
| RESEARCH ARTICLE

Determinant of the Quality of Government Financial Reports: Survey at BLU BPSDM Ministry of Transportation

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| ABSTRACT

The purpose of this study is to determine the factors that affect the quality of government finances, especially for the BLU satker at the Ministry of Transportation. A questionnaire was used for data collection with the help of state civil servants as respondents who carry out the duties and functions of financial management and reporting. The Structural Equation Model was adopted with Partial Least Square. The results of the study revealed that the application of SAP has a significant positive effect on the Quality of Financial Statements. The implementation of the Internal Control System has a significant positive effect on the Quality of Financial Reports. The effectiveness of the Internal Audit Unit has a significant positive effect on the Quality of Financial.

| KEYWORDS

Quality of financial statement, Government Accounting Standards, Internal Control, BLU

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1. Introduction

As part of the reform of state financial management, Law No. 1 of 2004, referred to as Law No. 1 of 2004 concerning the State Treasury, has mandated to improve efficiency and effectiveness of state financial management. One of the changes is in Articles 68 and 69 regarding the Financial Management of Public Service Agencies. The mandate in Law No. 1 of 2004 is further elaborated in Government Regulation No. 23 of 2005, from now on referred to as PP. 23 of 2005 as amended by Government Regulation Number 74 of 2012 from now on referred to as PP No. 74 of 2012 concerning Financial Management of Public Service Agencies.

From now on, the Public Service Agency, referred to as BLU, implements the concept of "enterprising the government" and budgeting within the government. BLU is given flexibility in financial management to support productivity, efficiency, and effectiveness in public services but does not aim to profit (Alfiker Siringoringo, 2017). As an accounting entity and a reporting entity (Kawenas et al., 2019), BLU must provide reports on the use of all resources controlled by interested parties and prepare financial statements to be consolidated with the accounting entity in charge. Therefore, the accounting guidelines and financial statements of BLU refer to the Financial Accounting Standards issued by the Indonesian accounting profession association (Pemerintah & Tahun, 2015).

The Influence of the quality of financial reports by several factors, including compliance in applying accrual-based government accounting standards, as stated by Hicca Maria et al. (2020); Says that government accounting standards positively affect the quality of government financial reports. According to (Setiyawati, Hari & Diah Iskandar, 2020), applying government accounting standards positively and significantly affect the quality of financial reports. According to (Anggriawan & Yudianto, 2018), government accounting standards affect the quality of financial reports. Likewise, according to research by (Suliyantini & Kusmuriyanto, 2017), government accounting affects the quality of financial reports, and according to (Gamayuni 2018), the application of government accounting standards affects the quality of financial reports.

In addition to applying government accounting standards, another factor is the internal control system. The internal control system will increase the reliability of financial reports made by the government. As stated by (Agung n.d.), the internal control system has a significant and positive effect on the quality of financial reports. According to (Nurhayati et al., 2019), the government's internal control system has a significant simultaneous effect on the quality of local government financial reports. According to (Holle et al., 2019), the internal control system positively affects the quality of financial reports. According to (Dewi & Hoesada, 2020), the internal control system affects the quality of financial reports. Similarly, according to Novita Sari et al. (2017), internal control significantly influences Accountability. According to (Jatmiko & Setiawan, 2020), the internal control system positively influences the quality of financial statement information.

Another supporting factor is the internal control unit. Internal control units that are effective and efficient in providing suggestions for improvements to the weaknesses of all operational activities significantly affect the quality of financial reports. As stated by (Tambingon et al., 2018), the factors that influence the quality of financial reports are the role of internal audit. According to Erlinda Y. Kasim (2015), the competence of government accountants has a significant effect on the quality of financial reports. According to (Zeyn 2018), the quality of internal audits affects the quality of financial Accountability. Similarly, according to (Kewo & Afiah, 2017), internal audit positively affects the quality of financial reports and, according to (Setiyawati n.d.), accounting has a significant effect on the quality of financial reports.

There is some contradictory empirical evidence that does not affect financial quality, as stated by (Jatmiko & Setiawan, 2020), which states that government accounting standards do, not affect the quality of report information stating that government accounting standards do not affect the quality of financial statements.

Efforts to accelerate the preparation of financial reports from the BLU work unit were issued by the Minister of Finance Regulation Number 220/PMK.05/2016 Article 11 states that the preparation of BLU financial reports began to be carried out in the preparation and submission of BLU financial reports in 2016. On March 10, 2017, the Minister RI Finance issued PMK Number 42/PMK.05/2017 instead of PMK Number 220/PMK.05/2016 concerning Accounting and Financial Reporting Systems for Public Service Agencies. The regulation regulates the accrual-based financial reporting system and PSAP 13 at the latest in the preparation and submission of the 2017 BLU Financial Statements. Based on PSAP No. 13, the components of the BLU financial report consist of Reporting of Budget Realization, Changes in Budget Over Balance Report, Balance Sheet, Operational Report, Cash Flow Statement, Statement of Changes in Equity, and Notes to Financial Statements.

BLU Financial Reports must be of high quality. By PSAP No. 1, its characteristics are relevant, reliable, comparable, and understandable. The resulting financial statements can provide helpful information for users of financial statements in assessing Accountability and making decisions (PP No. 71 of 2010), and this is a normative requirement that must be met. The quality of financial reports has a significant influence on government management (Otniel et al., 2019) and the principles of good governance (Zainuddin and Hari Setiyawati, 2019). It is a need to improve transparency and accountability, asset management and reporting consistency and availability of information (Ok, 2019).

To realize good governance, increase Accountability and transparency of BLU financial management, and provide guidelines and standardization of control systems at BLU, it is necessary to regulate an internal control system. The Government's Internal Control System for Public Service Agencies (SPIP) by Government Regulation Number 60 of 2008 concerning Government Internal Control Systems and Regulation of the Minister of Finance of the Republic of Indonesia Number 200/PMK.05/2017 concerning Internal Control Systems of Public Service Agencies, which consists of the Control Environment Assessment Risk, Control Activities, Information and Communication Systems and Internal Control Monitoring.

In addition, BLU requires a supervisory function to ensure the control system's effectiveness. Therefore, the Internal Audit Unit (SPI) was formed. SPI efficiently and effectively monitors and encourages follow-up on recommendations for SPI supervision, government internal control apparatus, inspectors external government and BLU. Each monitoring result is reported to the BLU leader and the Supervisory Board containing the findings and recommendations, the target completion time and completion status.

According to the Directorate of BLU Financial Management Development website, Directorate General of Treasury of the Ministry of Finance (<http://blu.djpbk.kemenkeu.go.id>), the Ministry of Transportation is one of the Ministries that has the most work units that determine BLU Financial Management. In 2019, 33 BLU stickers were designated as BLU satkers. Among them, 22 BLU work units are in the Human Resources Development Agency of the Ministry of Transportation (BPSDM Ministry of Transportation) in the education sector.

Although efforts have been used to improve the quality of BLU financial reports, in reality, there are still BLU financial reports that are not qualified, as disclosed in the Summary of BPK RI Audit Results Semester I 2019. Based on the summary, some findings need attention in the Financial Statements for 2019. 2018, namely in terms of PNPB administration and BLU cash management at the Medan Aviation Safety Engineering Academy (ATKP) and fixed asset administration at the Maritime High School work unit, as well as the use of education service rates at the Indonesian Aviation College work unit.

2. Literature Review

2.1 Agency Theory

Agency theory arises from the thoughts of (Jensen & Smith, 1984), which is a theory about the inequality of interest between principals and agents. The principal is the party that gives the mandate to another party, namely the agent, to carry out activities on behalf of the principal in his capacity as a decision-maker (Jensen & Smith, 1984). According to (Eisenhardt, 1989), the purposes of the agency theory to increase the ability of individuals (both principals and agents) to evaluate the decisions environment made (the belief revision role) and to evaluate decisions results that have been taken in order to facilitate the allocation of results between principals. And agents by the work contract (evaluation performance role).

Agency theory basically cannot be separated from both parties, both as principals and agents who are the main actors. Both have their bargaining positions in placing their positions, roles, and positions. Different and conflicting positions, functions, situations, goals, interests, and backgrounds of principals and agents will create conflicts with conflict of interest and influence between each other, so an agreement in the form of an employment contract between the owners is required. (principal) and management (agent). Maximize the utility principle and satisfy and ensure the agent receives rewards from organizational management activities that are expected of the agreement.

2.2 New Public Management

The concept of New Public Management (NPM) is motivated by the dominant role of government in developed countries (UK) in providing public services to the community (Myles & Quadagno, 2002). Christopher Hood initially introduced the term New Public Management in 1991. The emergence of a modern approach to public sector management is a reaction to the inadequacy of traditional public administration models.

This concept provides a change from a rigid, bureaucratic and hierarchical traditional management system to a public sector management model that is flexible and more accommodating to needs. (Schick, 2002), in "Agencies in Search Principles," explains the application of NPM, namely, it lets the managers manage and make managers manage. The principle of letting the managers manage explains that deregulation is carried out on the use of resources in operations and adequately allows managers to plan, use and manage resources. The make manager manages principle is applied through a performance contract between the party providing the delegation and the agency receiving the delegation. According to (Hood, 1991), there are characteristics of New Public Management, namely:

- 1) Hands-on professional management. Government management implementation tasks are left to professional managers.
- 2) Explicit standards and measures of performance. Their performance measures standards.
- 3) Greater emphasis on output controls. The management process emphasizes more on controlling the results/outputs.
- 4) A shift to the desegregation of units in the public sector. There is a division of tasks into units under it.
- 5) A shift to greater competition in the public sector. There is a shift in the public sector competition with futures contracts and public auction procedures.
- 6) A stress on private sectors styles of management practice. Emphasize stress implementation of a private sector management style,
- 7) on greater discipline and parsimony in resource use. Emphasizes high discipline and is not wasteful in using various sources

2.3 Government Accounting

Standards Government Accounting Standards, abbreviated as SAP, are accounting principles applied in preparing and presenting government financial reports by Government Regulation No. 71 of 2010. Submission of financial reports to the public is a form of "transparency" and "accountability" of state financial management (Salle, 2017). Achieve transparency and accountability are substantial efforts in managing state finances. The submission of government financial reports meets the principles on time and is prepared by generally accepted government accounting standards (Maulana, 2012).

2.4 Internal Control System

Internal Control is part of a system that includes an organizational structure, methods and measures that are coordinated to maintain organizational wealth, check the accuracy and reliability of accounting data, encourage efficiency and encourage

compliance with management (Mulyadi, 2016:129). The Committee on Sponsoring the Treadway Commission/COSO (Commission, 2013) defines Internal control as a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

The internal control system in the government is based on the Government Regulation of the Republic of Indonesia Number 60 of 2008 concerning the Government's Internal Control System. It is explained a necessary process for action and activities carried out continuously by the leadership about Internal Control System in the Government Regulation and all employees to provide adequate assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets and compliance with laws and regulations.

2.5 Quality of Financial

Financial statements result from an accounting process that can be used as a tool to communicate financial data or activities of a company or government with parties with interest in financial position based on the concept of the accounting period. According to International Public Sector Accounting Standards/IPSASI IFAC, 2016 in Zainuddin 2018:

Financial statements are a structured representation of an entity's financial position and financial performance. General-purpose financial statements' objectives are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. In particular, general-purpose financial reporting objectives in the public sector should be to provide helpful information for decision making and to demonstrate the accountability of the entity for the resources entrusted to it by:

- 1) Providing information about the sources, allocation and uses of financial resources;
- 2) Providing information about how the entity financed its activities and met its cash requirements;
- 3) Providing information that is useful in evaluating the entity's ability to finance its activities and to meet its liabilities and commitments;
- 4) Providing information about the financial condition of the entity and changes in it; and
- 5) Providing aggregate information helpful in evaluating the entity's performance in terms of service costs, efficiency and accomplishments

3. Methodology

This research uses a quantitative research method in which extracting information is manifested in the form of numbers as a tool to find information about what is known. Research data on a quantitative approach in numbers and analysis using statistics. The problems and objectives formulated to do this research are causal research. Causal research is research conducted to find the cause of one or more problems (Sekaran, 2006). The author wants to test the hypothesis about the effect of several independent variables on the variable dependents. This study will explain the effect of applying government accounting standards, the effect of the internal control system, and the effect of the effectiveness of the internal control unit on the quality of financial reports.

4. Results and Discussion

4.1 The Effect of SAP Implementation on the Quality of Financial Statements

The results of statistical hypothesis testing show that the implementation of SAP has a significant and positive effect on the Quality of Financial Statements. This shows that the better the implementation of SAP, the better the quality of financial reports. On the other hand, the worse the implementation of SAP, the lower the quality of financial reports. The more the satker obeys in implementing SAP, the better the quality of financial reports. The results of this study indicate conformity with the theory of New Public Management (NPM). This theory adopts the concept of accrual accounting, which is a concept derived from New Public Management. Accrual accounting is private-sector management adopted as a performance measurement tool in the public sector. Governments that adopt New Public Management must carry out accrual. Based on research data, there is still an opportunity to improve the quality of financial reports by 14.8% by increasing the implementation of SAP comprehensively, especially in-depth adjustments from SAP which was originally cash-based to accrual-based. The results of this study also show that respondents from the Satker of the Public Service Agency in the education sector BPSDM Ministry of Transportation understand and implement government accounting standards (SAP) which in their application are based on Government Regulation No. 71 of 2010. This is in line with research conducted by Eveline (2016). ; Liani (2017), (Holle et al., 2019), and I Wayan (2017), whose results show that the implementation of SAP has a significant positive effect on the quality of financial reports.

4.2 The Effect of the Implementation of the Internal Control System on the Quality of Financial Reports

From the results of statistical tests, it is shown that the implementation of the Internal Control System has a significant positive effect on the Quality of Financial Reports. This shows that the higher the implementation of the Internal Control System, the higher the quality of the financial statements. On the other hand, the lower the implementation of the internal control system, the lower

the quality of the financial statements. In line with research conducted by Zainudin (2019), (Nurhayati et al., 2019); (Holle et al., 2019); and (Anggriawan & Yudianto, 2018), which states that the implementation of the internal control system affects the Quality of Financial Reports. These results are by agency theory (Agency Theory). This explains that the obligation of management (agent) is to provide accountability, present, report, and disclose all activities and activities that are their responsibility to the owner (principal), who has the right to demand such accountability. To obtain quality accountability, the owner develops an internal control system as a tool to monitor and evaluate all agent activities and activities. The better the internal control system implementation at the satker (agent), the better the quality of the resulting financial reports that will be submitted to the owner (principal). The results of this study are also by the concept of New Public Management, which explains that the new management process emphasizes more on controlling the results or outputs. So that the Satker of the Public Service Agency in the education sector BPSDM Ministry of Transportation pays attention to the internal control system of the results or outputs by the Government Regulation of the Republic of Indonesia Number 60 of 2008 concerning the Government Internal Control System and Regulation of the Minister of Finance of the Republic of Indonesia Number 200/PMK.05/ 2017 concerning the Internal Control System of Public Service Agencies.

4.3 The Effect of the Effectiveness of the Internal Audit Unit on the Quality of Financial Reports

The statistical test results show that the effectiveness of the Internal Audit Unit has a significant positive effect on the Quality of Financial Reports. This shows that the higher the effectiveness of the internal control unit, the higher the quality of the financial statements, and conversely, the lower the effectiveness of the internal control unit, the lower the quality of the financial statements. These results are in line with the research of (Kewo & Afiah, 2017), (Anggriawan & Yudianto, 2018), and Hicca (2020), which shows that Internal Audit has a positive effect on financial statements. This study is by the purpose of agency theory is to evaluate the activities and results of reporting before being submitted to the owner so that what the agent reports to the owner is by the owner's needs to make decisions. In addition, this research is by the concept of NPM, which describes the emphasis on continuous and continuous evaluation. This is indicated by the function of the Internal Audit Unit, which carries out the supervisory function of activities, transactions, reporting, and internal control on an ongoing basis. The results of this study also show that the respondents of the Satker of the Public Service Agency in the education sector BPSDM of the Ministry of Transportation understand and implement the Internal Control Unit, which in its application is based on the Regulation of the Minister of Finance of the Republic of Indonesia Number 200/PMK.05/2017 concerning the Internal Control System at the Public Service Agency.

5. Conclusion

The purpose of this study is to determine the factors that affect the quality of government finances, especially for the BLU satker at the Ministry of Transportation. Based on the analysis and discussion results, it can be concluded that the application of SAP has a significant positive effect on the Quality of Financial Statements. Moreover, the implementation of the Internal Control System has a significant positive effect on the Quality of Financial Reports, and the effectiveness of the Internal Audit Unit has a significant positive effect on the Quality of Financial.

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