

## FACTORS INFLUENCING THE QUALITY OF FINANCIAL REPORTING AND ITS IMPLICATIONS ON GOOD GOVERNMENT GOVERNANCE (Research on Local Government Indonesia)

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### ABSTRACT

*Implementation of good government governance, including the obligation to prepare the Local Government Finance Report (LKPD). From the results of the examination opinion of the Supreme Audit Agency, there are some findings and not all local governments can prepare financial statements in accordance with Governmental Accounting Standards specified. The purpose of this research is to examine the influence of Apparatus Competence and Internal Control on the Quality of Financial Reporting and Its Implications on Good Government Governance. The research conducted on 70 working unit area device on 7 Local Government in eks Karesidenan Pekalongan, Jawa Tengah Province, Indonesia. The data is primary data collected through questionnaire. The year of study is 2014. The data was processed using Partial Least Square. The results of this research show that: (1) From the results of test Kruskal Wallis, there are no significant differences between Apparatus Competence and Internal Control, quality financial reporting and the good government governance in 7 local government (2) Apparatus Competence and Internal Control have significant effect on the Quality of Financial Reporting, partial and simultaneously. Furthermore it was found that the Quality of Financial Reporting has implications for Good Government Governance*

Keywords: Apparatus Competence, Internal Control, Quality of Financial Reporting, Good Government Governance

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### Introduction

The main objective of financial reporting to provide information on the entity's financial statements, which is useful for making economic decisions (FASB, 1999; IASB, 2008). Providing quality financial reporting information is important because it will positively affect capital providers and other stakeholders in making investment, credit, and resource allocation decisions at improving the efficiency of the overall market (IASB, 2008).

Research on the quality of financial reporting in the local government sector has not been as much in other public companies. However, in practice many rules and policies set by the laws in each state. In general, empirical research on the quality of financial reporting including researching preference among many assessment (Dechow and Dichev, 2002; Schipper and Vincent, 2003; Botosan, 2004; Daske and Gebhardt, 2006). Previous studies were mostly done by measuring the relationship between the quality of financial reporting and corporate governance, internal control, earnings manipulation and fraud, and poor governance and internal control reduces the quality of financial reporting (eg, Dechow et al, 1996;. McMullen, 1996;).

Good governance is a clean, respectable government a corruption-free. (Minister of State for Administrative Reform, Taufiq Effendi, 2007). Implementation of good governance, including through the obligation for all local governments to prepare Local Government Finance Report (LKPD). Survey of Transparency International Indonesia (TII, 2010) in the Annual Report reported that corruption triggering factors (driver corruption) to speed up process beureaucratic, is very prominent in Indonesia. Booz Allen Hamilton (TII, 2010) states that the higher the level of corruption shows accountability is not completely finished. According SPKN (2010), high levels of bureaucratic corruption that reflect poor implementation of good governance is still far from expectations. Corruption Perception Index (CPI) by Transparency International (TI, 2013) produce that Indonesia ranks 114 out of 177 countries, the CPI is used to compare the condition of corruption in a country against another country. (IT, 2013)

Some findings indicate weaknesses that occur in financial reporting. Supreme Audit Agency (BPK) Chairman, Hadi Purnomo (2011) declared the examination results of LKPD receiving an unqualified opinion as much as 32 local government (27% percent of the 415 entities), 326 local governments, or 91% of the 358 local governments given the unfavorable opinion. These findings are in the form of non-compliance with laws and regulations, fraud, and non-compliance in financial reporting. According to Minister of State for Administrative Reform and Bureaucratic Reform Azwar Abubakar (2010), local government should work together with the Financial and Development Supervisory Agency (BPKP) to achieve good financial governance in their respective governments. Issues related competencies, human resource has a background in accounting is still very little. The need for accountants in local government officials in Indonesia is around 25,000 people. In fact, employees with accounting background is still lacking (Djadja Sukirman).

The results of the examination of LKPD in 2013, the local government revealed 5,405 cases worth Rp 2.07 trillion due to non-compliance with statutory provisions. Of the total audit findings on LKPD district / city, 2,976 cases finding that the financial impact of findings of non-compliance with statutory provisions which result in loss, potential loss, and the lack of acceptance Rp1,63 trillion. As for the rest of the findings of administrative irregularities, non-efficient, and ineffectiveness as many as 2,429 cases worth Rp 442.29 billion. Previous research focused on the study of the human resource competencies, whereas in this study the researchers also use internal controls as well as factors that affect the quality of financial reporting and how the implications for good government governance. Furthermore, there are only a few previous researches regarding this matters motivating writers to investigate and this study will accommodate new developments in the application of local government accounting in Indonesia.

Based on the description that has been presented, the authors considered it important to do some research as outlined by research factors influencing on the quality of financial reporting and Its Implications on Good Government Governance. The purpose of this study was to determine and obtain empirical evidence and get an answer how much influence apparatus competence and internal control on the quality of financial reporting and its implication on Good Government Governance, partially and simultaneously

This paper will be organized after this section into some explanations as follows : the literature review, theoretical framework, study model and hypothesis, conclusion, include references.

## 2. LITERATURE REVIEW

### 2.1. Apparatus Competence

Research on competencies developed into 3 phases. The first phase consists of individual competencies (White, 1959; McClelland, 1973; Boyatzis, 1982; Schroder, 1989; Woodruffe, 1992; Spencer & Spencer, 1993; Carroll & McCrackin, 1997). The second phase is the competence of managers within the company known for competency model (Mansfield, 1996; McLagan, 1997;; Rothwell & Lindholm, 1999). The third phase is core competencies, which competencies owned by employees is a competitive advantage that is owned by a company (Pralhad & Hamel, 1990; Ulrich & Lake, 1991; Coyne, Hall, & Clifford, 1997; Rothwell & Lindholm, 1999; Delamare & Wintertone , 2005).

According to Boyatzis (1982), competence is an underlying characteristics of an individual, which is causally related to effective or superior performance in a job, such as a motive, trait, skill, aspect of one's self-image or social role, or a body knowledge of the which he or she uses. Boutler et al. (1999) stated competence is an underlying characteristic of a person to be able to show a good performance in the field of job, role or situation. According to Cheng et al. (2002), competence is a person who has knowledge (education, skills and experience) and ethical behavior in the work. Susanto (2007: 105) states that competence means employees have the knowledge and skills to perform their duties. Cohen (1980) says competencies are the areas of knowledge, abilities and skills that increase of and individual's effectiveness in dealing with the world.

Characteristics competence are: Motives, Traits, Self Concept, Knowledge, Skills (Spencer & Spencer, 1993). According to Cheng et al. (2002), competence includes four components: functional expertise, Broad sectors perspective, leadership qualities, and personal attributes of. This is consistent with Nur Afiah (2004), a component of competence includes knowledge, experience, quality of ethical leadership in the form of subjective and objective ethics and skills. Knowledge gained from the education, skills, and training. From the definition and characteristics of the above it can be concluded that the role of education, training, skills, development of quality leadership in improving the quality of local government officials need to be pursued in order to support the performance of local government officials balance between professionalism and morality.

### 2.2. Internal Control System

Committee of Sponsoring Organizations (COSO, 2013) stated internal Control is 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. Certified American Institute of Public Accountants (AICPA) stated internal control comprises the plan of organization and an of the coordinate methods and measures-adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting of data, promote operational efficiency, and Encourage adherent to prescribed managerial policies. According to the Government Regulation No.60 (2008), Internal Control System is a process that is integral to the actions and activities carried out continuously by the management and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient, the reliability of financial reporting, safeguarding of assets and compliance with state laws and regulations. In other hand, Boynton et al (2006: 326) states: Control the safeguarding of assets against unauthorized acquisition, use, and disposition, which may imply that the internal control is safeguards against the assets of the acquisition, use and disposition of assets illegally. Under AU 319 and COSO, internal control consists of five parts: (i) control environment, (ii) risk assessment, (iii) control activities, (iv) information and communication, and (v) monitoring.

### 2.3. Quality of Financial Reporting

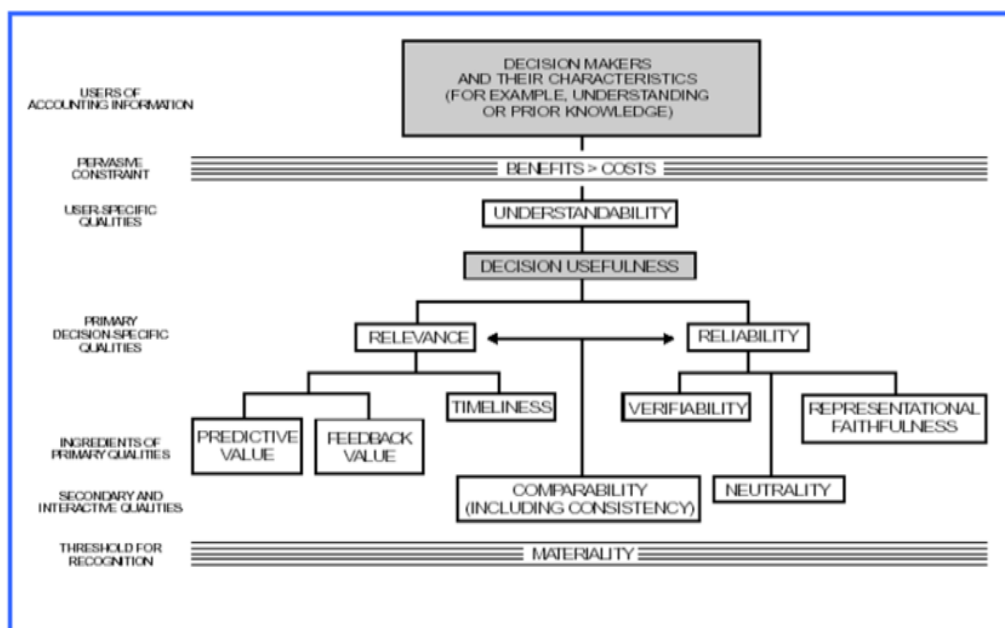
Quality according to the Office Of Government Commerce ( 2009: 48) is degree to which a set of inherent characteristics fulfills requirements. Quality is generally defined as the totality of features and inherent or assigned characteristics of a product, person, process, service and/or system that bear on its ability to show that it meets expectations or satisfies stated needs, requirements or specification. Hall (2011) stated dimensions of information quality, consist of relevant, timeliness, accuracy, completeness and summarizing. Gellinas (2005) mentioned dimensions of the quality of informations are accurate, timely, relative, and completeness.

The financial statements are a statement in the reporting entity's financial statements components, is a form of financial management accountability country / region over a period.. There are two public sector financial reporting purposes, the general and specific objectives. Common purpose to provide useful information and meet the needs of the user. Specific objectives to identify resources obtained and used in accordance with the approval of DPR / DPRD; provides information on resource allocation, financing, commitments and liabilities, financial condition, and changes in public sector organizations, the information to evaluate the performance of public sector organizations. (Public Sector Committee - IFAC, 2010).

The components of the public sector report in the International Public Sector Accounting Standards (IPSAS, 2010) consists of: Statement of Financial Position, Statement of Financial Performance, Statement of Changes in Equity, Cash Flow Statement, Accounting Policies and Notes to Financial Statements, whereas in SAP 2005 LKPD least consist of Budget Realization Report, Balance Sheet, Cash Flows and Notes to the Financial Statement .

Statement of Financial Accounting (SFAC) No. 2 sets of qualitative characteristics of accounting information as follows: Relevance, Timeliness, Reliable, Consistency. According to Azhar Susanto (2004: 40), a quality information must have the characteristics of (1). Accurate. It means that information must reflect the actual situation. (2). Timely. It means that information must be available or exist on when the information is required. (3). Relevant. It means the information-provided must be in accordance with the required one. (4) Completeness. It means information should be given in completes.

Figure 1 Hierarchy of Accounting Quality



Source: SFAC No. 2 (FASB 1980).

## 2.4. Application of the Principles Good Government Governance

### 2.4.1. Understanding Good Government Governance

The issue of corporate governance coincided with the development of the corporate system in the UK, Europe, and the United States around the 1840<sup>s</sup> (Tjager, Alijoyo, Djemat, Soembodo, 2003). Cadbury Report itself defines corporate governance as the system by which organisations are directed and controlled. Asian Development Bank (ADB, 1995) defines governance with accountability, participation, transparency and predictability can be estimated clearly. The United Nations Development Programme (UNDP, 1997) defines governance as the exercise of political, economic and administrative authority to manage a nation's affairs at all levels. UNDP also described governance has three legs (legs tree): politics, economic, and administrative

Kooiman (1993), argued that good governance is a process of social and political interaction between government and private entities in a variety of fields related to public interests and government intervention on these interests. Furthermore, according to Lembaga Administrasi Negara/LAN (2000), good governance is a solid state governance and responsible, as well as efficient and effective, to maintain the unity of constructive interaction between domains of government, the private sector, and society are interconnected and perform its functions respectively. Good governance in the sense of containing two (BPK, 2002: 6), namely

- (1) the values that uphold the desire of the people, and the values that can improve people's ability to achieve the national goal of self-reliance, sustainable development and social justice;
- (2) the functional aspects of an efficient and effective government in the execution of their duties to achieve these goals.

Asian Development Bank (1999), concluded that there is a positive correlation between good governance to development outcomes. In addition, the practice of good governance can also improve the climate of openness, participation, and accountability in accordance with the basic principles of good governance in the public sector

## 2.4.2 Characteristics of Good Governance

According to UNDP (LAN & BPK, 2000), the principles of good governance are: Participation, Rule of Law, Transparency, Responsiveness. ADB explained that good corporate governance contains four core values namely, accountability, transparency, predictability and partisipation. According Mardiasmo (2002: 25) of the criteria of good governance is transparency, accountability and value there are four important principles of good governance: Transparency, accountability, predictability is the same as the rule of law and participation.

From some of the characteristics described above, can be taken three pillars of the basic elements that for money (economy, efficiency and effectiveness). According to the Organization for Economic Cooperation and Development (OECD) good governance criteria consisted of: fairness, transparency, accountability, responsibility (Sukrisno Agoes, 2004). According to the World Bank, there are four important principles of good governance: transparency, accountability, predictability is the same as the rule of law and participation.

From some of the characteristics described above, can be taken three pillars of the basic elements that are interrelated to each other in achieving good governance (Osborne and Geabler, 1992, OECD and World Bank, 2000, LAN and BPK, 2000; Bappenas, 2003) are as follows:

1. Transparancy, namely openness in government management, environmental, economic and social.
2. Participation, namely the application of democratic decision-making and recognition of human rights, press freedom and freedom of expression / aspirations of the people.
3. Accountability, namely the obligation to report and answer of the mandate entrusted to account for success or failure, which gave the mandate to be satisfied and if not satisfied can be subject to sanctions.

## 3. THEORETICAL FRAMEWORK

Mortimer A. Dittenhofer, Edward W. Stepnick (2012) stated human resource skills, an ability to lead is one of the most important competencies that a project manager can have. If the quality is lacking the implementation of the financial system may fail or delayed. According Hood and Lodge (2004) competence is also regarded as a central theme in public service reform, so by tracing the development of competence as a show idea that competence reform illustrates selective ideas in management and public service. Palmer, Kristine N; et al (2013) stated that the competencies that should be possessed by the auditor/accountant as the holder of the financial statements of the knowledge, skills, and Abilities for entry-level accountants are: communication skills, interpersonal skills, general business knowledge, accounting knowledge, problem- solving skills , information technology, personal attitudes and capabilities, and computer skills. accountant must have a minimum standard, especially in the face of cheating scandals. The study was also conducted by Nur Afiah (2004), results from this study states that the competence of local government officials to influence the quality of financial information.

Internal Control System is a process that is integral to the actions and activities carried out continuously by the management and all employees to provide reasonable assurance on the achievement of organizational objectives through effective and efficient, the reliability of financial reporting, safeguarding of state assets, and compliance with laws invitation (PP No. 60, 2008). Jason Wood et all (2013) stated component of internal controls set forth in the framework are important to achieving the objective of reliable financial reporting. The component are an integrated system working together to reduce risk of reliabel financial reporting to an acceptable level. There are influence between internal control quality of financial reporting. (Ronald F. Premuroso and Robert Houmes, 2012) The relationship between internal control and financial reporting in government and corruption manipulated (Iie Bayhaqi Mustafa, 2004). Dorothy A. McMullen et al (2006) suggest empirical research among the companies that do not use internal controls to those used in the event of problems in financial reporting. The presence of S404 regulations which regulate the internal control systems in the financial statements that is more reliable. (Albert L Nagy ,2010).

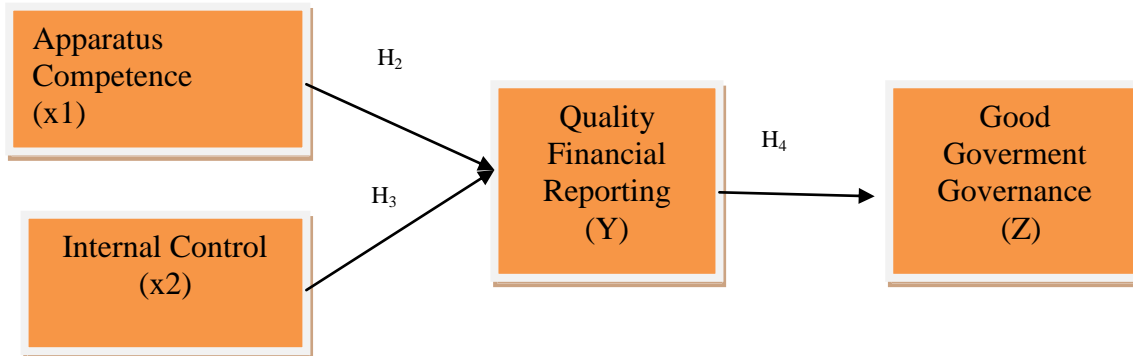
Reporting form LKPD made by each local government must satisfy the qualitative characteristics of financial statements. Qualitative characteristics of financial statements is normative measures that need to be realized in the accounting information so that it can fulfill its purpose. These four characteristics as normative preconditions necessary for the financial statements of the government can meet the desired quality is relevant, reliable, understandable, and comparable (PP 24, 2005).

The financial statements must be relevant and reliable to be useful in decision making (Yousef Shahwan, 2008). In general, the qualitative characteristics can be met if the proficiency level and the preparation of financial reporting is based entirely on the Government Accounting Standards. Robert Bushman, (2004) states limited transparency of firms operations to outside investors increases demans on governance systems to alleviate morald hazard problem. Reck, JL (2001) stated financial information and non-financial effect on performance evaluation (compliance and financial accountability) and non-financial performance (accountability efficiency and effectiveness). Research by Burnaby et al. (1994) reported that the Governmental Accounting Standards Board (GASB) has initiated research as a way to enhance the reporting capabilities..According M Elbanan (2008) there is a positive relation between internal control over financial reporting and corporate governance.

#### 4. STUDY MODEL AND HYPOTHESIS

Based on the theoretical framework have just described, then the theoretical framework is as below:

Figure 2: Theoretical Framework of The Study



A hypothesis is a tentative conclusion that should be tested or proven to be true (Sekaran ,2003). Based on the research problem, and a framework that has been stated previously, the research hypothesis can be formulated as follows: 1. There is a difference between Apparatus Competence, Internal Control, the quality of financial reporting and the implementation of Good Government Governance in seven local government. 2. Apparatus Competence and Internal Control affect quality of financial reporting, partially and simultaneously 3) Quality of financial reporting affect good government governance

#### 1. Methodology, Finding and Discussion

The research method used in this research is research that is the explanatory research, because it is a study that explains the causal relationship among the variables (Cooper and Schindler, 2006: 154). The unit of analysis in this study is 70 the Regional Working Units (SKPD) in 7 Local Government eks Karesidenan Pekalongan, Indonesia. The respondents are the Local Government Unit Leader, and Treasurer of each section on education. This research was carried out early in 2014.

Variability of test results for each district using the Kruskal-Wallis test. This test is used to see whether there are differences in apparatus competence, internal control, financial reporting quality and good government governance in each district. From the test results obtained probability value of 0.530 for apparatus competence, 0.377for the internal control, 0,527 for the quality of financial reporting, and 0.871 for the implementation of Good Government Governance. This means that of the four variables, there were no significant differences between districts / cities in 7 local government in Indonesia. The dimensions of the variable apparatus competence, an experience gets the lowest value of 2,50. Lowest dimension of internal control is control activity by 4.433. The lowest variable quality of financial reporting is that it can be understood by 4,258. From good government governance, transparency dimension is the lowest received sufficient assessment of 3,977.

#### The effectiveness of apparatus competence and internal control on the Quality of local government financial reporting And Its Implications On Good Government Governance

The data was processed using structural equation modeling (SEM), the data must first be converted into ordinal scale intervals through the method of successive intervals are then processed using structural equation modeling with variance component-based or famous partial least square alternative method.

#### Measurement Model

Measurements using Partial Least Square estimation method, obtained full path diagram models, influence apparatus competence and internal control of the quality of local government financial reporting and its implications on Good Government Governance application

Figure 3 Coefficient Standards Structural Modeling

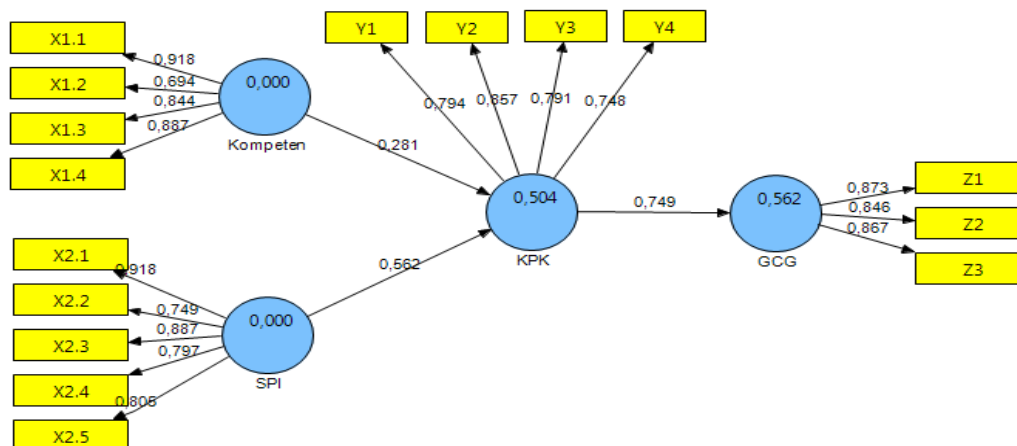


Table 1 Weighting factor variable of apparatus competence

Variabel Manifest	Loading factor	Measurement model	R <sup>2</sup>	T <sub>count</sub>
Knowledge	0,918	Competence = 0,918 X <sub>1,1</sub> + 0,158	0,842	38,493
Experience	0,694	Competence = 0,694 X <sub>1,2</sub> + 0,518	0,482	10,567
Leadership quality	0,844	Competence = 0,844 X <sub>1,3</sub> + 0,287	0,713	14,015
Skills	0,887	Competence = 0,887 X <sub>1,4</sub> + 0,212	0,788	42,528
<b>Composite reliability (CR) = 0,905</b>				
<b>Average Variance Extracted( AVE) = 0,706</b>				

Table 2 Weighting factor variable effectiveness of internal control

Variabel Manifest	Loading factor	Measurement model	R <sup>2</sup>	T <sub>count</sub>
Control environment	0,918	IC = 0,918 X <sub>2,1</sub> + 0,157	0,843	60,078
Risk assessment	0,749	IC = 0,749 X <sub>2,2</sub> + 0,440	0,560	65,251
Control activities	0,887	IC = 0,887 X <sub>2,3</sub> + 0,213	0,787	41,672
Information and Communication	0,797	IC = 0,797 X <sub>2,4</sub> + 0,365	0,635	23,917
Monitoring	0,805	IC = 0,805 X <sub>2,5</sub> + 0,351	0,649	21,918
<b>Composite reliability (CR) = 0,919</b>				
<b>Average Variance Extracted (AVE) = 0,695</b>				

Table 3 Weighting factor variable effectiveness of the quality financial reporting

Variabel Manifest	Loading factor	Measurement model	R <sup>2</sup>	T <sub>count</sub>
Relevant	0,794	QFR = 0,794 Y <sub>1</sub> + 0,370	0,630	17,743
Reliable	0,857	QFR = 0,857 Y <sub>2</sub> + 0,266	0,734	23,402
Comparability	0,791	QFR = 0,791 Y <sub>3</sub> + 0,375	0,625	25,960
Understanding	0,748	QFR = 0,748 Y <sub>4</sub> + 0,441	0,559	36,482
<b>Composite reliability(CR) = 0,875</b>				
<b>Average Variance Extracted(AVE) = 0,637</b>				

Table 4 Weighting factor variable Good Governance Government

Variabel Manifest	Loading factor	Measurement model	R <sup>2</sup>	T <sub>count</sub>
Transparency	0,873	GGG = 0,873 Z <sub>1</sub> + 0,238	0,762	60,332
Participation	0,846	GGG = 0,846 Z <sub>2</sub> + 0,285	0,715	30,231
Accountability	0,867	GGG = 0,867 Z <sub>3</sub> + 0,249	0,751	61,175
<b>Composite reliability(CR) = 0,897</b>				
<b>Average Variance Extracted(AVE) = 0,743</b>				

**Structural Models.**

Table 5 Statistics Summary Test Results

Sub Struktur	Path	Coefficient	T <sub>count</sub> *	R-Square
First	Competence → QFR	0,281	3,877	0,504
	IC → QFR	0,562	5,901	
Second	QFR → GGG	0,749	22,468	0,562

Apparatus Competence and internal control systems together give the effect of 50.4% on the quality of financial reporting, while the remaining 49.6% is the influence of other factors not examined. Then the quality of financial reporting influence 56.2% of Good Government Governance, while the remaining 43.8% is the influence of other factors not examined. Hypothesis test to prove whether there is influence apparatus competence and internal control system of financial reporting quality and its implications on Good Governance Government.

**a) Influence Apparatus Competence and internal control on the Quality financial reporting**

Table 6 Structural Model Influence Apparatus Competence and internal control on the Quality financial reporting

Endogenous Constructs	Exogenous Constructs		Error variance
	Competence	IC	
QFR	0,281 (3,877)	0,562 (5,901)	0,496

The direct effect apparatus competence of the quality of financial reporting =  $(\gamma_{1,1})^2 = (0,281) \times (0,281) = 0,079$  (7,9%). Indirect effect apparatus competence of the quality financial reporting because of its association with the effectiveness of the internal control system =  $\gamma_{1,1} \times \phi_{1,2} \times \gamma_{1,2} = (0,281) \times (0,346) \times (0,562) = 0,055$  (5,5%). The total effect of apparatus competence on the quality of financial reporting = 7,9% + 5,5% = 13,4% with a positive direction, meaning that 13,4% change in the quality of financial reporting. The direct effect internal control on the quality of financial reporting =  $(\gamma_{1,2})^2 = (0,562) \times (0,562) = 0,315$  (31,5%). Indirect effect internal control on the quality of financial reporting because of its association with the effectiveness of the internal control system =  $\gamma_{1,2} \times \phi_{1,2} \times \gamma_{1,1} = (0,562) \times (0,346) \times (0,281) = 0,055$  (5,5%). The total effect of internal control of the quality financial reporting = 31,5% + 5,5% = 37,0%

From Table F for a significance level of 0.05 and degrees of freedom (2; 67) obtained a value of F table at 3,134. Because of the results obtained calculated F value (34.04) and greater than the F table (3.134), then the error rate of 5% was decided to reject H0 and Ha accepted. So based on the test results it can be concluded that the apparatus competence and the effectiveness of internal control systems together have a significant effect on the quality of financial reporting

Table 7 Result testing Influence Apparatus Competence on the Quality financial reporting

Path Coef	T <sub>count</sub>	T <sub>critical</sub>	Ho	Ha
0,281	3,877	1,96	Rejected	Accepted

T value apparatus competence variable (3.877) is greater than the critical t (1.96). Since the value of t is greater than the critical t, then the error rate of 5% was decided to reject Ho.

Table 8 Result testing Influence internal control on the Quality financial reporting

Path Coef	T <sub>count</sub>	t <sub>critical</sub>	Ho	Ha
0,562	5,901	1,96	Rejected	Accepted

Based on the test results can be seen in the value of the variable t effectiveness of the internal control system (5.901) is greater than the critical t (1.96). Because tcount greater than tkritis, then the error rate of 5% was decided to reject Ho and Ha accepted

**b) The effect of financial reporting quality of the application of the principles of Good Governance Government**

Table 9 Structural Equation, Effect of Quality financial reporting on Good Governance Government

Endogenous Constructs	Exogenous Constructs		Error variance
	KPK		
GCG	0,749 (22,468)		0,438

Partially, the quality financial reporting contributes to or influence by 56.2% against the application of the principles of Good Government Governance. While the remaining 43.8% is the influence of factors other than the variables studied.

Table 10 Testing Result the Quality financial reporting and Good Government Governance

Path Coef	t <sub>count</sub>	t <sub>critical</sub>	Ho	Ha
0,749	22,468	1,96	Rejected	Accepted

T count variable quality of financial reporting (22,468) is greater than the critical t (1.96). Since the value of t is greater than the critical t, then the error rate of 5% so it was decided to reject Ho Ha received. Directly the quality of financial reporting by local governments contributed 56.2% to the application of the principles of Good Governance Government.

From the influence coefficient according to the classification of Guilford (1956: 145), competence has a weak positive effect (13,4%) on the quality of financial reporting, can be explained by proposing the fact that many local governments have not yet capable resources to implement good financial reporting, are considerably less power that there is generally still not specialized accounting background.

From the results of this study are consistent with previous research. Competence of personnel in financial management, especially in the government sector is very important. Apparatus inability to handle financial management, lack of background in accounting will lead to the inability to analyze the financial statements or the inability to understand the internal accounting reports (Rita H.Cheng, 2002). Furthermore, Nur Afiah (2004) simultaneously and partially stated legislators competence, the competence of local government bodies, implementation of accounting information systems, budgeting and financial information quality affect the principles of good governance. In line also with Hood and Lodge (2004) analyzed the competence of the senior civil servants at the national level in the three countries (USA, UK and Germany). Competence considered as a central theme in public service reform, so by tracing the development of competence as a show idea that reform competency describes the selective ideas in management and public services in order to achieve good governance. This study also reinforces with Palmer, Kristine N et al (2013) bring the competence related to the quality of financial statements.

Judging from the effect of internal control of financial reporting quality is relatively weak positive (37%) results (from 0.20 to 0.40 according to Gilford). Positive influence showed of the higher implementation of internal control in local government, the higher the quality of financial reporting. Previous research conducted by Ronald F. Premuroso, Robert Houmes declare no influence between the internal control and the quality of financial statements. Ii Bayhaqi Mustafa, 2004 states in the papers and Anti-Corruption Internal control states discuss the relationship between internal control and financial reporting manipulation and corruption in government. Dorothy A. McMullen et al stated empirical



research among the companies that do not use internal controls to those used in the event of problems in the financial reporting internal control affecting the company's financial reporting. Albert L Nagy stated that the regulation S404 which regulate the internal control systems in the financial statements so that the results of the financial statements may be more reliable.

From the results of this research is the quality of financial reporting by 56,2% giving effect to the application of the principles of Good Governance Government. Judging from the coefficient influence the causal effect of financial reporting to good government governance assessed moderate correlation. This is in line with research conducted by Yousef Shahwan (2008), Robert Bushman, (2004) and Reck, JL (2001), Geoffrey R. Njeru, 2000, Burnaby (1994)

Calculated from the  $R^2$ , apparatus competence and internal control systems together give the effect of 50.4% on the quality of financial reporting, while the remaining 49.6% is the influence of other factors not examined. Then the quality of financial reporting by local governments influence 56.2% of the application of the principles of Good Governance Government, while the remaining 43.8% is the influence of other factors not examined

## 5. CONCLUSION

Based on the data analysis and discussion of research results, it can be concluded as follows; (1) From the results of test Kruskal Wallis, there are no significant differences between Apparatus Competence and Internal Control, quality financial reporting and the good government governance in 7 local government (2) Apparatus Competence and Internal Control have weak positive effect on the Quality of Financial Reporting. Furthermore it was found that the Quality of Financial Reporting has moderate positive effect for Good Government Governance

- 1) From the test results obtained probability value of 0.530 for apparatus competence, 0.377 for the internal control, 0,527 for the quality of financial reporting, and 0.871 for the implementation of Good Government Governance, this means there are no significant differences between districts / cities in the former residency Pekalongan.
- 2) From the influence coefficient according to the classification of Guilford (1956: 145), competence has a weak positive effect (13,4%) on the quality of financial reporting. From the effect of internal control of financial reporting quality is relatively weak positive (37%) results. Apparatus Competence and internal control systems together give the effect of 50.4% on the quality of financial reporting,
- 3) From the results of this research is the quality of financial reporting by 56,2% giving moderate positive effect to the application of the principles of Good Governance Government. It means

It is recommended for local government to strengthen the apparatus competence with the education and training of government accounting because closely related to a good quality of financial reporting. Local government officials can adopt policies that are more sensitive to social issues, to make improvements to the performance of the apparatus itself through increased education and skills and the determination of ethical standards and behavior of the government apparatus itself. Training and experience as an internal auditor or an accountant is needed to enrich the quality of its own internal auditors and internal accountants that will improve the quality of policy and level of responsibility for the impact of decisions on other people's lives. Surveillance among government officials of Internal Control (APIP) for effective, economical and efficient,

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