

FINANCIAL STATEMENTS QUALITY OF CENTRAL GOVERNMENT ENTITIES: A TEST OF INSTITUTIONAL AND AGENCY THEORIES

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ABSTRACT

Financial statements of central government entities play a pivotal role as an instrument of accountability to the public in the management of state budget. However, the numbers of previous studies which analyze determinants or efforts to improve the financial statements quality of central government entities are still limited. This research aims to analyze factors hypothesized will affect the quality of central government entities' financial statements. The development of research hypotheses is mainly based on agency and institutional theories. Data were gathered through questionnaire survey method to 171 respondents of financial management officials from 41 Indonesia ministry/central government entities. Structural equation modeling partial least squares (SEM-PLS) was used as instrument to test the hypotheses. The results show that compliance with state financial management regulations, quality of human resources, reliability of internal control systems, and utilization of information technology provide positive effects on the financial statements quality of central government entities. This finding indicates the importance of those determinant factors to improve the accountability in managing the state finances.

Keywords: Financial Statement Quality, Human Resources Quality, Internal Control System, Technology Utilization.

INTRODUCTION

Reforms in the financial statement of government entities are a crucial part in realizing transparency and accountability of state financial management. The financial system adopted has slowly begun to change; one example that has most fundamental change in the financial sector is the change from cash-based financial reporting to accrual-based financial reporting. This accounting basis change is seen as an aspect of New Public Management agenda designed for the performance of public sector organizations including the central government entities (Guthrie 1998; Hyndman & Conolly, 2011; Ouda, 2014).

In the context of presenting transparent and accountable financial statements, the Indonesia central government entities, namely the state ministries/institutions are required to own and implement an agency accounting system. One element of the accounting information and financial reporting mechanism in Indonesia is the formation of an accounting unit organizational structure (Regulation of Directorate General of Treasury Number 42 of 2014). One of financial accounting unit that has become an organizational structure in the central government is accounting unit of Budget User Proxy or Unit Akuntansi Kuasa Pengguna Anggaran (UAKPA), UAKPA is an accounting entity of state ministries/institutions as the upstream of all financial statements compiled by the state ministries/institutions, the initial foundation of these financial

statements. The compilers of financial statements at the UAKPA level become the first spearhead in the financial statements compilation so that the reports can be accounted for by the higher level institution, i.e., a state ministry/institution entity namely Accounting Unit of Budget User or Unit Akuntansi Pengguna Anggaran (UAPA).

Several previous researches have studied determinants in the form of variables that affect the financial statements quality of government entities. Nevertheless, the findings of those previous researches have not been fully consistent. Stephen et al. (2013) examined the effect of accounting standard, legal framework on the quality of financial statements by government ministries in Uganda. The result mentions the occurrence of positive effects of the government accounting standard or legal framework on the financial statements quality of the Government of Uganda. Afiah & Azwari (2015) who conducted a study on the effect of internal control system on the quality of financial statements and its impact on good governance in public sector have concluded that internal control provides positive influence on financial statements quality and ultimately also brings positive impact on good governance. The results of the Nogueira & Jorge study (2012) show the important role of internal control in the adequacy of the local government financial reporting model in Braganca, Portugal. The results of the study by Agbenyo et al. (2018) shows that that risk assessment of internal control system is a significant determinant of financial reporting quality in the Ghana Revenue Authority. Conversely, the results of Johnson et al. (2018) shows that internal control has no effect on financial reporting quality government in the Florida, United States.

Yosefrinaldi (2013) has shown an empirical finding that human resources capacity factor, technology utilization factor, and internal control factor affect the financial statements quality of government entities. Inayati (2015) concludes her empirical finding in the work units of Public Service Agency of education sector that factors of internal control system, technology utilization, accounting system, and organizational commitment have positive effects on financial statements quality. Those findings are not in line with an empirical research done by Maladewi (2016) which concludes that only the application of standards and technology utilization have effects on the quality of financial statements; whereas internal control reliability, organizational commitment, and human resources competence have no influence on the government entities' financial statements quality. Likewise, Panasa (2015) also concludes that internal control and human resources competence do not affect the quality of government entities. The results of Christiaens's study (1999) show the effect of the quality of human resources accounting staff on the level of financial reporting compliance of local government in Belgium shows mixed results. Accounting staff quality as measured by indicators of graduates from provincial school or taking accounting training has a positive effect, but if measured by indicators of education level, professional organizational membership and experience have no significant effect. In contrast, the results of the study of Carvalho et al. (2007) show the quality of resources that is proxied by the number of employees having a negative influence on the level of compliance of local government financial reporting in Portugal.

The importance of a research on what factors need to be prepared by the Central Government entities in improving the quality of financial statements is the focus and novelty of this research. Previous researches have only studied one ministry as conducted by Stephen et al. (2013), Abang'a (2017), and Agbenyo et al. (2018). In fact, previous research shows the importance of the quality of central government financial reporting. Becket-Camara (2009) shows the important role of financial reporting data in planning and budgeting decision making for the U.S. government. In addition, Hardcastle (1990) emphasizes the importance of the major

development of central government financial reporting in improving the transparency of performance reporting. Meanwhile, the previous studies carried out in Indonesia have so far used more local governments as the samples than the central government entities as done by Yosefrinaldi (2013); Afiah & Rahmatika (2014); Susbiyani et al. (2014); Afiah & Azwari (2015); Inayati (2015); Panasa (2015); Surastiani & Handayani (2016); Suyono (2016), Maladewi (2016); Adi et al. (2016); Setyowati et al. (2016); Silalahi & Sinambela (2017).

Likewise, research in other countries focuses more on the financial reporting of local governments than the central government. For example, Pilcher & Dean (2009) research examined consequences and costs of financial compliance reporting for local government in Australia. Grossi's (2009) study aims to test the potential effects of consolidated financial reporting (CFR) on accounting and reporting systems in Italian local government. The results of the study by Lin et al. (1993) show for the case of the Canadian government financial reporting that the value of compliance is higher in the disclosure aspect than measurement, with weaknesses in valuing assets and liabilities. Christiaens's research (1999) aims to examine the differences in the level of compliance with the financial reporting regulations of various local governments in Belgium and the factors that influence them. Johnson et al. (2012) tested the relationship between management letter and financial reporting quality of Florida local government. Research by Carvalho et al. (2007) and Nogueira & Jorge (2012) aimed to examine the level of compliance with financial reporting of Portuguese local government. The results of the Bolivar et al. (2007) provide empirical evidence of the important role of disclosure of regional governments in Spain's financial reporting in increasing public accountability. Torres & Pina Study (2015) aims to compare the level of compliance of local government accrual-based financial reporting practices in Spain and the USA with IPSAS.

Different with those previous researches, this research's novelty is to focus on the financial statements quality of central government; thus, it is expected to contribute in accounting literature of public sector on the efforts to improve the financial statements quality of central government entities. This research is motivated by the limited previous studies that analyze the efforts in improving the central government entities' financial statements quality. Whereas, as like the financial statements of local government, financial statements of central government entities play a pivotal role as a form of accountability to the public in financial management. The inconsistency of previous research findings has also become the driving factor for the need of further research on determinant financial statements quality of government entities. In the context of explaining the inconsistency, this research includes variable of information technology utilization especially in accounting information system. The addition of technology utilization variable is based on the phenomenon of achieving unqualified opinion issued by Audit Board of Indonesia (BPK RI) as conveyed by the Chairperson of BPK RI during the submission of Audit Results Report (LHP) for annual LKPP of 2016 period in the House of Representatives (DPR) who states that the government has established signal database through electronic reconciliation (e-rekon) and better information system for compiling the financial statement. E-rekon and information system built by the government are one of dimensions of the information technology utilization. The important role of information technology in improving financial statements accountability of government entities has also been confirmed with research empirical evidences by Perez et al. (2014).

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This research bases on agency theory and institutional theory in developing the hypotheses. Agency theory explains a contract in which one or more individuals (principal) give mandates to another individual (agent) in order to carry out activities that are in accordance with the interests of the principal (Jensen & Meckling, 1976). Based on this, public sector accountability is then defined as the obligation of agent to be responsible for presenting the reporting and disclosure of all activities to the principal (Mardiasmo, 2002). Agency relations in the government can be executive as the agent and is obliged to convey financial statements to the principal, in here is the public represented by the legislature.

Moe (1984) depicts the relationship of principal and agent from the democratic politics point of view. The government that acts as agent (both central and local governments) manages the public funds through State Budget/Local Budget (In Indonesia, APBN/APBD). Consequently, the government is required to account for the management of these public funds through financial statements. The public, as the owner of the funds manifested through payment of taxes acts as principal who has the right and authority to request the agent's (government's) responsibility. In this context, public as the principal is the general community represented by DPR/DPRD (House of Representatives/Local House of Representatives). Based on this principle, the law then requires the government to account for the management of APBN/APBD to the DPR/DPRD as the public representation. The pattern or model of the state financial management accountability is in accordance with the pattern in agency theory. Therefore, it can be concluded that the government is an agent of the people through representatives in the House of Representatives (DPR) institution.

In addition to use of agency theory as described above, in developing the hypotheses, this research also refers to institutional theory. Institutional theory is based on the idea of DiMaggio & Powell (1983) that an organization (in this case central government entities) is formed by institutional context exists around it. Influential thoughts or ideas are institutionalized and then legally legitimized and accepted as the method in operating the organization. The process of legitimacy is carry out by the organization due to institutional environmental pressures. DiMaggio & Powell (1983) argue that an organization is formed due to the existence of forces from the outside of the organization through imitation or compliance process. The organization will attempt to adjust itself or so called isomorphism (process of becoming similar in form) due to external pressures. This isomorphism is also performed in an effort to improve the financial statements quality carried out by the central government. Three processes of how an organization performs isomorphism according to DiMaggio and Powell (1983) include coercion (coercive isomorphism), imitation (mimetic isomorphism), and normative (normative isomorphism). Determinant variables of financial statements quality such as compliance with financial management regulations, internal control reliability, human resources quality, and information technology are the forms of the isomorphism.

In the perspective of agency theory, enforcement of the state financial management regulations is one of the efforts to synchronize actions taken by the agent with the principal's interests. Meanwhile, in the perspective of institutional theory, the existence of these regulations is classified as coercive isomorphism in order the central government entities are in accordance with their institutional context. Stephen et al. (2013) states that compliance with legislation is directly proportional to the quality of financial statements; since the strong enforcement of regulations will reduce the occurrence of fraud in compiling financial statements that eventually will improve the quality of the financial statements. Inchausti (1997) has assessed the influence

of legal framework on financial statements quality in Spain. The result shows a strong influence of the legal framework in disclosing financial statements information even before required by the law. Inchausti (1997) cites that information required in a generally accepted accounting system has been used by several firms a year before the regulations related to the financial reporting is enacted. The results of the Torres & Pina study (2015) emphasize compliance with accounting standards to improve the quality of local government financial reporting at U.S. and Spain. Based on the elaboration, then:

H1: Compliance with regulations on state financial management has a positive effect on financial statement quality of central government entities.

Internal control system is the basis for implementing control activities, especially in administering information system that aims to ensure the accuracy and suitability of information owned. Internal control is a government technique in providing references and bases for state ministries/institutions to run their activities in order the state financial management can be carried out transparently and accountably. The Ministers as an aide to the President, prime holder of the use of State Budget, must run an internal control system to guarantee that the programs and activities contained in APBN can be carried out properly and can be assessed for their usefulness effectively, efficiently, and economically. Internal control has a great influence in achieving financial statements quality produced; the quality affects the provision of opinion by the Audit Board of Indonesia (BPK) as external agency of the central government financial examiner. According to Government Regulation Number 60 of 2008, internal control is an integrated process of an event or activity conducted by the higher authority and the whole officers in charge of producing confidence to achieve the organizational goals through effective activities. Based on agency theory and institutional theory, internal control is a means for the activities of budget use by the Central Government entities are coherent with the public interest. Previous research findings include Afiaha & Rahmatika (2014), Afiah & Azwari (2015); Inayati (2015); Panasa (2015); Purwohartono (2015), Surastiani & Handayani (2015), and Silalahi & Sinambela (2017) have provided empirical evidences that internal control reliability has a positive influence on the financial statements quality of government entities. The results of the Nogueira & Jorge (2012) and Agbenyo et al. (2018) shows the important role of internal control reliability in improving the quality of government financial reports in Portugal and Ghana. Based on the elaboration, then:

H2: Reliability of internal control system has a positive effect on financial statements quality of central government entities.

The quality of human resources makes a person expertise in carrying out the duties and has the responsibility delegated to him/her by considering his/her basic education, training, and competent experience. Mardiasmo (2002) states that the qualified human resources of employees who work in the field of accounting are able accelerate the compiling of financial statements. This may occur because the qualified human resources are able to understand and act hastily and precisely on the actions taken so that the presentation of financial statements can be resolved (Indriasih & Koeswayo, 2014). Based on the perspective of institutional theory, an organization will perform normative isomorphism by improving the quality of its employees' human resources in order to gain legitimacy including in the financial reporting. Previous studies such as Yosefrinaldi (2013), Afiah & Rahmatika (2014), Surastiani & Handayani (2015), Maladewi (2016), Setyowati et al. (2016) have revealed an empirical evidence that factor of human

resources quality positively affects financial statements quality. The results of Christiaens's study (1999) show that accounting staff quality as measured by indicators of graduates from provincial school or taking accounting training has a positive effect on the level of financial reporting compliance for Belgium local government.

H3: Quality of human resources has a positive effect on financial statements quality of central government entities.

The achievement of Unqualified opinion issued by BPK RI as conveyed by the Chairperson of BPK RI during the submission of LHP for LKPP Year 2016 to the House of Representatives (DPR) means that the government has establish single database through electronic reconciliation (e-rekon) and information system for better compilation of LKPP. E-rekon and information system established by the government are one of the technology utilization dimensions. Based on the perspective of institutional theory, an organization should aware (normative isomorphism) that information technology is a crucial factor that is able to improve the reliability of financial statements. An organization can also imitate other organizations (mimetic isomorphism) which have invested in information technology to improve the quality of financial statements. Empirical evidences that the utilization of information technology has a positive effect on the quality of the government financial statements have been exposed by by previous researches include Inayati (2015); Purwohartono (2015); Maladewi (2016), Suyono (2016), Silalahi & Sinambela (2017). The results of the study by Perez et al. (2014) also shows the important role of technology in increasing financial information transparency for 34 OECD countries. Likewise, Bolivar et al. (2007) provide empirical evidence of the use of technology namely e-government in increasing the financial accountability of regional governments in Spain. Based on the elaboration, then:

H4: Utilization of technology has a positive effect on financial statements quality of central government entities.

RESEARCH METHODOLOGY

Types and Data Collection Methods

The data was used in this study is the primary data, were obtained directly through the submission of questionnaires to the respondents. Population of this research was work unit of state ministries/institutions as accounting entities of the central government located in the City of Semarang. The number of state ministries/institutions in the reporting period that ends in 31st December 2017 in Semarang was 45 State Ministries and Institutions. This number represents 51% of the total state ministries/institutions in Indonesia which are 88 state ministries/institutions. Each work unit of ministries/institutions has different characteristics from one another. The minimum number of officials/staff on accounting financial reporting in each work unit is 3 (three) people consisting of at least one official, one SAIBA operator, and one SIMAK-BMN operator. Criteria of respondents used cover:

1. Financial Management Officer/Staff, especially those directly related to the compiling of Financial Statements.
2. Have been actively involved for at least one year in compiling the Financial Statements.

Research Variables

Financial statements quality

This variable was measured by employing an instrument developed by Stephen et al. (2013) and Panasa (2015) which have been adapted in the context of government accounting in Indonesia. Financial statements quality was measured with qualitative characteristics of financial statements as listed in Government Regulation Number 71 of 2010 concerning government accounting standards which cover relevant, reliable, comparable, and understandable. Each question point was measured through a 5-point likert scale, with a score of 5 means the quality of the financial statements is very high and score 1 means that the quality is very low.

Compliance with State Financial Management Regulations

Variable of compliance with regulations was measured with instrument developed by Stephen et al. (2013) and adjustments were made to regulations in Indonesia. Compliance with regulations was measured by applying four dimensions, among others: State Finance Law, State Treasury Law, Presidential Regulation concerning Procurement of Government Goods and Services, Minister of Finance Regulation concerning Technical Guidelines for Financial Statements of State Ministries/Institutions, with a total of 13 question items.

Characteristics of compliance with regulations were viewed from aspects of:

1. Planning regulations.
2. Budgeting regulations.
3. Regulations on goods and services procurement.
4. Regulations for compiling financial statements.

A list of statements was used to explain the level of compliance with regulations, especially regulations related to the management and compilation of Ministry/Institutional Financial Statements.

Reliability of Internal Control System

Reliability of internal control was measured with instrument developed by COSO and Government Regulation No. 60 of 2008 and has been applied by Afiah & Azwari (2015); Panasa (2015); Purwohartono (2015). Indicators of Internal Control System were seen from aspects of:

1. Control Environment.
2. Risk Assessment.
3. Control Activity.
4. Information and Communication.
5. Monitoring, with a total of 7 question items.

Human Resources Quality

The human resources quality of the financial management officials of Central Government entities was measured with instrument developed by Panasa (2015) and Purwohartono (2015). Human resources quality was measured with four dimensions, namely: educational background, knowledge, expertise, and task division with a total of 8 question items. Characteristics of human resources quality were measured from the aspects of:

1. Educational Background.
2. Knowledge.
3. Expertise.
4. Task Division.

A list of statements was used to explain the competencies of human resources, especially the human resources who manage and compile the Ministry/Intuitional Financial Statements.

Utilization of Information Technology

Variable of technology utilization was measured with instrument developed by Inayati (2015); Purwohartono (2015). Technology utilization used 5 dimensions: software application, computerized accounting process, software according to legislation, integrated accounting and managerial reports, and database maintenance with a total of 5 question items.

Technique of Data Analysis

The instrument used to test the research hypotheses was Structural Equation Model-Partial Least Square (SEM-PLS). According to Ghazali & Latan (2016), SEM-PLS is a method to simultaneously test the relationship between latent constructs. The use of SEM-PLS is because it has the capability to analyze reflective and formative measurement models which is suitable for this research. In addition, the purpose of SEM-PLS is to evaluate the quality of data based on the measurement models. Therefore, SEM-PLS can be seen as a combination of regression and factor analysis so that the main determinant can be identified. This research employed WarpPLS version 5.0 software because it has added several new features that make WarpPLS 5.0 program becomes very powerful and also easy to use and user friendly. Testing of hypotheses was carried out by evaluating the results of coefficient and magnitude of p value. The score of p-value is the basis of the significance of relationship between exogenous and endogenous variables.

FINDINGS AND DISCUSSION

Descriptive Statistics

The following Table 1 presents descriptive statistics for each research variable.

Variables	N	Mean	Std. Deviation
Compliance with Regulations (X1)	171	4.19	0.51
Human Resources Quality (X2)	171	3.90	0.92
Internal Control System Reliability (X3)	171	4.18	0.57
Technology Utilization (X4)	171	4.47	0.57
Financial Statements Quality (Y)	171	4.25	0.29

Based on the results of descriptive statistics of variables shown in Table 1, it can be interpreted as follows. By applying a 5-point Likert scale, the mid-point obtained is 3; hence, if the mean score obtained is lower than 3 shows a low level for the characteristics measured by each variable and vice versa if above 3. The average variable level of compliance with state financial management legislation conducted by the samples of central government entities is 4.19 with standard deviation 0.51 indicating that the level of compliance is relatively quite high. Meanwhile, the average score of human resources quality is 3.90 indicating that the human resources quality of the financial statements compilers is at moderate level. The levels of internal

control system reliability and technology utilization are relatively quite good as indicated by the average scores of 4.18 and 4.47 respectively. Likewise, the quality of financial statements of ministries and institutions is also classified as quite good with an average of 4.24.

Results of Non-Response Bias Test

Non-response bias test was used to capture the characteristics of respondents who returned the questionnaires and those who did not (non-response) differently. To analyze whether there are significant differences between variables of the two groups, the results of the independent samples t-test were evaluated based on the value of t and significance 2-tailed. The results of non-response bias are shown as follows.

Variable	T-statistics	p-value
Compliance with Regulations (X1)	-0.04	0.97
Human Resources Quality (X2)	-0.01	1.00
Internal Control System Reliability (X3)	0.16	0.87
Information Technology Utilization (X4)	0.04	0.97
Financial Statements Quality (Y)	0.25	0.81

The results of the test using equal variance assumed shows insignificant differences for all variables as indicated by no single variable which has p-value below 0.5. Thus, it can be concluded that the issue of non-response bias does not exist in the data of this research.

Results of Measurement Model Test (Outer Model)

All indicators used in this research were reflective; hence, to test the measurement model must meet the validity test (validity convergent and discriminant validity and reliability test (composite reliability and cronbach alpha). Convergent validity test applied in reflective indicator by looking at the loading factor value for each construct indicator at output combine loading and cross-loadings. Rule of thumb applied is loading factor above 0.70 in confirmatory studies. In addition, convergent validity was also assessed from Average Variance Extracted (AVE) that must be higher than 0.5. (Ghozali & Latan, 2016).

Variable	Loading Range	AVE
Compliance with Regulations (X1)	0.742-0.793	0.648
Human Resources Quality (X2)	0.854-0.878	0.751
Internal Control System Reliability (X3)	0.718-0.900	0.678
Information Technology Utilization (X4)	0.783-0.895	0.697
Financial Statements Quality (X5)	0.714-0.926	0.705

In addition, the overall convergent validity used in each construct variable can also be seen from the value of Average Variance Extracted (AVE). The required AVE value has to be > 0.5. AVE value of each variable from the results of WarpPLS 5.0 output is shown in Table 5. Based on Table 5, it can be seen that the AVE values for all constructs > 0.5 which indicates that all variables have met convergent validity.

The discriminant test was done by comparing the square root value of Average Variance Extracted (AVE) with correlation value among constructs. A good discriminant validity is indicated with AVE square root of each construct is higher than the correlation value among constructs in the model (Sholihin & Ratmono, 2013). Table 6 shows that the AVE square root values of all variable are higher than the correlation value with other variables. Hence, the test result indicates that all variables have met discriminant validity.

	X1	X2	X3	X4	Y
X1	0.805	0.624	0.653	0.722	0.773
X2	0.624	0.866	0.564	0.539	0.599
X3	0.653	0.564	0.823	0.576	0.624
X4	0.722	0.539	0.576	0.835	0.765
Y	0.773	0.599	0.624	0.765	0.840

Reliability test was done by looking at cronbach's alpha and composite reliability values. If the values of cronbach's alpha and composite reliability are higher than 0.70 means the reliability is good, but the result of between 0.6 to 0.7 is still acceptable for exploratory research (Sholihin & Ratmono, 2013a).

Variable	Cronbach Alpha	Composite Reliability
Compliance with Regulations (X1)	0.909	0.928
Human Resources Quality (X2)	0.934	0.948
Internal Control System Reliability (X3)	0.839	0.893
Information Technology Utilization (X4)	0.891	0.920
Financial Statements Quality (X5)	0.929	0.943

Table 5 shows that the values of cronbach's alpha and composite reliability of all constructs are higher than 0.7. Based on the test conducted, it can be concluded that the model of this research has met the reliability requirements.

Results of Hypotheses Testing (Structural Model Test/Inner Model)

The results of hypotheses testing with SEM-PLS estimated with WarpPLS software are presented in the following Table 6.

Path	Path Coefficient	P Value
Compliance with Regulations (X1)	0.152	0.021
Human Resources Quality (X2)	0.140	0.031
Internal Control System Reliability (X3)	0.160	0.016
Information Technology Utilization (X4)	0.512	<0.001
Adjusted R-Squared	0.759	

Based on the results of SEM-PLS above, the results of hypotheses testing obtained are as follows. First hypothesis (H1) proposes that compliance with regulations has a positive effect on financial statements quality. The test result for variable of compliance with regulations on financial statements quality has a coefficient value of 0.152 and p-value 0.02 (p-value <0.05). It indicates that the application of principles of compliance with state financial management regulations provides a positive impact on financial statements quality. This analysis result is in line with prediction made; hence it can be concluded that the first hypothesis (H1) is supported.

Second hypothesis (H2) suggests that human resources quality has a positive effect on financial statements quality. The test result for variable of human resources quality on financial statements quality shows a coefficient value of 0.140 and p-value 0.03 (p-value <0.05). It indicates that the human resources quality of financial statements compilers gives a positive impact on financial statements quality. The analysis result fits the prediction made; thus it can be concluded that the second hypothesis (H2) is supported.

Third hypothesis (H3) states that internal control system reliability has a positive effect on financial statements quality. The test result for variable of internal control system reliability on financial statements quality has a coefficient of 0.160 and p-value 0.02 (p-value <0.05). It indicates that internal control system compliance has a positive impact on financial statements quality. This analysis result agrees with the prediction made; therefore it can be concluded the third hypothesis (H3) is supported.

Fourth hypothesis (H4) suggests that utilization of technology has a positive effect on financial statements quality. The test result for variable of technology utilization on financial statements quality shows a coefficient value of 0.512 and p-value <0.001 (p-value <0.05). It indicates that technology utilization at work units of state ministries/institutions in Semarang has a positive impact on financial statements quality at significance level 5%. This analysis result agrees with the prediction made; hence it can be concluded that the fourth hypothesis (H4) is supported.

Table 6 also shows that the value of Adjusted R-squared of variable financial statements quality is 0.759 which means that 75.9% variance of financial statements quality (Y) can be explained by the four exogenous variables covering compliance with regulations (X1), human resources quality (X2), reliability of internal control system (X3), and technology utilization (X4); while the remaining 24.1% are explained by other variables which are not included in this research. Adjusted R-squared of financial performance variable is 0.759 is included in the substantial category.

Discussions

The result of significance testing shows a positive effect of compliance with regulations on financial statements quality. In line with the hypothesis, the work units of state ministries/institutions will acquire better and better financial statements quality if the work units of state ministries/institutions also have better and better compliance with state financial management regulations. This is consistent with premise in agency theory in which there is information asymmetry between principal and agent. The role of compliance on regulations becomes one way to overcome issues related to the information asymmetry. Regulations related to financial, regulations related to treasury, regulations related to goods and services procurement are parts of the legal framework scope that are required as a foundation for a government organization in general and specifically for state ministries/institutions to meet the transparent and accountable financial statements quality. This finding supports argument in institutional

theory in which coercive isomorphism is required in the form of binding regulations in order to ensure compliance including in the management of state financial. When compared with empirical research from other countries, this finding is consistent with Torres & Pina (2015) that compliance with regulations is an important determinant for improving the quality of government financial reporting at U.S. and Spain.

The test result shows a positive influence of human resources quality on financial statements quality. The better quality of human resources in the works units of state ministries/institutions, the quality of entities' financial statements is also getting higher. This finding supports argument in institutional theory in which the awareness on the importance human resources quality of financial statements compilers is normative isomorphism in order to improve the financial statements quality of entities. These results also support the findings of Christiaens (1999) for the context of local governments in Belgium regarding the important role of accounting staff quality in financial reporting compliance. However, empirical evidence of this study is different from the findings of Carvalho et al. (2007) that the quality of accounting staff has a negative effect on the level of compliance with financial reporting of local governments in Portugal. Carvalho et al. (2007) stated that there were problems with the level of qualification of accounting staff, namely the lack of accrual accounting training, non-involvement in professional organizations and the absence of accountant certification for the context of public administration in Portugal.

The test result indicates a positive effect of internal control system reliability on financial statements quality. Reliability of internal control system based on institutional theory can be seen as the manifestation of the three isomorphism forms (normative, coercive, and mimetic) in improving the best practice of compiling financial statements of central government entities. This finding also supports the results of research in other countries namely Nogueira & Jorge (2012) and Agbenyo et al. (2018) that adequate internal controls can improve the quality of government financial reports in Portugal and Ghana.

The result of significance testing shows a positive influence of technology utilization on financial statements quality. This finding supports the institutional theory in which the utilization of information technology is a form of isomorphism to improve the financial statements quality of government entities. As proposed by the hypothesis, a good utilization of information technology will generate a high financial statements quality. This empirical evidence is consistent with research in other countries, for example Perez et al. (2014) and Bolivar et al. (2007) which shows the use of technology can increase government financial accountability in 34 OECD countries and Spain.

CONCLUSION

The test results to 171 respondents from work units of State Ministries show that compliance with state financial management regulations, quality of human resources, internal control reliability, and utilization of technology are able to improve the quality of Financial Statements of Ministries and Institutions. Compliance with state financial management regulations has a positive impact on financial statements quality.

Implications

The research finding suggests that regulatory compliance has resulted in the improving financial statements quality. This is due to the focus of the stakeholders is on the accountability

and transparency of a financial statement as an embodiment of responsibility for financial management mandated to them. Therefore, the improvement in the implementation of regulatory compliance is expected to encourage the achievement of transparent and accountable financial statements quality. A good and competent human resources quality in supporting the compiling of financial statements of ministries and institutions is pivotal to strive because the financial statements quality is unadvisable from the competence and quality of human resources who play an active role behind the report. Compliance with internal control system in supporting financial statements quality is essential to perform since it will provide assurance that the existing business process has been carried out in order to achieve the objectives. Technology utilization in work units of state ministries/institutions is necessary to support the financial statements quality since the use of good technology cannot be separated from the good utilization of technology as well.

LIMITATIONS

There are several limitations in this research which can be supplemented in the next studies. These limitations include:

1. The analysis carried out in this research is limited to the work units of state ministries/institutions in with return rate of the questionnaires is relatively low.
2. Data collection employs questionnaires method which is carried out with written statements without calibration so that conclusions are drawn based on the written answers from respondents. This method limits the respondents' other opinions which are not accommodated in the questionnaires.
3. The test result indicates that several indicators in this research must be removed because they do not meet the validity requirements.

FURTHER RESEARCH

Future researches can expand the population and increase the number of samples in testing either from the quantity of work units or sample objects. Data collection on research indicators are not only with questionnaires but also through interviews so that the respondents have relatively similar understanding on an indicator. The future researches are expected to improve the statements in questionnaires, especially those with validity and reliability results of below 0.7.

Future researches can also include variables other than regulatory compliance, human resources quality, internal control, technology utilization on financial statements quality because the result Adjusted R-squared shows 24.1% are from other variables which means the financial statements quality is still influenced by other variables (24.1%) other than variables of regulatory compliance, human resources quality, internal control reliability, and technology utilization

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