 2018). In 2020 the BPK revealed that based on the audit that had been carried out by the BPK on the 2020 Jambi city government financial statements, the BPK gave an unqualified opinion (WTP), this made the Jambi city government get 5 consecutive unqualified opinions exceptions (WTP) (BPK RI, 2020). With this achievement, the Jambi city government continues to encourage and support the creation of accountable and transparent financial reporting.

This also makes the government strive to continue to maintain the quality of its financial reports as a responsibility that cannot be separated from the use of the accounting information system and internal control, which is also supported by accounting understanding and work experience owned by financial management employees. The Jambi city government in 2019 won a WTP opinion, but even so, the BPK still found three problems related to compliance with laws and regulations in financial reports and several internal control weaknesses (Tribun Jambi, 2021). The Accounting Information System and internal control are very closely related because these two things influence each other, the better the accounting information system that is applied, the better quality the internal control is, the success of implementing the accounting information system is very closely related to the individual who operates (user) the information system. The application of an information system can be declared successful if the individuals who operate it (users) can provide benefits to the company and are successful in contributing their competence in implementing accounting information systems (Suwanda, 2015). Therefore, researchers consider that the quality of human resources is very important to produce quality output. Understanding of Accounting and Work Experience are factors that influence the effectiveness of accounting information systems so this needs to be investigated so that in the future the Jambi city government can maintain a Unqualified Opinion (WTP) without the slightest weakness (Marsella & Aswar, 2019).

Employee competency and the internal control system have a very positive effect on the quality of the Batanghari district government's financial reports (Eriani et al., 2018). This is supported by the results of research by Muda et al., (2018), where understanding of accounting, the use of accounting information systems and internal controls have a positive and significant effect on the quality of financial reports. Further research Rahmatika & Afiah (2014), shows that internal control, understanding of government accounting standards, regional financial accounting information systems and financial management principles have a positive and significant effect on the quality of financial reports.

Sumaryati et al., (2020) stated that understanding the regional financial accounting system, human resource capacity and utilization of information technology simultaneously affect the quality of financial report information, but understanding of the accounting system and human resource capacity does not significantly affect the quality of financial report information local government, while the use of technology has a positive effect on the quality of regional financial report information. The application of government accounting standards, human resource competencies and internal control systems have a positive and significant effect on the quality of financial reports (Anggriawan & Yudianto, 2018). Furthermore, states that the application of government accounting standards, internal control systems and accounting staff competencies have a positive and significant effect on the quality of financial reports (Atiningsih, 2020).

## **2. Theoretical Framework**

### *2.1 Local government*

According to law no. 23 of 2014 concerning local government. The regional government is the head of the region as an element of regional government administration that leads the implementation of government affairs

### *2.2 Government Accounting Standards*

Government accounting is the field of accounting widely used in every government agency. The obligation to be transparent and accountable for public funds managed by the government is fundamental in assessing government financial reporting and performance.

Based on government regulation number 71 of 2010 article 1 paragraph (3) regarding government accounting standards (GAS), are the accounting principles that are applied in preparing and presenting government financial reports. This is confirmed in Law Number 17 of 2003 concerning state finances in Article 36 paragraph (1) which reads as follows: "The provisions regarding the recognition and measurement of accrual-based income and expenditure as referred to in Article 1 points 13,14,15 and 16 of this law are implemented no later than 5 (five) years." As long as the accrual-based recognition and measurement of income and expenditure has not been implemented, cash-based recognition and measurement is used." Based on this statement, GR No. 24 of 2005 concerning Government Accounting Standards, but until now the deadline has been set, and the government has not succeeded in implementing the new accounting state. Until PP No. 71 of 2010 concerning government accounting standards replacing GR no. 24 13 of 2Juridicallydical, the issuance of GR No. 71 of 2010 concerning Government Accounting Standards (SAP) Accruals changed the direction of the government accounting basis from cash to full accruals.

The change in accounting from a cash basis to a full accrual basis in government has been signalled by Law no. 17 of 2003 concerning state finances. Article 36 paragraph 1 states that the recognition and measurement of accrual-based income and expenditure is carried out no later than 5 years. It was only in 2010 that PP No. 71 of 2010 concerning government accounting standards was enacted which regulates the application of accrual-based government accounting standards. GR No. 71 of 2010 mandates that the full application of accrual-based accounting should be implemented in 2015. This was also strengthened by the issuance of Minister of Home Affairs Regulation No. 64 of 2013 concerning the application of accrual-based government accounting standards to local governments.

### *2.3 Regional Financial Report*

The definition of regional finance according to government regulation no. 12 of 2019 concerning regional financial management, namely "Regional Finance is all regional rights and obligations in the context of administering regional government which can be valued in money and all forms of wealth that can belong to the region related to rights and obligations.

Regulation of the Minister of Home Affairs Number 13 of 2006, as last amended by Regulation of the Minister of Home Affairs No. 21 of 2011, Regional Financial Management is the whole activity which includes planning, implementation, administration, reporting, accountability, and supervision of regional finances. According to Effendi (2021), the financial reports of public sector organizations are: "An important component for creating public sector accountability. There is a growing demand for the implementation of asset accountability, which has implications for public sector management to provide information to the public, one of which is accounting information in the form of financial reports.

### *2.4 Accounting System*

The accounting system is a formal organization, records and reports that are coordinated in such a way as to provide the financial information needed by management to prioritize company management (Romney & Steinbart, 2018).

Basically, the Accounting Information System (AIS) is an integration of various transaction processing systems or sub-systems of accounting information. Some understanding of the accounting information system

according to experts:

- An Accounting Information System (AIS) is a collection of resources, such as people and equipment that are managed to transform data into information. This information is communicated to various decision makers (Turner et al., 2020).
- 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 harmoniously to process transaction data related to financial issues into financial information (Turner et al., 2020).

### *2.5 Internal control*

The purpose of SIA is to assist management in controlling a business organization. The accountant can help achieve this goal by designing an effective control system and reviewing the current control system to ensure that it is operating properly. Results additionally showed that the internal users have considered as very important the different types of internal control that financial information is subjected to. The great majority of respondents in Braganca believed, for their internal decision-making that internal control is important because it contributes to improving the reliability of financial information and allows for information to be prepared on time, hence pointing to a relationship between internal control, information opportunity and financial reporting adequacy (S. P. Nogueira & Jorge, 2012).

### *2.6 Accounting Understanding*

Understanding is a process, a way of acting to understand or understand. This means that people who have an understanding of accounting are people who are smart and really understand accounting (Effendi, 2021).

### *2.7 Quality of Financial Statements*

The quality of financial statements are normative measures that need to be realized in accounting information so that it can fulfil its objectives (Marsella & Aswar, 2019). Government Regulation Number 71 of 2010 explains that the qualitative characteristics of financial reports are normative measures that need to be embodied in accounting information so that it can fulfil its objectives.

## **3. Research Methods**

The research method used by researchers is quantitative research method, quantitative method is a research method based on the philosophy of positivism, where this research method is used to examine certain populations or samples, data collected using research instruments, data analysis is quantitative and has the aim of testing hypotheses which have been set (Creswell & Creswell, 2017).

### *3.1 Research Object*

The object of research is something that is the core of research activities, or in other words everything that is the target of research (Ghauri et al., 2020). Thus, the objects in this study are Accounting Information Systems, Internal Control, Accounting Understanding and Work Experience applied by the Jambi City Government.

### *3.2 Data Collection Technique*

The data to be used in this research is primary data, namely the source of the data obtained in the research is taken directly from the original source/respondent (Scherbaum & Shockley, 2015). Primary data was specifically collected by researchers to answer research questions. Primary data used in this study were obtained directly from surveys conducted by researchers. The variables used in this study are accounting information systems, internal control and accounting understanding as independent variables and financial report quality as the dependent variable. Primary data was obtained by distributing questionnaires to OPD employees in the finance/accounting sector within the Jambi City Government.

The data collection method that researchers used in this study was by distributing questionnaires to respondents to obtain data, questionnaires, namely a data collection technique that is carried out by giving questions or written statements to respondents to answer (Scherbaum & Shockley, 2015).

### *3.3 Population and Sample*

The population is a generalized area consisting of objects/subjects that have the qualities and characteristics determined by the researcher to be studied and then drawn conclusions (Creswell & Creswell, 2017). The population in this study were employees of the financial division of the Regional Apparatus Organization (OPD) of the Jambi City Government who were involved in preparing financial reports, in this case the staff and heads of the financial section (head of finance) in 35 Regional Apparatus Organizations.

The sample is part of the number and characteristics of the population. Sampling in this study was carried

out using the saturated sample method. This method is used because the population is small, so the entire population is used as a sample. So, the sample in this study amounted to 105 people in 35 regional apparatus organizations of the Jambi City government who were involved in preparing financial reports.

### 3.4. Data Testing Techniques

#### 3.4.1 Validity test

Validity test is used to measure whether a questionnaire is valid or valid. A questionnaire can be accepted if the questions on the questionnaire are able to represent something that the questionnaire will measure as a whole (Scherbaum & Shockley, 2015).

#### 3.4.2 Reliability Test

Reliability is a tool for measuring a questionnaire, which is an indicator of a variable. A questionnaire is said to be reliable or reliable if the answers to questions are consistent or stable from time to time (Scherbaum & Shockley, 2015).

#### 3.4.3 Multiple Linear Regression Analysis

Scherbaum & Shockley (2015) stated that multiple regression analysis was carried out to test the effect of two or more independent (explanatory) variables on one dependent variable of the multiple regression model in this statement which is stated as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

- Y = Quality of Financial Statements
- A = Constant
- $\beta$  = Regression Coefficient
- X1 = Variable Accounting Information System
- X2 = Variable Internal Control System
- X3 = Accounting Understanding Variable
- X4 = Work Experience Variable
- e = error

## 4. Research Results and Discussion

### 4.1 Data Testing Results

Test results of each item the question has a count greater than the table ( $> 0.191$ ). Thus, the research instruments totalling 10 for the variable accounting information systems, 10 for internal control, 5 for accounting understanding, 4 for work experience, and 8 for quality of financial statements in this study were declared valid.

All questionnaires produce Cronbach's alpha numbers higher than 0.70. The output results more significant SPSS can be concluded that the questions on the variables of Accounting Information Systems, Internal Control, Accounting Understanding, Work Experience, and Quality of Financial Statements have been tested for reliability, and it can be concluded that the results are reliable.

Table 1. Data Testing

Model	Sum of Squares		df	Mean Square	F	Sig.
1	Regression	518.945	4	129.736	21.773	.000 <sup>b</sup>
	Residual	595.855	100	5.959		
	Total	1114.800	104			

### 4.2 Classical Assumption Test Results

The normality test in this study produces graphs with data spread around the diagonal line and follows the diagonal line, so it can be said that the results normally distributed. The multicollinearity test in this study shows a tolerance value above 0.1 and less than ten and it can be said that there is no multicollinearity between the independent variables in the regrind heteroscedasticity testing. In this study, the points spread randomly and either well or below the number 0 on the Y-axis. It can be concluded that there is no heteroscedasticity in the regression model which is feasible to use.

### 4.3 Hypothesis Testing Results

#### 4.3.1 F test

Based on the test results in the table, it can be seen the value

$F_{\text{count}}$  is 21.7,73 and  $F_{\text{table}}$  2.46 so  $F_{\text{count}} > F_{\text{table}}$ , and a significance level of  $0.000 < 0.05$ . Accordingly.  $H_0$  rejected and  $H_a$  accepted, it can be concluded that the variable Accounting Information System (X1), Internal control (X2), Understanding of Accounting (X3), and Work Experience (X4) simultaneously affects the quality



of financial reports on Regional Apparatus Organizations in Jambi City.

Table 2. T Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	10.325	3.190		3.237	.002
	AIS	.360	.079	.411	2.493	.014
	Pengendalian Internal	.374	.060	.521	4.642	.000
	Pemahaman Akuntansi	.644	.145	.464	4.454	.000
	Pengalaman Kerja	.746	.142	.461	2.678	.008

Based on the table, the results of testing hypotheses 2, 3, 4 and 5 are explained as follows:

- Testing the regression coefficient of the accounting information system variable (X1) has a  $T_{count}$  value of 2.493 with a significance of 0.000. Then to use  $a/2$ ;  $nk-1$ , with the result  $t = 0.05/2$ ;  $105 - 4 - 1 = (0.025 ; 100)$ , hence,  $T_{table} = 1.984$ . So obtained that  $T_{count} < T_{table}$  that is  $2.493 > 1.984$  and a significance value below 0.05, namely  $0.014 < 0.05$  so the results are significant and significant, so,  $H_0$  rejected and  $H_2$  accepted. And the hypothesis that says there is an influence of accounting information systems on the quality of financial statements is accepted.
- Testing the regression coefficient of internal control variables (X2) has a t-value of 4.642 with a significance of 0.000. Then for  $T_{table}$  using  $a/2$ ;  $nk-1$ , with the result  $t = 0.05/2$ ;  $105 - 4 - 1 = (0.025;100)$ , so  $T_{table} = 1.984$ . So obtained that  $T_{count} < T_{table}$  namely  $4.642 > 1.984$  and a significance value below 0.05, namely  $0.000 < 0.05$ .
- Testing the regression coefficient of the work experience variable (X4) has a t value of 2.678 with a significance of 0.008. Then for  $T_{table}$  using  $a/2$ ;  $nk-1$ , with the result  $t = 0.05/2$ ;  $105 - 4 - 1 = (0.025;100)$ , so  $T_{table} = 1.984$ . So it is obtained that  $T_{count} (2.678) < T_{table} (1.984)$  and a significance value below 0.05, namely  $0.000 < 0.05$  means that there is no significant effect. So,  $H_0$  accepted and  $H_4$  rejected. And the hypothesis that says there is an effect of work experience on the quality of financial statements is accepted.
- Testing the regression coefficient of the work experience variable (X4) has a t value of 2.678 with a significance of 0.008. Then for  $T_{table}$  using  $a/2$ ;  $nk-1$ , with the result  $t = 0.05/2$ ;  $105 - 4 - 1 = (0.025;100)$ , so  $T_{table} = 1.984$ . So it is obtained that  $T_{count} (2.678) < T_{table} (1.984)$  and a significance value below 0.05, namely  $0.000 < 0.05$  means that there is no significant effect so  $H_0$  received and  $H_4$  rejected. And the hypothesis that says there is an effect of work experience on the quality of financial statements is accepted.

#### 4.2 Coefficient of determination

Table 3. Test results of the coefficient of determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682 <sup>a</sup>	.466	.444	2.44101

Based on the table, it can be seen that the coefficient of determination has an Adjust R Square value of 0.444 or 44.4%. This explains that the ability of the independent variable to explain the dependent variable is 44.4%, the remaining 55.6% is explained by other variables outside the model.

#### 4.3 Discussion

- After the regression test was carried out, the results of the regression analysis showed that accounting information systems, internal controls, accounting understanding, and work experience significantly influence the quality of financial reports. This is evidenced by the value of  $F_{count}$  21.773, which is higher than the value of the  $F_{table}$  of 2.46 and a significance value of  $0.000 < 0.05$ .
- The results of the regression analysis show that  $T_{count} (2,493) > T_{table} (1,984)$ . These results indicate that the accounting information system has a positive and significant partial effect on the quality of the regional financial reports of Jambi City OPD, so the second hypothesis ( $H_2$ ) is accepted.
- The results of the regression analysis show that  $T_{count} (4,642) > T_{table} (1,984)$ . These results indicate that internal control has a positive and significant partial effect on the quality of regional financial reports in OPD Kota Jambi. So, the third hypothesis ( $H_3$ ) is accepted.
- The results of the regression analysis show that  $T_{count} (4,454) > T_{table} (1,984)$ . These results indicate that accounting understanding positively and significantly affects the quality of regional financial

statements in the Jambi City OPD. So, the fourth hypothesis ( $H_4$ ) is accepted.

- The results of the regression analysis show that  $T_{\text{count}} (2,678) > T_{\text{table}} (1,984)$ . These results indicate that accounting understood positively and significantly affects on the quality of regional financial statements in the Jambi City OPD. So that the fifth hypothesis ( $H_5$ ) is accepted.

Overall, the findings indicated that external constraints are the reason why financial reporting is important for internal decision-making in Jambi local authorities. A new accounting system for Indonesia's public sector, including local government, is now being developed, which suggests a more advanced accounting and reporting system that is more in line with international standards (IPSAS).

## 5. Conclusion and Sugestions

### 5.1 Conclusions

1. The effect of using accounting information systems, internal control, understanding of accounting, and work experience simultaneously significantly impacts the quality of financial reports in the Jambi City Regional Apparatus Organization (OPD), so the first hypothesis is accepted.
2. Utilization of accounting information systems partially has a positive and significant effect on the quality of financial reports in the Jambi City Regional Apparatus Organization (OPD), so the second hypothesis is accepted.
3. Internal control partially has a positive and significant effect on the quality of financial reports at the Jambi City Regional Apparatus Organization (OPD), so the third hypothesis is accepted.
4. Understanding of accounting partially has a positive and significant effect on the quality of financial reports in the Jambi City Regional Apparatus Organization (OPD), so hypothesis is accepted.
5. Work experience partially has a positive and significant effect on the quality of financial reports in the Regional Apparatus Organization (OPD) of Jambi City, so that the fifth hypothesis is accepted

### 5.2. Suggestions

1. Further research should be carried out by adding variables, that information about the factors that affect the quality of financial reports can be completer and more comprehensive.
2. For further research, it is better to add the number of respondents in order to achieve maximum results in research.
3. To strengthen and support the results of this study, it is necessary to re-test to see the consistency of this research with previous research and subsequent research. Such as, question items in a questionnaire or using different indicators to measure each variable. Then change the data collection technique from questionnaires to interviews or other techniques in order to minimize the subjectivity and seriousness of the respondents.

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**Yuliusman.** Koto Lubuk Jambi (Riau), July 2<sup>nd</sup> 1971. Bachelor of accounting at the Riau University, Riau, Indonesia in 1998. Master of accounting at the Padjadjaran University, Bandung, Indonesia in 2009. Doctor of accounting at the Jambi University, Jambi, Indonesia in 2022.

**Gandy Wahyu Maulana Zulma.** Baserah (Riau), September 25<sup>th</sup>, 1991. Bachelor of accounting at the Indonesia University of Education, Bandung, Indonesia in 2013. Master of accounting at the Indonesia University, Depok, Indonesia in 2016.