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## QUALITY ANALYSIS OF LOCAL GOVERNMENT FINANCIAL REPORTS

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### KeyWords

Quality, LKPD, governance, disclosure, Financial Statements, Local,report, finance.

### ABSTRACT

The purpose of this study is to analyze the factors that influence the quality of local government financial reports in Indonesia. With data from 14 studies related to the disclosure of local government financial statements, the results of this study indicate the factors that influence the quality of local government financial reports in Indonesia, namely: regional accounting information systems, utilization of information technology, government web-based financial reports, human resources, control internal, education, training, work experience, government accounting standards, regional government accountability performance, regional financial management and the quality of regional apparatus with quantitative and qualitative research types.

### A. Background

Improving the quality of local government, community demands can be used as a reference in order to become a better government (good governance) so that local governments in preparing financial reports must be transparent and accountable. The parties who use these financial statements must access the financial reports that have been provided by the local government, therefore the information in it must be really useful for its users. (Hadi et al., 2018).

Local Government Financial Reports (LKPD) are intended to meet the general objectives of financial reporting, as well as to meet the specific needs of users. The quality of LKPD each year will receive an assessment in the form of an opinion from the Supreme Audit Agency (BPK). Opinion is a professional statement of the examiner regarding the fairness of the financial statements, where the opinion of the BPK is given based on the Regulation of the Supreme Audit Agency of the Republic of Indonesia Number 1 of 2007 concerning State Auditing Standards with the aim of providing an opinion/opinion on the fairness of the financial information presented in the financial statements of local governments by based on four criteria, namely: (1) the effectiveness of the internal control system (SPI), (2) compliance with laws and regulations, (3) adequacy of disclosure (disclosure), and (4) compliance with government accounting standards. There are four opinions given by the examiner, namely: an Unqualified Opinion (WTP), an Unqualified Opinion (WDP), an Unqualified Opinion (TW), and a Statement of Refusing to Give an Opinion or Not Giving an Opinion (TMP).

Local government financial reports as a form of accountability for APBD implementation must be prepared or produced from a reliable local government accounting system, which can be done manually or using computer applications. However, considering that there are still very few human resources who specialize in accounting, especially public sector financial accounting, it would be more appropriate to use a computer application system that is comprehensive and has been tested. This will minimize errors in the accounting process and improve the quality of the financial reports produced (Nur Apandi, 2010).

The phenomenon that occurred in the report on the results of the examination of the Supreme Audit Agency (BPK) throughout the first semester of 2016 for the 2015 reporting year, the Supreme Audit Agency (BPK) noted that there were still many regional government financial reports (LKPD) that had not obtained an unqualified opinion (WTP). In the 2015 LKPD, it was recorded that only 58 percent or 312 LKPD obtained a WTP opinion. Meanwhile, other LKPDs were recorded to have obtained other opinions, namely Fair with Exceptions (WDP) there were 187 LKPDs, No Expressing Opinions (TMP) 30, and Unfair (TW) four LKPDs. The Supreme Audit Agency also disclosed 10,198 findings containing 15,568 issues. As many as 51 percent of the problems are non-compliance with statutory provisions. (Pujanira & Taman, 2017).

The quality of good local government reports (good governance) is not only determined by accountability, transparency, community participation and the rule of law. However, the quality of good governance depends on other factors such as responsiveness, effectiveness of consensus-based equity, efficiency and strategic vision. This is in line with the characteristics of good governance of UNDP and the World Bank (Ginting, 2011). Due to the many factors that affect the quality of local government reporting, the quality of local government reporting results in different qualities at the national and regional/city levels. The quality of local government reports is seen in the BPK RI Examination Result Data, where in 2018 out of 34 provincial governments, 33 LKPD (97%) received WTP opinions and 1 LKPD (3%) received WDP opinions. Of the 415 district governments, as many as 298 LKPD (72%) received WTP opinion and 99 LKPD (24%) with WDP opinion. Meanwhile, from 93 city governments, as many as 80 LKPD (86%) obtained WTP opinion and 13 LKPD (14%) with WDP opinion (BPK RI) in the study.

Based on the description of the background, the formulation of the problem in this paper is what are the factors that affect the quality of local government financial reporting?

## **B. Literature Review**

### **Factors Affecting the Quality of Disclosure of Local Government Financial Statements**

Bad finance, the phenomenon of local government in Indonesia is being widely discussed. This is indicated by the government's financial reports that there are still many regions that do not provide information in accordance with applicable regulations and there are still many irregularities found in the financial statements by the Supreme Audit Agency (BPK-RI) in its examination. Research from (Fachri & Mediaty, 2019) with the title Analysis Using Regional Financial Accounting Information Systems on the Quality of Local Government Financial Reports with the aim of analyzing the use of regional financial accounting information systems on the quality of local government financial reports with qualitative research methods with a theoretical study approach, namely the method used to collect data or resources related to the topic in a study and the results of this study indicate that the use of regional financial information systems has a positive effect on the quality of disclosure of local government financial statements. Government financial reports are an important component in realizing financial management accountability to the public. The increasing demands on the implementation of public accountability have implications for management in government agencies to provide information to the public, one of which is information in financial reports. Research from (Pradana & Setiawati, 2018) The financial reports produced by local governments will be used by several interested parties as a basis for decision making. Therefore, the information contained in the Regional Government Financial Report (LKPD) must be

useful and in accordance with the needs of the users. Huang et al in (xu et al., 2003) states that information will be useful if the information can support decision making and can be understood by users. Therefore, local governments are required to pay attention to the information presented in financial reports for planning, controlling, and decision-making purposes. Research from (Noble, 2019) The data analysis technique used in this study is descriptive and quantitative analysis with the results of the study that there is a positive and significant influence between HR Competence on the Quality of the Financial Reports of the West Pasaman Regency Government and there is a positive and significant influence between the Inter Control System and the Regional Government Financial Reports. West Pasaman. Along with the development of Public Sector Accounting in Indonesia, the need for accountability as a form of accountability to the public for government performance has become a common demand. The strengthening of these demands requires government agencies to provide information on their activities and performance to the public. Research from Along with the development of Public Sector Accounting in Indonesia, the need for accountability as a form of accountability to the public for government performance has become a common demand. The strengthening of these demands requires government agencies to provide information on their activities and performance to the public. Research from Along with the development of Public Sector Accounting in Indonesia, the need for accountability as a form of accountability to the public for government performance has become a common demand. The strengthening of these demands requires government agencies to provide information on their activities and performance to the public. Research from (Budiono et al., 2018) aims to determine the effect of education and training, work experience and the use of information technology on the quality of regional financial reports, the data analysis technique uses multiple linear regression analysis and the results show that education and training have no significant effect on the quality of regional financial reports, work experience has no significant effect on the quality of regional financial reports. Meanwhile, the use of information technology has a positive and significant effect on the quality of regional financial reports. In compiling government financial reports, the internal control system has a role in it where this internal control system acts as a controller and supervisor for the preparation of financial statements so that they can be reported and compiled correctly, on time, on target, and in accordance with the standards in order to obtain a good audit opinion, thus that the internal control system is suspected of having an effect on the quality of financial reports. Research from (Indrayani & Widiastuti, 2020), aims to determine the effect of the Regional Financial Accounting System and Internal Control System on the Quality of Local Government Financial Reports with Human Resource Competence as a Moderating variable. The analytical method of this research uses Moderated Regression Analysis (MRA) with the results of the study that the Regional Financial Accounting System variable does not affect The Quality of Local Government Financial Reports, Internal Control System has a positive effect on the Quality of Local Government Financial Reports, Human Resource Competence has a positive effect in moderating the Regional Financial Accounting System and the Internal Control System on the Quality of Local Government Financial Reports. Regional financial management is required to be orderly, transparent, and accountable in order to realize a clean government. One of the efforts to realize a clean government, local governments are required to compile Local Government Financial Reports. The financial reports are at least in the form of Budget Realization Reports, Balance Sheets, Cash Flow Statements and Notes to Financial Statements, quality financial reports can provide benefits in an effort to take a government policy in the future. Quality financial reports can be seen from the opinion of the Supreme Audit Agency. There is a strata of assessment of financial statements from the results of the audit conducted by the Supreme Audit Agency. The results of the audit in the form of an opinion from the Supreme Audit Agency which is the highest stratum are Unqualified (WTP) then next are Fair with Exceptions (WDP), Unfair (TW), and Disclaimer of Opinions (TMP). In addition to opinions from the Supreme Audit Agency, the quality of financial statements can also be seen if they have been prepared in accordance with Government Accounting Standards (SAP), compiled through the local government accounting system, financial information has no deviations from laws and regulations, and is presented in a timely manner in accordance with legislation. Research from (Pujanira & Taman, 2017) The implementation of Law Number 22 of 1999 concerning Regional Government is a pillar of change in the administration of government in Indonesia, which previously adhered to a centralized system and then turned into decentralization which brought consequences to the demands of Good Government Governance. The development of Information and Communication Technology (ICT) encourages the practical application of Good Governance to develop in electronic government (e-Government) which provides electronic services and information aimed at increasing accountability and transparency. Research from The development of Information and Communication Technology (ICT) encourages the practical application of Good Governance to develop in electronic government (e-Government) which provides electronic services and information aimed at increasing accountability and transparency. Research from The development of Information and Communication Technology (ICT) encourages the practical

application of Good Governance to develop in electronic government (e-Government) which provides electronic services and information aimed at increasing accountability and transparency. Research from (Hadi et al., 2018) The impetus for decentralization that occurs in various countries in the world is the most important that occurs in developing countries, which is related to several factors, for example the background or experience of the country, its role in global globalization, setbacks in economic development, climate change and climate change. Signs of disintegration exist in some countries, and many are brought to life by centralized governments in providing effective community service. Bird and Vaillancourt (2000). Research from and many are brought to life by centralized governments in providing effective community service. Bird and Vaillancourt (2000). Research from and many are brought to life by centralized governments in providing effective community service. Bird and Vaillancourt (2000). Research from (Nurmuthmainnah et al., 2020) This research method uses a quantitative approach with the results showing a low level of voluntary graphic disclosure in Indonesian LKPDin. The average voluntary graphic disclosure rate was 44.88%, indicating a lack of use of voluntary graphic disclosure. The results also show that only performance has an insignificant effect on the level of voluntary graphic disclosure. Good governance is a form of success in carrying out the task of developing the country in accordance with the planned objectives. Research from The results also show that only performance has an insignificant effect on the level of voluntary graphic disclosure. Good governance is a form of success in carrying out the task of developing the country in accordance with the planned objectives. Research from The results also show that only performance has an insignificant effect on the level of voluntary graphic disclosure. Good governance is a form of success in carrying out the task of developing the country in accordance with the planned objectives. Research from (Defitri, 2018) with the title The Effect of Regional Financial Management and Regional Financial Accounting Systems on the Quality of Regional Government Financial Reports which aims to examine the effect of regional financial management and regional financial accounting systems on the quality of regional government financial reports. There is a positive relationship but no significant effect on the quality of regional financial reports, while the regional financial accounting system has a significant effect on the quality of local government financial reports. This shows that the better the regional financial accounting system, the more financial reports produced will also increase. Study (Son, 2017) with the title Analysis of Factors Affecting the Quality of Local Government Financial Reports, which aims to analyze the factors that influence the quality of local government financial reports, using a quantitative approach with research results showing that simultaneously the application of government accounting standards, internal control systems, and The quality of human resources affects the quality of local government financial reports. Partially, the application of government accounting standards, internal control systems, and the quality of human resources, each affect the quality of local government financial reports. Study (Pravasanti & Ningsih, 2019) Bob Mustafa's research (2019) aims to determine and analyze the effect of the auditor's understanding of accounting standards and internal control systems on the quality of government financial reports through the financial report review process, this research method is a quantitative approach with research results that there is a direct significant influence on the definition of standards. Government Accounting and Understanding the Internal Control System for the Financial Statements Review Process. Study This research method is a quantitative approach with research results that directly there is a significant influence from the definition of government accounting standards and the understanding of the internal control system on the process of reviewing financial statements. Study This research method is a quantitative approach with research results that directly there is a significant influence from the definition of government accounting standards and the understanding of the internal control system on the process of reviewing financial statements. Study (Al Asyari & Helmy, 2020) with the title Analysis of the Quality of Disclosure of Financial Statements in Local Government Websites aims to determine the extent to which the quality of local government websites, the method uses a quantitative approach with research results showing the quality of local government websites in districts / cities in Bengkulu is still low, the low factor causing local government websites is information that limited on the website, especially financial information and the lack of evaluations carried out by the government and steps that can be taken in order to overcome these obstacles, namely routine human resource training in managing local government websites, evaluating website development, and applying sanctions on local government websites which is not up to standard. Study (Marian & Utami, 2019) entitled The Effects of Local Government Size, Income per Capita, Local Government Wealth and Audit Opinion on the Quality of Internet Financial Reporting Disclosure: Studies in Indonesia, this research method uses a quantitative approach with the results showing that the size of local government has a significant influence on the quality of internet financial information disclosure in local governments, while per capita income, local wealth and audit opinions do not affect the quality of internet financial information disclosure in local governments.

## Conclusion

local governments must be more consistent in increasing the publication of LKPD and other financial information, so that they can show good performance and prove that the principles of transparency and accountability have been implemented and the central government imposes sanctions/fines on local governments that do not publish LKPD, so that local governments can be more consistent in publishing LKPD on local government websites. According to the author, it is better to consider several other variables that may affect the quality of disclosure of local government financial statements.

The quality of local government financial reports is a qualitative characteristic as a result of the accounting process in which accountability and transparency influence each other. The higher the quality of government financial reports, the better the accountability and transparency of local government financial reports and vice versa. data from 14 studies related to the disclosure of local government financial statements with the results of this study showing the factors that affect the quality of local government financial reports in Indonesia, namely: regional accounting information systems, utilization of information technology, government web-based financial reports, human resources, internal control , education, training, work experience, government accounting standards, local government accountability performance, regional financial management and the quality of regional apparatus with quantitative and qualitative research types. The most studied factor is the regional accounting information system 4 times and the use of information technology 3 times with the type of research that is widely used is quantitative research.

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