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THE ROLE OF APPARATUS COMPETENCE, INTERNAL CONTROL SYSTEM ON GOOD GOVERNANCE AND THE QUALITY OF FINANCIAL STATEMENT INFORMATION

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ABSTRACT

This study aims to investigate and test the effect of competence of the apparatus, internal control system on good governance and the quality of financial statement information. The study was carried out on 189 in apparatus in the Regional Work Unit (SKPD) Selayar Islands District. Hypothesis testing using analysis of a moment structures (AMOS). The results of the study provide evidence that the competence of the apparatus and internal control systems has a positive and significant effect on good governance. The competence of the apparatus has a positive and significant effect on the quality of financial statement information. Internal control system and Good governance has a negative and in significant effect on the quality of financial reporting information.

Keywords: Competence, internal control system, good governance, quality of financial statement information.

INTRODUCTION:

Financial management of the State in Indonesia is carried out on the basis of Act No. 17 of 2003 about the finances of the State requires the form and content of reports accountability implementation. The Indonesian Budget (APBN) or Regional Government Budget (APBD) compiled and presented with government accounting standards set by government regulations. The laws were implemented in association with Government Regulation Number 71 in 2010 about Government accounting standards Board (GASB). GASB is the accounting principles set out in drawing up financial statements to the Government. An important goal of the reform of the accounting and administration of the public sector is the accountability and transparency of financial management of the Central Government as well as the region.

The finance report generated through the audit results from the Indonesian financial audit board (BPK) on local government of 'Selayar islands' district for five years, from 2009-2013, provides BPK gives no Opinion this means that there has not yet been drawn up on the basis of Government accounting standards. Based on the Indonesian financial audit board (BPK) report in 2014 for the fiscal year of 2013, it was inferred that a very weak control system is in place so that the examiner cannot give confidence that the financial statements are free from material rendering errors, due to poor financial management of the Selayar Islands that leads to loss of as much as 25 Cases or worth 10,906.10 million rupiah.

The real cause behind the poor quality of financial statements is due to the improper functioning of financial governance. The Financial governance of Selayar Islands district were not executed transparently in order to generate a reasonable financial report mainly on governance of the regional cash, receivables, inventories, Fixed Assets investment, goods, shopping, social assistance expenditures and capital expenditures.

The practice of Good Governance requires the Government to be operated by following certain principles of good management such as transparency, accountability, participation, justice and independence, so that the state government resources are managed properly to really accomplish much to the prosperity and progress of the people and the country. The application of the principles of good governance in the country not to be separated from the issue of accountability and transparency in the management of the finances of countries and regions (Cadbury, 1992). One of the most important functions of corporate governance is to ensure the quality of financial statement information (Cohen & Wright, 2004:87).

Previous studies provide evidence that the internal control system has a positive and significant effect of the quality of financial statement information and good governance (Hayton, 2005; Daniesta, 2011; Sukmaningrum & Puji Harto, 2012; Suyono & Hariyanto, 2012; Haliah, 2013; Nuryanto & Nunuy, 2013; I Putu & Wayan, 2014; Indriasih, 2014). The difference in findings provide evidence that there is no significant effects between the internal control system on good governance and the quality of financial statement information (Hary Setiyawati, 2013; Yensi *et al.*, 2015).

Financial governance in the Selayar Islands is associated with the quality of financial reporting information which is yet to demonstrate conformity. This is evidenced by various factors such as high dependence of the financial area to the Central Government through General Allocation Fund and Special Allocation Fund low reception area resource management, No orderly fashion in the administration and logging goods/assets of the region, expenditure not in accordance with the provisions and is not supported by an adequate record-keeping followed by utilization of Assets that don't fit with its use. The result of the financial governance are less-good-lead-work participation rates are reduced, the implementation of the work rules are often ignored, no transparency in budget management, lack of response in increasing employment, discrimination among the Division of tasks, delayed work output, inefficient, as well as the low level of responsibility in improving financial performance.

Other causality based on the previous research, that the governance has a positive effect on the quality of financial statement information (John Holland, 1999; Mattingly, 2007; Klai & Omri, 2011). These were strongly inconsistent with the findings of other studies, that good governance has a negative effect on the quality of financial statement information (Góis, C, 2009).

Improvement on financial governance of the area and the quality of financial statement information is not only influenced by the internal control system, but is also affected by the establishment of the competence of the Government in this respect the professionalism of financial managers, officers to generate financial information to benefit the users, then the financial reports should be prepared by personnel who have the competence in the field of financial management and accounting system (Tuasikal, 2007). The competence of human resources is one of the important factors in determining the quality of financial reporting information (Xu *et al.*, 2003). Competence is a characteristic of a person who has the skills, knowledge, and abilities to execute a job (Hevesi, 2005).

Those officials and financial executors in practice at Selayar Islands district still does not have sufficient competence in running and developing the given task. The competence that owned is not able to answer a wide range of issues in the fields of finance, did not provide an important transformation in the development of governance and to improve the quality of financial reporting information. So there are frequent delays, mistakes, discrepancies, and various regulatory and policy leadership in carrying out the duties of finance provided.

Previous studies provide evidence that the competence of the apparatus has a positive and significant effect on good governance and quality of financial statement information (Rahman *et al.*, 2012; Mihaela & Iulian, 2012; Nuryanto & Nunuy, 2013; Indriasih, 2014; Afiah, & Rusmana, 2014; I Putu & Wayan, 2014). The rebuttal evidence of other researchers, that the competence of the apparatus do not affect significantly on the quality of financial statement information (Sukmaningrum & Harto, 2012; Sagara, 2015).

LITERATURE REVIEW:

The Quality of Financial Statement Information:

The financial report is very important for the serving Government which needs to pay attention to its quality. Quality is something that meets or exceeds expectations or criteria that have been set. The criteria for assessing the quality of financial reports according to Government regulations (PP) No. 71 in 2010 about accounting standards the Government of Indonesia is understandable, relevant, reliable and can be compared. These criteria refer to the information presented in the financial statements.

The users of the financial statements was confident in taking the decision because it was based on information that has been well prepared, approved and audited in a transparent, responsive and quality (Haliah, 2013). Other views propose, that the quality of financial reporting information is the value of information, and hence the soundness of decisions, can be affected by qualities that attach to the information. Useful information qualities are relevance, accuracy, timeliness, conciseness, clarity, consistency (Wilkinson *et al.*, 2000:18)

Good Governance:

Good governance is the set of processes of social and political interaction between the Government with the community in a variety of fields related to the interests of the community and Government intervention over the interests (Kooiman, 1993). The main elements of governance are accountability, transparency, openness, and the rule of law coupled with competence Management and human rights (Sedarmayanti, 2012).

There are at least three things that can be allowed by the public sector accounting in financial management areas (Mardiasmo, 2002; 25), namely: the creation of transparency, public accountability, and value for money (economy, efficiency, and effectiveness). Its elements include: (a) transparency, namely the openness of the Government in making the financial policies of the region so that it can be known and supervised by the legislature and the community; (b) Accountability requires that the decision makers behave in accordance with the mandate received. For this, the formulation of policies, together with the means and the results of these policies should be accessible and communicated vertically or horizontally with the good; (c) Value For Money (VFM) is. An indication of the success of regional autonomy and decentralization is the occurrence of increased services and community welfare (social welfare) who is getting better, the lives of the more advanced democracy, justice, equity, as well as the presence of a matching relationship between the Center and regions as well as between regions. These circumstances will only be achieved if public sector institutions managed with attention to the concept of value for money.

Internal Control System:

The Committee of Sponsoring Organization's of the Tread way Commission (COSO) internal control define a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) effectiveness and efficiency of operations, (b) reliability of financial reporting, (c) compliance with applicable laws and regulations.

The definition of internal control formulated by COSO, adopted by the Government of the Republic Indonesia in the form of Government Regulation No. 60 in 2008 about the internal control System of Government (SPIP), that SPIP was an integral process in actions and activities performed continuously by the leadership and the entire Apparatus to provide adequate confidence over the goal of the Organization through effective and efficient activities, the reliability of financial reporting, safeguarding Assets of the State, and the adherence to the regulations. Based on such understanding, then the purpose of internal control: (1) activities are effective and efficient, (2) a reliable financial reports, (3) safeguarding of assets. (4) The adherence to the regulations

Competence of the Apparatus:

Competence of the apparatus has an important role in influencing the financial governance and quality financial reporting information. Competence is a fundamental characteristic that is important in a person who embodies

the success predicted. It is something more valuable than academic intelligence, something that can be determined accurately and be the critical vector that differentiate between someone who has the skills called competencies (Martin 2002:151).

Competence is an adequacy for task or possession of required knowledge, skill and abilities (Huston & Robert, 2008:3). The same assumptions explains that the competence of existing capacity is defined as someone who could make the person is able to fulfill what is presupposed by the work within an organization, so that the organization is able to achieve the expected results (Hutapea & Thoha, 2008:4).

RESEARCH METHOD:

The current research employs *explanatory research*, the study was conducted on 205 (sample size) apparatus in the Regional Work Unit (SKPD) Selayar Islands District. Data analysis was performed using the Analysis of *Structural Equation Modeling* (SEM), through the program *Moment of Structural Analysis* (AMOS) Ver.18 with SPSS version 21.0.

DATA COLLECTION:

The number of questionnaires distributed in this study as many as 205 pieces, the rate of return as many as by 94.02% i.e., 189 out of 205. The characteristics of respondents consist of: gender, age, length of employment, recent education and participation in training owned financial by respondents in carrying out their work activities

Table 1: Participants

Participants' Profile	n	%
Gender		
- Male	90	47.6
- Female	99	52.4
Years		
- 21 to 29.9	16	8.5
- 30 to 38.9	80	42.3
- 39 to 47.9	69	36.5
- 48 to 56.9	24	12.7
Job tenure (years)		
- 0 - 8	46	24.3
- 9 - 17	82	43.4
- 18 - 26	51	27.0
- 27-35	10	5, 3
Educational level		
- Senior High School	58	30.7
- Undergraduate	116	61.4
- Master degree	14	7.4
- Doctoral degree	1	0.5
Following Financial Training		
- Ever	80	42.3
- Never	109	57.7
Total	189	100%

Source: Author (2016) Table 1 show that the majority of respondents were female by 52.40% and majority of them at the level of undergraduate as much as 61.40%.

RESULTS:

The test results show that the models of the eight criteria for 'goodness of fit' the model of structural index were constructed to estimate the parameters in accordance with the data of observation. Overall criteria had already qualified minimum threshold (cut-off point) required, such as the value of Chi-square ($DF=172$) with a cut-off value = $182.527 < 203.602$, Probability = $0.277 \geq 0.05$ RMSEA = $0.018 \leq 0.08$, CMIN / DF = $1.061 \leq 2.00$, GFI = $0.926 \leq 0.90$, $0.90 \leq AGFI = .882$, CFI = $0.995 \geq 0.95$, TLI = $0.992 \geq 0.95$ (Fit indices for structural equation modeling).

H₁: Effect of Competence of the apparatus on Good Governance

The results of the descriptive analysis showed that the competence of the apparatus is reflected through the dimensions of knowledge with a mean value of 4.43. The results clarify that by having sufficient knowledge, the Apparatus is able to know and understand the duties and responsibilities of each and capable of working in accordance with the rules and procedures and is able to use the information, tools and techniques with the appropriate and correct.

Confirmatory Factor Analysis results showed the important or dominant factors which reflect the variable competence apparatus such as the dimension properties with a value of loading factor of 0.842. This denotes that the Competence of the apparatus is reflected through nature or physical character and a consistent response towards situations and information. This dimension is able to make a contribution amounting to 84.20% against the competency of the apparatus. The results of this study confirm that an apparatus which has competence will be reflected in the personality, character and behavior that can be emulated as well as having an assertive and authoritative attitude. With the consistent response characters and surely will improve good governance or good governance that will eventually produce a quality of financial statement information.

The effect of the competence on good governance can be evidenced by the component values of the regression weight estimate of 0.829 with the positive direction. Influence coefficient marked positive meaning that the high competence of the apparatus, affecting the success rate of implementation of good governance.

The results can also be proved by the value of the critical ratio = $8.528 > 2.00$ and the probability value of $0.000 < 0.05$. The test results prove the competence of the apparatus has a positive and significant effect on good governance. Based on these results, it can be concluded that the higher the competencies possessed by the apparatus, so the real impact on the success of the good governance implementation.

The cause of the significance of the effect of competence of the apparatus on good governance caused the establishment realized that creating good governance in local governance particularly regional financial management need reliable human resources competencies that can be measured from the motif, nature, self concept, knowledge and skills. The results of this study support previous research, that the competence has a positive and significant effect on good governance (Daniesta, 2011; Trakulmututa & Chaijareonwattana, 2013). Then rejected the findings of other researchers that competence has a negatively effect on good governance (Hayton, 2005; Sukmaningrum & Harto, 2011).

H₂: Effect of Internal Control System on Good Governance

The results of the descriptive analysis showed that the internal control system which is reflected through the dimensional control of environment variables have the mean value of 4.25. This means that the leadership of the local government agencies and the entire Apparatus has created and maintains a good working environment with positive behavior in support of internal control and management. The positive behavior that manifest in integrity and ethics, commitment to competence, leadership conducive, philosophy and style of operation management, organizational structure and delegation of authority and responsibility.

Confirmatory Factor Analysis results showed the important or dominant factors which reflect the internal control system of the variable are the value of the control activities of the loading factor of 0.855. These results confirm that a good internal control system is characterized through control activities against the policies and procedures as well as carry out the direction of the leadership to reduce the risk to the value of the contribution of 85.50% in reflecting on the dimensions of a good control activity and the highest compared to other dimensions.

The findings of this study confirm that a good internal control system is shown through control over the management of the information system, control of physical assets, against the separation of functions upon authorization, transactions and events are important, an accurate and precise recording of time over the transaction and occurrence, accountability towards resources and recordation, documentation of good internal control system as well as a top good documentation of transactions and significant events.

The effect of Internal Control System on good governance can be evidenced by the component values of the regression weight estimate of 0.163 with positive direction. The coefficient marked positive meaning that a

good internal control system, resulting in increased success good governance. The results can also be evidenced by the value of the critical ratio = $2.936 > 2.00$ and probability values of $0.003 < 0.05$. This result proves that the Internal Control System has a positive and significant effect on the implementation of good governance. Based on these results, it can be concluded that the better the internal control system, then the real impact on the success of the good governance implementation.

The findings of this study are in line with the findings of previous researchers that the Internal Control System has a positive effect on good governance (Hayton, 2005; Sukamningrum & Harto, 2011; Mihaela & Iulian, 2012; Suyono & Hariyanto, 2012; Setiyawati, 2013). There is evidence that the other Researchers, the Internal Control System has a negative and insignificant effect on good governance (Daniesta, 2011).

H₃: Effect of Competence of the apparatus on the quality of financial statement information

Confirmatory Factor Analysis results showed important or dominant factors which reflect the variable competence apparatus is the dimension properties with a value of loading factor of 0.842 means that the Competence of the apparatus is reflected through nature or physical character and a consistent response towards situations and information. This dimension is able to make a contribution amounting to 84.20% against the competency of the apparatus. The results of this study confirm that an apparatus which has competence will be reflected in the personality, character and behavior that can be emulated as well as having an assertive and authoritative attitude. With the character and the consistent response of course will produce a quality of financial statement information.

The effect of the competence on quality of financial statement information can be proven with a value of component regression weight estimate of 0.705 with the positive direction. The coefficient marked positive meaning that the high Competence of the apparatus, affect the level of quality of financial statement information.

The results can also be evidenced by the value of the critical ratio $2.00 > 2.275$ and the probability values of $0.023 < 0.05$. The test results prove the Competence of the apparatus has a positive and significantly effect on quality of financial statement information. Based on these results, it can be concluded that the higher the competencies possessed by the apparatus, so the real impact to quality financial reporting information. The cause of the significance of the influence of the quality of apparatus information competence of financial statements caused the establishment realized that to generate a quality financial reporting information requires reliable human resources competencies that can be measured from the motif, nature, self concept, knowledge and skills.

The findings of this study are in line with the findings of previous researchers that the competence of a positive and significant effect apparatus to the quality of financial report information (Rahman *et al.*, 2012; Setiyawati, 2013; Nuryanto & Nunuy, 2013; Yensi *et al.*, 2014; I Putu & Wayan, 2014). This finding contrasts with the findings of other researchers, that the competence of the apparatus does not have a significant effect on the quality of financial reporting information (Sagara, 2015).

H₄: Effect of the Internal Control System on quality of financial statement information.

The results of the descriptive analysis showed that the internal control system which is reflected through the dimensional control of environment variables have the mean value of 4.45. This means that the leadership of the local government agencies and the entire Apparatus has a willingness to create and maintain a good working environment with positive behavior in support of internal control and management. The positive behavior that manifest in integrity and ethics, commitment to competence, leadership conducive, philosophy and style of operation management, organizational structure and delegation of authority and responsibility.

Confirmatory factor analysis results showed the important or dominant factors which reflect the internal control system of the variable are the value of the control activities of the loading factor of 0.855. These results confirm that a good internal control system is characterized through control activities against the policies and procedures as well as carry out the direction of the leadership to reduce the risk to the value of the contribution of 85.50% in reflecting on the dimensions of a good control activity and the highest compared to other dimensions.

The findings of this study confirm that a good internal control system is shown through control over the management of the information system, control of physical assets, against the separation of functions upon authorization, transactions and events are important, an accurate and precise recording of time over the transaction and occurrence, accountability towards resources and recordation, documentation of good internal control system as well as a top good documentation of transactions and events is important.

The effect of internal control system on the quality of financial statement information can be proven with a value of component regression weight estimate of -0.074 with negative direction. The coefficient marked negative meaning that the low level of internal control system, led to a decline in the quality of financial reporting information. The results can also be evidenced by the value of the critical ratio - $0.759 < 2.00$ and the

probability values of $0,448 > 0.05$. This result proves that the good internal control system have a negative and not significant effect on quality of financial statement information.

Based on these results, it can be concluded that the system of internal control, does not contribute significantly to the quality of financial reporting information, cause the leadership and the entire Apparatus in finance has yet to run a control systems ranging from planning, implementation, supervision, up to full responsibility in an orderly, controlled and efficient and effective. The empirical evidence shows that the internal control system based on the response apparatus are in categories that are either high or indicated by the average value of the dimensions of the internal control system of variable 4.25 (very good and leads to a statement strongly agree), so it can be stated that based on the response Apparatus, a system of internal control are in the excellent category even led to the creation of the system of internal control is excellent. The findings of this study support the findings of previous researchers that the internal control system was not significant on the quality of financial statement information (Daniesta, 2011; Setiyawati, 2013; Yensi *et al.*, 2014).

H5: Effect of good governance on quality of financial statement information.

The results of the descriptive analysis show that good governance which is reflected through variable dimensions of law enforcement has a mean value of 4.59. This means that the leadership of the local government agencies and the entire Apparatus having the same views on the importance of the rule of law that applies fair and equal for all citizens. Law enforcement may be through regulations and conditions are firm and consistent, law enforcement is fair and not discriminatory, the presence of action against any lawbreakers as well as awareness and compliance with the law.

Confirmatory factor analysis results showed the important or dominant factors which reflect the variable are participation good governance with the loading factor value of 0.809. These results confirm that the success of the implementation of good governance is characterized through the participation or involvement of all citizens in decision-making financial management both directly and through their representatives in the legislature. Participation is marked with an understanding of local government agencies and the community about the processes or participatory method as well as the opening of public access to delivering opinions in the decision-making process. Contributions of participation dimensions towards good governance of 80.90%

The effect of good governance on the quality of financial statement information can be proven with a value of component regression weight estimate of 0.533 with negative direction. The coefficient marked negative meaning that good governance contributes negatively to the quality of the quality of financial statement information. The results can also be evidenced by the value of the critical ratio $-1.904 < 2.00$ and the probability values of $0,057 > 0.05$. These results prove that good governance effect is negative and not significant on the quality of financial statement information. Based on these results, it can be concluded that the better good governance, then there's a real impact to quality of financial statement information.

The contribution of Good governance effect is negative and not significant on the quality of financial statement information occurs because of the leadership and the entire Apparatus in finance have yet to apply the principles of Good governance to its full potential. Still there are dimensions and indicators that still need to be improved its application to contribute to quality financial reporting information. The empirical evidence shows that good governance based on the response apparatus are in categories that are either high or indicated by the average value of the variable dimension of good governance of 4.28 (very good and leads to a statement strongly agree), so it can be stated that based on the response Apparatus, good governance is in a very good category. The findings of this study reject the findings of previous researchers that good governance is positive and significant effect on quality of financial statement information (Holland, 1999).

H6: Effect of Competence of the apparatus on quality of financial statement information. The mediating role of good governance

The mediating role of good governance with the p-value of $0.000 < 0.05$ obtained from the interaction of P-Value competence of the apparatus on quality of financial statement information $0.000 < 0.05$ X good governance on quality of financial statement information $0.057 > 0.05$, while the magnitude of the effect of indirect interaction coefficients obtained from the competence of the apparatus on good governance with the path-coefficient value on quality of financial statement information $0,829 \times -0,533 = -0,442$, so that the effect of the total Competence of the apparatus on quality of financial statement information as a mediated good governance is $(0,705 + (-0,442)) = 0.263$.

These results make it clear that good governance is significantly acting as mediating variables in explaining the effect of Competence of the apparatus on quality of financial statement information. However, based on the results of the examination to find out the types of mediating variable then good governance in the research model is said to be not as mediating variables. This means that the competence of the influential real apparatus

to the quality of financial reporting information, the competence of the apparatus effect significantly on good governance, but good governance is not real its effect on quality of financial statement information so without supported by good governance, the Competence of the apparatus can be real directly effect to improved quality of financial statement information.

The results of this research inconsistency with the maximization of performance theory that the competence and good governance to support the achievement of maximum performance reflected in the study of the quality of financial statement information. This means that every organization is attempting to manage the activities of its work through the people who have competence in accordance with the motive, the nature, the concept of self, his/her knowledge and skills to run a good governance principles in producing a quality financial report information in accordance with the use of the budget, budgeting process, the achievement of targets in accordance with the budget target (Kreitner *et al.*, 2002).

H7: Effect of internal control system on quality of financial statement information. The mediating role of good governance

The test results of indirect effect internal control system on quality of financial statement information. The mediating role of good governance with a p-value of $0.000 < 0.05$ obtained from the interaction of p-value internal control system on good governance $0.003 < 0.05$ X good governance on the quality of financial statement information $0.057 > 0.05$, while the magnitude of the effect of indirect interaction coefficients obtained from the path of internal control system on good governance and Path coefficient value good governance on the quality of financial statement information $0.163 \times -0.533 = -0.087$, so the effect of the internal control system on quality of financial statement information as a mediated good governance is $(-0.074 + (-0.442)) = -0.161$

These results make it clear that good governance is significantly acts as a mediating variable in explaining the effect of internal control system on the quality of financial statement information. However, based on the results of the examination to find out the types of variables mediating variable then good governance in this research model is said to be not as mediating variables. This means that the internal control system has no effect on the quality of financial statement information, internal control system significantly effect on good governance, but good governance is not significant on the quality of financial statement information so with no or supported by good governance, internal control system directly cannot provide any real effect on the quality of financial statement information.

CONCLUSION AND RECOMMENDATIONS:

The Competence of the apparatus has a positive and significant effect on good governance. Competency of local government apparatus that is reflected from the motives, traits, self-concepts, knowledge and skills are able to realize good governance. Internal control systems directly affect positively and significantly on good governance. Improved internal control system consists of the control environment, risk assessment, control activities, information and communication systems and monitoring for an effect on improving the implementation of good governance. The Competence of the apparatus has a positive and significant effect on quality of financial statement information. Competency of apparatus to improve the quality of financial reporting information that is relevant, reliable, comparable and understandable by any user. The high quality of financial statement information can be used as a decision-making tool. The internal control system has a negative and not significant effect on quality of financial statement information. The internal control system that is applied as long as it has not been fully executed so well that implies a reduced quality of the resulting financial statement information. Good governance effect is negative and not significant to quality financial reporting information. This means that the principles of good governance have not been applied so consequently significantly affects the quality of the resulting financial statement information.

The Competence of the apparatus needs to be maintained and further enhanced by providing education and training opportunities and the like specifically related to financial management to every local government apparatus. Internal control systems need to be improved by implementing internal control components of each operation activity ranging from planning, implementation, supervision, up to liability in an orderly, controlled and efficient and effective so that they can generate information financial statements are relevant, reliable, comparable and understandable. Good governance need to be performed in accordance with the principles of openness, fairness, and socially in order to produce reliable financial reporting information.

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