

## The effect of public governance, human resource quality, characteristics of the government internal supervisory apparatus, and the government internal supervisory system on the quality of local government financial report

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### ABSTRACT

The objective of this research is to study and analyze the direct effect of public governance, human resource competence, characteristics of Government Internal Supervisory Apparatus, and Government Internal Supervisory System on the quality of Local Government Financial Report and the indirect effect of public governance, human resource competence, and characteristics of Government Internal Supervisory Apparatus on the quality of Local Government Financial Report with the mediation of Government Internal Supervisory System. The samples are 148 local government agencies' financial administration officials, selected according to certain criteria. As SEM-PLS was used for hypothesis testing, this study finds that public governance, human resource competence, characteristics of Government Internal Supervisory Apparatus, and Government Internal Supervisory System directly have positive effects on the quality of Local Government Financial Report. Furthermore, the Government Internal Supervisory System fully mediates the effect of human resource competence on the quality of the Local Government Financial Report and partially mediates the effects of public governance and characteristics of Government Internal Supervisory Apparatus on Local Government Financial Report.

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## 1. Introduction

Incorrect decisions due to poor financial report quality have caused accounting scandals in the business sector during the early 21<sup>st</sup> century. Toms and Toms (2019) investigated fraud incidents taking place from 1720 to 2009 and connected the incidents with significant financial scandals. Evidence leads to a conclusion that frauds and financial scandals are strongly related with historic factors and inclined towards certain sectors, especially banking and finance. This can be minimized if managers organized their institutions professionally and accountants do their job with dignity, responsibility, and ethics. The Government Accounting Standards (Standar Akuntansi Pemerintah in Indonesian, hereinafter referred to as SAP) can mitigate public sector accounting scandals in local governments as it has the capacity to improve the quality of financial reports. The quality may lead to efficiency on investor's behalf as it can reduce moral hazard and adverse selection by the management (Gary et al., 2009). Herath and Albarqi (2017) stated that better financial report quality can be achieved through the application of legally admitted standards such as FASB, IASB, ASB, and AASB. Conformity with standard is essential as it enables the provision of accurate information concerning financial position, which is the foundation for the success of an entity's economic performance.

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Reforms in government entity's financial reports are important for financial management transparency and accountability to reduce moral hazard and adverse selection behavior in local governments. The entities have begun changing their financial system; one of the most fundamental is the conversion from cash-based financial reporting to accrual-based financial reporting according to SAP (Indonesian abbreviation for Government Accounting Standard). Such changes are seen as an aspect of New Public Management, which is designed for the performance of public sector organizations, including central government entities. Concerning the quality of financial statements, Government Regulation number 71 of 2010 and SAP stated that the local governments are responsible for the success and the failure of their activities. This goal can be achieved by providing quality financial statements with qualitative characteristics: relevant, reliable, understandable, and comparable. SAP application is crucial in producing better financial performance measurements, facilitating financial management, and making assets more transparent and accountable. The regional government's financial performance is said to be improved if their LKPD (Indonesian abbreviation for Local Government Financial Report) has met the quality required by SAP. LKPD quality will be considered as having met the SAP if the report has obtained an unqualified opinion from the BPK (Indonesia's Supreme Audit Agency) (Indriasih, 2014). The opinion is closely related to the quality of LKPD because it can have a positive impact on the investment decision of capital providers and perceptions of stakeholders (Lelly & Afiah, 2017). This research is motivated by the fact that local governments have not fully implemented financial reporting standards as stipulated in SAP. The report of the second semester examination of 2017 stated that there were 4,430 findings containing 5,852 problems. There are 1,082 cases of Internal Control System, 1,950 law compliance cases, and 2,820 cases of ineffective and inefficient report (Sicca, 2018). Similar problems also took place in 2018, where LKPD from four districts in South Sulawesi did not get the unqualified opinion from BPK (Pradita, 2018). Factors suspected to reduce the quality of local government financial reports are the government's non-compliance with applicable laws as they have not implemented good governance, poor human resource competence as they are late to submit LKPD, internal auditors with the proxy of APIP (Indonesian abbreviation for Government Internal Supervisory Apparatus) due to non-transparent goods and services procurement, fictitious official travel costs, and poor follow up on findings so errors and mistakes keep recurring and not corrected immediately, and weak SPIP (Indonesian abbreviation for Government Internal Supervisory System) due to overlapping positions, unclear segregation of duties, and weak physical control over government's assets. Studies finding that public governance affects the quality of LKPD are those conducted by Dechow *et al.* (2012), Myring and Shortridge (2010), Akeju and Babatunde (2017), Pina (2014), Siriyama and Norah (2017), Sari and Tamrin (2014). In addition, Kesuma, Anwar and Darmansyah (2017); Irvan, Mus, Su, and Sufri (2017) found that transparency improves the quality of LKPD. Yamin and Sutaryo (2015) found that public governance with the proxy of the participation of all managerial lines as control or supervision instrument is able to increase SPIP. Good public governance increases the application of SPIP, which eventually improves the quality of LKPD.

Studies finding that human resource competencies affect financial reporting quality are those conducted by Indriasih (2014), Call *et al.* (2017), Abbott *et al.* (2016) and Anggriawan and Yudianto (2018). They stated that the application of government accounting standards, human resource quality, internal control system, the use of information technology, organizational commitment, the role of internal auditors, and assets have positive effects on the quality of LKPD. In addition, Sudiarianti *et al.* (2015), Sari and Tamrin (2014), Mironiuc *et al.* (2013), and Indriasih (2014) stated that human resource competencies have a positive effect on SPIP. The findings above prove that competent human resources have a positive influence on the quality of LKPD. The competence also increases the effectiveness of SPIP, thanks to the low number of recording errors, which allows LKPD to be submitted on time. Several researchers investigated the relationship between the characteristics of APIP and the quality of LKPD, that is the internal auditor with the proxy of APIP's characteristics determines the quality of financial reports (Afiah & Rahmatika, 2014). Similarly, Shireeejit *et al.* (2013); Setyaningrum *et al.* (2013); Nattawut and Sirilak (2018); Afiah and Azwari (2015); Abbott *et al.* (2016) and Suharyanto and Sutaryo (2016) stated that the characteristics of APIP have a positive effect on the quality of LKPD. Furthermore, the level of formal and informal education, which is referred to as sustainable professional education, and the educational background of APIP have a positive effect on audit quality (Suharyanto and Sutaryo, 2016; Ekawati, 2013). Research on the influence of APIP's characteristics on SPIP by Imran and Hasanuddin (2018) concluded that internal audit has a positive effect on sales internal control systems. The well implementation of such a system can minimize errors in sales due to the support of capability, number, and education of internal auditors, who can immediately provide input in case of weaknesses found in the sales internal control system. Therefore, characteristics of APIP can improve the quality of LKPD and SPIP. In terms of SPIP improving the quality of financial reporting, Herawati (2014), Yusniyar *et al.* (2016), Afiah and Azwari (2015), Kesuma *et al.* (2017) and Dechow *et al.* (2012), agreed that supervision is important for financial report's quality.

The quality of LKPD is influenced by variables described above, and they have been empirically tested by several researchers. However, the variables that can improve the quality of LKPD in previous studies are still fragmented, so an incomprehensive conclusion was not reached. This study tries to integrate those variables into a new research model that has never been developed before.

The main objective of this study is to examine the effect of public governance, human resource competence, and characteristics of APIP on the quality of LKPD and to examine the effect of public governance, human resource competence, and characteristics of APIP on SPIP. This paper also seeks to provide scientific logic about the influence of public governance, human resource competence, and characteristics of APIP on the quality of LKPD through SPIP.

## 2. Literature Review and Hypotheses Development

### 2.1. LKPD Quality

Quality is something that can meet the predetermined criteria or expectations. The quality of financial statement information according to FASB (2008) and FASB (2010) is measured based on both user and provider's criteria. LKPD quality is the general objective of local government financial reporting. It provides useful information for users to assess accountability and to make economic, social, and political decisions. The criteria for the qualitative characteristics of financial statements according to the Government Regulation number 71 of 2010, Hopwood (2003), GASB (1999), FASB (1980), and FASB (2010) are relevant, reliable, comparable, and understandable.

### 2.2. Public Governance

The theoretical concept of public governance and the quality of LKPD was proposed by the State Minister of State-Owned Enterprises and the National Committee Governance (NCG, 2006) that good public governance improves LKPD quality. Correspondingly, Cadbury Report refers to governance as a system in entities or organizations that can be directed or controlled (Afiah and Rahmatika, 2014). The theoretical concept is in line with previous researches in private sector, which supports the opinion that governance mechanisms have a positive effect on the quality of financial information (Simon et al., 2016). Previous researches on the government sector were conducted by Irvan et al. (2017) and Yusniyar et al. (2016) and found that good public governance, i.e., transparency, participation, accountability, responsibility, and justice, have a positive effect on the quality of LKPD. The empirical study is relevant with the concept proposed by COSO (2009: 49) and in line with the assumptions of regulatory theory that improvements in public governance need to be carried out by listening to input from the public for a credible state finance management. The credibility, namely fair, transparent, accountable, responsible, and independent, will improve the quality of local government financial reporting. Regulations on public governance need to be continuously improved to fulfill the wishes of the central government and people's representatives (DPR). Based on the theoretical concepts, empirical studies, and regulatory theory, the better public governance the better the quality of LKPD. Hence, the first hypothesis of this study is as follows.

**H<sub>1</sub>:** Public governance positively influences LKPD quality.

### 2.3. Human Resource Competence

Competence is a basic characteristic of a person, which is a drive for achievement in order to carry out tasks effectively. The drive to perform tasks effectively can be described as the desire or ability to carry out a role, namely the ability to integrate knowledge, skills, attitudes, and personal values based on knowledge and learning. Previous researchers who tested the positive and significant effect of human resource competence on the quality of LKPD are Afiah and Rahmatika (2014), Indriasih (2014), Abbott *et al.* (2016); Anggriawan and Yudianto (2018). They stated that education, skills, and experience can assist local governments in making financial reports submitted on time thanks to the minimum number of recurring errors. This is supported by Call *et al.* (2017) that companies with qualified workforce have higher academic quality, low violations of internal control, and low repetitive reports or statements. Those concepts and empirical studies are in line with the assumption of Stewardship theory that the competence of officials working for the interests of the principal can minimize internal errors in recording and result in better LKPD quality. Based on the results of the empirical studies and the concepts of Stewardship theory stated above, it can be concluded that the effect of human resource competence on the quality of LKPD is positive. Thus, the second hypothesis of this study is as follows.

**H<sub>2</sub>:** Human resource competence has a positive effect on the quality of LKPD.

### 2.4. APIP Characteristics

Internal auditors, in this case the characteristics of APIP, are auditors who work for local governments with a fairly large role in achieving local government goals to improve the quality of LKPD. The characteristics of APIP consist of four aspects: the capability level of APIP, the number of APIP, the education level of APIP, and the educational background of APIP (Presidential Regulation No. 29 of 2014). Some previous research, e.g., Suharyanto and Sutaryo (2016) found that the capability and number of APIP have a positive effect on the accountability of local governments' performance. Excellent capabilities and adequate number of APIP enhance supervision quality. In addition, the education level and background of APIP also have a positive effect on the accountability of local government's performance. In addition, Siriyama and Norah (2017), Setyaningrum et al. (2103), and Nattawut and Sirilak (2018) found that the characteristics and governance system of the apparatus, principal's involvement in supervision, auditor's capability quality, ethics, quality, effectiveness of audit committees, and audit quality greatly determine the quality of the financial report. Such concept and empirical studies are in accordance with the assumption of agency theory that the mandate given by the principal to the agent must be carried out responsibly. This can be realized with the support of a credible and trustworthy internal audit apparatus. Internal auditors or APIP as trusted parties are required to improve their quality, in this case their characteristics, so that they can carry out their functions to improve the quality of LKPD. Based on the results of the empirical study and the concepts above, as well as the agency theory, it can be concluded that there is a positive effect of the characteristics of APIP on the quality of LKPD. Thus, the third research hypothesis is as follows.

**H<sub>3</sub>:** *The characteristics of APIP have a positive effect on the quality of LKPD.*

### 2.5. SPIP

According to government regulation 60 of 2008, which was adopted from COSO, SPIP is an integral process of continuous activities and actions by leaders and all subordinates to provide adequate assurance for the achievement of organizational goals through effective and efficient activities, reliable financial reporting, state asset safeguarding, and compliance with laws and regulations (Afiah & Rahmatika, 2014). Understanding of SPIP which had been merely about accounting control and administrative control was combined with control environment, so now SPIP consists of five elements: control environment, risk assessment, control activities, information and communication, and supervision. A research on the influence of public governance on SPIP by Yamin and Sutaryo (2015) found that the number of people in the local government, who represent stakeholders, has a positive effect on SPIP. Another study found that independence determines supervision (Akeju & Babatunde, 2017). According to Siriyama and Norah (2017), supervision by external parties and responsibility have a positive effect on internal control. The concepts and empirical studies above are in line with the assumptions of regulatory theory, which states that improvements in public governance need to be carried out by considering the input from the public, especially in making and implementing SPIP. Based on the theoretical concepts, empirical studies, and regulatory theory above, the better the public governance, the higher the SPIP. Thus, the fourth hypothesis is as follows.

**H<sub>4</sub>:** *Public governance positively influences SPIP.*

Previous researches on the relationship between human resource competence and SPIP found that competent officials are able to understand and implement applicable regulations so that SPIP increases (Sari & Tamrin, 2014; Mironiuc, Chersan, and Robu, 2013; Indriasih, 2014). The concepts and empirical studies are in line with the assumption of Stewardship theory that the competence of apparatuses working for the interests of the principal can minimize internal errors in recording. Based on the results of the empirical study and the concepts and theory of Stewardship above, it can be concluded that there is a positive effect of human resource competence on SPIP. Therefore, the fifth hypothesis is as follows.

**H<sub>5</sub>:** *Human resource competence has a positive effect on SPIP.*

The effect of APIP's characteristics on SPIP has been tested by Syarifudin (2014), who found that the quality and number of internal auditors have a positive effect on SPIP. Similarly, Imran and Hasanuddin (2018) stated that internal audit has a positive effect on sales internal control systems. Furthermore, Siriyama and Norah (2017) suggested that apparatus' characteristics and governance system affect supervision. The concepts and empirical studies are relevant with the assumptions of agency theory, which requires internal audit with the proxy of APIP's characteristics through examining and directing local government officials to obtain their trustworthiness. This makes control activities transparent and accountable, so SPIP increases. Based on the results of the empirical studies and the concept and agency theory, it can be concluded that there is a positive influence of APIP's characteristics on SPIP. Thus, the sixth hypothesis is as follows.

**H<sub>6</sub>:** *The characteristics of APIP have a positive effect on SPIP.*

Previous research on the relationship between SPIP and LKPD quality was carried out by Herawati (2014), who stated that SPIP had a positive and significant effect on the quality of LKPD. Afiah and Azwari (2015) state that SPIP and internal audit have a positive effect on the quality of LKPD. These findings are supported by Yusniyar *et al.* (2016); Kesuma *et al.* (2017) and Dechow *et al.* (2012). The results of the studies support the Stewardship theory which sees a steward trying to take risk mitigation measures for the wellbeing of the principal. The minimized risk by the steward is relevant with the main objective of COSO regarding control risk. Based on the theoretical concepts and studies above, including the Stewardship theory, effectiveness, efficiency, and officials' compliance with laws and regulations for the welfare of local government, SPIP is able to improve the quality of LKPD. Based on the description, the seventh hypothesis of this study is as follows.

**H<sub>7</sub>:** *SPIP has a positive effect on the quality of LKPD.*

Akeju and Babatunde (2017); Siriyama and Norah (2017) stated that governance determines supervision and financial reporting quality. The finding differs from the results of Simon, Mas, and Su (2016) that public governance has a negative effect on the quality of LKPD so it is very urgent to include SPIP as a mediator to achieve optimal and solid results. The concepts and empirical studies above are in line with the Stewardship theory, which states that public governance made and executed properly in accordance with applicable laws will make the apparatus work for the wellbeing of the local government, which can be realized if the LKPD is prepared using SPIP that is made and carried out by officials who work according to the principles of public governance. Based on the theoretical concepts, empirical studies, and stewardship theory, it can be proposed that the better the public governance, the better the quality of SPIP and LKPD. Hence, the eighth hypothesis of this study is as follows.

**H<sub>8</sub>:** *Public governance has a positive effect on the quality of LKPD through SPIP.*

Several studies have found that human resource competence affects the quality of LKPD (Afiah & Rahmatika, 2014; Indriasih, 2014; Abbott *et al.*, 2016; Anggriawan and Yudianto, 2018). On the contrary, Sagara (2015) stated that human resource competence actually has a negative effect on the quality of LKPD. The difference in results indicates that the process of those

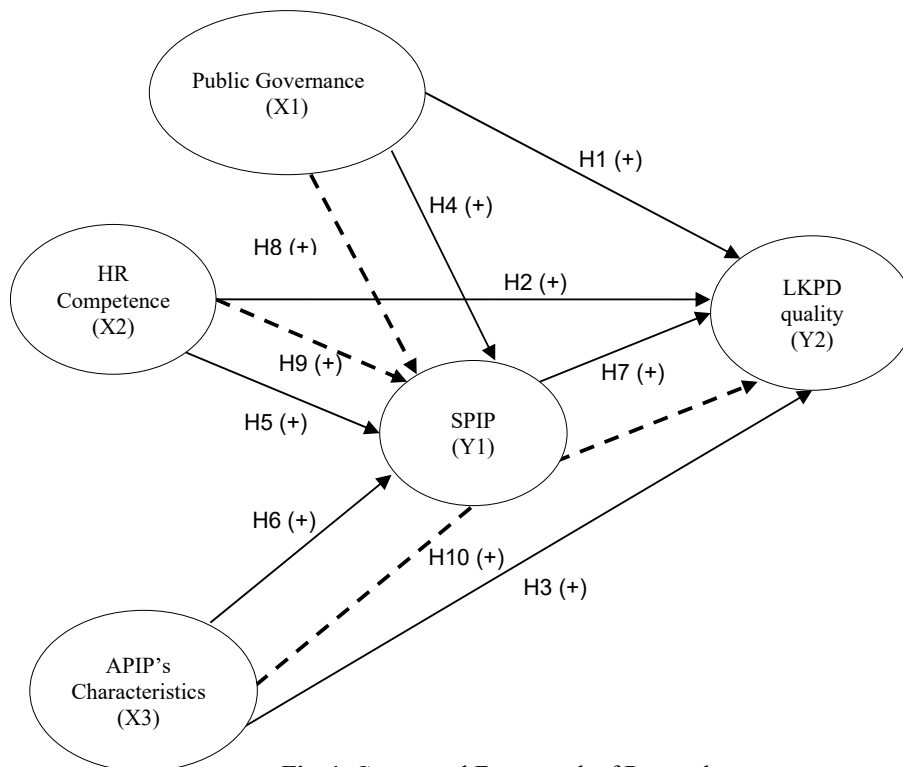
studies is not optimal and comprehensive. This is due to the low number and quality of accounting personnel, which is very pronounced with changes in the accounting system, from cash to accrual basis, and the number of accounts that must be worked on. Quality and quantity of human resources need to be improved, through both recruitment and training, so that the weaknesses can be minimized. Increasing human resources both in quality and quantity makes SPIP run optimally, which improves the quality of LKPD. Based on the theoretical concepts, empirical studies, and the stewardship theory, it can be proposed that the better the competence of human resources, the better the SPIP and the higher the quality of LKPD. Thus, the ninth hypothesis of this research is as follows:

**H<sub>9</sub>:** *Human resource competencies have a positive effect on LKPD quality through SPIP.*

Several previous studies, i.e., by Ekawati (2013), Shireejeit *et al.* (2013); Setyaningrum *et al.* (2013); Siriyama and Norah (2017); Nattawut and Sirilak (2018) have assessed the effect of APIP's characteristics on LKPD quality. As Afiah and Rahmatika (2014) emphasized the effectiveness of internal audit function, Afiah and Azwari (2015) focused more on the competence and independence of internal auditors. Lelly and Afiah (2017) added that the internal control system and internal audit have a positive effect on the quality of financial reporting. Suharyanto and Sutaryo (2016) explained that the capability and number of APIP have a positive effect on the quality of supervision. Furthermore, audit quality is also influenced by the background of auditors, e.g. education (either formal or informal) and APIP's sustainable professional education (Suharyanto & Sutaryo, 2016). The finding differs from that of Simon *et al.* (2016), which states that internal audit has a negative effect on the quality of LKPD. As this finding is not solid, opportunities to study the mediation of SPIP are widely open. The statement above is supported by Stewardship theory, which explains that the apparatus works for the organization's interest, not for its own, so that APIP must be credible and trustworthy in mitigating risks for the wellbeing of the principal. The main objective is to make SPIP run well, i.e., efficient, effective, and compliant with the existing laws and regulations. LKPD quality will improve if it is checked and supervised by trustworthy APIP. Based on the theoretical concept, empirical study, and Stewardship theory, it can be proposed that the better the characteristics of the APIP, the higher the SPIP, and the higher the quality of the LKPD. Therefore, the tenth hypothesis of this study is as follows.

**H<sub>10</sub>:** *The characteristics of APIP have a positive effect on the quality of LKPD through SPIP.*

Based on the background, main theory, literature review, and hypothesis development, the conceptual framework of this study is as follows:



**Fig. 1.** Conceptual Framework of Research

### 3. Method

#### 3.1. Sample

LKPD quality is the benchmark for BPK to award the unqualified opinion to local governments. In South Sulawesi there are four regional governments that have not received the unqualified opinion in 2018; they are Takalar, Jeneponto, Enrekang, and

Tanatoraja regency. As the population size of this study is unknown, the sample was selected using a non-probability sampling method with judgment sampling techniques (Sekaran & Bougie, 2016, 2017). The researcher chose treasurers and finance department heads in the four regencies to complete a survey in forms of questionnaires. The questionnaires were delivered directly by the researcher to the respondent at the research site. Of the 180 distributed questionnaires, 160 were returned, 20 were not returned, and 12 could not be analyzed. With 148 valid questionnaires, the response rate was 82.22%, categorized as very good. The effective samples are 63 males and 85 females; 33.1% head of finance department and 66.9% treasurer. Most of the respondents were between 30 to 40 years old (68 people), followed by the age groups of between 41 and 50 years old and 51 and 58 years old. Most of them have been working for two to ten years (35.1%), followed by employees who have been working for 11 to 20 years (33.1%) and more than 21 years (31.8%). Most of them (60.1%) are undergraduates.

### 3.2. Measures

This research questionnaire uses 5-point Likert scale, 1 for strongly disagree and 5 for strongly agree. The variables of this research are public governance, human resource competence, characteristics of APIP, SPIP, and LKPD quality. The items were derived from existing theories and previous research as well as from the researcher's initiatives. The validity of the questionnaire was tested using the outer model with convergent and discriminant validity. After the first stage, invalid items were excluded, so that the next stage only contains items with valid and reliable values, from which problems were no longer found.

The indicators of public governance in this study refer to the Ministry of State-Owned Enterprises, consisting of fairness, transparency, accountability, responsibility, and independence.

The indicators of human resource competence in this study refer to Spencer and Spencer's theory, consisting of education, experience, training, and skills adopted from Spencer and Spencer (1993) and Indriasih (2014).

The indicators of APIP characteristic in this study refer to the Presidential Decree Number 29 of 2014; they are APIP capability, the number of APIP, the education of APIP, and the educational background of APIP.

The indicators of SPIP in this study refer to the Government Regulation number 60; they are control environment, risk assessment, control activities, information and communication, and supervision.

The indicators of LKPD quality in this study refer to the Government Regulation number 71 of 2010, Hopwood (2003), GASB (1999), FASB (1980), and FASB (2010); they are relevant, reliable, comparable, and understandable.

### 3.3. Data Analysis

This study uses structural equation modeling (SEM) with partial least squares (PLS). The data analysis for the hypothesis testing was performed in SmartPLS 3.0. The model can be predicted using a small sample size (30-50) and provide statistical testing power (Hair et al., 2014). In addition, it is evaluated using the outer and inner model. The structural model (outer model) tests the reflective validity and the reflective reliability. Indicators that do not meet the loading factor requirements were eliminated and were not included in the following stage of analysis. The validity test consists of convergent validity and discriminant validity. The convergent validity test was carried out to determine how good the value was obtained, namely by considering the loading factor of  $>0.5$  and the average variance extracted (AVE) of  $>0.5$ . The discriminant validity test measures different constructs that should not be highly correlated, namely by considering that the square root value of AVE must be greater than the correlation value between latent variables and/or the AVE value must be greater than 0.5 (Fornell, 1982; Fornell & Larcker, 1981). Reliability test can refer to Cronbach's alpha value and composite reliability of  $>0.7$  (Hair et al., 2014). The structural model (inner model) describes latent variables based on the substantive theory. The assessment uses the goodness of fit (GoF) to determine the magnitude of the contribution of the independent variable to the dependent variable. Gof model is measured using the  $R^2$  (R-Squared) of the dependent variable. Furthermore,  $Q^2$  (Q-Squared predictive relevance) is used to determine the diversity of the independent variables that can be explained in the model (Hair et al., 2014). Gof index is defined as the mean of  $R^2$  for all dependent (Tenenhaus et al., 2005). It shows the predictive power of an overall model; the interval is between  $0 < Q^2 < 1$ . GoF values close to 1 indicate a good model path estimation and have a better predictive relevance (Akter, D'Ambra, and Ray, 2011; Hair et al., 2014). The value of  $Q^2$  is calculated using the following formula.

$$Q^2 = 1 - [(1 - R_1^2) \dots (1 - R_n^2)]$$

## 4. Results

The descriptive statistics of the responses show that the mean value of the indicators used in this study is between 3.70-4.2, which is good, with a standard deviation of 0.598. This means that the data distribution or variation is also good because the value is close to zero. Evaluation of the outer model, namely the validity and reliability test, is used to evaluate whether respondents can understand the variables used in this study. The results of the inner model evaluation, namely the goodness of fit (GoF) model, are close to 1, indicating a good model path estimation and predictive relevance. The results of the outer

model evaluation analysis, namely convergent validity and discriminant validity, indicate validity due to the positive outer loading and AVE, i.e., greater than 0.5, categorized as large construct (Chin, 1995), as shown in Fig. 2 and Table 1 below:

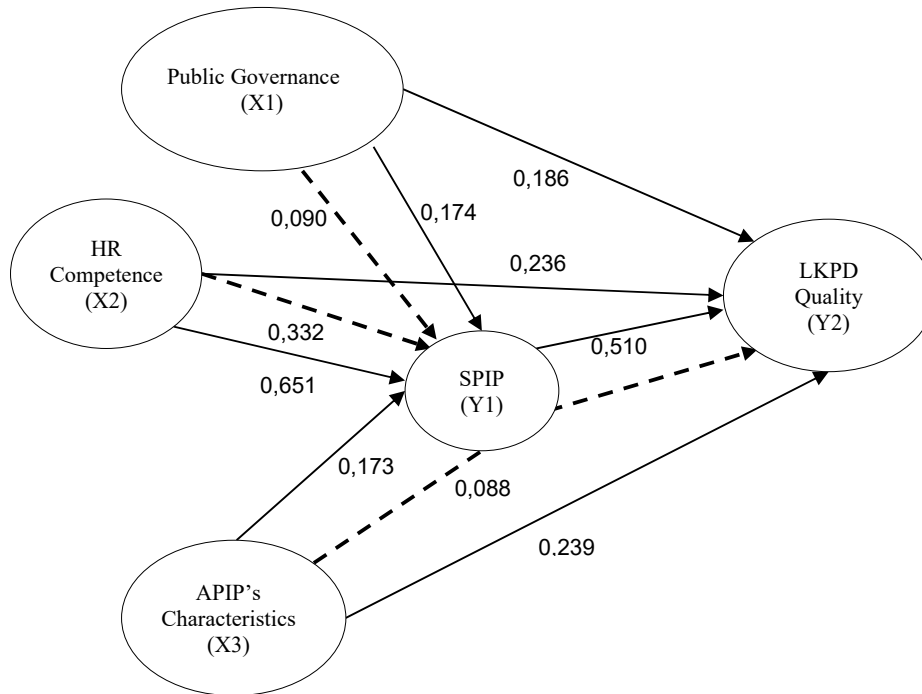


Fig. 2. The Analysis Results of Direct Influence with SPIP as the Mediator

Construct reliability with Cronbach's alpha and composite reliability value has been fulfilled, in which the value is greater than 0.7, as detailed in Table 1 below.

Table 1  
Results of Validity and Reliability Testing

Variable	Composite Reliability	Cronbach's Alpha	Average Variance Extracted (AVE)	Note
Public governance	0,886	0,838	0,609	Valid and Reliable
HR Competence	0,838	0,745	0,563	Valid and Reliable
APIP Characteristics	0,855	0,776	0,600	Valid and Reliable
SPIP	0,861	0,798	0,554	Valid and Reliable
LKPD Quality	0,898	0,849	0,687	Valid and Reliable

See Appendix 4

The results of the inner model analysis using GoF in table 2 show that the Q-squared predictive relevance of LKPD quality 83.33%, which means that all variables are feasible to be used to test the hypothesis. The remaining 16.66% is the contribution of other variables which are not discussed in this research model.

Table 2  
Q-Squared Predictive Relevance Calculation

Variables	R <sup>2</sup>
LKPDQuality	0,344
SPIP	0,745
$(1 - R_1^2)(1 - R_2^2) = Q^2 = 1 - [(1 - 0.349)(1 - 0.742)] = Q^2 = 1 - [(0.656)(0.255)] = Q^2 = 1 - [0.167], Q^2 = 0.833$	

Hypothesis testing is performed to determine whether a hypothesis is accepted or rejected. In this study the p-value is  $\leq 0.05$  ( $\alpha=0.05$ ), which means that the limit level of significance is set at  $\alpha=0.05$ , for both direct and indirect effects. The results of the path analysis using SEM-PLS is as below.

Public governance has a positive effect on LKPD quality. This result is indicated by the path coefficient of 0.186 with the t-statistics of  $2.382 > 1.96$  and p-value of 0.018, which is smaller than  $\alpha = 0.05$ . Therefore, H1 is accepted.

Human resource competence has a positive effect on LKPD quality. This result is indicated by the path coefficient of 0.236 with the t-statistics of  $2.319 > 1.96$  and p-value of 0.021, which is smaller than  $\alpha = 0.05$ . Therefore, H2 is accepted

APIP's characteristics have a positive effect on LKPD quality. This result is indicated by the path coefficient of 0.239 with the t-statistics of  $2.288 > 1.96$  and p-value of 0.023, which is smaller than  $\alpha = 0.05$ . Therefore, H3 is accepted.

Public governance has a positive effect on SPIP. This result is indicated by the path coefficient of 0.176 with the t-statistics of  $3.312 > 1.96$  and p-value of 0.001, which is smaller than  $\alpha = 0.05$ . Therefore, H4 is accepted.

Human resource competence has a positive effect on SPIP. This result is indicated by the path coefficient of 0.651 with the t-statistics of  $10.983 > 1.96$  and p-value of 0.000, which is smaller than  $\alpha = 0.05$ . Therefore, H5 is accepted.

APIP's characteristics have a positive effect on SPIP. This result is indicated by the path coefficient of 0.173 with the t-statistics of  $2.995 > 1.96$  and p-value of 0.003, which is smaller than  $\alpha = 0.05$ . Therefore, H6 is accepted.

SPIP has a positive effect on the quality of LKPD. This result is indicated by the path coefficient of 0.510 with the t-statistics of  $3.887 > 1.96$  and p-value of 0.000, which is smaller than  $\alpha = 0.05$ . Therefore, H7 is accepted.

Public governance has a positive effect on LKPD quality through SPIP. This result is indicated by the path coefficient of 0.090 with the t-statistics of  $2.261 > 1.96$  and p-value of 0.024, which is smaller than  $\alpha = 0.05$ . The direct effect of public governance on LKPD quality is 0.186, while the indirect effect is 0.090; the path coefficient is progressively decreasing or significant. The path coefficient of the indirect effect is smaller than the direct effect, indicating partial mediation (Hair et al., 2010). Thus, SPIP partially mediates public governance and LKPD quality. Therefore, H8 is accepted.

Human resource competencies have a positive effect on the quality of LKPD through SPIP. This result is indicated by the path coefficient value of 0.332 with the t-statistics of  $3.882 > 1.96$ , and a p-value of 0.000, which is smaller than  $\alpha = 0.05$ . The direct effect of human resource competence on LKPD quality is 0.236, while the indirect effect is 0.332; the path coefficient is increasing or not significant. The path coefficient of the indirect effect is greater than the direct effect, indicating full mediation (Hair et al., 2010). Thus, SPIP fully mediates human resources competence and LKPD quality. Therefore, H9 is accepted.

APIP's characteristics have a positive effect on LKPD quality through SPIP. This result is indicated by the path coefficient of 0.088 with the t-statistics of  $2.281 > 1.96$  and p-value of 0.023, which is smaller than  $\alpha = 0.05$ . The direct effect of APIP's characteristics on LKPD quality is 0.239, while the indirect effect is 0.088; the path coefficient is decreasing or significant. The path coefficient of the indirect effect is smaller than the direct effect, indicating partial mediation (Hair et al., 2010). Thus, SPIP partially mediates APIP's characteristics and LKPD quality. Therefore, H10 is accepted.

## 5. Discussion

Based on the results of the model test, public governance is empirically proven to have a positive effect on LKPD quality. The finding supports the findings of Torres and Pina (2003); Babatunde and Babatunde (2017), and Afiah and Rahmatika (2014) that public governance determines supervision, transparency, accountability, predictability, and fairness, and that participation improves the quality of financial reports. The Minister of State-Owned Enterprises also stated that good public governance depends on fairness, transparency, accountability, responsibility, and independence, which is in line with the regulatory theory that continuous improvement for efficient and fair market practices for the welfare of society can improve the quality of LKPD. This finding proves that human resources with high competence have a positive effect on the quality of LKPD. This strengthens the finding of Call *et al.* (2017) that a high-quality workforce with better academic quality reduces internal control violations and restatements. The application of government accounting standards, human resource quality, internal control systems, the use of information technology, organizational commitment, the role of internal auditors, and assets affect the quality of LKPD. Human resource competence is an important factor for local governments in preparing quality LKPD. This study strengthens the Stewardship theory that competent officials have a sense of belonging to the organization and will be motivated to work for the benefit of the organization, not for the benefit of themselves so that they are able to carry out their duties properly in accordance with their tasks and functions, namely preparing quality LKPD. Therefore, local governments need to seriously plan and place human resources according to their fields. Assigning personnel according to their competence can improve the quality of LKPD. This study finds that APIP's characteristics, namely the relevant educational background and level, number of auditors, and capability improve the quality of LKPD. This supports the findings of Suharyanto and Sutaryo (2016) and Kurniawan (2017), that APIP's ability or capability and educational background significantly improves local government's performance, and Setyaningrum *et al.* (2013), that the characteristics, capabilities, and quality of auditors can produce quality financial reports. The characteristics of APIP are important factors for local governments in preparing quality LKPD. In relation with agency theory, the characteristics of APIP reduce the moral hazard of local governments by continuously evaluating, examining, supervising, and providing input to local governments so that they are trustworthy in preparing LKPD. This finding supports the Regulation of the Head of Indonesia's Financial and Development Supervisory Agency (BPKP RI) Number 1633 of 2011 concerning Technical Guidelines for Improving the Capability of APIP for better LKPD quality. It also strengthens the quality assurance theory that, in order to build trust, auditors' services must function effectively and sustainably.



This study proves that the implementation of public governance has a positive effect on SPIP. This is in line with the research of Yamin and Sutaryo (2015), that minimal error of the internal control system encourages transparency from the local government's side, and Siriyama and Norah (2017), that the characteristics of the apparatus and governance system in forms of external supervision and responsibility have a positive effect on the internal control system. This study strengthens the regulatory theory that administrative staff in a local government agency that implements good public governance can increase SPIP. This research also proves that competent human resources have a positive influence on SPIP. This reinforces the finding of Call *et al.* (2017) that high-quality workforce shown by their high academic quality reduces internal control violations and restatements. In addition, they are compliant with the rules, which lead to increased SPIP. This finding strengthens the Stewardship theory that qualified or competent employees will have a sense of belonging to the organization and will be motivated to work for the organization's interests, not for their own. This in turn is able to increase SPIP. This study finds that the characteristics of APIP have a positive effect on SPIP, strengthening Syarifudin's findings (2014) that the quality and number of internal auditors have a positive effect on SPIP because APIP has the independence in overseeing SPIP. Furthermore, Imran and Hasanuddin (2018) stated that a well-implemented internal control system can minimize errors because it is supported by the capability, number, and the education of internal auditors as they can quickly provide input if something goes wrong. In relation with agency theory, the characteristics of APIP are able to reduce the desire of local government officials to be selfish (moral hazard) by continuously evaluating, examining, supervising, and providing input for transparency and accountability so that they become trustworthy in implementing SPIP. This is in line with the quality assurance theory that, to build trust, internal auditors must function effectively and sustainably. This study finds that SPIP has a positive influence on the quality of LKPD, which strengthens previous research that control environment, risk assessment and information, and control activities have a significant effect on the quality of LKPD (Herawati, 2014). In relation to regulatory theory, the findings of this study strengthen the role of local governments, especially regional heads, in implementing the existing regulations. The quality of LKPD from local governments that have implemented SPIP is better because SPIP is designed to provide adequate assurance regarding the achievement of targets in the effectiveness and efficiency of the entity's operations, the reliability of the financial reports, and compliance with applicable laws and regulations (Afiah and Rahmatika, 2014). This is also relevant to Government Regulation number 60 of 2008, which was adopted from COSO, that SPIP is an integral process of activities and actions carried out continuously by leaders and subordinates to provide adequate assurance about the achievement of organizational goals through effective and efficient activities, reliable financial reporting, state assets security, and compliance with laws and regulations.

This study finds that public governance has a positive effect on the quality of LKPD with SPIP mediation, supporting Torres and Pina (2003); Babatunde and Babatunde (2017), and Afiah and Rahmatika (2014) that public governance improves the quality of financial reports. This finding also proves that SPIP has a direct positive effect on the quality of LKPD. This strengthens previous research that SPIP affects the quality of LKPD (Herawati, 2014). Hence, this study confirms the previous studies. Public governance improves the quality of LKPD, but is not quite optimal and accurate due to moral hazard by local government agency apparatus. Thus, SPIP as a mediating variable is able to minimize the moral hazard of officials and increase the influence of public governance on the quality of LKPD. According to the Regulation of the Ministry of Internal Affairs number 4 of 2008, the quality of financial reports is not only measured by conformity with SAP but also by its internal control system. The implementation of SPI is very important for financial reporting. In relation to Stewardship theory, public governance can help improve the quality of LKPD when mediated by SPIP. This means that officials who work for the benefit of the organization make public governance a guide in working transparently and accountability to improve SPIP which in turn has an impact on the quality of LKPD. This research finds that human resource competence has a positive effect on the quality of LKPD through SPIP, supporting the findings of Afiah and Rahmatika (2014); Indriasih (2014) stating that the competence of government officials is the determinant of financial reporting quality in all units in local governments. This implies that the empirical evidence from the results of this study is sufficient to confirm the finding of the two studies above. This result also proves that SPIP has a direct and positive effect on the quality of LKPD, in line with the findings of previous studies that SPIP has a significant effect on the quality of LKPD (Herawati, 2014). The influence of human resource competence on the quality of LKPD is increasingly palpable and optimal with the mediation of SPIP as it is able to reduce the moral hazard of the apparatus.

The finding above confirms the Stewardship theory, which states that quality human resources with a sense of belonging to an organization are motivated to work for the benefit of the organization, not for their benefit. Therefore, a competent apparatus working for the benefit of the organization produces quality LKPD, which can be better with the support of SPIP made and implemented in local government agencies in local governments. This research finds that the characteristics of APIP have a positive effect on the quality of LKPD with the mediation of SPIP. Similar research explained that the characteristics, capabilities and quality of auditors can produce quality financial reports with audit recommendations that are useful for local governments. Nattawut and Sirilak (2018) also stated that auditor's ethics and quality, audit committee effectiveness, and audit quality greatly determine the quality of the financial reports. Therefore, the empirical evidence from this study is sufficient to confirm the previous study by Setyaningrum *et al.* (2103) and Nattawut and Sirilak (2018). The results of this study also prove that SPIP directly has a positive effect on the quality of LKPD. This supports a past researcher stating that internal control systems and internal audit have a positive effect on the quality of LKPD. The effect of APIP's characteristics on the quality of LKPD is more significant and optimal if mediated by SPIP because it is able to reduce moral hazard from APIP. The finding above confirms the Stewardship theory. Internal auditors or APIP's characteristics are expected to be able to

reduce the moral hazard of agents or local governments through supervision by reviewing LKPD for more improvements. The quality of LKPD can also be achieved well if the local government has APIP that understands and applies SPIP.

### 5.1. Contribution for Theory and Practice

This research contributes to the development of science, especially those related to the factors that can improve the quality of LKPD in the context of the Indonesian local government and to accounting theories that have been studied in the past, such as regulatory theory, stewardship theory, and agency theory. Well-made and well-implemented public governance, human resource competence, and the characteristics of APIP, with SPIP mediation, are able to improve the quality of LKPD in local governments. Public governance implementation, human resource competence, and characteristics of APIP have a positive effect on the quality of LKPD. Its practical contribution is that good public governance with the support of human resource competencies and the characteristics of APIP serves as a reference for the state civil apparatus competent LKPD preparation. In addition, capable APIP in terms of number and educational background and level can improve the quality of LKPD. If public governance, competent human resources, and APIP with adequate characteristics are in the hand of morally hazardous people, SPIP needs to be incorporated as a mediator, so they will work in the interests of the local government, and their contribution to LKPD quality improvement becomes more pronounced.

### 5.2. Limitations and Future Research

This research has been carried out following the steps of good research. However, some limitations that require improvement in the future are still unavoidable. The independent variable in this study is still limited because not all issues regarding the quality of LKPD and SPIP have been covered, the questionnaire to assess the characteristics of APIP is still potentially biased because the respondents are state civil apparatus who work in financial administration in local government agencies, and the model used in this study is not a model that has been tested in previous researches. Nevertheless, the model of this research was built on strong assumptions about the hypothesized variable based on theoretical concepts and partially based previously conducted studies. Next researchers need to add other independent variables such as laws and regulations, use local government inspectorate employees as respondents, and expand the research location.

## 6. Conclusion

Public governance, human resource competence, and characteristics of APIP are the foci of this research, which is associated with the quality of LKPD. Regarding the mediation effect of SPIP, improvement in LKPD quality can be achieved if it is carried out by referring to and implementing public governance. Public governance should be implemented by competent human resources so that repeated mistakes can be reduced. In order for public governance and human resource competence to run optimally, support from adequate APIP's characteristics is crucial. This study explores the relationship between public governance, human resource competence, characteristics of APIP and quality of LKPD with the mediation of SPIP. The results show that SPIP fully mediates the influence of human resource competence on the quality of LKPD. Meanwhile, in the effects of public governance and the characteristics of APIP on LKPD quality, SPIP is only able to mediate them partially. Human resource competence is able to give a positive influence on LKPD quality through SPIP, which means that local governments need to encourage employees to enhance their competence by organizing training and placing them according to their fields of expertise.

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