



## Determinants quality of financial reports with government internal control system

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### ABSTRACT

The purpose of this study was to determine, test and analyze the effect of applying government accounting standards, utilization of regional financial information systems and human resource competence on the quality of financial reports, with the government's internal control system as a moderating variable. This study used a quantitative associative approach with data collection techniques through distributing questionnaires to the Regional Government Organizations of the Medan City Government. The population used in this study were 30 Regional Government Organizations of the Medan City Government. The sample in this study was taken by 3 people from each of the 30 Regional Government Organizations of the Medan City Government consisting of the head/secretary of the OPD, the head of the finance sub-division and the treasurer of Expenditure so that a total of 90 respondents were obtained. Data analysis techniques in this study used the Partial Least Square (PLS) based Structural Equation Modeling (SEM) method. The results showed that the application of government accounting standards had an effect on the quality of financial reports, the use of regional financial information systems had an effect on the quality of financial reports and the competence of human resources had an effect on the quality of financial reports. The government's internal control system can moderate the effect of implementing government accounting standards on the quality of financial reports, the government's internal control system cannot moderate the effect of using regional financial information systems on the quality of financial reports and the government's internal control system can moderate the influence of human resource competence on the quality of financial reports in Medan City Government Regional Apparatus Organization.

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### 1. INTRODUCTION

In order to realize overall government performance related to good governance, the government is required to carry out various efforts and strategies aimed at increasing transparency and accountability in the management of central financial reports and

regional financial reports, such as by making policies related to information systems to convey Accountability reports are quality financial reports that can be used as information for users of financial reports (Chen, 2012) (Husnan, Manan, & Jufri, 2023) (Bastida & Benito, 2007). According to Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) Financial reports are prepared to provide relevant information regarding the financial position and all transactions carried out by a reporting entity during a reporting period, (Ardila, Zurriah, & Suryani, 2019).

A financial report can be said to be of quality if it meets the elements that have qualitative characteristics and are in accordance with Government Accounting Standards (SAP, (Irfan, Sari, Muhyarsyah, & Irafah, 2020). Qualitative characteristics in financial reports according to Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP) are relevant, reliable, comparable and understandable. Financial reports can be said to be relevant if the information contained in them can influence users' decisions by helping them evaluate past or present events, and predict the future as well as confirm or correct the results of their evaluations in the past, (Irfan et al., 2020) Financial reports can be said to be reliable if the information in the financial reports is free from misleading meanings and material errors, presents every fact honestly, and can be verified. Financial reports can be compared if the information contained in the financial reports would be more useful if it could be compared with the financial reports of previous periods or the financial reports of other reporting entities in general, (Barker, 2004). Financial reports can be understood if the information presented in the financial reports can be understood by users and is expressed in forms and terms adapted to the users' understanding limits, (IPSASB, 2013).

It is very important for the government to produce quality financial reports because government financial reports have benefits as a medium for transparency, (Haustein & C. Lorson, 2023), public accountability, as a means of information and as a means of evaluating performance. According to (Aruan, 2019) states that the government has an obligation to publish information through financial reports which is used as a basis for decision making. Quality financial reports show that the government is responsible in accordance with the authority delegated to it in managing public entities. According to Kaimenakis, Cohen Sandra in (Sari et al., 2015) the quality of financial reports can be seen from the examination of auditors who provide opinions about the presentation of an organization's financial reports. One manifestation of the government's success is producing quality financial reports. Quality financial reports if they receive an unqualified opinion and are audited by the Financial Audit Agency (BPK). And according to (Sari et al., 2015) the quality of financial reports can be seen from the auditor's perspective in providing an opinion about the presentation of an organization's financial reports, (Tasios & Bekiaris, 2012).

The Financial Audit Agency (BPK) as the government auditor provides an assessment of regional financial reports every year, (Diana, Pruyudo, & Rukhviyanti, 2023). Based on Law Number 15 of 2004 concerning Auditing Management and Responsibility of State Finances (Nasution, Kaharuddin, & Cahyowati, 2022). The Financial Audit Agency in providing opinions on government financial report examiners provides 4 (four) audit opinions (NAVIANTIA, 2020). Namely Fair Without Exception (WTP), Fair With Exception (WDP), Unreasonable (TW) and Not Giving an Opinion (TMP). Providing an opinion on financial reports is a form of appreciation from the Financial Audit Agency, (Boynton & Johnson, 2005), for the results of auditing financial reports (Moroney & Trotman, 2016). Currently, the development of the quality of financial reports on LKPD has not been as expected by the government, (Hartanto, 2022). This can be seen from the opinion on the LKPD provided by the BPK that there are still opinions that do not express an opinion (Anasta, 2019). The following is data on the development of LKPD opinions in Indonesia for 2017-2021 (Raditya, Ermawati, Aswar, Andreas, & Panjaitan, 2022).

The Medan City Government has implemented Government Accounting Standards (Yahya, Hasibuan, Torong, & Muda, 2018). Utilizing regional financial information systems and human resource competencies in all accounting and financial reporting processes to produce a financial report (Rusnindita & Hidayat, 2023). Inspection Result Reports (LHP) Medan City Government obtained a Fair Without Exception opinion (WTP) from 2012 to 2014 (Shara, Muda, & Rujiman, 2019). However, in 2015 the Medan City Government obtained a Fair With Exception opinion (WDP) and this lasted until 2019 (Safitri, Nurullah, & HS, 2021). After that it obtained Consecutively from 2015 to 2019 (Safitri et al., 2021). The Medan City Government received a Fair Without Exception (WTP) opinion again in 2020 and 2021 (Sutrisna & Utama, 2021). This can be seen in the Medan City Government's audit report opinion data for the last ten years from 2012-2021 (Herawaty & Hernando, 2021). The Financial Audit Agency (BPK) has provided opinions to the Medan City Government for the last ten years from 2012 to 2021 (Mainingrum, Sylvia, Oktaviani, & Meuthia, 2023). The Medan City Government obtained an Unqualified Opinion (WTP) in 2012-2013 (Suwanda, 2015). However, the opinion on the financial reports of the Medan City Government still received a Fair Opinion with Exceptions (WDP) for five consecutive years, namely from 2015 to 2019 (Hasiara, Suyudi, Rahman, & Tjetje, 2023). Then, it again received a Fair Opinion without Exceptions (WTP) in 2020-2021. Even though the Medan City Government has received an Unqualified Opinion (WTP), according to the Financial Audit Agency (BPK) in the 2021 Regional Audit Results Summary, there are several problems with the Medan City Government's financial reports. The following are the problems with the financial reports of the Medan City Government which are contained in the Summary of Regional Audit Results for 2021 by the Financial Audit Agency (BPK). According financial problems is The budgeting classification of personnel expenditure, goods and services expenditure, social assistance expenditure, capital expenditure and other financial assistance expenditure on a number of OPDs is incorrect and income from Regional tax management is not yet orderly, Management of regional levies is not optimal and does not comply with provisions and asset from Inventory administration is not yet orderly, Management and administration of fixed assets is not orderly, Cash management is not yet orderly, Receivables management is inadequate.

The Financial Audit Agency (BPK) is tasked with examining financial reports every year. Therefore, every year local governments must prepare financial reports which will later be audited by the Financial Audit Agency (BPK). This is in accordance with Minister of Home Affairs Regulation no. 13 of 2006 requires regional heads (governors/regents/mayors) to submit LKPD to the BPK within three months after the end of the fiscal year. Meanwhile Law no. 15 of 2004 gives the BPK (at the latest) two months to examine the LKPD and then the BPK submits the LHP LKPD to the DPRD. Based on these regulations, the BPK is expected to complete the audit task on time, no later than two months. The timeliness of submitting financial reports depends on the audit period because financial reports cannot be issued before the audit is completed. Therefore, the quality of financial reports can be seen from the timeliness of submitting financial reports (Samsul Rosadi, 2017). The following is data on the submission of the Medan City Government's financial reports submitted to the Financial Audit Agency (BPK). The submission time for the Medan City Government LKPD was on time from 2012 to 2014. However, from 2015 to 2017 the submission time for the Medan City Government LKPD was not correct. time, namely submission on March 31, this is not in accordance with Permendagri No. 13 of 2006 requires regional heads (governors/regents/mayors) to submit LKPD to the BPK within three months after the end of the fiscal year. After that, from 2018 to 2021 the submission time for the Medan City Government LKPD was on time. Thus, the financial reports of the Medan City Government still have delays in submitting financial reports, namely from 2015 to 2017.

The first factor that influences the quality of financial reports is the implementation of government accounting standards (SAP). The application of government accounting standards (SAP) according to (Siregar, 2015) is the accounting principles applied in preparing and presenting government financial reports. According to (Jultri et al., 2021), if human resources or financial report management employees have good abilities in understanding government accounting standards (SAP), it can be ensured that they can produce quality financial reports. The second factor that influences the quality of financial reports is the use of regional financial information systems. According to Government Regulation Number 56 of 2005, a regional financial information system is a system that documents, administers and processes regional financial management data and other related data and becomes information that is presented to the public and used for decision making aimed at planning, reporting, accountability of local government. According to Ahmad Yani in (Rangkuti, 2022) states that the use of regional financial information systems can speed up the work process of regional financial management and can provide comprehensive regional financial information that will be useful for the community. One of the things that is useful in implementing accounting to prepare financial reports is the regional financial information system. The third factor that influences the quality of financial reports is human resource competency. In the field of government accounting, human resource competence is needed both in the central government and regional governments. According to (Sanjaya, 2017) stated that in carrying out tasks professionally, effectively and efficiently, human resource competencies are needed in accordance with the basic competencies and field competencies possessed by human resources. To implement a financial accounting system in the government, quality human resources are needed so that these human resources can understand accounting logic well so that the resulting financial reports will be of high quality. According to Yensi in (Ardianto & Eforis, 2019) states that human resource competencies are the abilities and characteristics possessed by a person such as the knowledge, skills and behavioral attitudes needed to carry out their duties. The following is a list of recapitulation of audit results related to weaknesses in the accounting and reporting system and weaknesses related to SPI related to problems with the process of preparing and submitting financial reports.

The factors that can influence the quality of financial reports can be moderated by the government's internal control system. According to (Rahmawati et al., 2018) the government's internal control system is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in achieving organizational goals through effective, efficient activities and reliable reporting. finance, safeguarding state assets and compliance with laws and regulations. According to Government Regulation Number 60 of 2008, every government agency has an obligation to implement a government internal control system in every activity. If the government's internal control system is implemented properly and correctly, the image of government agencies will improve because they are able to effectively and efficiently achieve their goals by producing quality financial reports and can prevent the country from suffering losses because they have human resources that comply with regulations. If the local government has a good government internal control system, the quality of the financial reports produced is also good, and vice versa, if the government's internal control system is not good, it causes the quality of the financial reports produced to be poor too.

Based on the background that has been explained, researchers are interested in conducting research entitled "Determinants of the Quality of Financial Reports Using the Government's Internal Control System as a Moderating Variable in Medan City Government Regional Organizations". So it can be concluded that the purpose of this research is to determine, test and analyze the influence of the implementation of government accounting standards on the quality of financial reports, the use of regional

financial information systems, the influence of human resource competence on the quality of financial reports and the influence of the government's internal control system as a moderating variable in the influence implementation of government accounting standards, utilization of regional financial information systems and human resource competence on the quality of financial reports in Medan City Government Regional Apparatus Organizations.

## 2. RESEARCH METHOD

### 2.1. Research Approach

The approach in this research is a quantitative approach. because this research aims to determine the causal relationship between two or more variables (Rusiadi, 2017).

### 2.2. Location and Time of Research

This research was conducted at the Regional Government Organization of Medan City, North Sumatra, Indonesia. This research period starts from January-August 2023.

### 2.3. Population and Sample

According to (Sugiyono, 2017) population is a generalized area consisting of objects or subjects that have quantities and characteristics determined by researchers to be studied and then conclusions can be drawn. The population in this study was 30 Medan City Government Regional Apparatus Organizations. The sample used in this research was 30 Regional Apparatus Organizations, each using 3 respondents consisting of the Head/Secretary of the Regional Apparatus Organization, Head of Finance Subdivision and Expenditure Treasurer.

### 2.4. Operational Definition of Variables

The operational definition of variables in this research is as follows:

Tabel 1. Definisi Operasional Variabel

No	Variable	Operational Definition	Indicator	Measurement Scale
1.	Implementation of Government Accounting Standards (X1)	Application of accounting principles applied in preparing and presenting government financial reports. (Government Regulation Number 71 of 2010; Mahartini et al., 2021)	1. Conformity of the financial accounting system with government accounting standards 2. Transaction recording procedures are carried out based on general accounting recording standards 3. Prepare financial reports and report them periodically (Rangkuti, 2022)	Ordinal
2.	Utilization of Regional Financial Information Systems (X2)	A system that documents, administers and processes regional financial management data and other related data into information presented to the public and as material for decision making in the context of planning, implementation and reporting of regional government accountability. (Government Regulation Number 56 of 2005)	1. Increase effectiveness 2. Answer information needs 3. Improve performance 4. Increase efficiency (Aruan, 2019)	Ordinal

3.	Human Resources Competency (X3)	The ability of a person or individual in an organization to carry out its functions or authority in achieving organizational goals effectively and efficiently (Husna, 2017)	1. Knowledge 2. Skills 3. Attitude (Decision of the Head of the State Civil Service Agency (BKN) Number 46A of 2007)	Ordinal
4.	Quality of Financial Reports (Y)	Characteristics of a financial report with several indicators regulated in Government Regulation Number 71 of 2010; (Government Regulation Number 71 of 2010)	1. Relevant 2. Reliable 3. Comparable 4. Understandable (Government Regulation Number 71 of 2010)	Ordinal
5.	Government Internal Control System (Z)	An integral process of actions and activities carried out continuously by leadership and all employees to provide adequate confidence in achieving organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations. (Government Regulation Number 60 of 2008; Widari and Sutrisno, 2017)	1. Control environment 2. Risk assessment 3. Control activities 4. Information and communication 5. Monitoring the internal control system (Government Regulation Number 60 of 2008)	Ordinal

## 2.5. Data Collection Technique

Data collection in this research uses primary data, namely data obtained directly and must be reprocessed, namely by using a questionnaire.

## 2.6. Data Analysis Technique

The data analysis technique in this research uses the Partial Least Square (PLS) approach. PLS is a component or variant-based Structural Equation Modeling (SEM) model. PLS is an alternative approach that shifts from a covariance-based to a variance-based SEM approach (Ghozali & Latan, 2017).

## 3. RESULTS AND DISCUSSIONS

### 3.1. RESULTS

#### a. Outer Model Testing

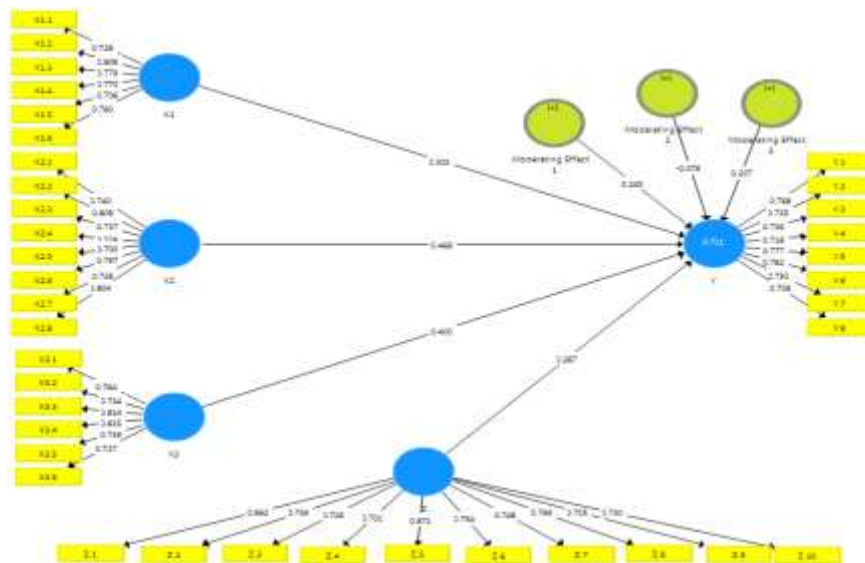


Figure 1. Outer Model Test Results

Based on the image above, it can be seen that all outer model values between constructs and variables have met convergent validity because the indicators have validity values above 0.5. Figure 4.6 shows the correlation values for variables X1 (application of government accounting standards), X2 (utilization of regional financial information systems), is already above 0.5 so that there are no constructs for several variables that must be eliminated from the model.

Table 2. Average Variance Extracted (AVE), Composite Reliability, Cronbach's Alpha

Variable	Average Variance Extracted (AVE)	Composite Reliability	Cronbach's Alpha
Penerapan Standar Akuntansi Pemerintah (X1)	0,576	0,890	0,853
Pemanfaatan Sistem Informasi Keuangan Daerah (X2)	0,568	0,913	0,892
Kompetensi Sumber Daya Manusia (X3)	0,593	0,897	0,862
Kualitas Laporan Keuangan (Y)	0,558	0,910	0,887
Sistem Pengendalian Intern Pemerintah (Z)	0,581	0,933	0,920

Based on the table above. It is known that the Average Variant Extracted (AVE) value in variables X1 (implementation of government accounting standards), X2 (utilization of regional financial information systems), > 0.5, then it is stated that each variable has good discriminant validity. The composite reliability value for all research variables is > 0.6. These results indicate that each variable has met composite reliability so it can be concluded that all variables have a high level of reliability. The Cronbach's alpha value for each research variable is > 0.7. Therefore, these results indicate that each research variable has met the requirements for high reliability.

b. Inner Model Testing

Based on the data processing that has been carried out, the results can be used to answer the hypothesis in this research. Testing this hypothesis is to determine the path coefficients of the structural model. The goal is to test the significance of all relationships or hypothesis testing. Hypothesis testing in this research was carried out by looking at the t-statistic and p-value. The independent variable is declared to have an

influence on the dependent variable if the t-statistic is > 1.96 and the p-value is < 0.05. The image of the hypothesis test results can be seen in the following SmartPLS results image:

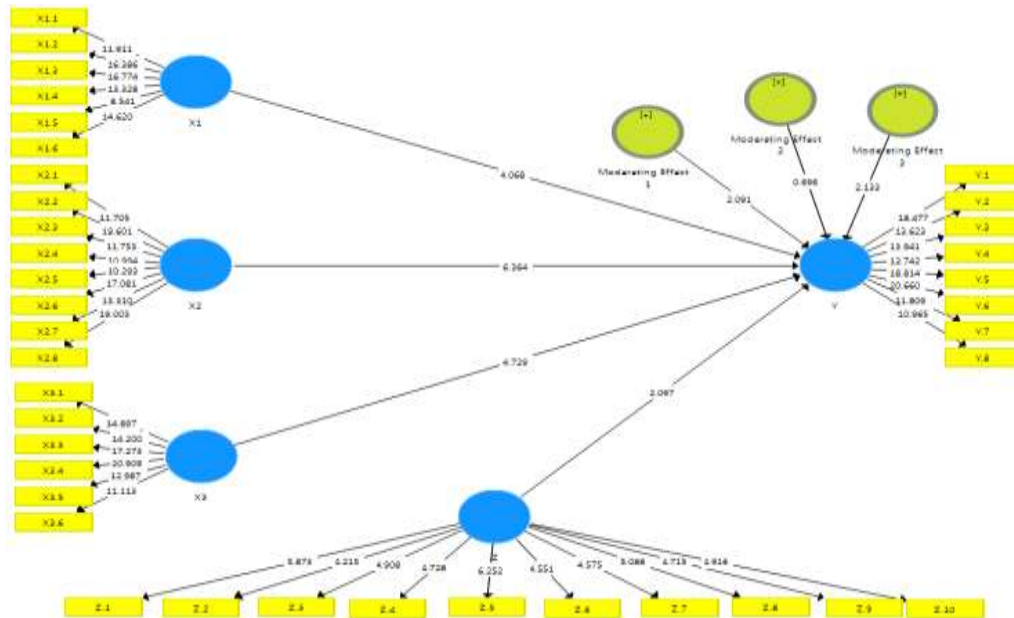


Figure 2. Inner Model Test Results

The results of the hypothesis test for the effects between variables can be seen in the path coefficient table as follows:

Table 3. Hypothesis Testing Results for Inter-Variable Effects (Patch Coefficient)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
X1 -> Y	0.303	0.306	0.074	4.068	0.000
X2 -> Y	0.468	0.455	0.073	6.364	0.000
X3 -> Y	0.400	0.395	0.085	4.729	0.000

Based on the table above, it can be stated that the research results are as follows:

- a. The effect of implementing government accounting standards on the quality of financial reports

The effect of implementing government accounting standards on the quality of financial reports can be seen that the t-statistic value is 4.068 > 1.96 and the p-value is 0.000 < 0.05, so it can be interpreted that the implementation of government accounting standards has an effect on the quality of financial reports in City Government Regional Apparatus Organizations. Medan.

- b. The influence of the use of regional financial information systems on the quality of financial reports

The influence of the use of regional financial information systems on the quality of financial reports can be seen that the t-statistic value is 6.364 > 1.96 and the p-value is 0.000 < 0.05, so it can be interpreted that the use of regional financial information systems has an effect on the quality of financial reports in Regional Apparatus Organizations Medan City Government.

- c. The influence of human resource competency on the quality of financial reports

The influence of human resource competency on the quality of financial reports can be seen to have a t-statistic value of  $4.729 > 1.96$  and a p-value of  $0.000 < 0.05$ , so it can be interpreted that human resource competency has an influence on the quality of financial reports in Regional Government Organizations. Medan city.

The results of the moderation effect hypothesis test can be seen in the path coefficient table below:

Table 4. Moderation Effect Hypothesis Testing Results (Patch Coefficient)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Moderating Effect 1 -> Y	0.245	0.199	0.117	2.091	0.037
Moderating Effect 2 -> Y	-0.076	-0.054	0.109	0.696	0.487
Moderating Effect 3 -> Y	0.207	0.198	0.097	2.133	0.033

Based on the table above, it can be stated that the research results are as follows:

- a. The effect of implementing government accounting standards on the quality of financial reports is moderated by the government's internal control system

The influence of the implementation of government accounting standards on the quality of financial reports is moderated by the government's internal control system which has a path coefficient of 0.245, judging from the magnitude of the influence, it is 0.245 or equal to 24.5%. This influence has a t-statistic value of  $2.091 > 1.96$  and a p-value of  $0.037 < 0.05$ , so it can be interpreted that the government's internal control system can moderate the influence of the implementation of government accounting standards on the quality of financial reports in Medan City Government Regional Apparatus Organizations.

- b. The influence of the use of regional financial information systems on the quality of financial reports is moderated by the government's internal control system

The influence of the use of regional financial information systems on the quality of financial reports is moderated by the government's internal control system, which has a path coefficient of -0.276. This influence has a t-statistic value of  $0.696 < 1.96$  and a p-value of  $0.487 > 0.05$ , so it can be interpreted that the government's internal control system cannot moderate the influence of the use of regional financial information systems on the quality of financial reports in Medan City Government Regional Apparatus Organizations.

- c. The influence of human resource competency on the quality of financial reports is moderated by the government's internal control system

The influence of human resource competence on the quality of financial reports is moderated by the government's internal control system which has a path coefficient of 0.207, judging from the magnitude of the influence it is 0.207 or equal to 20.7%. This influence has a t-statistic value of  $2.133 > 1.96$  and a p-value of  $0.033 < 0.05$ , so it can be interpreted that human resource competence can moderate the influence of the implementation of government accounting standards on the quality of financial reports in the Medan City Government Regional Apparatus Organization.

#### 4. CONCLUSION

Based on the research results and discussions that have been presented, it can be concluded from this research that the implementation of government accounting standards has an effect on the quality of financial reports. The more adequate the implementation of government accounting standards, the better the quality of financial reports in Medan City Government Regional Apparatus Organizations. The use of regional

financial information systems influences the quality of financial reports. The better the utilization of the regional financial information system, the better the quality of financial reports at the Medan City Government Regional Apparatus Organization. Human resource competency influences the quality of financial reports. The better the competence of human resources, the better the quality of financial reports at the Medan City Government Regional Apparatus Organization. The government's internal control system can moderate the influence of the implementation of government accounting standards on the quality of financial reports, the government's internal control system cannot moderate the influence of the use of regional financial information systems on the quality of financial reports, the government's internal control system can moderate the influence of human resource competence on the quality of financial reports in Medan City Government Regional Apparatus Organization.

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