CHAPTER II
LITERATURE REVIEW

2.1. Theoretical basis

2.1.1. *Agency* Theory

Agency theory describes relationships agency with the owner of the entity in the form of giving authority to the *agent* to make the best decisions. In contrast, the *agent* performs services for and on behalf of the *principal* (Jensen & Meckling, 1976). Agency theory has occurred in the public sector, especially the central and local governments. An agency problem occurs because of differences in interests between the regional government (regional office) (*agent*) and the central Kemenkumham (*principal*). Kemenkumham is interested in obtaining quality financial reports from local governments (regional offices) as a form of government responsibility for the authority given for decision-making purposes.

2.1.2. *Stewardship* Theory

The grand theory underlies this research is part of *agency theory*, namely *stewardship theory*. Donaldson and Davis (1991), in Anton's (2010) *Stewardship*, describes how the form is that there are no hasty management situations in individual goals but for the common good. The achievement of success in a government organization can be increased by maximizing the utility of *principals* and management. Early development of managerial accounting in the public sector to meet the information needs of, among others, *stewards* and *principals.* Accounting is a driver and is followed by various increasingly complex changes, the existence of specialization in accounting has also developed in public sector organizations, and as *principals,* it is very difficult or difficult to carry out management functions themselves. (Haliah, 2012 in Wahida 2015). The relationship between *stewardship* theory here is to explain how the existence of government as an institution or vehicle that can be trusted in accommodating public complaints, providing good service to the community, and being accountable for the finances mandated and the economy is fulfilled. Public welfare can be achieved optimally, to carry out. With this responsibility, the *stewards* (managers and internal auditors) need to manage all their capabilities to make internal controls effective to produce quality financial information reports (Wahida, 2015).

2.1.3. Decision-*Usefulness* Theory

Decision usefulness theory was first put forward in 1954, accompanied by the title *An Accounting Concept of Revenue at the University of Chicago* United States of America by George J. Staubus. In its early stages, this theory was known as *A Theory of Accounting to Investors* (Staubus, 2000). This theory is based on problems concerning the concept of cost-based accounting historical cost, that the concept of historical cost is irrelevant to accounting valuation at market prices or the present value approach to fair prices. The decision usefulness theory of accounting information contains components that the creators of accounting information must consider to provide coverage and meet the needs of decision-makers who will use it. Theory Decision usefulness includes the requirements of the quality of accounting information useful in the decision to be taken by the user. Accounting objectives are linked with the creators of accounting information, tasked with providing financial information that good economic decision-makers can use—a party interested in the sense of users of financial statements (Kiswara, 2011).

2.1.4. *Institutional* Theory

Given that qualitative characteristics are an important element in government financial reports as a basis for decision-making, researchers are interested in interpreting and explaining this empirical evidence from the perspective of institutional theory.

Institutional Theory is a theory that explains the relationship between an organization and its environment and wishes to reveal the reality of inconsistencies in the formal appearance of the organization (DiMaggio & Powell, 1991). An organization's adjustment form is to try to be similar to other organizations, which is commonly called an isomorphism. Di Maggio & Powell (1991) states that isomorphism limits or forces an organization to resemble other organizations in the same environmental conditions. However, sometimes this isomorphism will put institutional pressure on the organization because they have to make the same changes (homogeneity).

Institutional theorists believe that order can be achieved through institutions. This theory criticizes the neo-classical economic model, which according to them, discriminates or creates irrational assumptions between market values and social values. They rejected the rational actor model and were suspicious of the deductions formulated in the neoclassical because of the dominance of self-interest in it. Adherents of this theory believe that order can be achieved via institutions, where institutions are built on social action. Institutions are places to limit individuals and groups.

Organizations are shaped by the institutional environment that surrounds them. Influential ideas are then institutionalized, considered valid, and accepted as the organization's way of thinking. Organizations often carry out the legitimacy process through pressure from states and statements. Institutional theory is known for its assertion of organizations only as symbols and rituals. One theory that many researchers widely use as a basic research concept is institutional. Institutional theory is a strong and popular explanation for individual and organizational actions caused by exogenous factors and external social, community and environmental expectations (Chodijah & Hidayah, 2018). These factors refer to organizational relationships with external parties, such as the state domain, the private sector, academia and society. Government organizations as internal parties have the legitimacy to be accountable for administering their government to external parties. Thus in carrying out its functions, the organization is also vulnerable to external pressure. Institutional theory is also used to determine the extent to which quality financial reports can be created, driven by the phenomenon of isomorphism (coercive, mimetic, and normative) (Budiawan & Budi, 2014).

In this study, researchers will try to emphasize coercive isomorphism, namely external pressure related to the environment around the organization. In the government sector, many laws and regulations regulate the process of technical and financial reporting (Budiawan & Budi, 2014). The existence of regulations is intended to regulate existing practices to be better. On the other hand, the coercive power of regulation can lead to an organizational tendency to gain or improve legitimacy (legitimate coercion) so that it only emphasizes positive aspects so that the organization looks good to parties outside the organization (Chodijah & Hidayah, 2018).

The quality of government financial reports is usually assessed from the opinion of the BPK as the external auditor. The opinion is a professional statement by the examiner regarding the fairness of financial information presented in the financial statements based on the following criteria: (a) compliance with government accounting standards, (b) adequacy of disclosure (adequate disclosure), (c) compliance with laws and regulations, and (d) the effectiveness of the internal control system (SPI) (Chodijah & Hidayah, 2018).

2.1.5. Government Accounting Standards (Number 71 of 2010)

Law Number 17 of 2003 concerning State Finance in Article 32 stipulates that the form and content of accountability reports on implementing the APBN/APBD are prepared and presented by Government Accounting Standards. The government accounting standards are prepared by the independent Government Accounting Standards Committee and are stipulated by Government Regulation after receiving prior consideration from the Supreme Audit Agency.

The preparation of Government Accounting Standards (SAP) based on Accruals is carried out by the Government Accounting Standards Committee (KSAP) through a standard process of preparation (due process). The standard process for preparing Government Accounting Standards

(SAP) is the professional responsibility of the Government Accounting Standards Committee (KSAP).

The preparation of the Statement of Government Accounting Standards (PSAP) is based on the Governmental Accounting Conceptual Framework, which is the basic concept for the preparation and development of Governmental Accounting Standards and is a reference for the Governmental Accounting Standards Committee, preparers of financial reports, examiners, and users of financial statements in seeking solutions to something issues that have not been regulated in the Statement of Governmental Accounting Standards.

By the mandate of the State Finance Law, the government has issued Government Regulation Number 24 of 2005 concerning Government Accounting Standards. The Government Accounting Standards use a cash basis for recognizing revenue, expenditure and financing transactions and an accrual basis for recognizing assets, liabilities and fund equity.

The implementation of Government Regulation Number 24 of 2005 is still temporary as mandated in Article 36 paragraph (1) of Law Number 17 of 2003 concerning State Finance, which states that as long as accrual-based recognition and measurement of income and expenditure has not been implemented, cash-based recognition and measurement is used. Accrual-based recognition and measurement of income and expenditure according to Article 36 paragraph (1) of Law Number 17 of 2003 is carried out no later than 5 (five) years. Therefore, Government Regulation Number 24 of 2005 needs to be replaced.

The regulatory scope of this Government Regulation includes Accrual-Based Government Accounting Standards (SAP) and Cash-Based Towards Accrual Government Accounting Standards (SAP). Accrual-Based Government Accounting Standards (SAP) are effective from the date of stipulation and can be immediately applied by each entity. Cash-to-Accrual-Based Governing Accounting Standards (SAP) apply during the transition period for entities that are not yet ready to apply Accrual-Based Governing Accounting Standards (SAP).

The timeframe carries out the application of Government Accounting Standards (SAP) Based on Cash Towards Accruals. Furthermore, each reporting entity, both at the central government and regional governments, is required to implement Accrual-Based Government Accounting Standards (SAP). Although reporting entities are temporarily permitted to apply Cash-to-Accrual-Based Accounting Standards (SAP), reporting entities are expected to apply Accrual-Based Government Accounting Standards (SAP) immediately.

The financial reports resulting from applying Accrual-Based Government Accounting Standards (SAP) are intended to provide better benefits to stakeholders, both users and examiners of government financial reports, compared to the costs incurred. It is in line with one of the accounting principles: the costs incurred are proportional to the benefits obtained.

In addition to changing the basis of Government Accounting Standards (SAP) from cash to accruals to accruals, this Government Regulation delegates changes to PSAP regulated by a Minister of Finance Regulation. The dynamics can change state financial management's Statement of Government Accounting Standards (PSAP). Even so, the preparation of the Statement of Government Accounting Standards (SAP) by the Government Accounting Standards Committee (KSAP) must still go through the standard process of preparing Government Accounting Standards (SAP) and receive consideration from the Supreme Audit Agency (BPK).

2.1.6. Application of Accrual-Based Government Accounting Standards to the Central Government (Number 270/PMK.05/2014)

By the time frame for implementing accrual-based Government Accounting Standards (SAP) as stipulated in Government Regulation 71 of 2010, 2014 was the last year the government was allowed to use a cash basis towards accruals. In 2015 the central and regional governments must use the accrual basis in presenting financial reports. The financial statements resulting from applying the accrual basis are intended to provide more comprehensive and better information for stakeholders, both users of financial statements, compared to the cash-to-accrual basis, which has so far been adhered to. It is in line with one of the accounting principles, namely full disclosure.

Accrual-Based Government Accounting Standards (SAP) are accounting principles that are applied in preparing and presenting government financial reports, which recognize revenues, expenses, assets, debts and equity in accrual-based financial reporting, and recognize revenues, expenditures and financing in reporting on budget implementation based on the basis set out in the State Revenue and Expenditure Budget (APBN). To support the implementation of accrual-based accounting in the central government, the Ministry of Finance has developed an integrated application that can be used by State Ministries/Institutions. The application development is expected to integrate implementation and accountability processes by the budget cycle.

2.1.7. Application of Accrual-Based Government Accounting Standards (PMK 270/ PMK 05/ 2014)

Application of Accrual-Based Government Accounting Standards (SAP) using an Integrated Application System is an integrated application system for all processes related to the management of the State Revenue and Expenditure Budget (APBN), starting from the process of budgeting, implementation, and reporting to the State General Treasurer and Ministries Country/Institution. The Integrated Application System for BUN is based on the Minister of Finance Regulation regarding the implementation of the treasury system and the state budget.

The Integrated Application System for Ministries/Agencies is carried out based on the provisions stipulated in a separate Minister of Finance regulation. Ministries/Institutions receive assignments from the Minister of

Finance to carry out the authority and responsibility for managing the budget from the Subsidized Expenditure State General Treasury Budget Section and Miscellaneous Expenditure State General Treasury Budget Section.

2.1.8. Effectiveness of Application of Government Accounting Standards

Nurlaila (2014) states that effectiveness is determined by the relationship between the output produced by a responsibility centre and its objectives. A system is effective if the output produced by a person (group) is by the desired goals. From the explanation above, the application of Government Accounting Standards is said to be effective if the goals achieved by government agencies are as expected. Implementing these Government Accounting Standards improves the quality of Central Government Financial Reports (LKPP) and Regional Government Financial Reports (LKPD) in the framework of transparency and accountability in implementing government accounting.

2.1.9. Government Accounting Standards

According to Mahmudi (2011), Government Accounting Standards are accounting principles in preparing and presenting government financial reports. The following are the benefits of government accounting standards:

a. Financial accountants use accounting standards in government as a guide in preparing and presenting government financial reports.
b. Auditors use accounting standards as audit criteria to determine whether the financial statements presented are by the accounting standards that govern them.
c. Users of financial statements use accounting standards to understand financial reports and avoid mistakes in interpreting information in financial statements.
d. Accounting standards are needed to improve the quality of financial reports, namely to improve the consistency, comparability, understandability, relevance and reliability of financial reports.

e. Accounting standards are a reference in the preparation of accounting systems because the output of the accounting system must comply with accounting standards.

2.1.10. Government Accounting

2.1.10.1.Definition of Government Accounting

According to Mursyidi (2009), governmental accounting states a lot of old terminology and shifts to the term public sector accounting. Government accounting is an accounting mechanism that processes financial transactions related to the management of state finances both at the central and regional levels.

Nordiawan *et al*. (2009) state that government accounting specializes in recording and reporting transactions that occur in government agencies. Government accountants provide accounting reports on stewardship aspects of state financial administration. In addition, this field includes control over spending through the state budget, including compliance with applicable laws. With the various characteristics of government organizations that have been presented, government accounting develops with the following characteristics:

1) Investment in assets that do not generate income in general, the government, in providing services to the community, requires large investments in assets that do not generate income, such as roads, bridges and other public buildings.
2) There is no disclosure of profits; the government's goal is to provide services to the community, not to achieve profits. In the government sector, there is no direct relationship between tax payments by the public and services received by the community. Thus, no income statement will reveal the achievement of a profit.
3) There is no disclosure of ownership, the government does not have its wealth like a company, and the government is not owned by individuals or groups. Thus, there will be no statements or disclosures

indicating a party's ownership as shown by the capital section of a company's balance sheet.

4) The use of fund accounting, with all the characteristics attached to the organization, accounting views the government more as a unit of funds with a specific purpose and mission, not as an organizational entity that has ownership. It has implications for using the accounting equation, which no longer uses the owner's capital but retained earnings.

According to Baswir (2000), Government Accounting (including accounting for non-profit institutions in general) is a field related to government agencies and non-profit institutions. Even though government institutions are always large, as in companies, they are classified as micro institutions.

Arif *et al*. (2002) define government accounting as a service provision activity that provides financial information based on recording, classifying, summarizing a government financial transaction and interpreting that financial information.

Meanwhile, Halim (2002) states that Government Accounting is a service activity that provides quantitative information, especially of a financial nature, from government entities for rational economic decisions from interested parties on various alternative courses of action.

2.1.10.2.Government Accounting Objectives

According to Arif *et al.* (2002), in disclosing government accounting, the purpose of the definition of government accounting and business accounting is generally the same, namely:

1) Accountability: in government, managed state finances must be accountable by the constitution's mandate. The implementation of this function in Indonesia is regulated in the 1945 Constitution Ps 23 paragraph (5).
2) Managerial: government accounting allows the government to carry out a plan in the form of preparing the State Budget and other

development strategies, such as carrying out development activities and controlling these activities in the context of achieving compliance with laws and regulations, effectiveness, efficiency and economy.

3) Oversight: financial audits in Indonesia consist of compliance checks, general financial audits, and operational or managerial checks.

Muindro (2010) explains that the purpose of SAP is:

a) Safeguard the assets of the central government and agencies through consistent recording, processing and reporting of financial transactions by generally accepted accounting standards, practices and principles.
b) It provides accurate and timely information on budget implementation and financial activities of the central government, agencies and institutions that are useful nationally for performance appraisal, determining budget authorization activities and accountability purposes.
c) Provide reliable information on the financial position of the central government and the agency/organization as a whole.
d) Provide useful information for planning, managing and controlling government activities and finances efficiently and effectively

2.1.10.3. Characteristics of Government Accounting

Based on the government's goals above, Arif *et al.* (2002) mention several characteristics of government accounting, namely as follows:

1) The government is not profit-oriented, so there is no income statement or accounting treatment related to it in government accounting.
2) The government records the budget when the budget is recorded.
3) In government accounting, it is possible to use more than one type of fund.
4) Government accounting will record capital expenditures.
5) Government accounting is rigid because it relies heavily on laws and regulations.

6) Government accounting does not recognize the balance sheet's capital estimates and retained earnings.

2.1.10.4. Government Accounting Standard Parameters

Variable understanding of the implementation of the Government Bookkeeping Guidelines surveyed with pointers and calculative indicators according to PP 71 (2010) in Sari & Fadli (2017), namely:

1. Presentation of Financial Statements.
2. Budget Realization Report.
3. Cash flow statement.
4. Notes to Financial Statements
5. Inventory Accounting.
6. Investment Accounting.
7. Fixed Asset Accounting.
8. Construction in Progress Accounting
9. Liability Accounting.
10. Error Correction.
11. Consolidated Financial Statements.

2.1.11. Human Resource Competency

2.1.11.1. Definition of Human Resource Competency

Human Resources are productive individuals employed in an organization or institution as movers, thinkers and planners who function as an asset, so their abilities must be managed, trained and developed to achieve organizational goals (Arza *et al*., 2021).

2.1.11.2. Characteristics of Human Resource Competency

There are five basic characteristics of competence (*core competency*), according to Spencer & Spencer (1993), which include: Knowledge, Skills, Character, Motives, and Self-Concept.

1) Knowledge is information owned by someone in a certain field in carrying out their duties and responsibilities; with knowledge appropriate to their work, it is hoped that they will be able to complete their duties under any conditions. Knowledge will

influence the techniques and strategies used to achieve good organizational performance. As well as knowledge of human resource management, empowerment and others that are theoretical.

2) Skills are a person's abilities and expertise in completing their tasks properly, such as determining good concepts to solve problems and accumulating techniques that can be used in certain conditions.
3) Attitude/character is a person's behaviour that is shown in response to everything. Character is related to the emotional nature that exists in a person, as well as the ability to control himself under certain conditions. A person's character will affect the motives for carrying out his duties.
4) Motives are fundamental thoughts that arise from within a person and become the goals and desires to be achieved in the organization, which will personally impact his actions.
5) Self-concept is a person's ability to convince himself, encourage himself to work and carry out his duties and responsibilities properly. A person's self-concept is related to what encourages a person to do his job well and what a person has and is of more value than other individuals.

2.1.11.3. Human Resource Competency Indicator

Four indicators measure the parameter indicators for Human Resource Competence according to research (Wardani *et al.*, 2018), namely:

a. Education
b. Responsibility
c. Training
d. Experience

2.1.12. Internal Control System

2.1.12.1. Definition of Internal Control System

Government Regulation of the Republic of Indonesia Number 60 of 2008 concerning the Government's Internal Control System article 1 paragraph (1)

> "The Internal Control System is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate assurance of achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations invitation".

The internal control system is a system that includes the organizational structure, methods and tools that are coordinated within the company to maintain the security of the company's *assets,* check the accuracy and correctness of accounting data, optimize operational efficiency, and improve the implementation of management activities that are has been established (Mulyadi, 2001).

The internal control system is defined by (Abiola *et al.,* 2013) as actions taken on financial and non-financial measures to ensure asset protection, fraud detection and prevention, compliance with internal control policy requirements and procedures and accuracy of completeness of records.

Internal control is a measuring tool to ensure that management control objectives will be achieved (Setiyawati, 2013).

2.1.12.2. Internal Control System Objectives

According to Kiranayati & Erawati (2016), the purpose of the Internal Control System can be divided into two, namely:

1. Accounting Internal Control. This control includes the organizational structure, methods and measures that are coordinated especially to maintain organizational assets and check the accuracy of accounting data. Good accounting internal controls will ensure the security of the wealth of investors and creditors by producing reliable financial reports. On the other hand, weak internal controls cannot detect fraud/inaccuracies in the accounting process, so audit evidence obtained from accounting data becomes incompetent (Kiranayati & Erawati, 2016).

2. Administrative Internal Control. This control includes coordinated organizational structure, methods and measures, especially efficiency and compliance with leadership policies.

2.1.12.3. Elements of the Internal Control System

Good governance practices PP 60/2008 regarding SPIP purely adopts the GAO approach based on COSO. This concept emphasizes the five elements of internal control (Winarno in Wardhani & Andriyani, 2017), namely:

1) Control environment

The control environment is the means and infrastructure of an organization or company to run a good internal control system. Even a good internal control system cannot run properly without a good internal control environment. The components that affect the internal control environment are:

a. Management's commitment to ethical values and integrity. A company must be instilled with ethics and ethical values.
b. The operational style adopted by management and the philosophy espoused by management. Management must convince all employees of the importance of enforcing rules and their penalties so that all company activities can run according to the rules.
c. Organizational structure. The organizational structure used by the company is used to implement a good internal control system by the wishes of management. In practice, each section is not allowed to have an employee who is most powerful in handling a transaction, and these sections must be able to be supervised.
d. Methods of the division of responsibilities and tasks. Separation of duties between employees who carry out recording, storage and granting authorization.

e. Policies and practices concerning human resources. Companies must choose people who are competent in their fields.

f. External influences, namely the influences that arise from the environment outside the company, for example, from banks or insurance companies.

2) Monitoring activities

Supervision activities are various processes and efforts to enforce supervision or control of company operations. According to COSO, there are several control activities implemented by companies, namely:

a. Granting authorization for transactions and activities.
b. Division of tasks and responsibilities.
c. Design and use of good documents and records.
d. Adequate protection of company assets and records.
e. Independent check of company performance.

3) Risk understanding

Company management must be able to identify the various risks faced by the company so that preventive measures can be taken to reduce losses that may arise. The risk groups faced by the company, namely:

a. Strategic risk is doing an activity incorrectly so the company cannot achieve its goals properly.
b. Financial risk is the risk of financial losses such as waste and theft of money.
c. Information risk produces irrelevant information, wrong information, or even unreliable information systems.

4) Information and communication

Companies must know the duties of each employee, for example, employees who record sales transactions, send invoices to buyers and receive payment. It is done so that the company can track employees who tend to commit fraud.

5) Internal control monitoring

Monitoring is when an activity does not go according to the expected action that can be taken as soon as possible. This form of monitoring in the enterprise can be carried out by any (all) of the following procedures:

a. Effective supervision, namely, guiding employees.
b. Accountability accounting, that is, implementing a system.
c. Accounting can be used to assess the performance of each manager, department or process carried out by the company.
d. Internal audit, namely, auditing carried out by auditors within the company to assess the system run by the company and provide a report to management regarding proposed improvements so that management can immediately request improvements to the system.

2.1.12.4. Internal Control System Indicator

The indicators of the Internal Control System are as follows (Oktarina *et al.,* 2016):

1. Control Environment

   Stating that the auditor must obtain sufficient knowledge of the control environment to understand management's attitudes and actions regarding the control environment, taking into account both the substance of the control and the collective impact on other controls.
2. Risk Assessment

   They state that the auditor must determine how management identifies risks relevant to the fair presentation of financial statements.
3. Control activity

   Indicates that the auditor should obtain sufficient knowledge of information systems relevant to financial reporting.
4. Information and communication

   Indicates that the auditor should understand control activities relevant to planning the audit.

5. Monitoring

   Understanding monitoring is important for understanding the types of activities used by the entity, top management, accounting management, and internal auditors to monitor the effectiveness of internal control in meeting financial reporting objectives.

2.1.13. Government Financial Statements

2.1.13.1.Definition of Financial Statements

Permadi (2013) states that financial statements are a financial list of an economic entity that accountants systematically compile at the end of a period or records that provide financial information about a company that has run the company for one period. Financial reports are structured reports regarding the financial position and transactions carried out by a reporting entity (PP No. 71 of 2010). Government financial reports are intended to meet the general objectives of financial reporting but not to meet the specific needs of users. The other definition of financial reports is part of financial reporting. Complete financial statements usually include a balance sheet, income statement, loss report, statement of changes in financial position (presented in various ways, for example, a statement of cash flows or a statement of flows of funds), notes, and other reports and explanatory material that are an integral part of the financial statements. (Indonesian Association of Accountants, 2007).

Mardiasmo (2002) states that government agencies must be able to prepare external financial reports, which include formal financial reports such as surplus deficit reports, budget realization reports, cash flow reports and balance sheets, as well as performance expressed in financial and non-financial measures.

According to Kasmir (2012), financial reports are "reports that show the company's financial condition at this time or in a certain period". According to Subramanyam & Wild (2012), financial reports are "products of financial reporting processes governed by accounting standards and rules, manager incentives, as well as company implementation and supervision mechanisms".

2.1.13.2. Purpose of Financial Statements

Kasmir (2012) states that the purpose of financial statements is:

1) Provide information about the type and amount of assets (assets) owned by the company.
2) Provides information about the type and amount of liabilities and capital owned by the company.
3) Provides information about the type and amount of income earned in a certain period.
4) Provides information about the total costs and types of costs incurred by the company in a certain period.
5) Provides information about the performance of the company's management in a certain period.
6) Provide information about the notes to the financial statements.
7) Other financial information.

Mahmudi (2011) states that the general purpose of financial reports is present information on the financial position, budget realization, balances budget surpluses, cash flows, results of operations, and changes in an entity's equity useful reporting for users in creating and evaluating decisions regarding the allocation of resources. Specifically, the goals of government financial reporting are to present that information useful for decision-making and for demonstrating accountability in entity reporting on the resources entrusted to him by:

1) Provides information on the government's economic resource position, liabilities, and equity.
2) Provides information about changes in the government's economic resource position, liabilities, and equity.
3) Provides information regarding sources, allocation, and use of economic resources.

4) Provide information regarding compliance with the realization of the budget.
5) Provides information about how the reporting entity finances its activities and meets its cash needs.
6) It provides information regarding the government's potential to finance the implementation of government activities.
7) Provides useful information for evaluating a reporting entity's ability to fund its activities. Meanwhile, financial reporting also provides information for users regarding whether resources have been obtained and used by the budget and whether resources have been obtained and used in accordance with the provisions, including the budget stipulated by the DPR/DPRD.

2.1.13.3. Components of Financial Statements

According to PP No. 71 of 2010 states that there are seven basic financial statements, namely:

1) The Budget Realization Report (LRA) presents an overview of the sources, location and use of financial resources managed by the central/regional government, which illustrates a comparison between the budget and its realization in one reporting period. Elements covered directly by the budget realization report consist of LRA revenues, spending, transfers, and financing.
2) Report on Changes in Budget Balance Over (Report on Changes in SAL) presents information on the increase or decrease in the budget balance over the reporting year compared to the previous year.
3) The balance sheet is a report compiled systematically regarding the position of assets, liabilities and equity funds for an entity at a certain time. It indicates that the balance sheet describes the financial position of a reporting entity regarding assets, liabilities, and fund equity on a certain date.
4) Operational Report (LO) presents an overview of economic resources that increase equity and their use managed by the central/regional

government for government administration activities in one reporting period. Elements that are directly covered in operational reports consist of income-LO, expenses, transfers, and extraordinary items.

5) Statement of Cash Flows (LAK) presents cash information related to operating, investing, financing and transitory activities, which describes the initial balance, receipts, disbursements and ending balance of central/regional government cash during a certain period. Elements included in the statement of cash flows consist of cash receipts and disbursements.
6) Statement of Changes in Equity Report of changes in equity presents information on the increase or decrease in equity for the reporting year compared to the previous year.
7) Notes to Financial Statements (CaLK), including narrative explanations or details of the numbers listed in the budget realization report, SAL change reports, operational reports, changes in equity reports, balance sheets and cash flow reports. The notes to the financial statements also include information about the accounting policies used by the reporting entity and other information that is required and recommended to be disclosed in government accounting standards, as well as the expressions needed to produce a fair presentation of the financial statements.

2.1.13.4. Financial Statement Analysis

According to Munawir (2010), financial statement analysis is an analysis of financial statements consisting of reviewing or studying rather than relationships and tendencies or tendencies (*trend*s) for determining the financial position and results of operations and developments of the company is concerned. While understanding the analysis of financial statements, according to Harahap (2006), is as follows: "financial statement analysis i.e. breaking down financial statement items into more information units small and see the relationship that is significant or which have meaning between one another both between the data quantitative and non-quantitative data to know deeper financial condition which is very important in the process make the right decision."

2.1.13.5. Quality of Government Financial Reports

According to Mahmudi (2010), the definition of financial statements is a form of government accountability to the people for the management of public funds either from taxes, levies or other transactions. The financial report is a statement of the reporting entity contained in the components of the financial statements. Financial reports are a form of accountability for state/regional financial management for a period. Regional government financial reports are accountable for implementing the Regional Revenue and Expenditure Budget. Meanwhile, Mardiasmo (2004) defines financial statements as the result of an accounting process that can be used to communicate a company's financial data or activities with parties interested in the data or activities of the company.

Based on the statement above, it can be concluded that financial reports are reports that present information that interested parties will use regarding the financial position, company/organization performance, changes in equity, cash flows and other information that is the result of the accounting process during the period accounting of a business unit. Local government financial reports based on PP No. 71 of 2010 concerning accrual-based SAP are structured reports on the financial position and transactions carried out by a reporting entity. Based on SAP 2010, the basic financial statements consist of budget realization reports (LRA), reports on changes in excess budget balances (reports on changes in SAL), balance sheets, operational reports (LO), cash flow reports (LAK), reports on changes in equity (LPE) and notes on financial reports (CALK). According to Government Accounting Standards (2010), financial reports' characteristics are normative measures that need to be embodied in accounting information to fulfil its objectives. The following four characteristics are normative prerequisites needed so that government financial reports can meet the desired quality, namely:

1) Relevant

Financial statements can be relevant if the information contained in them can influence user decisions by helping them evaluate past or present events, predict the future, and confirm or correct the results of their evaluations in the past. Thus, relevant financial statement information can be linked to its intended use. Relevant information, according to SAP No.71 (2010), has at least the following criteria:

a) Having the benefit of information feedback allows users to confirm or correct their past expectations.
b) Has predictive benefits Information can help users to predict the future based on past results and current events.
c) Timely information is presented promptly to be influential and useful in decision-making.
d) Complete Government financial accounting information is presented as completely as possible, which includes all accounting information that can influence decision-making.

2) Reliable

The information in the financial statements is free from any misleading and material errors, presenting every fact accurately, honestly, and verifiable. Information may be relevant, but if the nature or presentation is unreliable, the information could be misleading. Information that reliably meets the characteristics.

3) Honest Presentation

The information faithfully describes transactions and events that should be presented or could reasonably be expected to be served.

4) Verifiable

The information presented in the financial statements can be tested, and if the tests are carried out more than once by different parties, the results still show conclusions that are not much different.

5) Neutrality

Information is directed to general needs and does not favour the needs of certain parties.

6) Comparable

The information in the financial statements will be more useful if it can be compared with the previous period's reports or other reporting entities' financial statements. Comparisons can be made internally and externally. Internal comparisons can be made if an entity applies the same accounting policies yearly. External comparisons can be made if the entities being compared apply the same accounting policies. If a government entity is going to apply accounting policies that are better than those currently applied, the changes are disclosed in the period in which the changes occur.

7) Understandable

The information presented in the financial statements can be understood by users and is stated in terms adjusted to the limits of user understanding. For this reason, users are assumed to have adequate knowledge of the activities and operating environment of reporting entity, as well as the willingness of users to study the information in question.

2.2. Empirical Study

Table 2.1 *Mapping* of Previous Research

No.	Researcher Name	Research Title	Research Methods & Variables Used	Research result
1.	Arfah (2020)	The Influence of the Effectivenes s of the Application	- linear regression simple - Variable x = SAP Implementation	variable the effectiveness of applying government accounting standards to the

		of Government Accounting Standards On the Quality of Financial Reports at the Sei Tuan District Office	Variable y = Quality of Financial Statements	quality of financial reports the government is a positive and significant influence on the quality of financial reports government at the Sei Tuan District Office
2.	Sako & Lantowa (2018)	Effect of Application of Government Accounting Standards Against Quality of Presentation of Financial Statements to the Government Gorontalo Regency	- Descriptive Quantitative Approach - dependent variable = quality of financial reports independent variable = SAP implementation	The research results show that the application of SAP has a positive effect on the quality of the presentation of financial statements in Regional Financial and Asset Management Revenue Service (DPPKAD) Gorontalo Regency. Results determination analysis shows that the dependent variable (quality of financial statements) is capable explained by the independent variable (SAP implementation).
3.	Afni (2021)	Effect of Standard Implementa tion	- Quantitative data analys - This research uses three	The results of this study indicate that the Effectiveness of the Application

		Effectivenes s Government Accounting, Work Experience And Work Motivation on Report Quality Regency Regional Government Finance Kuantan Singingi	independent variables, namely the Effectiveness of the Application of Government Accounting Standards (X1), Work Experience (X2), Work Motivation (X3), and Quality of Financial Statements (Y) as the dependent variable.	of Accounting Standards The government has a positive and significant effect on the quality of financial statements The local government of Kuantan Singingi Regency is 0.469, Work Experience positive and significant effect on the Quality of Government Financial Statements area of Kuantan Singingi Regency of 0.373, and Work Motivation has no effect significantly to the quality of the financial statements of the regional government of Kuantan Regency Singingi.
4.	Hendri &NR (2020)	The Influence of Human Resource Quality, Information System Implementa tion Regional Managemen t and Application of	- Causative research - The first independent variable is = the quality of human resources The second independent variable is = the implementation of regional management	The quality of human resources, regional implementation management information systems and the application of government accounting standards have a positive effect on the quality of

		Government Accounting Standards On the Quality of Regional Government Financial Reports (Empirical Study on OPD of West Sumatra Province)	information systems Independent variable that Third = application of government accounting standards Quality of financial reports government as the dependent variable	local government financial reports.
5.	Ramadan & Alpi (2019)	Effect of Application of Government Accounting Standards on Quality of Presentation Financial Report on Serdang Bedagai District Government	- Descriptive quantitative approach - Dependent variable = quality of financial statements independent variable = SAP implementation .	The results of the research show that the application of SAP has a positive effect on the quality of the presentation of financial statements at the agency Regional Financial and Asset Management Serdang Bedagai Regency.
6.	Karsana & Suaryana (2017)	The Influence of SAP Implementation Effectiveness, HR Competence, And SPI on the Quality of Government	- Quantitative Research - The independent variables are the effectiveness of implementing government accounting standards (X_1), human resource competence (X_2), and the internal control system (X_3).	Based on the results of the analysis, this research shows that the effectiveness of the application of government accounting standards, competency human resources and internal control systems

		Financial Reports Bangli Regency	The dependent variable is the quality of financial reports (Y)	have a positive effect on the quality financial statements
7.	Arza *et al.* (2021)	The Influence of Human Resources, Application of Standards Government Accounting And Accounting Information Systems Against the Quality of Financial Statements in the Government Padang Panjang City	- Descriptive analysis - The independent variables in this study are human resources, the application of Government Accounting Standards and accounting information systems and the quality of regional government financial reports in Padang Panjang City as the dependent variable.	The results of the study show that: (1) HR affects the quality Regional Financial Report but not significant. (2) Application of Government Accounting Standards affects on LKPD quality but not significant. (3) Accounting Information System has a significant effect on the quality of LKPD
8.	Ayu & Kusumawati (2020)	Effect of Application of Government Accounting Standards Accrual Based, Human Resources Competenc y And Internal Control of the Quality of Financial Statements	- Type of quantitative data - Three independent variables, namely: accrual-based government accounting standards (X1), human resource competence (X2) and internal control (X3). The dependent	The results showed that the application of accrual-based government accounting standards, human resources competence and internal control had a positive effect on the quality of local government financial reports in Gianyar Regency. It shows

		Gianyar Regency Government (Empirical Study on Regency Regional Apparatus Organizations Gianyar)	variable in this study is the quality of financial reports (Y).	that the higher the application of accrual-based government accounting standards, human resource competencies and internal control, the higher the quality of local government financial reports in Gianyar Regency.
9.	Ikyarti & Aprila (2019)	The Influence of Application of Government Accounting Standards, Implementation of Regional Management Information Systems, and Government Internal Control System Against Quality of District Government Financial Reports Seluma	- Quantitative Approach - The variables used in this study are government accounting standards, local management information systems, government internal control systems as independent variables, and the quality of local government financial reports as the dependent variable.	The results show the adoption of government accounting standards, implementation of regional management information systems and internal control systems has a positive effect on quality of financial reports in Seluma Regency
10.	Hartono & Ramdany (2020)	SAP Influence, Internal Control And	- A quantitative model of causality - Application of Government	Results research shows that SAP, the Effectiveness of Government

		HR Competence Against Quality of Financial Statements	Accounting Standards (SAP) (X_1), Effectiveness of the Government Internal Control System (SPIP) (X_2), Competence of Human Resources (HR) (X_3). Financial Report Quality (Y)	Internal Control Systems, HR partially and simultaneously have a significant effect on the quality of financial statements
11.	Putri & Periansyah (2019)	The Effect of Competence , SPI and SAP on Quality Pali District Government Financial Report	- Descriptive statistical analysis - HR Competence (X_1), SPI (X_2), SAP (X_3), and Quality of Government Financial Reports (Y)	The results of this study show that the Competencies of Human Resources do not affect the Quality of Financial Statements, SPI has a positive and significant effect on the Quality of Financial Statements and SAP have a positive and significant effect on the Quality of Financial Statements. Simultaneously the independent variables together influence the Quality of Financial Statements.
12.	Dewi & Dewi (2020)	The Influence of Human Resource Competence ,	- Quantitative research - HR Competence (X_1), SAKD (X_2), SPI (X_3),	The research results show that; (1) the competence of human resources

		Accounting System Regional Finance (SAKD) and Internal Control System Against Quality of Financial Statements	and Quality of Government Financial Reports (Y).	has a positive effect on the quality of the financial reports of the Bali provincial government; (2) the regional financial accounting system (SAKS) has a positive effect on the quality of the Bali Provincial government's financial reports; and (3) system internal control has a positive effect on the quality of the financial statements of the Bali provincial government
13.	Philadelphia *et al*., (2020)	Influence of Human Resource Competence , Government Accounting Standards, Good Governance , and Systems Internal Control of the Quality of Regional Government Financial Reports	- Quantitative Approach - HR Competence (X_1), SAP (X_2), Good Governance (X_3), SPI (X_4) and LKPD Quality (Y)	Research result shows that the variables of government accounting standards and good governance affect the variable quality of local government financial reports. Meanwhile, the variable competence of human resources and internal control systems does not affect the variable quality of local government financial reports.

14.	Wardani *et al*. (2018)	The Influence of Human Resource Quality, Utilization of Information Technology and Application of Accrual-Based Government Accounting Standards to Quality Batam Religious Court Financial Report	- Causal Research - HR Competence (X_1), Utilization of IT (X_2), Implementation of Accrual-Based SAP (X_3) and Quality of Financial Statements (Y)	The application of government accounting standards based on accruals has significant influence on the quality of the financial reports of the Batam religious court, meanwhile the quality of human resources and the use of information technology have no significant effect on the quality of the financial reports of the Batam religious court.

Source: 2017-2021

2.3. Conceptual Framework and Research Hypothesis

2.3.1. Conceptual Framework

To make it easier to understand the factors that influence the absorption of the budget, the authors develop the conceptual framework as follows:

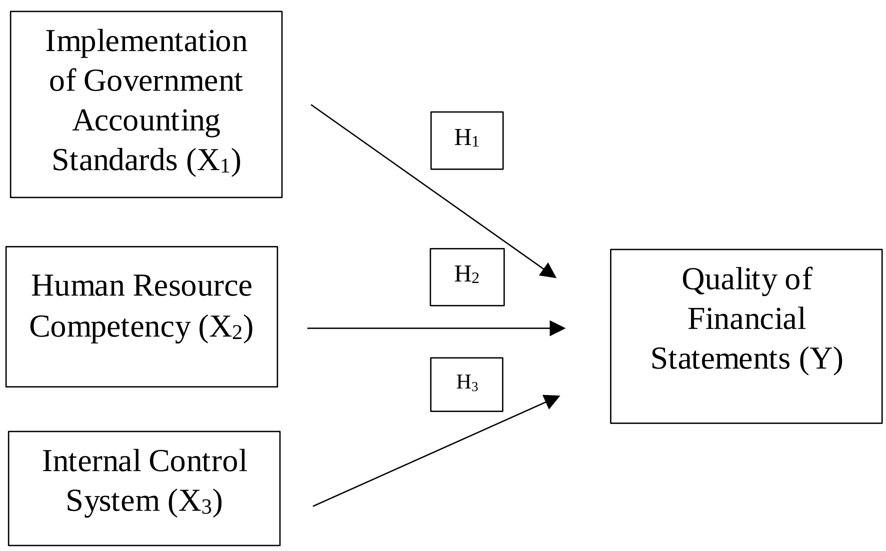

Figure 1. Conceptual Framework

2.3.2. Research Hypothesis

2.3.2.1. The Effect of Application of Government Accounting Standards on the Quality of Financial Statements

Application of Government Accounting Standards (SAP) must refer to PP 71/2010 concerning Government Accounting Standards. SAP is the accounting principle in preparing and presenting the government's financial reports. Therefore SAP is a requirement that has legal force and guidelines in preparing financial reports for the Central and Regional Governments.

The relationship between Government Accounting Standards and the quality of government financial reports is linear. It is stated in PP 71/2010 that Government Accounting Standards are the accounting principles applied in preparing and presenting government financial reports. Thus, Government Accounting Standards are required to improve the quality of government financial reports.

In financial reports, the government acts like a steward in the stewardship theory, obliged to provide useful information to the severe users of government financial information. With government accounting standards, it will be able to get quality financial reports to the principal's wishes (Ikyarti & Aprila, 2019).

Based on research by Arfah (2020), Sako & Lantowa (2018), Afni *et al.* (2020), Ramadhan & Alpi (2019), Karsana & Suaryana (2017), Ayu & Kusumawati (2020), Ikyarti & Aprila (2019), Hartono & Ramdany (2020), Putri & Periansyah (2019), Wardani *et al.,* (2018). The results of his research show that the effectiveness of applying government accounting standards to the quality of government financial reports has a positive and significant effect on the quality of financial reports.

H_1: Application of Government Accounting Standards (SAP) has a positive effect on the Quality of Financial Reports at the Regional Office of the Ministry of Law and Human Rights in West Kalimantan

2.3.2.2. The Effect of Human Resource Competence on the Quality of Financial Statements

In producing valuable information (reliability), it is influenced by two elements: the quality of the information produced and the resources that produce it (Wahyono, 2014). Human resources involved in producing financial information must have an adequate level of expertise and continuously maintain their level of expertise to maintain the quality of financial information.

Guided by agency theory, human assets must be competent to understand what is required to manage money-related explanations. Such as understanding the parts and capacities of money-related administration, carrying out tasks according to a legal bookkeeping capacity, and receiving preparation in bookkeeping.

Research conducted by Karsana and Suaryana (2017), Arza *et al.* (2021), and Hartono and Ramdany (2020), Dewi & Dewi (2020) The results show that HR has a significant effect on the quality of financial reports.

Whereas in Putri & Periansyah's research (2019), Philadelphia *et al.* (2020), and Wardani *et al.* (2018), the results of their research show that HR competence does not affect the quality of financial reports.

H_2: Human Resource Competence has a positive effect on the Quality of Financial Reports at the Regional Office of the Ministry of Law and Human Rights in West Kalimantan

2.3.2.3. The Effect of the Internal Control System on the Quality of Financial Statements

The Government's Internal Control System is linked to the Quality of Financial Statements. In order to produce Government financial reports, a process and stages that must be passed are required, which are regulated in the government's accounting system. The accounting system in it regulates the Internal Control System (SPI). The quality of financial reports is greatly influenced by the effectiveness of the Government's Internal Control System (Mahmudi, 2007; Ramdany, 2017).

The Internal Control System is based on the core agency theory used to analyze corporate governance. Corporate administration can be a concept denoting to advance of corporate operations by binding or binding together administration and ensuring administrative obligations to partners through rules. The SPI framework has an important influence on the quality of money-related announcements.

Research conducted by Karsana & Suaryana (2017), Ikyarti & Aprila (2019), Hartono and Ramdany (2020), Putri & Periansyah (2019), and Dewi & Dewi (2020) the results show that the internal control system has a positive effect on the quality of reports finance.

Whereas in the study of Philadelphia *et al.* (2020), the results of their research show that SPI does not affect the quality of financial reports.

H_3: The Internal Control System has a positive effect on the Quality of Financial Reports at the Regional Office of the Ministry of Law and Human Rights in West Kalimantan