

# Determinants of Financial Statements Quality in Village Government

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**Abstract**—This research aims at investigating determinants of financial statements quality in village government. They are accountability, transparency, human resource competence, regulation compliance and the use of information technology. The population of this research is all village government in Bantaeng Regency, South Sulawesi. The sample of this research involved 19 villages in Bantaeng Regency, with 68 respondents in total. Selected respondents are Head of Village, Village Secretaries, Village Treasurers, Village Supervisors and Financial Chiefs of Village Government. The data were collected through questionnaires and analyzed by using multiple linier regression analysis. The result shows that regulation compliance and the use of information technology have significant effect towards financial statement quality in village government. In contrast, accountability, transparency and human resource competence do not have significant effect toward the quality of village government financial statements.

**Keywords**—Accountability, Transparency, Human Resource Competence, Regulation Compliance, Information Technology Usage, Financial Statement Quality

## I. INTRODUCTION

According to the Institute of Indonesia Chartered Accountants [1], the aim of financial statement is to provide information regarding the company's financial position, performance, and changes to enable the company directors making economic decisions. Financial statement is an important requirement of an entity in showing their accountability to stockholders. That is why the arrangement of financial statement can be found in many sectors.

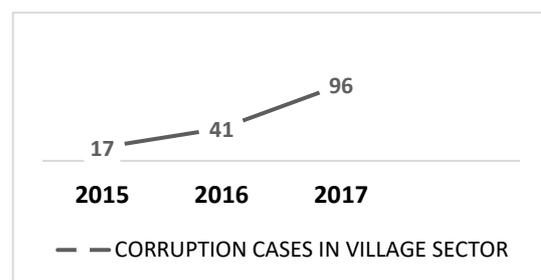
It is argued that Indonesia needs a strong Central Government paradigm shift, both in determining the policy and in carrying out its duties [1]. In 1998, the government system changed from centralization to decentralization by the issuance of Stipulation of People General Assembly of Republic of Indonesia (MPR RI) no XV/MPR/1998. Since the system has changed, it effects to every governmental aspect, from the central to local government. The Central Government paradigm, which initially controls all government, now divides the authority to local (provincial, city and district) government. However, after 20 years of changing, there is a gap between village and urban areas development.

To improve public services, strengthening the economy and overcoming the national development gap, the government then issued Act number 6 of 2014 on village governance [3]. In the regulation it is stated that customary villages are the unity of the legal community which have the boundaries of the regions authorized to regulate and

administer government affairs, the interests of local communities based on community initiatives, the right of origin, and/or traditional rights recognized and respected within the system of government of the Indonesia. Village Government is the implementation of government affairs and the interests of local communities in the system of Indonesian Government.

Village government autonomy implies reduction and even elimination of village dependency to local government. With this regulation, village government can manage its own household. The regulation also states that villages are able to obtain various sources of funds in order to improve the society's welfare. However, it is undeniable that there are still many people within the village administration who take this opportunity for their own sake and end up in court. As reported by berdesa.com there were more than 900 heads of Village government who were indicated corrupted village fund. This number will raise due to the government's difficulty in overseeing around 74,957 villages spread throughout Indonesia. We all may be aware of government's high determination to improve villages development and welfare, as seen from its earnestness in making regulations, allocating the funds, and also from the results. At the same time, ICW (Indonesia Corruption Watch) conducts monitoring related to corruption of village fund [4].

Figure 1. Corruption cases in village sector 2015-2017



Source: Indonesian Corruption Watch [4]

We can see from figure 1 that the corruption rate increased rapidly in 2015, 2016, and 2017 from only 17, to 41, and then 96 cases respectively. The total of all cases during 2015-2017 were 154 cases.

Under the Act No. 6 Article 26, it is stated that village governance should implement the principles of accountability, transparency, professionalism, effectivity and efficiency, clean, and free from collusion, corruption, and nepotism. Therefore, if the quality of financial statements is higher, then the government can easily give their accountability to the community. Moreover, the village

government will not hide anything from the public if the financial statements are prepared properly and correctly. Previous studies in local government show that quality financial statement is determined by human resources competence, compliance with the regulation, and the use of information technology, however, there is a lack of study on village government.

As the smallest unit in the government, the village is the closest government to the community, and they need financial statements to show their accountability to the public. Differences in scope between local government and village government make this study different than previous research which may come up with different result.

This research investigates village governments in Bantaeng Regency, South of Sulawesi Province. Based on Central Bureau Statistics, Bantaeng is located in the southern part of South Sulawesi Province. Recently, Bantaeng city attracts the attention of central government with their achievement in any field, such as economy, industry, and agriculture in the last 10 years. Based on the Central Bureau Statistics, the economic growth in Bantaeng reaches 8.1%, makes it the sixth highest among 24 regencies in South Sulawesi. In line with the issuance of Act no. 6 of 2014 concerning village governmental, this becomes the new challenge in the middle of the "golden age" of Bantaeng Regency, whether this Regency can survive well and give better service to the society. By conducting research in this Regency, we can see whether the development of the Regency is in line with the services provided by the village government and good financial statement reporting practices.

## II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

### **Stewardship Theory**

Stewardship theory is a theory that explains how managers have an attitude of feedback to their workers. Stewardship theory is an alternative to agency theory that can address different interests between executives and workers that may arise. Thus, in this theory, the executive can achieve what the company aspire to [5]. This theory designs the executive as a steward to act in accordance with the wishes of the principal, then stewards will try to achieve organizational goals without prioritizing individual interests.

### **Financial Statement Quality**

Financial statements are records of a company's financial information in an accounting period that can be used to describe an entity's performance. They have function as a tool that can be shown to the stockholders or shareholders as physical evidence in financial terms. According to PSAK, the financial statements are said to be qualified if they meet the requirements such as understandable, relevant, material, and reliable.

### **Accountability**

Accountability is a mechanism that the public provides to officials to explain and ensure that they have acted and behaved in a correct and ethical manner, and are responsible for their actions [6]. Therefore, it can be concluded that accountability is a responsible act shown by the government / officials to ensure that they have done their job properly and correctly.

Roberts and Scapens argued that accountability builds the moral system itself by communicating notions about what should happen [6]. As a tool of government accountability to the public, financial statement is an important instrument and become necessity to show it. Dura [7] found positive effect of the accountability of financial management on the welfare of rural communities. On the other hand, Irma [8] found that administrative responsibility was the main problem faced by village government. Based on the description above, the researcher proposed the following hypothesis:

H<sub>1</sub>: Accountability affects the quality of Village Government financial statements

### **Transparency**

As a component of good governance, transparency is needed to improve government oversight. Transparency is built on the basis of free information flows, and therefore, all government processes, institutions and information need to be accessible to interested parties, and available information must be sufficient to be understood and monitored [9]. Transparency is one the ways for the government to actually show to the public the works they did in a clean and honest manner, with nothing to hide. This shows that transparency is also important in determining the success of a government.

According to the Act No. 6 of 2014 on villages, the Village Community Institution serves as a forum for village community participation in development, governance, community and empowerment that leads to democratization and transparency at the community level and creates access to more active citizens in development activities. With this regulation, the government directly expects a form of transparency from the village government to improve its development. In addition, Hanifah and Praptoyo examined the Accountability and Transparency Accountability of the Village Revenue and Expenditure Budget (APBDes) [10]. The results found the village government has implemented good transparency practices. Therefore, the researcher proposed the hypothesis:

H<sub>2</sub>: Transparency affects the quality of Village Government financial statements

### **Human Resource Competence**

Human resources are important component in carrying out various tasks and jobs. In the field of finance, human resource has direct role in producing financial statements that will be used to convey information to stockholders. Therefore, an organization will be in a better condition when they employed highly qualified employees. According to Lado and Wilson, human resources can provide benefit and facilitate the development of an organization [11]. With proper management, systems and training, human resources can be a high investment value for an organization in competing with other organizations. In line with this, the term human resource is replaced by the term human capital assuming that human resources are assets to be managed and developed in order to achieve the standards set by the government.

In addition, based on the procedures for the implementation of guidance and consultation on village fund management (Juklak bimkon), the village government should be able to record or at least to do the bookkeeping of financial transactions as a form of financial accountability. Based on the description, the researcher proposed the following hypothesis:

H<sub>3</sub>: Human resource competence affects the quality of Village Government financial statements.

**Regulation Compliance**

Regulation is a rule made by the Central Government to be done to create a prosperous country. Regulation itself has a compelling and even punitive nature so that all levels of society need to obey it. Fenn & Veljanovski stated that the enforcement of government regulation and control is very complex and largely determines the effect of the regulation [12]. This theory supports the view about how the government in making regulations must be in line with the problems faced by the community.

Fenn & Veljanovski continued that to comply with the regulation, penal and negotiated compliance, the enforcement approach should be constructed [12]. It is assumed that the highest parties (such as top management or board of directors at companies) should make a rule that if it is violated, will give multiple losses according to the level of violation. So if an entity has high compliance, then the level of punishment will be lower. On the other hand, if the entity has low regulation compliance, then the level of punishment will be high. In addition, Sutinen and Kuperan stated that to develop and implement the regulation, the key of legitimacy is the fairness built into the procedures used to develop and implement policy [13].

In preparing a good financial statement, it must be in accordance with the regulations that have been established. If the financial statements are in accordance with the regulation, it will have high quality. In the regional government, Fatimah et al have examined the regulation compliance in local governments [14]. From this explanation, the researcher proposed the following hypothesis:

H<sub>4</sub>: Regulation compliance affects the quality of Village Government financial statements

**The Use of Information Technology**

Along with the current development, people will always try to make new innovations in order to survive. Papaioannou and Dimelis stated that information technology is a core element of the knowledge-based society, as it is not only connecting people with others, but also has developed as a field that provides great benefits to the wider community [15]. Powell and Micallef argued that to achieve the success of information technology should be developing the ‘fusion’ framework strongly [16]. It is related to how information technology contributes to the competitive advantage.

Information technology is an innovation that can help process data from processing to storing data. Therefore, the information technology is expected to produce good quality information. The information technology usage will be very helpful in the process of data management so as to minimize the occurrence of errors that may appear. Therefore, the

better the apparatus in using information technology, the higher the quality of the financial statements produced by the village government. In different spheres, Setyowati et al stated that the use of information technology has no significant effect on the quality of financial statements (17). However, Chodijah and Hidayah stated that the use of information technology has a significant influence on the quality of financial statements [18]. Therefore, the researcher propose the following hypothesis:

H<sub>5</sub>: The use of information technology affects the quality of Village Government financial statements.

**III. RESEARCH METHOD**

The samples used in this research were the heads of the villages, secretaries of the villages, treasurers of the village, supervisors of the villages and heads of finance of village government. Each village in the sample were represented by 3-5 respondents to fill up the questionnaire. The survey was carried out on 15<sup>th</sup> October 2018 to 25<sup>th</sup> October 2018. There were 70 questionnaires that were collected with a return rate of 97.14%. However, two were incomplete leaving 68 questionnaires were processed for the research.

The questionnaire used by the researcher is a Likert scale questionnaire type with 5 - 1. Measurement 5 for opinions strongly agree, 4 for agree, 3 for neutral, 2 for disagree and 1 for strongly disagree. This research uses multiple linear regression to test the influence of independent variables towards dependent variable.

**IV. RESULT**

Partial testing of each independent variable on the dependent variable is a way to find out whether the independent variable influences the dependent variable. If the significance value is <0,05, the hypothesis is not accepted or rejected. In contrast, if the significance value for t test is >0,05 then the hypothesis is accepted, and that the independent variable is partially affected to the dependent variable.

Table 1. Research result (t test)

Hypothesis	B	Sig,	Conclusion
Hypothesis 1	0.190	0.084	Rejected
Hypothesis 2	0.097	0.389	Rejected
Hypothesis 3	-0.022	0.872	Rejected
Hypothesis 4	0.285	0.034	Accepted
Hypothesis 5	0.317	0.012	Accepted

## V. DISCUSSION

### **The effect of accountability towards financial statement quality in village government**

Based on Table 1, it shows that even though accountability level is high, it does not affect the financial statements quality. This finding is in accordance with Setyoko's research which stated that most villages in Purbalingga Regency as recipients of the village fund program were unable to achieve financial administration accountability [19]. This condition is also in line with the research results found by Kloot and Martin which found differences in the level of accountability in rural and urban areas [20]. In urban areas, accountability reports are very important as an effort to provide information to the public, whereas in rural areas people are often less concerned about the issue of accountability of their government.

### **The impact of transparency towards financial statement quality in village government**

Based on table 1, it shows that transparency does not affect financial statement quality produced by village government. Therefore, the higher the level of transparency of the village government, the level of financial quality of the village government will not effect. This is in line with conditions in the field which have limited publications access in delivering financial statement. The results of this research indicated that transparency does not affect the quality of village government financial statements.

### **The effect of human resource competence towards financial statement quality in village government.**

Based on Table 1, the competence of human resources does not affect financial statement quality in village government. This study measured human resources' competence using statements statements related to responsibility, training and experience. Based on the statements that were collected, there is only 1 person with accounting background. In order to improve the village financial statements quality, it would be better if the staff responsible for making financial statements has related educational background in economics, has received training and has enough experience. This finding is in contrast with the research of Setyowati et al [17] which stated that there is effect of human resource competence towards financial statement quality in local government.

### **The effect of regulation compliance towards financial statement quality in village government.**

Based on table 1 regulation compliance has a positive effect towards financial statement quality produced by village government. Therefore, the higher the level of government compliance with the law, the higher financial statement quality of village government will be. With the regulation as the basis for making financial statements, the village government can properly prepare the financial statements according to meet the required standard.

Permendagri No. 113 of 2014 was used as a guideline for village government in managing village finances [21]. The guideline can provide village financial management as desired. In addition, with the regulation which requires village governments to carry out village financial management according to the principles stated in the

regulation, it forces village officials to carry out village financial management as well as possible and report its performance in accordance with the actual conditions.

### **The effect of the use of information technology towards financial statement quality in village government.**

Based on table 1, the use of information technology affects the quality of financial statements. Therefore, the higher the level to use of information technology, the higher level of financial statement quality will be. This is not in line with the research Setyowati et al [17] which states that the use of information technology does not affect financial statement quality in local government.

In government sector, the use of technology is highly necessary to provide information to store data or in the formulation of performance and preparation of financial statements, with the existence of these technologies human resources will be greatly helped and will also save time, costs and energy.

## VI. CONCLUSION, LIMITATIONS AND SUGGESTION

Based on the research result, there are two factors that significantly affect the quality of financial statements: compliance with the laws and the use of information technology. These two factors are very important to achieve good financial quality in the village government. Therefore, to maximize the quality of financial statements, village governments can begin by increasing accountability in accordance with the principles contained in law no.113 of 2014 concerning village financial management.

Transparency also needs to be maximized not only for the local public but also for the wider public. The importance of publications must be realized by the village government not only to put up financial statements in certain places but also can build other publications such as newspapers, magazines, social media or village website.

As an important component in carrying out the duties of the village government, it is necessary to improve human resource competences. Based on this research, the lack of human resources with appropriate educational backgrounds makes the arrangement of financial statement inadequate. Appropriate training, work experience, and a sense of responsibility can support village government employees in preparing financial statements.

It is also important to maximize regulation compliance should when compiling financial statement of village government. When the central government decides that the village government can regulate its own household, it means that the village government must be independent in managing all the matters contained in the government. However, with the current prevailing laws and regulations, it is expected that the law becomes a guideline and limitation for the village government in managing the government.

In this globalization era, the use of information technology is also crucial, where computers and internet networks play important role to provide support in carrying out village government duties. Moreover, the central government have launched a financial management application specifically for village government, and they continuously emphasized the importance of using IT to

produce financial statements. Therefore, it is necessary to provide sufficient number of computers at the village government offices to enable an easy and qualified financial statement, as well as to support easy access for financial information disclosure on the internet to create accountability for village financial management.

There are several limitations in this study as follows:

1. This research used dependent variable financial statement quality in village government and the research method used is the questionnaire. The lack of related research needs more research to be done so that the results of this study are getting stronger.

2. The research sample was carried out at the regency level; hence further research is needed by taking a number of other regencies to be generalized in a wider area.

3. The sample in this study did not involved a broader level of government such as the sub-district government which is the verifier and validator as well as the regional government that serves as the auditor of village government financial statements.

4. The complexity of village apparatus tasks and the limitations of the time of the study caused the answers given by the village apparatus as the respondents in this study to be uncontrolled whether the respondent's answers were honest or not.

Based on the results and limitations in this research, there are several suggestions for further research related to financial statement quality including:

1. Adding more range of regions to the research sample, so that the results of the research can be generalized to a wider area.

2. Adding or replacing other independent variables that may have an influence towards financial statement quality in village government such as the role of village facilitators.

3. Adding more interview methods in research data collection, so that the data obtained is more detailed.

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