

CHAPTER I

PRELIMINARY

1.1. Background

The development of the public sector in Indonesia today strengthens accountability demands for public institutions at the central and regional levels. Accountability can be interpreted as a form of obligation to account for the success or failure of the implementation of the organization's mission in achieving predetermined goals and objectives through a medium of accountability that is carried out periodically (Mardiasmo, 2012).

The form of state/regional budget accountability or government financial management, carried out by the central and regional governments, is through the submission of government financial reports. BPK has audited it to determine the relevance and reliability of the information it contains. These government financial reports are submitted to representative bodies (DPR/DPRD) to be published as users of financial reports and owners of funds used by the government.

In 2021, audit entities included 87 State Ministries/Agencies and one State General Treasurer (BUN). The development of LKKL and LKBUN opinions for 2017 - 2021 is as follows:

Table 1.1
Opinion on Financial Statements of KL and BUN Year 2017-2021

Opinion	Year				
	2017	2018	2019	2020	2021
Unqualified (WTP)	80	82	85	85	84
Qualified With Exceptions (WDP)	6	4	2	2	4
Not Giving Opinion (TMP)	2	1	1	-	-
Unreasonable (TW)	-	-	-	-	-
Number of Reporting Entities	88	87	88	87	88

Based on table 1.1, we can see a decline in opinion in 2021 compared to 2020 in all State Ministries/Institutions. In 2020, there were 85 entities (97.50%) that received WTP, two entities (2.29%) WDP, and 0 entities of TMP, while in 2020, there was an increase in the quality of opinion where the entities that received WTP were 84 entities (95.45%), WDP 4 entities (4.54%), and TMP 0 entities. Most opinions obtained by State Ministries/Institutions are WTP; this result shows that the central government's financial management is good (Source: IHPS II BPK RI Year 2021).

Government financial reports must comply with the principle of being timely and prepared by Government Accounting Standards by Government Regulation 24 of 2005, which has been amended to become Government Regulation 71 of 2010 (PP 71/2010). Government financial reports are then provided to interested parties as a basis for decision-making. The information contained in the Financial Statements of the Central and Regional Governments must also meet the qualitative characteristics required by Government Accounting Standards (PP 71/2010); Relevant, Reliable, Comparable, Understandable

To be studied more deeply due to, among other things, the low application of SAP in preparing financial statements (Udiyanti, 2014). The proper application of SAP and a good level of understanding by financial managers in government agencies will improve the quality of financial reports.

The competence of human resources is one of the most critical factors in preparing financial statements to produce quality and informative financial reports for users of financial report information. Human Resources are productive individuals employed in an organization or institution as movers, thinkers and planners who function as assets. Their abilities must be managed, trained and developed to achieve organizational goals (Arza *et al.*, 2021). A good understanding of the manufacturing process of financial reporting is the most critical organizational process to understanding its performance or

existence over some time. As is known, preparing financial reports is the most critical process of an organization to determine the performance or existence of an organization in one period. Therefore, if the competence of its human resources does not support it, applying government accounting standards and internal control systems will not work. It can run effectively and cannot produce financial reports that have quality information that users of that information can use.

Another essential thing to consider when considering the quality of local government financial reporting is the government's internal control system. The internal control system is defined by (Abiola *et al.*, 2013) as actions taken on financial and non-financial to ensure asset protection, fraud detection and prevention, compliance with internal control policy requirements and procedures and accuracy of completeness of records. The Government Internal Control System (SPIP) is a comprehensive internal control system at the central and regional governments. SPIP can be used as the first metric to assess company performance. SPIP is a method of directing, monitoring and measuring organizational resources, and it also plays a vital role in fraud prevention and early detection. SPIP helps guide entities in the way they should be run. One of management's overall goals in designing an effective internal control system is to ensure reliable financial reporting.

Strengthening the government's internal control system (SPIP), the maturity of the SPIP implementation assessment demonstrates this success. This assessment includes elements of the control environment, risk assessment, control activities, information and communication, and internal environmental monitoring. In addition, a sound internal control system (SPI) can prevent implementing activities not by applicable regulations to achieve efficiency and effectiveness and prevent problems arising from losses to government finances.

Research on the application of SAP, HR competence and SPI in improving the quality of financial reports has been carried out by many researchers with varying results. The research results of Karsana and

Suaryana (2017) show that based on the analysis results, this study shows that the effectiveness of applying government accounting standards, human resource competence, and internal control systems has a positive effect on the quality of financial reports.

The same research results were shown by Ayu & Kusumawati (2020), Karsana & Suaryana (2017), and Hartono & Ramdany (2020). The results show that the application of accrual-based government accounting standards, human resource competence and internal control positively affects the quality of local government's financial reports.

Likewise, with the research of Hendri and NR (2020) and Ikyarti and April (2019), the results of the research show that the quality of human resources, regional implementation of management information systems and application of government accounting standards have a positive effect on the quality of local government financial reports.

Different research results shown by Arza *et al.* (2021) conducted research with the title The Influence of Human Resources, Application of Government Accounting Standards and Accounting Information Systems on the Quality of Financial Reports in the Municipal Government of Padang Panjang. The research results showed that: (1) HR affects the Quality of Regional Financial Reports but is insignificant. Regional Financial Report but not significant. (2) Application of Government Accounting Standards affects the quality of LKPD but is not significant. (3) Accounting Information System significantly affects the quality of LAPD.

Currently, in Indonesia, the accountability of financial reports is more emphasized in central and regional government agencies. The urgency of accountability is emphasized by the BPK or the Supreme Audit Agency, which will then be submitted to the DPR/DPRD for publication to the relevant government agencies.

It has been proven that after the implementation of accountability in Indonesia, data on the decline in the opinion of KL and BUN 2021 were obtained. Based on table 1.1, which has been described, the decline does not

affect the quality of financial management. However, has the financial reporting done previously been good and met the quality standards/characteristics determined? So with this, it is necessary to have a more profound study or research related to the quality of government financial reports.

The replication of this research uses reference journals from research conducted by Hartono & Ramadan (2020). The difference in this research lies in using research periods and objects at the Regional Office of the Ministry of Law and Human Rights of West Kalimantan.

Based on *the gap phenomenon* described, problems were found with the influence of government accounting standards, human resource competencies, and internal control systems to increase the quality of government financial reporting information. Therefore, the research title to be appointed is "**The Effectiveness of Government Accounting Standards, Human Resource Competence, and Internal Control Systems on The Quality of Financial Reports at West Kalimantan's Regional Offices of The Ministry of Law and Human Rights**".

1.2. Formulation of the problem

Based on the background stated above, the writer will present the problems that serve as the basis of the research, namely:

- 1) Does the Application of Government Accounting Standards Affect the Quality of Financial Statements?
- 2) Does the competence of human resources affect the quality of financial reports?
- 3) Does the Internal Control System affect the quality of financial reports?

1.3. Research purposes

The purpose of this research is to find out the following:

- 1) To determine the effect of the application of Government Accounting Standards on the quality of financial reports
- 2) To determine the effect of Human Resource Competence on the quality of financial reports.

- 3) To determine the effect of the Internal Control System on the quality of financial reports.

1.4. Research Contributions

By conducting this research, it is hoped that it will provide benefits to several parties, both directly and indirectly, including:

1.4.1. Theoretical Contributions

This research is expected to contribute ideas in enriching insights about applying Government Accounting Standards, especially regarding Government Accounting Standards, Human Resources competencies and Internal Control Systems on the quality of financial reports. The research is expected to benefit from deeper knowledge about Government Accounting Standards, Human Resources competencies and Internal Control Systems so that they can apply Government Accounting Standards effectively in preparing and presenting financial reports.

1.4.2. Practical Contribution

The research can provide additional scientific insights into the importance of applying Government Accounting Standards as a regulatory standard in the presentation of financial statements and the influence of the competence of Human Resources and Internal Control Systems on the quality of the presentation of financial statements.

As input for the community so that they can provide participation, control, and contribute to improving and increasing accountability and transparency of financial accountability by implementing effective Government Accounting Standards in realizing quality financial reports.

For the Regional Office of the Ministry of Law and Human Rights in West Kalimantan to benefit from deeper knowledge about Government Accounting Standards, Human Resource Competence and Internal Control Systems to apply them effectively in preparing and presenting financial reports.

1.4.3. Policy Contribution

In adopting policies, especially in applying government accounting standards, human resource competencies and internal control systems can provide appropriate quality in preparing and presenting financial reports.