Subject Category: Business Management

Factors Affecting Financial Reporting Quality (Study on the Provincial Government of Dki Jakarta)

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Abstract

The purpose of this research is to obtain empirical evidence and examine the influence of organizational culture, transparency and weaknesses of the internal control system on the quality of financial reporting on Local Government Units in Capital Province of Jakarta. This research was conducted using quantitative survey methods with causality research design. The data used as research sourced from questionnaires. The population in this study is the Local Government Units in Capital Province of Jakarta. The sampling technique used was purposive sampling. Questionnaires were distributed to 36 local government units. Each Unit is given 2 (two) questionnaires for the financial department. Analysis and processing of data using the help of the statistical computer program SmartPLS v.3.2.8. The results obtained from the test show: (1) organizational culture significantly influence financial reporting quality, (2) transparency do not significantly influence financial reporting quality, (3) internal control system weakness significantly influence financial reporting quality.
Keywords: Organizational Culture, Transparency, Weaknesses of the Internal Control System, Quality of Financial Reporting.

INTRODUCTION

As a form of accountability for the implementation of the Regional Income and Expenditure Budget (RIEB), the Regional Head submits a draft Regional Regulation on accountability for implementing the RIEB to the Regional House of Representatives (DPRD) in the form of financial reports that have been audited by the Audit Board of the Republic of Indonesia (ABRI) no later than 6 (six) months after the fiscal year end up. The financial statements in question include the realization of RIEB, balance sheet, cash flow statement, and notes to the financial statements attached with the financial statements of regionally-owned enterprises. The financial statements are prepared and presented in accordance with government accounting standards established by Government Regulations.

In realizing accountable and transparent financial statements, Government Regulation Number 24 of 2005 concerning Government Accounting Standards which amended to Government Regulation Number 71 of 2010 concerning Accrual-based Government Accounting Standards. With the Government Accounting Standards, it is expected that each region will provide financial information that can be used for decision making. The central and regional governments must implement accrual-based Government Accounting Standards.

The ABRI, a state institution that is independent and free and has the authority to examine the management and responsibilities of state finances. Based on Law Number 15 of 2006 concerning the ABRI, the scope of ABRI audit includes the central government, regional governments, Bank Indonesia, other state institutions, BUMN, Public Service Board, BUMD, and all other institutions that manage state finances. Examinations conducted by ABRI include audits of performance, finance, and audits for specific purposes.

From the Summary Results of Semester II Examinations in 2017, the ABRI has reported 542 examination results on the Regional Government Financial Statements (hereinafter abbreviated RGFS) in

2016. The ABRI states that all local governments have applied accrual-based accounting. The ABRI gave Unqualified Opinion (UO) on 378 (70%) RGFS, Qualified Opinion (QO) on 141 (26%) RGFS, and Disclaimer Opinion (DO) on 23 (4%) RGFS.

Table-1: List of SAB Opinions in Java from 2012 - 2017

List of Provinces in Java	2012	2013	2014	2015	2016	2017
DKI Jakarta Province	UO	QO	QO	QO	QO	UO
West Java Province	UO	UO	UO	UO	UO	UO
Central Java Province	UO	UO	UO	UO	UO	UO
D.I. Yogyakarta Province	UO	UO	UO	UO	UO	UO
East Java Province	UO	UO	QO	UO	UO	UO
Banten Province	QO	DO	DO	QO	UO	UO

Source: IHPS I BPK RI, 2018

The Provincial Government of DKI Jakarta received QO opinion from BPK for 4 (four) years in a row. According to the 2018 Semester Examination Results (IHPS) I, the ABRI found significant problems in the management and financial accountability of the DKI Jakarta Provincial Government which included: (1) Non-compliance with the provisions of the Laws and Regulations on Revenue Management. (2) Inflating prices of procurement activities. (3) Weaknesses in the system of controlling the implementation of the revenue and expenditure budget.

From the explanation above, it can be seen that the quality of the DKI Jakarta Provincial Government's financial statements reflected in the opinion given by the ABRI and its findings from the results of the examination. Based on the results of the audit from ABRI, it can be concluded that the financial statement information has not been presented transparently. Then the still weak internal control in the Provincial Government of DKI Jakarta, so that the delegation of tasks becomes unstructured and cause mistakes in decision making.

The ABRI gave QO with the exception of the DKI Jakarta Provincial Government's Financial Statements for four consecutive years from 2013-2016, giving rise to an indication that for the next 3 (three) years the DKI Jakarta Provincial Government has not made improvements on the findings of the ABRI.

DKI Jakarta Province as the national capital is expected to be a benchmark for other regions. This is because DKI Jakarta Province has a role as a business center. DKI Jakarta also plays a role as a national economic driver because it provides the largest contribution to Gross Domestic Product compared to other provinces.

LITERATURE REVIEW
Organizational Culture
Waldo in Sembiring [1] states that organization is a structure between personal relationships based on formal authority and habits in an administrative system. Robbins in Yadiati [2] explains that organizational culture is a system of shared meanings shared by members of an organization that distinguishes the organization from other organizations.

Hofstede, *et al*. [3] research aims to detect structural elements of culture and especially those that most strongly influence work situations in organizations or institutions. From his research created the results those elements of organizational culture that is the distance of strength, collectivism, masculinity, uncertainty avoidance, and discipline.

Then Gray [4] tried to examine the influence of culture previously studied by Hofstede on the development of accounting systems internationally. The results of his study identified the most important value dimensions at the level of the accounting subculture: uncertainty avoidance and individualism. Power distance and masculinity are significant only to a certain extent. But apparently, masculinity is less important in the accounting value system.

Based on the results of Gray's research, Sudarwan and Fogarty re-examined the research objects in Indonesia. Sudarwan and Fogarty [5] examined the accounting values that Gray had identified as being related to the cultural dimension studied by Hofstede. The results of his research found that the distance of power shows a positive relationship with conservatism and uniformity. Then there is a positive relationship between the uncertainty of avoidance of professionalism, conservatism, confidentiality and uniformity. There is a positive relationship between individualism and professionalism and conservatism while uniformity and confidentiality indicate a negative relationship. There is no relationship between masculinity and accounting values.

Then in research Chariri [6] related to Javanese culture in organizations states that organizational culture plays an important role in shaping the behavior of organizational members. Javanese culture has a complex code of ethics and respect, reflected in Javanese. The maintenance of peace and inner harmony is a priority in social relations in Javanese culture. Quality financial reporting is strongly influenced by the organizational culture of a company. Organizational culture that is built determines whether or not the company complies with laws and regulations.

Transparency
According to Law Number 14 of 2008, transparency is openness in carrying out the decision making process and openness in presenting material and relevant information about the company. In line with this, Government Regulation No. 71 of 2010 states that transparency, namely providing open and honest

financial information to the community based on the consideration that the public has the right to openly and comprehensively acknowledge the government's responsibility in managing the resources entrusted to it and its compliance with regulations.

Then transparency is something that is mandatory and very necessary in every institution that has an interest in many people. This is a form of supervision of each of the actions of these institutions. According to Bennis, *et al.* [7] transparency means no guile or cover-up; open; honest; frankly.

According to Kaufmann and Weber [8] transparency is understood as a principle that is closely related to governance. Transparency plays a key role in rebuilding confidence in financial system stability. In line with that, according to Kristiansen, *et al.* [9] states that transparency can be defined as a legal, political, and institutional structure that makes information about the internal characteristics of government and society available to actors both inside and outside the domestic political system.

According to Williams [6], there are 4 (four) indicators related to disclosure, namely identification of the target audience, data relevance, encoding of information, distribution of information. Then according to McGaughey [10] there are 2 indicators relating to the clarity of information that is information can be identified, and the information can be understood by the recipient. According to Bushman, *et al.* [11] there are 3 (three) indicators included in the dimension of accuracy, namely the intensity of the acquisition of personal information, completeness of information, and validation of information.

Weaknesses of Internal Control System

According to Kieso, *et al.* [12] internal control is a process designed to provide reasonable guarantees regarding the achievement of objectives related to operations, reporting, and compliance. Accordingly, according to Arens, *et al.* [13] the internal control system consists of policies and procedures designed to provide management with reasonable confidence that the company is achieving its goals and objectives.

Based on Government Regulation Number 60 Year 2008, the Internal Control System is an integral process in actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, financial reporting reliability, security of assets the state, and obedience to laws and regulations.

In Government Regulation Number 60 Year 2008 dimensions have been identified in the internal control system adopted from the Committee of Sponsoring Organizations of the Treadway Commission (COSO), namely the control environment, risk assessment, control activities, information and communication, and monitoring.

The weakness of the internal control system is interpreted as the weak dimensions caused by the construct. A weak control system means a weak control environment, risk assessment, control activities, information and communication, and monitoring.

Setiyawati [14] conducted a study to examine the effect of accountants' internal competence, manager's commitment to the organization and the implementation of internal control systems on the quality of financial statements. The results of his research indicate that the implementation of the Internal Control System does not affect the quality of financial reporting.

Nengzih [15] conducted a study to examine the relationship of corporate governance, internal control and voluntary disclosure and its impact on the performance of the hospital industry in Indonesia. Based on the results of his research In general, government hospitals, teaching hospitals and general hospitals are above average in implementing good corporate governance and internal control.

Financial Reporting Quality

The quality of financial statements can be interpreted as the quality of accounting. Van Beest, *et al.* in Yadiati [2] defines the quality of financial statements as a broad concept, not only referring to financial information, but also disclosure, as well as non-financial information that are useful for decision making.

Chalaki, *et al.* in Yadiati [2] define the quality of financial reporting as an accuracy with which financial reporting conveys information about company operations, specifically expected cash flows, to investors.
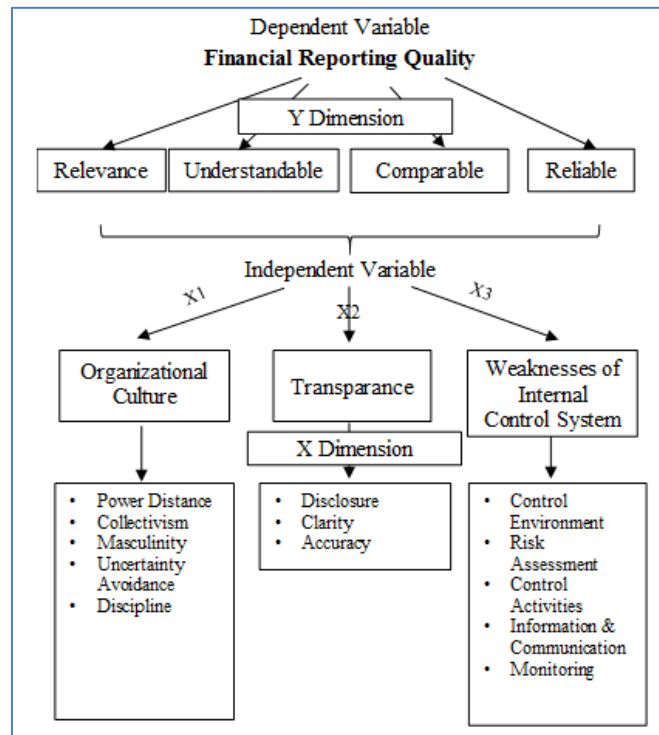
Fig-1: Framework

In achieving a quality financial report, within the scope of government prepared by the Government Accounting System that refers to Government Accounting Standards (GAS).

Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards, the dimensions of financial reporting quality are relevant, reliable, comparable, and understandable.

RESEARCH METHOD
Type of Research
This type of research is a quantitative method with a causality research design. The research data are primary data obtained by distributing questionnaires.

Population and Sample
The population in this study were all Regional Work Units (SKPD) in the DKI Jakarta Provincial Government, totaling 81 (eighty one) consisting of the Office, Agency, Secretariat, and Inspectorate. This research uses purposive sampling technique.

Keterangan	Jumlah
SKPD population in DKI Jakarta Province	81
Sample Criteria:	
- Excludes District SKPD	(45)
Research sample	36

Fig-2: Basis of Sampling

This study selects respondents who in this case are directly related or responsible in making financial reports, and are very understanding of the accounting contained in each Regional Work Unit (SKPD). Each Regional Work Unit (SKPD) was chosen by 2 (two) people to become respondents, so the total respondents taken were 36 SKPD x 2 people = 72 people.

Developing Hypothesis
The purpose of this study is to prove that organizational culture, transparency has a positive effect on the quality of LKPD, while the weakness of internal control negatively affects the quality of LKPD in the Provincial Government of DKI Jakarta. The following is the formulation of a hypothesis that will be verified:

H1: Organizational culture has a positive effect on the quality of RGFS

H2: Transparency has a positive effect on the quality of RGFS

H3: Weaknesses of internal control negatively affect the quality of RGFS

Validity and Reliability Test
Validity test is seen in the convergence validity, namely the loading factor value which explains the relationship of the indicator with latent variables. Expected value > 0,7, but for the first study loading values above 0,5 are still considered valid [16].

Then to test the reliability of the research measuring instrument, it is necessary to test the reliability of the construct by measuring the composite reliability and Cronbach's alpha of each indicator that measures the construct.

Hypothesis test

In this study, hypothesis testing was taken on the basis of the statistical value on the SmartPLS output results, after which it was compared with the t_{table} at a significance level of 5%. If the value of t_{count} is greater than the value of the t_{table} then the hypothesis is accepted, but if the value of t_{count} is smaller than the value of the t_{table} then the hypothesis is rejected.

RESULT
Descriptive Statistical Analysis

Tabel-2: Descriptive Analysis

Variabel	Mean	Dimension	Mean	Indicator	Score
1. Organizational Culture	4,20	1. Power Distance	4,21	1. Conformity	4,38
				2. Dependency	4,40
				3. Perspective	3,85
		2. Collectivism	4,31	1. Priority of interest	4,13
				2. Decision Considerations	4,43
				3. Purpose	4,39
		3. Masculinity	4,30	1. Management Role	4,22
				2. Solution to problem	4,38
		4. Uncertainty Avoidance	4,12	1. Reason and Insight	4,15
				2. Tolerance	4,08
		5. Discipline	4,08	1. Dicipline Priority	4,00
				2. Obedience	4,26
				3. Application	3,99
2. Transparansi	4,02	1. Disclosure	4,01	1. Identification	3,99
				2. Information Relevance	3,89
				3. Information Publication	4,13
				4. Pemerataan Informasi	4,04
		2. Clarity	4,00	1. Purpose and Objectives of	4,07
				2. Comprehension	3,93
		3. Accuracy	4,05	1. Target	4,06
				2. Testing	4,08
				3. Completeness	4,00
3. Kelemahan Sistem Pengendalian Internal	2,07	1. Control Environment	2,11	1. Integrity	1,76
				2. Basic Decision	1,79
				3. Competence	2,40
				4. Structure	1,94
				5. Delegation of Authority	2,44
				6. Suitability of the actual situ	1,75
				7. Suitability of the regulation	2,10
				8. Penalty	2,68
		2. Risk Assessment	2,13	1. Risk Identification	2,01
				2. Identification of Risk Effec	2,24
		3. Control Activities	1,98	1. Scope of Activities	1,90
				2. Assessment	2,24
				3. Procedure Policy	1,81
		4. Information and Communication	1,97	1. Application of ethical value	2,31
				2. Facilities and infrastructure	1,82
				3. Data Relevance	1,83
				4. Management and Develop	1,90
		5. Monitoring	2,16	1. Supervision	2,49
				2. Procedure	2,47
				3. Conformity of Evidence	1,68
				4. Evaluation	2,14
				5. Irrelevance	2,04
4. Kualitas Pelaporan Keuangan	4,13	1. Relevance	4,15	1. Standard Conformity	4,14
				2. On Time	4,19
				3. Statement	4,11
		2. Reliable	4,06	1. Transaction Reliability	4,10
				2. Materiality	3,97
				3. Purpose	3,97
				4. Testing	4,19
		3. Comparable	4,18	1. Previous Period	4,29
				2. Other Region	4,07
		4. Understandable	4,13	1. Classification	4,19
				2. Clear and concise	4,07

Table 2 presents the results of processing scores on the questionnaires that have been collected. Scores are shown on each indicator and the mean produced on each dimension and variable.

Validity Test

Tabel-3: Validity Test Results

Construct	Dimension	Indicator	Loading Factor	Description
Organizational Culture	1. Power Distance	- Perspective	1,000	Valid
	2. Collectivism	- Priority of Interest	1,000	Valid
	3. Masculinity	- Management Role	0,724	Valid
		- Solution to Problem	0,638	Valid
	4. Uncertainty Avoidance	- Reason and Insight	0,812	Valid
		- Tolerance	0,624	Valid
	5. Dicipline	- Dicipline Priority	0,792	Valid
		- Obedience	0,705	Valid
		- Application	0,622	Valid
Transparency	1. Disclosure	- Information Relevance	0,840	Valid
		- Information Publication	0,844	Valid
	2. Clarity	- Purpose and Objectives of Information	1,000	Valid
	3. Accuracy	- Testing	0,884	Valid
		- Completeness	0,835	Valid
Weaknesses in the Internal Control System	1. Control Environment	- Integrity	0,801	Valid
		- Basic Decision	0,794	Valid
		- Competence	0,528	Valid
		- Delegation of Authority	0,555	Valid
		- Suitability of the actual situation	0,792	Valid
	2. Risk Assessment	- Identification of Risk Effects	1,000	Valid
	3. Control Activities	- Scope of Activities	0,834	Valid
		- Procedure Policy	0,867	Valid
	4. Information and Communication	- Facilities and infrastructure	0,824	Valid
		- Data Relevance	0,805	Valid
	5. Monitoring	- Supervision	0,707	Valid
		- Procedure	0,685	Valid
		- Conformity of Evidence	0,736	Valid
Financial Reporting Quality	1. Relevance	- Standard Conformity	0,788	Valid
		- On Time	0,530	Valid
		- Statement	0,732	Valid
	2. Reliable	- Transaction Reliability	0,677	Valid
		- Materiality	0,685	Valid
		- Purpose	0,597	Valid
		- Testing	0,752	Valid
	3. Comparable	- Previous Period	0,901	Valid
		- Other Region	0,686	Valid
	4. Understandable	- Classification	0,891	Valid
		- Clear and concise	0,842	Valid

The convergent value of validity on the variables of organizational culture, transparency, weaknesses of the internal control system and the quality of financial reporting are adequate in the valid category. This can be seen in the loading factor column above, convergent validity for loading factor in the second order is sufficient at the indicator value above 0.5. This means that all loading factors are significant at the 0.5 level.

Reliability Test

Table-4: Reliability Test Results

Construct	Composite Reliability	Cronbach's Alpha
Organizational Culture	0,720	0,626
Transparency	0,725	0,643
Weaknesses of Internal Control System	0,831	0,804
Financial Reporting Quality	0,861	0,820

Based on the reliability test results table, for composite reliability above 0.7 and Cronbach's alpha above 0.6 indicates that the reliability is good enough to be able to measure the construct.

Goodness Fit Test

Tests conducted on the model goodness fit test can be seen in the R-square value and Q-square value, namely the prediction relevance test.

Tests conducted on the structural model can be seen in the R-square value, namely the goodness fit model and the Q-square value.

Table-5: Goodness Fit Test Results

Variable	R-Square	Q-Square
Financial Reporting Quality	0,645	0,211

This explains that the construct variable of financial reporting quality of 64.5% is influenced by the construct of organizational culture, transparency, and weaknesses of the internal control system. Then the remaining 35.5% is influenced by other variables outside this research.

Meanwhile the predictive value of relevance (Q-square) in the structural model is 0.211, meaning that this model is able to explain the variable quality of financial reporting.

HYPOTHESIS TEST

Hypothesis testing is taken on the basis of the $t_{statistic}$ value on the SmartPLS output results, after which it is compared with the t_{table} at a significance level of 5%. If the value of t_{count} is greater than the value of the t_{table} then the hypothesis is accepted, but if the value of t_{count} is smaller than the value of the t_{table} then the hypothesis is rejected.

Tabel-6: Hypothesis Test Results

Variable	Original Sample (O)	Sample Mean (M)	Standar Deviation (STDEV)	Tstatistic	P Values
OC → FRQ	0,235	0,209	0,127	1,848	0,033
TRSP → FRQ	0,062	0,096	0,117	0,534	0,297
WICS → FRQ	-0,648	-0,624	0,154	4,196	0,000

The coefficient parameter of organizational culture is 0,235. This indicates that there is a positive influence of organizational culture on the quality of financial reporting. This means that every 1 (one) increase in organizational culture, the quality of financial reporting will increase by 0.235.

The tstatistic value of organizational culture is 1,848 and Pvalues is 0,033 with a significance level of 5% (1,660), so it can be concluded that organizational culture has a significant effect on the quality of financial reporting.

The transparency parameter coefficient is 0,062. The transparency tstatistic value is 0,534 and the Pvalues value is 0,297 with a significance level of 5% (1,660), so that the conclusion is rejected hypothesis. This means that transparency does not significantly influence the quality of financial reporting.

The coefficient parameter of the weakness of the internal control system is -0,648. This indicates that there is a negative influence on the weakness of the internal control system on the quality of financial reporting. This means that every 1 (one) increase in the weakness of the internal control system, the quality of financial reporting decreases by 0,648.

The tstatistic value of the weakness of the internal control system is 4,196 and the value of Pvalues is 0.000 with a significance level of 5% (1,660), so it can be concluded that the weakness of the internal control system has a significant effect on the quality of financial reporting.

DISCUSSION
Organizational Culture

Based on the results of research conducted, organizational culture has a positive and significant effect on the quality of financial reporting. This proves that organizational culture will shape the values of beliefs and behavior with members of the organization. These values and behavior then influence all company activities including activities in shaping financial reporting.

If seen in table 2: Descriptive Analysis, perspective indicators on the dimensions of strength distance and indicators of application to the dimensions of discipline show a score below 4. This indicates that the perspective of the strength of the power distance between subordinates and superiors. Then the application of discipline still has doubts that the application of discipline has not been fully implemented optimally.

In line with Hofstede's [3] research, if the distance of strength is high, superiors and subordinates consider each other as existentially unequal. The hierarchical system is based on existential inequality. The relationship between subordinates and superiors in organizations with high power distance, often laden with emotion because it does not create the ideal perspective of superiors for subordinates. Superiors are entitled to privileges, and contact between superiors and subordinates can only be done by superiors. Then with the creation of these conditions, then ideologically subordinates will completely reject the authority of the boss so that it affects the discipline of his subordinates.

The results of this study support the research of Sudarwan and Fogarty [5] that the dimensions of power distance, uncertainty avoidance, and individualism studied in organizational culture have a positive effect on accounting values. But for the dimension of masculinity there is no influence on accounting values. Research Hesampanah, *et al.* [17] who examined the ethical perspective of financial management found positive results on financial reporting.

Transparency

Based on the results of research conducted, transparency does not affect the quality of financial reporting. Significance that occurs is due to the fact that there is still some information that has not been published, and then the information that has been presented is also inadequate and right on target. In this case, local governments have not yet realized the importance of transparency in improving the quality of financial reporting. The obligation of regional governments to present financial reports transparently has not yet been fully implemented. Other than that, the opinion of the Supreme Audit Board does not aim to state whether or not a financial statement is true, but only to state whether or not a financial statement is reasonable. So as to create the view that whether or not transparent financial statements do not affect its quality.

In line with the results of research on transparency, this may be due to the influence of the high power distance created between superiors and subordinates and causes the low application of discipline that can affect rejection of superior authority.

When seen in table 2: Descriptive Analysis, indicators of identification and relevance of information on the dimensions of disclosure as well as indicators of understanding on the clarity dimension show results below 4. This indicates that employees do not understand the identification and relevance of information to be published, which may be due to limitations the quality of its human resources.

The results of this study are in line with research by Kristiansen, Dwiyanto, Pramusinto and Putranto [9] that the level of transparency is still low due to some information that is not available to the public, as well as the assumption that the regional budget is still confidential. But not in line with research Hunton, Libby, and Mazza [18] states that transparency affects earnings management. The higher transparency will further reduce earnings management.

Weaknesses of Internal Control System

Based on the results of research conducted, the weakness of the internal control system has a negative and significant effect on the quality of financial reporting. This proves that weaknesses in control procedures can create a high risk of fraud and raise doubts about financial data, both in terms of recording, the existence of a transaction, and the identification of the risk of misstatement. In other words, the weak internal control in an organization will reduce the quality of financial reporting.

Improvements to the internal control system in local governments continue to be made. Periodic evaluations of the internal control system continue to be conducted to minimize the weaknesses in the internal control system. This can be seen in the results of the ABRI report the following year that the DKI Jakarta Provincial Government Financial Report received UO opinion.

The results of this study are in line with Kewo research [19] that the application of internal control affects financial accountability. But not in line with the research Setiyawati [14] states that there is no relationship between the implementation of the internal control system and the quality of financial reporting.

CONCLUSION, LIMITATION AND PRACTICAL CONTRIBUTION

Organizational culture plays a role in improving the quality of financial reporting. This can be seen in the financial statements of the provincial government of DKI in the following year which received an unqualified opinion from the ABRI.

Transparency does not affect the quality of financial reporting. This is due to the fact that there is still some information that hasn't been published yet, and the information that has been presented is inadequate and right on target.

Weaknesses of internal control system have a negative and significant effect on the quality of financial reporting. This indicates that any increase that occurs due to the weakness of the internal control system will cause the quality of financial reporting to decline.

This research is expected to contribute to local governments as input for evaluating to improve the quality of financial reporting.

Limitations in this research that there are only 3 (three) variables that affect the quality of financial reporting, and the lack of research samples which only 72 samples. So it is hoped for further research can take more variables and samples.

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