

# THE INFLUENCE OF HUMAN RESOURCES COMPETENCY AND THE USE OF INFORMATION TECHNOLOGY ON THE QUALITY OF LOCAL GOVERNMENT FINANCIAL REPORT WITH REGIONAL ACCOUNTING SYSTEM AS AN INTERVENING

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## ABSTRACT

This study aims to find out the influence of human resources competency and the use of information technology on the quality of local government financial report with regional accounting system as an intervening variable to regional works unit in Labuhanbatu Regency, Indonesia. The sampling technic in this study is using saturated sampling. There were 108 questionnaires distributed for all the staff members. The hypothesis was analyzed by using *Structural Equation Model* (SEM) with the help of SmartPLS software 2.0 M3. The result of this study is, partially, the human resources competency and the use of information technology have positive and significant influence towards the Regional Financial Accounting System (SAKD) in Labuhanbatu Regency, Indonesia.. The Regional Financial Accounting System (SAKD) mediates the influence of the Human Resources Competency and the use of information technology which do not have positive and significant influence on the quality of local government financial report of Labuhanbatu regency. This study recommends that there should be a comprehensive training program to improve the human resources competency in increasing the quality of local government financial report. Besides that, the head management should support the implementation of The Regional Financial Accounting System and Internal Control in order to improve the quality of local government financial report to be more optimal.

**Keywords :** *The Quality of Local Government Financial Report, Information Technology and the Regional Financial Accounting System, Regional Works Unit and Utilization.*

## 1. INTRODUCTION

Nowadays, transparency and accountability are the important effort to do to create good governance and clear governance as one of the manifestation of reform. "The transparency as a principle of guaranteeing access to or freedom for every person to obtain information about governance, information on the policy-making and implementation process and the results achieved" [2, 4, 13, 14, 15 & 23], (transparency as a principle of guaranteeing access or freedom for every individual to obtain the information about governance, information about the policy process of making and implementation, also the achieved results). Whereas, the meaning of the accountability is "...accountability is accountable for resource management and policy implementation is entrusted to the reporting entity in achieving the

goals set periodically [6, 17 & 18]. Accountability is accountable for resource management and policy implementation which is entrusted to the reporting entity in achieving the goal which has been assigned periodically.

To build a good governance, the the first thing which is very closely related is human resources competency [16]. The better the quality of human resources is utilized, the better the performance results are obtained and it will lead to the achievement of the goal which has been assigned by the organization itself. According to [1, 3, 4 & 18]. To assess the capacity and competence of human resources in executing a function including accounting, can be seen from the level of responsibility and competence of these resources (To assess the capacity and human resources competency in running a function including the accounting, it can be seen

from the level of responsibility and competence of the resources).

The second thing that affects the quality of local government financial report is the use of information technology. The obligation to use information technology by the central government and local governments are regulated in government regulation or [6, 7, 8 & 9] regarding the Regional Financial Information System which is a replacement of [9] about Regional Financial Information System. Developments in accounting information technology within an organization or company has a real impact in data processing from a manual system to a computer system and the emergence of software for accounting that will make it easier to create financial report.

[23], based on the Government Accounting Standards (SAP), stated that "Regional Financial Accounting System (SAKD) is aiming to increase the accountability and reliability of government or financial manager through the preparation and development of government accounting standards" (Regional Financial Accounting System (SAKD) aims to improve accountability and reliability of government financial managers through the formulation and development of government accounting standards). To produce qualified financial report, a Regional Financial Accounting System (SAKD) is required [10, 11, 12 & 17]. If the Regional Financial Accounting System (SAKD) is not understood then it can interfere the preparation of local government financial report so that the the quality of the produced financial report also does not match the expectations.

From the description above, the government especially Labuhanbatu regency has made serious efforts to improve the result of qualified local government financial report. But in fact, the outcome of local government financial report of Labuhanbatu regency has not met a good quality. Based on the results of the Government Financial Statements for Fiscal Year 2015 Labuhanbatu District, BPK (Supreme Audit Agency) Representatives of North Sumatra give WDP (Fair With Exceptions). But government Labuhanbatu targeting optimistic in the coming year will be awarded WTP (Fair Without Pengcualian) like what we achieved in the financial statements for Fiscal Year 2014. Based on the examination result of Local Government Financial Report of Labuhanbatu Regency Fiscal Year 2015, BPK (Supreme Audit Board) North Sumatra Representative gives an opinion (Fair with Exceptions). But the government of

Labuhanbatu regency is optimistic in the coming year targeting on achieving the predicate (Fair without Exceptions) like what we achieved in financial report for Fiscal Year 2014).

So, the phenomenon of the quality of financial report is very interesting to be analyzed. To recall the relationship between human resources competency and the use of information technology towards the quality of local government financial report which in the previous studies generate the difference, such as the study conducted by [23] & [35], The result says that human resources competency and the use of information technology have positive and significant influence on the quality of local government financial report. While in the study conducted by [26], resulted that human resources competency has positive and significant influence on the the quality of local government financial report, and the use of information technology does not have positive influence towards the quality of local government financial report.

According to the study conducted by [24, 25, 27, 28 & 29] shows that human resources competency, the implementation of the government accounting standards and the regional financial accounting system has positive and significant influence on the quality of local government financial report. Based on the explanation above, this study aims to examine the influence of human resources competency and the use of information technology on the implementation of regional financial accounting system (SAKD). In addition, this study will also examine the influence on the implementation of regional financial accounting system (SAKD) towards the the quality of local government financial report, and the influence on the implementation of mediation of regional financial accounting system (SAKD) between human resources competency and the use of information technology towards the quality of local government financial report.

From the explanation of the background above, so the problems of this study are 1) does the human resources competency influence the Regional Financial Accounting System (SAKD)? 2) does the information technology influence the Regional Financial Accounting System (SAKD)? 3) does the human resources competency influence the quality of local government financial report with mediated Regional Financial Accounting System? 4) does the information technology influence the quality of local

government financial report with mediated Regional Financial Accounting System (SAKD)?

In answering the problems of the study, this study aims to find out: 1. The influence of Human Resources Competency on the Regional Financial Accounting System (SAKD). 2. The influence of does the information technology on the Regional Financial Accounting System (SAKD). 3. The implementation of Regional Financial Accounting System mediates the influence of the human resources competency on the quality of local government financial report. 4. The implementation of Regional Financial Accounting System (SAKD) mediates the influence of the human resources competency on the quality of local government financial report.

## 2. LITERATURE REVIEW

### 2.1. Human Resources Comptency

As the value of people increases, so does the performance capacity of the organization, and therefore its value to clients and other stakeholders. Second, an organization's human capital policies must be aligned to support the organization's [34]. Effective human capital professionals must have the appropriate preparation and experience not just to provide effective mission support, but to participate as partners with line managers and staff in developing, implementing, and assessing the agency's human capital approaches. High-performance organizations choose the best strategies for integrating their organizational components, activities, core processes, and resources to support mission accomplishment. human resources function undergo a fundamental reorientation, from being a strictly support function involved in managing personnel processes and ensuring compliance with rules and regulations [20, 22 & 23]. Human resources competencies are the ability of human resources to carry out the duties and responsibilities delegated to them with the support of adequate education, training, and experience. The competent human resources will be able to understand the logic of accounting well. Human Resources refer to integration of one's intelligence and physical strength, whose behavior and nature determined by heredity and the environment, while this person's performance is motivated by the desire to fulfill his/her satisfaction.

## 3. METHOD

The respondent of this study are SKPD (regional works unit) in North Labuhanbatu

regency. This study is kind of qualitative study because the used data are in the numerical forms. The main source of information in this study is the data obtained directly from the SKPD in Labuhanbatu regency. The data which are the primary data are obtained through the distribution of the questionnaires to each SKPD in Labuhanbatu regency.

The population in this study is the financial managers of SKPD in the government of Labuhanbatu regency consisting of PPK-SKPD (Financial Administration Act-SKPD), Treasurer Receipts and Expenditure which includes the departments, agencies and offices in the government of Labuhanbatu regency. The population in this study are 120 respondents-who are the financial managers- from 39 SKPD which are spread over in Labuhanbatu regency.

The sampling technic in this study is using saturated sampling [5, 30, 31 & 32]. Saturated sampling is sampling technique where the whole population being samples. The criteria of respondents in this study are the employees who carry out the functions of accounting or financial administration in SKPD. The samples of this study are all the member of population. The data used in this study are primary data. The instruments used in data collection are:

1. The questionnaire is an instrument to obtain data by providing a list of questions that will be filled/answer by the defined respondents as a sample of the study. In this study the questionnaire used is a modified version of the questionnaire that have been used in previous studies, namely:
  - a. Questionnaire by [25] for the variable of the human resources competency, Government Internal Control System, the Quality of Local Government Financial Report and the Regional Financial Accounting System (SAKD).
  - b. Questionnaire by [23] for the variable of the Use of Information Technology.
2. Observation for non-participants is a technique of collecting data through observation of documents and literature which are related to the study.
3. The interview is a way of obtaining data by conducting question and answer directly to the respondents related to the object observed.

The questionnaire in this study is made in the form of a Likert scale. There are 5 (five) alternative answers which have score in scale 1 to 5 for every question, they are Strongly Agree

(SS), Agree (S), Less Agree (TS), Disagree (TS), and Strongly Disagree (STS). The independent variable used in this study is human resources competency with the indicator of knowledge, skills and attitudes [15] and The Use of Information Technology with indicators of computer and Internet networks [17 & 18]. The intervening variable are the implementation of Regional Financial Accounting system with indicators of levels of speed, security level, the level of cost efficiency, and the level of quality of the results [30, 31, 32 & 33]. The dependent variable used in this study is the quality of local government financial reports.

Data analysis techniques used in this study is using SEM (Structural Equation Model) with measurement Partial Least Square (PLS) measurement. The Structural Equation Model (SEM) is statistical techniques that allow testing the series of relationship which is relatively complex simultaneously and partially. The complex relationship can be established between one or more dependent variables with one or more independent variables [19, 20, 21 & 22]. Each dependent and independent variables have the form of factors or constructs which are built from several indicator variables. While the PLS measurement can be used on any kind of scale of data (nominal, ordinal, interval, ratio) as well as the assumption of a more flexible terms. PLS is also used to measure the relationship of each indicator with its constructs. In addition, in PLS, there is a bootstrapping test to do towards the capital structure, both outer and inner models.

[18, 19 & 21] state that “Test hepotesis presented based on objective research. The confidence level used is 95 percent, so that the level of precision or inaccuracies limit for  $(\alpha) = 5$  per cent = 0.05. Then produce t-table of 1.98 (Hypothesis test is presented by objective study). The confidence level used is 95 percent, so that the level of precision or inaccuracies limit is  $(\alpha) = 5$  percent = 0.05. Then produce t-table at 1.98). So that:

- If the t-statistic value is smaller than t-table (t-statistic <1.98), then  $H_0$  is accepted and  $H_a$  is rejected.
- If the t-statistic value is smaller than t-table (t-statistic <1.98), then  $H_0$  is rejected and  $H_a$  is accepted.

#### 4. ANALYSIS AND RESULTS

##### 4.1. The Result of Data Test Instruments

##### 4.1.1. Measurement test (Outer Model)

An indicator is invalid if it has a loading factor above 0.5 towards the intended constructs. Output SmartPLS for loading factors provide the following results:

Table 1. Table of Loading Factor Outer Loadings

	KLKPD	KSDM	PSAKD	PTI
Y 1.1	-0,9298	0	0	0
Y 1.2	-0,9474	0	0	0
Y 1.3	-0,6311	0	0	0
Y 1.4	-0,2861	0	0	0
IV 1.1	0	0	0,76	0
IV 1.2	0	0	0,9302	0
IV 1.3	0	0	0,8937	0
IV 1.4	0	0	0,4024	0
X 1.1	0	0,5389	0	0
X 1.2	0	0,8797	0	0
X 1.3	0	0,8438	0	0
X 2.1	0	0	0	0,8071
X 2.2	0	0	0	0,8938

The Table above shows that the loading factor gives a value above the recommended value that is 0.5 and there is also a value below 0.5. The smallest value is -0.9474 for indicator X 1.2. It means the indicator used in this study is valid or some indicators have met the convergent validity and some other indicators with a value below 0.5 is not valid or have not met the convergent validity. The following is a loading factor diagram of each indicator in the research model:

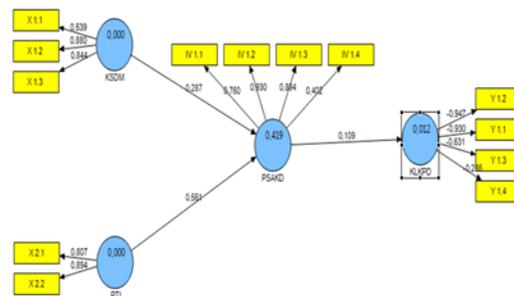


Figure 1. Loading Factor Value

Discriminant validity reflective indicators can also be seen in the cross loading between indicators with its constructs. It can be seen in Table 2 below:

Table 2. Table of Cross Loading

	KLKPD	KSDM	PSAKD	PTI
Y 1.1	-0,9298	0,1598	-0,0989	-0,257
Y 1.2	-0,9474	0,2705	-0,0809	-0,2071
Y 1.3	-0,6311	0,5207	-0,0439	-0,0955
Y 1.4	-0,2861	0,474	0,0422	-0,1768
IV 1.1	0,0768	0,4939	0,76	0,3311
IV 1.2	0,1697	0,147	0,9302	0,6677
IV 1.3	0,0992	0,0953	0,8937	0,5428
IV 1.4	-0,1479	0,473	0,4024	0,0519
X 1.1	-0,1244	0,5389	0,1811	-0,1401
X 1.2	-0,2111	0,8797	0,3081	0,1034
X 1.3	-0,1589	0,8438	0,2398	0,1311
X 2.1	0,2303	0,2618	0,4212	0,8071
X 2.2	0,1433	-0,0987	0,5544	0,8938

An indicator is invalid if it has the highest loading factor to designated construct than loading factor to other constructs. The table above shows that the loading factor for Human resources competency indicator, represented by X 1.1 X 1.2 and Y 1.3 has a loading factor to the higher construct of Human resources competency than another construct. As an illustration loading factor X 1.1 to KLKPD is at 0.1598 higher than the loading factor to KLKPD (-0.9298), PSAKD (-0.0989) and PTI (-0.257). It is also appears in other indicators. Another method to see the discriminant validity is to look at the value of the square root of average variance extracted (AVE). Below is the AVE value in the study:

Table 3. AVE (Average Variance Extracted)

	AVE
KLKPD	0,5605
KSDM	0,5921
PSAKD	0,6009
PTI	0,7251

It can be seen in Table 3 above provides AVE value above 0.50 to construct KLKPD, KSDM, PSAKD, and PTI. So, that all constructs can qualify the convergent validity. The lowest AVE value is at 0.5605 on the constructs of

Quality of Local Government Financial Report (KLKPD).

#### a. Realibility Test

Reliability test is conducted by noticing the value of composite reliability of the indicator block that measures the construct. Below are the composite reliability values at the output.

Table 4. Composite Reability

Composite Reliability	
KLKPD	0,8163
KSDM	0,807
PSAKD	0,8482
PTI	0,8403

Based on the results of the data processing which are conducted with SmartPLS 2.0 which can be seen in table 3.4, it shows that Composite Reliability value for all constructs have a value above 0.70 are KLKPD, KSDM, PSAKD, and PTI. So, it can be concluded that there are 13 indicators of the construct is reliable or in other words meet the reliability test. The reliability test can also be strengthened by Cronbach's Alpha where the output of SmartPLS 2.0 provides the following results:

Table 5. Table of Cronbach's Alpha

	Cronbachs Alpha
KLKPD	0,8302
KSDM	0,637
PSAKD	0,7556
PTI	0,6269

Cronbach alpha value which generated by all constructs said to be good that is above 0.50. It can be concluded that all reflective construct indicators is reliable or meet the reliability test. However, according to [18] & [19], Cronbach alpha generated by the PLS bit under estimate so it is advisable to use the Composite Reliability" (Cronbach alpha which is generated by the PLS is a bit under estimate so it is advisable to use the Composite Reliability).

#### 3.1.2 Structural Model Test (Inner Model)

After the estimated model fulfill the criteria of the Outer Model then Structural Model Test (Inner model) is conducted. Here are the values of R-Square on the construct:

Table 6. Table of R-Square

	R Square
KLKPD	0,0118
KSDM	0
PSAKD	0,4188
PTI	0

From Table 6 it can be seen the value of R-Square for KLKPD variable show results at 0.0118. It shows that the support of the quality of input data, the level of respondents' comprehension about the KLKPD (Quality of Local Government Financial Report), related to the relevant, reliable, comparable and understandable financial report affect the quality of Local Government Financial Report (KLKPD) by 1.18%. So there are still 98.82% other factors or variables that support the Quality of Local Government Financial Report on SKPD in Labuhanbatu regency. While the level of respondents' comprehension about PSAKD (The Implementation of Regional Financial Accounting System) related to the indicators of levels of speed, security level, the level of cost efficiency, and the level of quality of the results affect the Implementation of Regional Financial Accounting System (PSAKD) by 41.88%, so there are still 58.12% other factors or variables that support the Implementation of Local Government Financial Accounting System (PSAKD).

### 3.1.3 Hypothesis test

Table 7. Table of Path Coefficients

	Original Sample	Sample Mean	Standard Deviation	Standard Error	T Statistics
KSDM ->PSAKD	0,2872	0,3458	0,1172	0,1172	2,4509
PSAKD >KLKPD	0,1087	0,0231	0,1809	0,1809	0,6013
PTI->PSAKD	0,5612	0,5212	0,1502	0,1502	3,7366

The Table above shows that the relationship between KSDM (Human resources competency) with PSAKD (Implementation of Regional Financial Accounting System) is significantly influenced by T-statistics at 2.4509 (> 1.98). The value of original sample estimate is positive which is at 0.2872 indicates that the direction of the relationship between KSDM (Human resources competency) with PSAKD (Implementation of Regional Financial Accounting System) is positive. Thus, the H<sub>1</sub> hypothesis in this study which states that 'Human Resource Competency influence on the

Implementation of the Regional Financial Accounting System' is acceptable.

The table above shows that the relationship between the influence of the Use of Information Technology (PTI) on the Implementation of the Regional Financial Accounting System (PSAKD) is significantly influenced by T-statistics at 3.7366 (<1.98). The value of original sample estimate is positive which is at 0.5612 indicates that the direction of the relationship between the Use of Information Technology (PTI) on the Implementation of the Regional Financial Accounting System (PSAKD) is positive. Thus, the H<sub>2</sub> hypothesis in this study which states 'the Use of Information Technology influence on application of the Regional Financial Accounting System (PSAKD)' is acceptable.

The table above shows that the relationship between PSAKD (Implementation of Regional Financial Accounting System) mediates the influence of the Human resources competency (KSDM) with KLKPD (Quality of Local Government Financial Report) does not have a significant impact to the T-statistics at 0.6013 (> 1.98 ). The value of original sample estimate is positive which is at 0.1087 indicates that the direction of the relationship between PSAKD (the Implementation of Regional Financial Accounting System) mediates the influence of the Human resources competency (KSDM) with KLKPD (Quality of Local Government Financial Report) is positive. Thus, the H<sub>3</sub> hypothesis in this study states that 'The implementation of the Regional Financial Accounting System mediates the influence of the Human resources competency on the Quality of Local Government Financial Report" is rejected.

The table above shows that the relationship between PSAKD (Implementation of Regional Financial Accounting System) mediates the influence of the Use of Information Technology (PTI) with KLKPD (Quality of Local Government Financial Report) does not have a significant impact to the T-statistics at 0,6013 (>1,98). The value of original sample estimate is positive which is at 0.1087 indicates that the direction of the relationship between PSAKD (the Implementation of Regional Financial Accounting System) mediates the influence of the Human resources competency (KSDM) with KLKPD (Quality of Local Government Financial Report) is positive. Thus, the H<sub>4</sub> hypothesis in this study states that 'The implementation of the Regional Financial Accounting System mediates the influence of the Human resources competency on the

the Quality of Local Government Financial Report" is rejected.

Based on the calculation above, it can be seen that the human resources competency significantly have a positive influence on the Implementation of the Regional Financial Accounting System in Labuhanbatu regency. The use of Information Technology significantly has a positive influence on the Implementation of the Regional Financial Accounting System in Labuhanbatu regency. The implementation of Regional Financial Accounting System mediates the influence of human resources competency significantly has not positive influence on the quality of Local Government Financial Report of Labuhanbatu regency. And the Implementation of Regional Financial Accounting System mediates the influence of the use of Information Technology (PTI) significantly has not positive influence on the quality of Local Government Financial Report of Labuhanbatu regency. Below is a diagram of the T-statistic value based on the output with SmartPLS 2.0 :

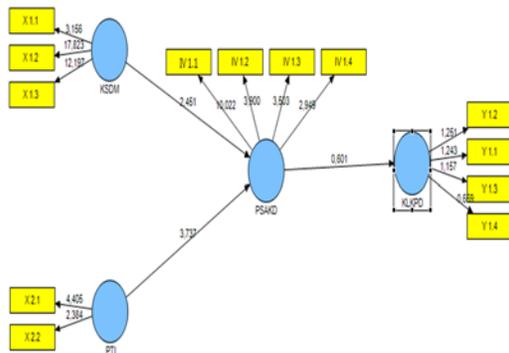


Figure 3. Output Bootstrapping

#### 4. CONCLUSION AND RECOMENDATIONS

##### 4.1 Conclusion

Based on the result of the study and the discussion, there are four conclusion as follows:

1. Partially, the Human resources competency has positive and significant influence on the Regional Financial Accounting System (SAKD) in Labuhanbatu regency.
2. Partially, the Use of Information Technology has positive and significant influence on the Regional Financial Accounting System (SAKD) in Labuhanbatu regency.
3. The Regional Financial Accounting System (SAKD) mediates the influence of human resources competency does not have positive

and significant influence on the Quality of Local Government Financial Report of Labuhanbatu regency.

4. The Regional Financial Accounting System (SAKD) mediates the influence of the the Use of Information Technology does not have positive and significant influence on the Quality of Local Government Financial Report of Labuhanbatu regency.

##### 4.2. Recommendation

Based on the conclusion the three suggestions are submitted as follows:

1. For the next researchers in the future day, in order to expand or increase the samples of the study such as from the outside of Labuhanbatu regency or increase the observation period.
2. For the next researchers are suggested to add another variable which is theoretically is closely related to variable of the quality of financial reports such as the accounting standards and Regional financial supervision. This meant that the ups and downs variations of the quality of financial reports can be explained more clearly.
3. The results of this study are very useful, first, for the practitioner as a source of information and material for consideration in policy making, help in giving the contribution in the practices of the accounting in Indonesia in the future days, and provide insight and discourse to SKPD (regional works unit) in developing the resources, financial accounting systems, information technology, and internal control system, in order to improve the effectiveness and efficiency of financial accountability. Second, for the academics, the results of this study are expected to help in developing knowledge of accounting and government accounting in Indonesia.
4. For the Government of Labuhanbatu regency which is the subject of this study is expected to pay more attention to human resources aspects. The qualified and competent Human resources is needed to be able to work better, to apply the accounting information system of local financial and internal control systems of government more effective due to the internal control system which can prevent the occurrence of inefficiencies whose goal is to keep the assets of an entity and to check the accuracy of the accounting data. The accuracy of accounting data may generate the qualified financial reports and in accordance with the actual occurrence.

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