

Optimization of the Quality of Medan City Local Government Financial Reports Based Accounting Understanding Method

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ABSTRACT

This study aims to analyze the effect of accounting understanding on optimizing the quality of financial reports of the Medan City Regional Government simultaneously and partially. where the quality of financial reports in accordance with Government Accounting Standards (SAP) is very important to create transparency, accountability, and public trust in regional financial management. This research method uses a quantitative approach with primary data collected through questionnaires to regional financial management officials in Medan City. Data were analyzed using the regression method to measure the relationship between the level of accounting understanding and the quality of financial reports. The variables tested include mastery of basic accounting principles, application of SAP, and technical skills in preparing financial reports. where the study shows that accounting understanding has a positive and significant effect on the quality of financial reports. Apparatus who have a good level of accounting understanding tend to produce financial reports that are more accurate, relevant, accountable, and in accordance with SAP. However, there are several obstacles that affect these results, such as the lack of ongoing training and limited human resources who are competent in the field of accounting. optimizing the quality of financial reports of the Medan City Regional Government can be achieved by increasing accounting understanding by government officials.

Keywords : Government Accounting Standart, Optimizing the quality and Financial Report

INTRODUCTION

The quality of financial reports is one of the important indicators in assessing the transparency and accountability of financial management of a local government. Good financial reports must meet the criteria of relevance, reliability, comparability, and understandability in accordance with Government Accounting Standards (SAP). In the context of the Medan City Government, optimizing the quality of financial reports is a challenge that must be overcome to support better financial governance. One of the main factors that influences the quality of financial reports is the understanding of accounting by government officials. This understanding includes the ability to apply basic accounting principles, prepare financial reports according to standards, and understand regulations and policies related to regional financial management. Lack of understanding of accounting is often the main cause of recording errors, data inaccuracy, and presentation of financial information that does not correspond to reality.

The Medan City Government, as one of the regions with rapid development dynamics, requires quality financial reports to support strategic decision making. However, various obstacles, such as limited competent human resources, lack of ongoing training, and minimal use of information technology, are still major obstacles. This study aims to analyze the effect of accounting understanding on optimizing the quality of financial reports of the Medan City Government. By knowing this relationship, it is hoped that it can provide strategic

recommendations to improve the competence of government officials in financial management, thus supporting the realization of transparent, accountable financial reports that are in accordance with SAP.

Accountability is a form of obligation to be responsible for the success or failure of implementing an organization's mission in achieving previously set goals and targets, through a form of accountability that is carried out periodically (Mardiasmo, 2006). The measure of financial reporting accountability is indicated by the opinion given by the external auditor (BPK RI) on the presentation of government reports. Based on the report of the BPK RI representative of North Sumatra, a number of problems were still found during the audit process of the Regional Financial Report. So that it affects the decline in the quality of management and responsibility of state finances by several regions in North Sumatra.

The problems found include, there is a cash shortage in the expenditure treasurer, non-fixed assets are not believed to be true because there is a difference in value in the balance sheet with the supporting value, assets are presented with a value of Rp 0.00, assets are not supported by adequate details, land under the road sections and irrigation areas have not been presented in the balance sheet and the value of fixed asset rehabilitation is not attributed to fixed assets initially acquired. Another problem is that the realization of goods and services spending cannot be believed to be fair because it does not show the actual condition, and is not supported by complete and valid documents. The above is supported by the increase in WDP opinions in a number of North Sumatra Regional Governments, in other words the audit results of the North Sumatra Regional Government Financial Report have relatively decreased.

In addition, the North Sumatra BPK also stated that there were 3 Regional Governments that had not yet submitted their regional financial reports for the 2017 budget year by the deadline for submitting financial reports. One of the three Regional Governments was the Medan City Regional Government. The fact that the financial report had not been submitted indicated that there were still many shortcomings in the financial management accountability of the relevant Regional Government. Based on the audit report of the BPK Representative Office of North Sumatra, the BPK audit for the Medan City Audit report shows that the audit opinion of Medan City in recent years has decreased, from WTP to WDP. Because the researcher considers that the quality of human resources is very important to produce quality output, in this case financial reports. From the description above, this study was conducted to see and analyze the influence of accounting understanding, work experience and the role of internal audit on the quality of the Medan City Regional Government Financial Report.

LITERATURE REVIEW

Quality of Financial Reports

The Indonesian Institute of Accountants (2012) in its Financial Accounting Standards, states that financial reports are part of the complete financial reporting process, usually including the balance sheet, profit and loss report, financial position report, and other report notes and explanatory material that are an integral part of the financial statements. Based on Government Regulation Number 71 of 2010, financial reports are structured reports on financial position reports and transactions carried out by a reporting entity. In government regulation No. 8 of 2006, concerning financial reporting and performance of government agencies, it is stated that financial reports are a form of accountability for the management of state and regional finances

for one period. In PP Number 71 of 2010, the qualitative characteristics of financial reports are normative prerequisites required so that government financial reports can meet the desired quality, namely: Relevant, Reliable, Comparable and understandable.

Understanding Accounting

Accounting understanding is the extent to which the ability to understand accounting both as a body of knowledge and as a process or practice. Melandy, et al. (2006), accounting understanding is a person's ability to recognize and understand accounting. According to Suwardjono (2005:4) accounting knowledge can be viewed from two sides of understanding, namely as professional knowledge (expertise) practiced in the real world and at the same time as a discipline of knowledge taught in higher education. So that what he has experienced is his, and is the basis for knowledge and becomes the basis for organizing information into concepts. According to Ranupandojo (2002:18), work experience is a measure of the length of time or work period that a person has taken to understand the tasks of a job and have carried out them well. The work experience of an employee in an organization has a very important role. An employee who has a lot of experience will certainly understand better what to do if faced with a problem with his work. Usually employees who have work experience will find it easier to integrate with their work and minimize errors that will occur because the employee has mastered the job before.

Role of Internal Audit

Institute of Internal Auditors (IIA) quoted by Messier (2005:514) defines internal audit as an independent activity and objectives along with consultations designed to increase value and operational organization/company. Internal audit can support organizations/companies I achieving its goals through a structured and disciplined approach. According to Sawyer (2005), internal audit has various functions including:

1. Supervision of all activities that are difficult for top management to handle.
2. Identification and minimization of risks.
3. *Report Validation* to the manager.
4. Support and assist management in technical areas.
5. Assisting the decision making process.
6. Analyzing the future.
7. Assist managers in managing the company.

The main objective of Internal Audit according to Hiro (2006) is to ensure the reliability (reliability and integrity) of information, compliance with various policies, plans, procedures and statutory provisions, protection of organizational assets, economical and efficient use of resources and the achievement of various goals and objectives that have been set. This objective can be achieved if the internal audit functions well, for that internal audit must know its authority, duties and responsibilities clearly.

METHODS

Before conducting hypothesis testing, data quality testing is required, namely, Validity testing and Reliability testing. Normality tests were carried out using the Kolmogorov Smirnov

method, with the criteria $\alpha=0.05$ testing. If $\alpha_{sig}>\alpha$ it means the sample data is normally distributed, if $\alpha_{sig}<\alpha$ it means the sample data is not normally distributed. To see if there is multicollinearity, look at the VIF value >10 and tolerance <0.1 , which means there is multicollinearity. Conversely, if the VIF value <10 , then there is no multicollinearity. To detect the presence of heteroscedasticity, a scatterplot graph can be used where this test looks at points that form a certain pattern, indicating that heteroscedasticity has occurred and the Glejser test, in this test if $sig>0.05$ then there are no symptoms of heteroscedasticity. A good model is one where there is no heteroscedasticity.

RESULTS AND DISCUSSION

Results

Validity Test

The validity test of the instrument in this study was conducted by comparing the Correlated Item-Total Correlation value on each question item with the r value of the Product Moment table. If the Correlated Item-Total Correlation value (r count) $> r$ table value and the value is positive, then the question items on each research variable are declared valid. The r table value is 0.3610, obtained from the number of respondents - 2, or $30 - 2 = 28$, a significance level of 5%, then the r table is 0.3610. Each statement item is said to be valid if the correlation number obtained from the calculation is greater than or equal to the r table.

Table 1. Validity Test Results

Variables	Item	R Count	R table	Information
Understanding Accounting (X1)	1	0.522	0.361	valid
	2	0.593	0.361	valid
	3	0.644	0.361	valid
	4	0.676	0.361	valid
	5	0.594	0.361	valid
	6	0.680	0.361	valid
Work experience (X2)	1	0.546	0.361	valid
	2	0.465	0.361	valid
	3	0.583	0.361	valid
	4	0.369	0.361	valid
	5	0.516	0.361	valid
	6	0.699	0.361	valid
	7	0.455	0.361	valid
	8	0.630	0.361	valid
	9	0.630	0.361	valid
Internal Role Audit (X3)	1	0.774	0.361	valid
	2	0.712	0.361	valid
	3	0.710	0.361	valid
	4	0.395	0.361	valid
	1	0.543	0.361	valid
	2	0.51	0.361	valid

Report Quality Finance (Y)	3	0.63	0.361	valid
	4	0.741	0.361	valid
	5	0.559	0.361	valid
	6	0.516	0.361	valid

Reliability Test

Reliability testing in this study to show the level of internal consistency reliability, the technique used is to measure the Cronbach's Alpha coefficient with the help of the SPSS 21 program. The alpha value varies from 0 - 1, a statement can be categorized as reliable if the alpha value is greater than 0.60.

Table 2. Reliability Test Results

Variables	<i>Alpha Cronbach's</i>	Limit Reliability	Information
Understanding Accounting	0.739	0.60	Reliable
Work experience	0.732	0.60	Reliable
The Role of Internal Audit	0.749	0.60	Reliable
Quality Report Finance	0.741	0.60	Reliable

Hypothesis Test Results

Simultaneous Test (F)

The results of the F statistical test can be seen in the table below, if the probability value is less than 0.05 then H_a is accepted and H_o is rejected, while if the probability value is greater than 0.05 then H_o is accepted and H_a is rejected.

Table 6. Simultaneous Test Results (F) ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	90,000	3	30,000	5,835	.001 ^b
n					
Residual	298,194	58	5.141		
Total	388,194	61			

a. Dependent Variable: Quality of Financial Reports

b. Predictors: (Constant), Internal Audit Role, Accounting Understanding, Work Experience

The Influence of Accounting Understanding on the Quality of Financial Reports

Based on the tests that have been carried out, partial understanding of accounting does not affect the quality of financial reports. This can be seen from the t-test, where the calculated

t value is 0.636 with a significance value of $0.527 > \text{Sig } 0.05$. The results of this study are in line with the research of Wati Sri Nova (2015) that accounting understanding does not affect the quality of financial reports. The Government Accounting Standards Committee (2005) stated that the responsibility for preparing and presenting financial statements lies with the entity's leadership. In the scope of local government, each Head of the Regional Work Unit (SKPD) is an accounting entity and each Regent or Mayor is a reporting entity. SKPD is an accounting entity that has the obligation to record income, asset, and non-cash transactions that occur in the SKPD environment. In the implementation of regional financial management, it is expected that managers need to have an adequate understanding of the regional financial accounting system in order to present reliable financial statements. However, the results of this study are not in line with the Government Accounting Standards Committee.

This is also not in line with the research conducted by Safrida Yuliani, et al. (2010) on the Influence of Accounting Understanding, Utilization of Regional Financial Accounting Information Systems and the Role of Internal Audit on the Quality of Regional Government Financial Reports (Study on the Banda Aceh City Government), the results of this study stated that partially the variable of accounting understanding has an effect on the quality of financial reports. The lack of influence of accounting understanding on the quality of local government financial reports shows that the apparatus and staff of Medan City government officials do not fully understand and comprehend how to group evidence of accounting transactions in government financial reports.

The Influence of Work Experience on the Quality of Financial Reports

Based on the tests that have been conducted, partially work experience has a positive effect on the quality of financial reports. This can be seen from the t-test, where the calculated t value is 2.033 with a significance value of $0.047 < \text{Sig } 0.05$. The results of this study are in line with the research of Riana Nugrah Wardani (2014) that work experience has an effect on the quality of financial reports. This shows that if the work experience is higher, the quality of the financial report is also higher. the more and longer the work experience of the employee, the better the level of quality of the financial report. Based on PP No. 71 of 2010, the qualitative characteristics of government financial reports which are normative prerequisites for Government Accounting include: understandable, relevant, reliable, and comparable. Judging from the length of service of employees who handle the preparation of financial reports in each SKPD of Medan City, they have worked for at least 2 years, so that these employees have understood the work given so as to produce quality financial reports.

Based on the tests that have been carried out, the partial role of internal audit does not affect the quality of financial reports. This can be seen from the t-test, where the calculated t value is 1.698 with a significance value of $0.095 > \text{Sig } 0.05$. The results of this study are in line with Lola Septiana's research (2017) that the role of internal audit does not affect the Regional Government Financial Report. Theoretically, based on the Regulation of the Minister of Home Affairs Number 8 of 2009, it is stated that the inspectorate is tasked with determining the reliability of information produced by various units/work units as an integral part of the regional government organization. The role of internal auditors/the role of the inspectorate as the government's internal supervisor will be able to assist the regional government in preparing quality and reliable government financial reports. However, the results of this study are not in

line with this theory. This shows that the Inspectorate as the internal supervisor of the Medan City government is still not optimal in carrying out its duties and functions.

The Influence of Accounting Quality of Financial Reports

Based on the tests that have been carried out, simultaneous understanding accounting, work experience and the role of internal audit have an effect on the quality of Medan City financial reports. This can be seen from the f test, where the calculated f value is 5.835 with a significance value of $0.001 < \text{Sig } 0.05$. In preparing financial reports, an accounting staff/employee and the head of the financial sub-section must understand accounting procedures to produce quality financial reports. Accounting understanding is the head/staff/employee's understanding of accounting procedures, starting from the process of data collection, recording, summarizing to financial reporting. An accounting staff/employee and the head of the financial sub-section must pay attention to the importance of the quality of the financial reports produced.

According to Basuki (2009), work experience is a person's level of mastery of knowledge and skills which can be measured from a person's length of service. So the longer a person works, the more experience they have with their work. Work Experience is the level of knowledge and skills of employees as measured by their professional attitude, efficiency, proficiency, not making mistakes, according to procedures and work period. Safrida (2010) stated that internal audit is an independent activity, objective assurance and consultation designed to provide added value and improve the organization's operations. Thus, internal audit helps the organization achieve its goals by implementing a systematic and disciplined approach to evaluate and improve the effectiveness of the risk management process. The role of Internal Audit is the employee's perception of the role of internal audit as a supervisor in reviewing financial reports.

CONCLUSION

Based on the results of the study, it can be concluded that accounting understanding has a significant influence on optimizing the quality of the Medan City Government's financial reports. Apparatus who have a good level of accounting understanding are able to prepare financial reports that are more accurate, relevant, accountable, and in accordance with Government Accounting Standards (SAP). However, this study also identified several obstacles, such as:

1. Lack of accounting experts who understand accounting principles and SAP well.
2. Lack of Training and Capacity Development so that ongoing training programs related to accounting and financial reporting are still not optimally carried out.
3. Use of Technology that is not yet Maximized in the Utilization of information technology in financial management has not been fully integrated, so that the process of preparing financial reports is less efficient. To improve the quality of financial reports, it is recommended that the Medan City Government Hold routine training to improve the accounting understanding of government officials.
4. Increase the number and competence of human resources in the financial sector and Utilize information technology optimally in the financial management and reporting process. Strengthen internal supervision to ensure that financial reports are prepared in accordance with SAP

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