THE INFLUENCE OF THE EFFECTIVENESS OF INTERNAL CONTROL AND IMPLEMENTATION OF THE GOOD GOVERNMENT GOVERNANCE ON ACCOUNTING INFORMATION QUALITY: A CASE STUDY IN INDONESIAN LOCAL GOVERNMENT

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ABSTRACT

Purpose: *This study aims to prove the influence of the Effectiveness of Internal Control and the Implementation of Good Government Governance on Accounting Information Quality.*

Design/Approach/Methodology: *This is a survey study on 288 internal audit officers and 241 financial management officials in local governments in Indonesia. The data analysis applied the Structural Equation Modeling approach with the use of statistical software Lisrel 8.8.*

Findings*: The results of this study proved that the Effectiveness of Internal Control and the Implementation of Good Government Governance have a positive influence on Accounting Information Quality, where the Implementation of Good Government Governance has a greater impact than the Effectiveness of Internal Control.*

Practical Implication: *Local governments that have implemented an effective internal control and good governance can record accounting information better so as to obtain high-quality accounting information. The implementation of good governance is indicated, among others, by the availability of an organizational structure and standard operational procedures for managing accounting information.*

Originality/Value: *The originality of this study is to provide strong support as empirical evidence to the previous literature that the Effectiveness of Internal Control and the Implementation of Good Government Governance have a significant influence in achieving high-quality accounting information.*

Keywords: Effectiveness of Internal Control, Implementation of Good Government Governance, Accounting Information Quality, Local Government

INTRODUCTION

The presentation of high-quality accounting information provides benefits in making management decisions, such as decisions in the management of local government assets. Accounting information quality is influenced by the effectiveness of the organization's internal controls. This is in line with the statement of Mulyani & Arum (2016) who explained that the effectiveness of internal control has a positive influence on the quality of accounting information.

According to Cohen, et al., (2011), there are various types of information needs for financial managers, including data problems and measurable outputs. The financial information will be utilized by financial managers as a basis for managing local government management in preparing budget plans, implementing government programs, as well as outputs in form of regional wealth positions used in efforts to improve community welfare. Identification of financial information that supports the effectiveness of decision making can be done by analyzing the business process of a local government. In 2013, the PWC Global survey on

accounting and reporting by central governments published the survey results with the title "Towards a new era in government accounting and reporting". In this survey, they found that strengthening internal control based on financial information can improve decision making that is relevant to the needs of the organization. PWC stated that "better accounting leads to better reporting, which provides the financial information necessary for better decision-making, which in turn should lead to better use of public resources".

The presentation of local government financial statements in Indonesia showed that the regional accounting information was evidently not yet fully in good quality. Generally, the quality of this report has indeed improved every year. However, 15 out of 542 (3%) local government financial reports still experienced a decline in opinion. One of the contributing factors is the lack of effective internal control. The Audit Board of the Republic of Indonesia (BPK RI) found 5,858 weaknesses in the internal control system, consisting of 1,826 in the accounting and reporting control systems, 2,753 in the control system for the revenue and expenditure budget implementation, and 1,279 in the structure of the internal control. Besides internal control, good governance is extremely important in influencing the quality of accounting information. Krismiaji, et al., (2016) found that governance has a positive impact on the quality of accounting information, proving a strong relationship between them. In addition, Mulyani & Fettry (2016) also conducted explanatory testing on the proxies of governance in influencing the quality of financial reporting. The results showed a positive impact on the quality of accounting information.

Based on various empirical phenomena described previously, the effectiveness of internal control and the implementation of good governance in local governments are proven to be not optimal in presenting the accounting information. Unfortunately, the cause of this has not been widely studied in previous studies by Fardinal (2014); Rahmatika (2014); Mulyani & Arum (2016); Atikoh (2017); Le & Tran (2017); Sari, et al., (2018); Makawide & Pontoh (2018) which focused merely on the influence of effective internal control on the quality of information. It was also unconfirmed by similar studies conducted by Klai & Omri (2010); Mardiasmo (2012); Camparano, et al., (2018); Awalluddin, et al., (2018); Alsalim, et al., (2018); Jauhari, et al., (2019) which concentrated solely on discussing the impact of implementing good governance on the quality of accounting information. Meanwhile, research models that fully and specifically discuss the correlation between effective internal control, good governance, and accounting information quality are yet incredibly difficult to find. Thus, this study is expected to be able to answer the above-mentioned questions left unanswered by the previous studies.

LITERATURE REVIEW

Effectiveness of Internal Control

Internal control at the central and local governments is designed based on Government Regulation no. 60 of 2008 on Government Internal Control System (SPIP), in which SPIP means "an integral process in acts and activities performed continuously by leaders and all personnel to provide reasonable assurance of the attainment of the organizational goals through effective and efficient activities, reliable financial statements, state assets safekeeping, and compliance with legislation". The substance of SPIP is adopted from The Committee of Sponsoring Organizations of the Treadway Commission's (COSO) Internal Control – Integrated Framework, with adjustments made according to the needs and characteristics of the Indonesian government. COSO defines internal control as a process performed by the board of directors, management, and other employees of an entity, designed to provide reasonable assurance on the achievement of objectives related to operations, reporting, and compliance. The COSO version of internal control is an internal control framework that integrates all aspects of the company's operations and finances, including the relation between management and employees, organizational business objectives and risks, and all organizational activity units.

Mulyani & Arum (2016) defined the effectiveness of internal control as an ability of the management to achieve goals by exercising controls related to their responsibilities and understanding on their business as part of a process designed to provide reasonable assurance that the operations are effective and efficient, financial reports are reliable, and compliance with laws and regulations are achievable. Ramos (2008) narrowed the scope into consideration of internal control's entities to the preparation of financial statements, as it is closely related to the definition and the internal control in COSO. He also stated in his study that internal control is strongly associated with risk assessment. Internal control is a procedure implemented by management to obtain evidences of whether the operations are running as expected and whether or not the process is effective depending on the quality of the risk assessment. The importance of an internal control system in the organization will be sensed if there is a problem raised due to an ineffective internal control. According to Pfister (2009), the effectiveness of internal control is a condition at a certain time as a process continuously carried out until the organization achieves the targeted benefits.

Based on extensive literature, in the context of this study, the effectiveness of internal control is defined as an effort made continuously by the leaders and their personnel to achieve organizational goals through effective and efficient activities, as well as complying with laws and regulations (Ramos, 2008; Pfister, 2009; Lansiluoto, et al., 2016; & Mulyani & Arum, 2016). The measurement was developed from the aforementioned literature using five indicators, as follows: (1) Control environment, the standards, processes, and structures that form the basis for the implementation of internal control; (2) Risk assessment, a dynamic and iterative process to identify and analyze various risks that can disrupt the continuity of the organization's business processes; (3) Control activities, a set of policies and procedures to help ensure the implementation of directives by minimizing the risk to the achievement of organizational goals; (4) Information and communication, an iterative and continuous process to obtain, share, and provide information both internally and externally; and (5) Monitoring activities, the implementation of evaluations both continuously and separately to ensure that each component of internal control is functioning (Pfister, 2009; Simangunsong, 2014; Mulyani & Arum, 2016; Lansiluoto, et al., 2016).

Implementation of Good Government Governance

A study conducted by Tjiptoherijanto (2010) showed the importance of good governance as a central pillar to face global competition. Through the implementation of a stable, responsible, efficient, and effective state government by maintaining a constructive interaction between the state domain, the private sector, and the society, good governance will be achieved and able to strengthen the position of the state worldwide (Setiyawati & Doktoralina, 2019). Good governance means favorable political framework conditions for social, ecological, and market-oriented development and the responsible use of political power and public resources to the state (Bundschuh-Rieseneder, 2008). According to the International Framework: Good Governance in the Public Sector published by the International Federation of Accountants, good governance in the public sector serves to ensure that public entities can achieve the goals set for their intended outcomes in meeting public needs. A study by Valukonyte (2012) stated that in the context of the public sector, the implementation of good governance is a process in which the authority, the government, and the influence of governance determine and achieve goals in the economic, social, and other fields. In the economic field, the implementation of good governance is a catalyst in economic growth achieved through the application of innovative policies and programs to improve the quality of public services (Mardiasmo, 2012).

Based on literature by Bundschuh & Rieseneder (2008); Mardiasmo, et al., (2012); Valukonyte (2012); Setiyawati & Doctoralina (2019), in the context of this study, the implementation of good governance is defined as the governance of the principles of

professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, and supremacy manifested in innovative programs to improve the quality of public services. The measurements were developed from the previously mentioned literature, using nine indicators, namely: (1) Participation, which is community involvement in the process of formulating and implementing local government policies; (2) Rule of Law, which is the law implemented equally in local governments, including the protection of human rights and minorities; (3) Transparency, which means the decisions made and the implementation of these decisions are carried out in accordance with existing regulations; (4) Responsiveness, which is the implementation of community services carried out within reasonable time limits stipulated in the regulations; (5) Consensus orientation, which is an understanding of the historical, cultural, and social contexts of a particular society or community into values in order to achieve common goals; (6) Equity and inclusiveness, which is the equality and inclusion both in terms of gender and ability; (7) Efficiency and effectiveness, which is the sustainable use of natural resources and environmental protection; (8) Accountability, which is a form of state responsibility to the public; and (9) Existence of good government system, which is the use of a system in the implementation of good governance.

Accounting Information Quality

Mulyani & Arum (2016) argued that accounting information quality is the suitability of the information produced by the accounting system to meet the needs of interested parties in making economic decisions. Accounting information quality as information which contains accounting's value relevance is where the information itself is available when needed so that it can meet the needs of the users for decision making (Susanto, 2015). Schiper & Vincent (2003) stated in their study that accounting information quality can be defined as a complex concept since it includes the value relevance of accounting information and accounting conservatism. According to Romney & Steinbart (2015), Accounting Information Quality is data that has been organized and processed to provide meaning to improve the decision-making process.

Based on the literature above, in the context of this study, Accounting Information Quality is defined as financial and non-financial information that has been processed to meet the needs of the users for decision making in each unit in the local government. The measurements were developed from the aforementioned literature using eight indicators, namely: (1) Accurate is that the information available is accurate in terms of data and presentation; (2) Timeliness is that the information is available whenever needed; (3) Relevant is the suitability of the information with the needs of the users; (4) Complete is that the information already contains all the information needed; (5) Reliable is that the received information is reliable and can be accounted for; (6) Understandable is that the presented information is easy to understand; (7) Verifiable is that the received information can be verified for its validity; & (8) Concise is that the information is presented concisely, densely, and informatively.

Research Hypothesis Development

Fardinal (2014) conducted a study and developed a model for the influence of internal control on accounting information quality. The results explained that the purpose of internal control in an organization is to ensure that all transactions are recorded accurately, in appropriate accounts, and in the right accounting period so as to enable the presentation of financial information which is in accordance with the established accounting standards and regulations. Mulyani & Arum (2016) studied 87 companies listed on the Indonesia Stock Exchange and the results proved that the effectiveness of internal control is crucial for accounting information quality. From the results of their survey done on 207 organizations in 17 districts and cities in South Sumatera Province, Sari, et al., (2018) concluded that the stronger the internal controls built, the higher the quality of local government asset information generated by the system is.

Rahmatika (2014) revealed in her study carried out on 70 work units in 7 local governments in Central Java that the presence of an internal control system has a significant effect on the quality of financial information which is a product produced by analyzing accounting information.

Based on the above-mentioned literature, the following hypothesis can be proposed:

H1: The Effectiveness of Internal Control has a positive influence on Accounting Information Quality

Prior studies on the influence of implementing good governance to accounting information quality dominantly concluded that the two variables have a positive correlation. A study by Klai & Omri (2010) focused mainly on testing the effect of governance mechanisms on the quality of financial information with companies in Tunisia as their samples. According to them, the development of accounting scandals has prompted the need to increase the relevance of financial reporting through the preparation of a good governance structure. The relationship between governance and information quality has been highly debated in the context of developed countries. Accounting information quality is the output of the accounting system, and good governance is usually implemented to manage the environment around the system so that the input and output of the system have a certain quality. Setiyawati & Doktoralina (2019) examined the effect of implementing good governance on accounting information quality in a city. The results showed that the implementation of good governance principles affects accounting information quality. Jauhari, et al., (2019) conducted a survey on 40 local government organizations in South Sumatera Regency and the results revealed that good governance has an influence on the reliability of local government financial information. Furthermore, Alsalim, et al., (2018) attempted to explore the influence of the implementation of good governance divided into two dimensions, namely the governance of accounting information. The obtained results indicated that it significantly affect accounting information quality.

Based on the above-mentioned literature, the following hypothesis can

H2: The Implementation of Good Government Governance has a positive influence on Accounting Information Quality

RESEARCH METHOD

The research method used in this study is descriptive method with explanatory survey and verification analysis called the inferential statistics, utilizing the Structural Equation Modeling (SEM) modeling approach. The data was processed using statistical software Lisrel 8.8. The survey was conducted to collect facts through questions to the intended people as a source of information about the effectiveness of internal control, implementation of good government governance, and accounting information quality. This study applied a quantitative approach, meaning that the data and analysis were based on numbers which were then calculated statistically so that the discussion and conclusion were also based on the results of a statistical analysis. Data collection employed research instruments and data analysis was quantitative with the aim of testing the established hypothesis.

This study conducted a survey on local governments in Indonesia; the instrument used in this study is in form of a questionnaire. The items of the instrument were arranged based on the determined variable indicators. The type of data in this study is primary data as the collected information is related to the perceptions and facts experienced by the respondents.

The population in this study consisted of 34 provincial governments, 416 district governments, and 98 city governments. The samples were designed by a purposive sampling method, where sampling was determined based on regional representation considerations. As for the minimum number of samples, it was determined using the slovin formula. With a population

of 548 regions, a 95% confidence interval, and 5% significance level, the minimum sample was 231 local governments in Indonesia.

FINDINGS & DISCUSSIONS

Findings

Descriptive Statistic

Descriptively, the analysis of variables in this study used an average score categorized into five interval scales. Overall, the variables had a good average score (See Table 1). Although the EFFECTIVENESS OF INTERNAL CONTROL variable showed a good level with an average score of 4.12 out of 5, there was an area of improvement of 17.63%, especially in the risk assessment aspect where the local governments have not been optimal in carrying out an iterative process to assess any risks that can interfere the continuity of the accounting information management process. Meanwhile, the IMPLEMENTATION OF GOOD GOVERNMENT GOVERNANCE variable, with an average score of 4.09 out of 5, indicated a good condition. However, there was an improvement area of 18.21%, particularly in the aspect of participation which showed that the majority of local governments have not provided a channel to involve the community to participate in the process of formulating and implementing policies to draft accounting management regulations. For the ACCOUNTING INFORMATION QUALITY variable, it displayed a good condition with an average score of 3.98 out of 5 and there was still an area of improvement of 20.47%, specifically in the aspect of data accuracy, where the local governments have not yet been accurate in presenting asset management accounting information which often experienced changes in the information presented (Table 2).

No	Variables	Mean Score	Max Score	%GAP	Criteria
	Table 1 **DESCRIPTIVE STATISTICS AND SCORING CATEGORIES BY SCALE**				
1	Effectiveness Of Internal Control	4,12	5,00	17,63%	Good
2	Implementation Of Good Government Governance	4,09	5,00	18,21%	Good
3	Accounting Information Quality	3,98	5,00	20,47%	Good

Criteria: (1) 1,00 – 1,80 Bad ; (2) 1,81 – 2,61 Poor; (3) 2,62 – 3,42 Good Enough; (4) 3,43 – 4,23 Good; (5) 4,24 – 5,00 Excellent

Validity & Reliability of the Instrument

Validity testing aims to measure whether or not the research instrument is valid (Hair, et al., 2014). The results of the validity test in this study (See Table 2) shows that all indicators of the Effectiveness of Internal Control variable (EPI1; EPI2; EPI3; EPI4; EPI5), with each value (0.63; 0.67; 0.77; 0.76; and 0.71), have standardized factor loading values above 0.50. This means that all indicators can be declared to have good validity. Likewise, the reliability of its measurement model is shown from the construct reliability value of 0.83, which is greater than the critical value of 0.70, and the variance extracted value of 0.50, which is the same as the critical value of 0.50. This means that the Effectiveness of Internal Control variable also has good reliability. Thus, it can be concluded that all indicators are valid and reliable in measuring the Effectiveness of Internal Control variable in this study.

Furthermore, the Implementation Of Good Government Governance variable shows that the indicators (PTP1; PTP2; PTP3; PTP4; PTP5; PTP6; PTP7; PTP8; PTP9), with each value (0.60; 0.59; 0.72; 0.61; 0.69; 0.60; 0.68; 0.63; and 0.72), have standardized factor loading values above 0.50. This means that all indicators can be declared to have good validity.

Likewise, the reliability of its measurement model is shown from the construct reliability value of 0.91, which is greater than the critical value of 0.70, and the variance extracted value of 0.53, which is also greater than 0.50. This means that the Implementation of Good Government Governance variable has good reliability. Thus, it can be concluded that all indicators are valid and reliable in measuring the Implementation of Good Government Governance variable in this study.

The indicators of the Accounting Information Quality variables (KIA1; KIA2; KIA3; KIA4; KIA5; KIA6; KIA7; KIA8), with each value (0.61; 0.66; 0.71; 0.82; 0.87 ; 0.88; 0.68; and 0.78), have standardized factor loading values above 0.50. This means that all indicators can be declared to have good validity. The reliability of its measurement model is shown from the construct reliability value of 0.91, which is greater than 0.70, and the variance extracted value of 0.59, which is also greater than 0.50. This means that the ACCOUNTING INFORMATION QUALITY variable has good reliability. Thus, it can be concluded that all indicators are valid and reliable in measuring the Accounting Information Quality variable in this study.

Table 2 VALIDITY AND RELIABILITY OF INSTRUMENT TESTING					
Indicators	Code	*SFL ≥ 0.5	*CR ≥ 0.7	*VE ≥ 0.5	Result
Effectiveness Of Internal Control	EPI		0,83	0,50	Reliable
1.Control environment	EPI1	0,63			Valid
2.Risk assessment	EPI2	0,67			Valid
3.Control activities	EPI3	0,77			Valid
4.Information and communication	EPI4	0,76			Valid
5.Monitoring activities	EPI5	0,71			Valid
Implementation Of Good Government Governance	PTP		0,90	0,53	Reliable
1.Participation	PTP1	0,60			Valid
2.Rule of Law	PTP2	0,59			Valid
3.Transparency	PTP3	0,72			Valid
4.Responsiveness	PTP4	0,61			Valid
5.Consensus orientation	PTP5	0,69			Valid
6.Equity and inclusiveness	PTP6	0,60			Valid
7.Efficiency and effectiveness	PTP7	0,68			Valid
8.Accountability	PTP8	0,63			Valid
9.Existence of Good Government system	PTP9	0,72			Valid
Accounting Information Quality	KIA		0,91	0,59	Reliable
1.Accurate	KIA1	0,61			Valid
2.Timeliness	KIA2	0,66			Valid
3.Relevant	KIA3	0,71			Valid
4.Complete	KIA4	0,82			Valid
5.Reliable	KIA5	0,87			Valid
6.Understandable	KIA6	0,84			Valid
7.Verifiable	KIA7	0,68			Valid
8.Concise	KIA8	0,78			Valid
*SFL=Standardized Factor Loading; **CR=Construct Reliability; ***VE=Variance Extracted					

Goodness of Fit Model Testing

Before testing the structural model, the model in the study must be previously tested for its feasibility or the Goodness of Fit Index (GOFI). The feasibility test aims to test whether or not the proposed model has a good level of compatibility with the collected data. The model is accepted if 5 out of the 10 indicators are declared fit or the absolute fit index of the chi-square

value or the RMSEA model is accepted (Hair et al., 2014). The test results (See Table 3) show that the values of NFI, NNFI, CFI, IFI, RFI, GFI (0.97; 0.97; 0.97; 0.97; 0.96) are greater than the critical value of 0.90, meaning that the suitability of this research model is good. Also, its RMSEA value is 0.078, which is smaller than 0.08. That means the fit of the model can be declared as good. The SRMR value of 0.041 is smaller than 0.05, indicating that the model has a good fit. Meanwhile, AGFI with a value of 0.87, which is smaller than 0.90, indicates a fairly good fit of the model. The p-value of 0.0000 is less than 0.05. This indicates a poor fit level. Based on the results of the goodness of fit model testing, it is concluded that the overall model of this study has a very good level of fit (Table 3).

Table 3
RESULT OF GOODNESS OF FIT INDEX TESTING

No	Indicators	Critical Value	Estimation Value	Result
1	Chi-square	p-value ≥ 0,05	0,0000	Not Fit
2	RMSEA	RMSEA ≤ 0,08	0,078	Fit
3	NFI	NFI ≥ 0,90	0,97	Fit
4	NNFI	NNFI ≥ 0,90	0,97	Fit
5	CFI	CFI ≥ 0,90	0,97	Fit
6	IFI	IFI ≥ 0,90	0,97	Fit
7	RFI	RFI ≥ 0,90	0,96	Fit
8	SRMR	SRMR ≤ 0,05	0,041	Fit
9	GFI	GFI ≥ 0,90	0,90	Fit
10	AGFI	AGFI ≥ 0,90	0,87	Fair

Hypothesis Testing

After the model was declared fit, then the structural model testing was carried out to examine the relationship between exogenous latent variables and endogenous latent variables. The results of this test can later prove whether the hypotheses proposed based on the theoretical conceptual framework are accepted or rejected (See Table 4). To test the research hypotheses, the SEM approach was applied by observing the loading factor value between latent variables. This study applied a 95% confidence interval and 5% significance level, by conducting the one tailed hypothesis test, with the critical value for the t-test is 1.64. The measurement output used Lisrel (See Figure 2 and Figure 3). The results of hypothesis testing are shown in Table 4. Path coefficient measurement results on Lisrel are formulated in the following formula:

Structural Equations

KIA=0.35*EPI+0.48*PTP, Errorvar.= 0.34, R²=0.66

Based on the above formula, it can be explained that Accounting Information Quality is influenced by two predictor variables, where the implementation of good government governance is the predictor variable that has the biggest influence on accounting information quality, which is 48%. Meanwhile, the simultaneous effect can be seen from the value of r-square (r^2), which is 0.66. this means that the implementation of good government governance and the effectiveness of internal control variables collectively affect Accounting Information Quality by 66%.

Statistically, the test results can be explained as follow: The first hypothesis shows that the path coefficient score of the Effectiveness of Internal Control (Epi) Variable on Accounting Information Quality (KIA) is 3.15, which is greater than the critical value of 1.64. This means that at the 95% confidence level and α=5%, H0 is rejected and H1 is accepted. It can be concluded that the direct influence coefficient of the Effectiveness of Internal Control on

Accounting Information Quality is significant. Thus, the first hypothesis which states that there is a positive effect of the Effectiveness of Internal Control on Accounting Information Quality is acceptable.

The second hypothesis shows that the path coefficient score of the Implementation of Good Government Governance (Ptp) Variable On Accounting Information Quality (KIA) is 4.28, which is greater than the critical value of 1.64. This means that at the 95% confidence level and α=5%, H0 is rejected and H2 is accepted. It can be concluded that the direct influence coefficient of the Implementation of Good Government Governance on Accounting Information Quality is significant. Thus, the first hypothesis which states that there is a positive effect of the implementation of good government governance on accounting information quality is acceptable.
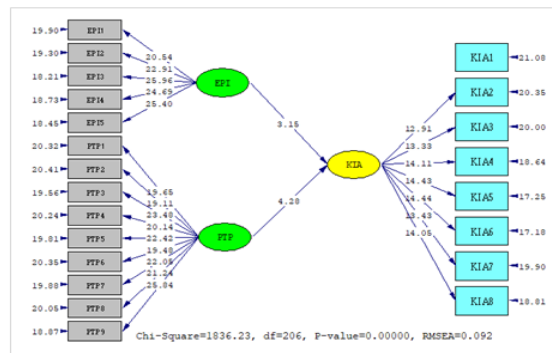

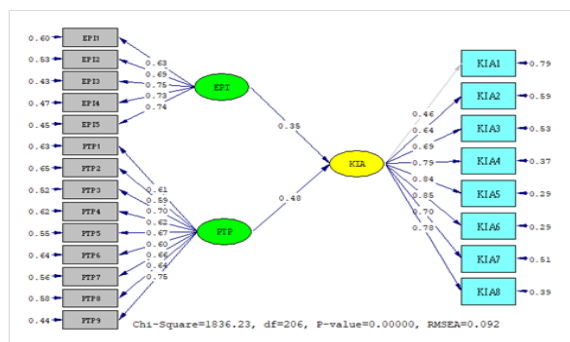**FIGURE 2**
FULL MODEL- LOADING FACTOR

FIGURE 3
FULL MODEL- PATH COEFFICIENT

No	Path	Loading Factors	Critical Value	Path Coefficient	R^2	Result Hypotheses
Table 4 **RESULT OF HYPOTHESES TESTING**						
1	EPI →KIA	3.15	1.64	0.35	0.66	Accepted
2	PTP →KIA	4.28	1.64	0.48		Accepted

DISCUSSION

The Influence of the Effectiveness of Internal Control on Accounting Information Quality

The results of the hypothesis testing indicate that the effectiveness of internal control has a significant positive effect (35%) on accounting information quality. The findings of this

study are in line with a study done by Atikoh (2017) which proved that the identification of accounting information management requires supervision and observation as a crucial activity in the review of financial statements carried out through the applied information system. It is extremely important for functional supervisory officers to perform follow-up audits on the results of supervision and control on accounting information in form of reports submitted to the management department.

In this study, the effectiveness of internal control was proven to play a role in maintaining the validity and reliability of accounting information. All elements of the organization, from the leaders to the staff in the lowest level, must be involved in internal control. This involvement can be realized by designing the internal control system and implementing the internal control system that has been built by the organization. The internal control process is carried out starting from drafting the accounting policies, determining the units and personnel involved in the accounting process, preparing personnel competencies, ensuring the facilities and infrastructure to support accounting activities, and overseeing the business processes of accounting transactions, including preparing financial reports. The results show that the elements of the control environment and control activities have incredibly good values. These two elements play a crucial role in accounting management so as to produce high-quality accounting information. The control environment at the local government provides standards, processes, and control structures, e.g. there is a clear organizational structure in which designated and responsible personnel were available. There are also clear work standards and processes to be followed by those designated personnel. Local governments already have a clear structure to handle accounting activities coordinated by the Regional Financial and Asset Management Agency (BPKAD) as the unit responsible for preparing local government financial reports. This unit is assisted by all offices and agencies that manage finance and fixed assets. Each office and agency has an officer responsible for managing accounting information in its Secretariat unit.

The control environment also describes the commitment of local leaders regarding the importance of internal control and the expected standard of behavior. Local leaders and high-ranking officials under them, such as the regional secretary and head of office/agency have shown a good impression in accounting internal control. This is shown by the seriousness of the local leaders in preparing organizational structures and standards of behavior as well as providing examples to their subordinates regarding the importance of system reliability to ensure the accounting information quality. Based on the results of the interview done in this study, it was found that the local leaders explained to the participants of several workshops on regional financial management or Gelar Pengawasan Daerah (LARWASDA) consisting of local civil servants about the importance of internal control and the reliability of accounting information. Controls in local governments also give a clear picture of the benchmarks for integrity and ethics in local financial management and its accounting records. With the developed integrity and ethical standards, regional financial implementers carry out accounting records for regional financial transactions in accordance with the applicable laws and regulations. Control activities provide well-defined policies and procedures in the implementation of accounting activities in local governments. Local governments have developed a set of policies and procedures through local government regulations and their derivatives according to the government accounting standards. Those policies and procedures are established to ensure that the implementation of accounting activities is protected from the risk of error and the occurred error can be detected so as to assist the achievement of local government goals. One of the objectives is to obtain the best opinion on the presentation of financial statements. The other objectives include providing high-quality accounting information that can be used as a basis for decision making.

The Influence of Good Governance Implementation on Accounting Information Quality

The results of the hypothesis testing indicate that the implementation of good governance has a positive influence of 48% on accounting information quality. It is in line with a study done by Klai & Omri (2010) which explained that good governance can improve the quality of financial reporting as a part of organizational accounting information. The development of various accounting scandals has prompted the need to increase the relevance of financial reporting by setting up a good governance structure. This study proved that good governance provides a strong impetus for the increasing quality of accounting information presented by local governments, including the presentation of information related to the management of fixed assets so far. This governance is important, starting from the planning, implementation, and budget accountability processes. The whole process of financial management must be supported by good governance to ensure that the budget implementation and accountability are in accordance with the applicable laws and regulations, including the application of government accounting standards in preparing local government financial reports. The governance includes the managements of the system and the employees.

The results of this study imply that local governments have implemented good governance, especially in the provision of regulations, and the transparency as well as the efficiency and effectiveness of local financial management. Local governments have compiled and stipulated regional financial management regulations, which are partly derivatives of central government regulations. Regulations related to the accounting management include the determination of accounting policies by the local leaders, as well as the other related rules (e.g. the regional regulations or local government regulations on regional taxes, social spending, the management of goods, and many others). Regulations on accounting standards are provided by the central government and implemented by local governments. The availability of regional financial management regulations and regional financial accounting management provides a strong support for financial and accounting management employees to make the management of accounting information quality easier and more organized. The provided regulations also contain the ones that support the transparency of regional financial management. Local governments carry out the budgeting process openly to the public through the musrenbang (Development Planning Conference) from villages to districts/cities/provinces. Several local governments, such as Batang Regency, publicly announce their budgets to the public through budget festivals. Some other local governments, *i.e.,* the City of Surakarta, announce their tax revenues on large boards at their office yard and through websites. Transparency and openness of regional finances raise public trust in local governments, including the belief that the accounting and financial information can be trusted by the public. Those openness and transparency are also supported by adequate structures and procedures, including the establishment of a unit at the local government level tasked with receiving requests for information from the public, e.g. the information on regional finances.

CONCLUSION

In general, local governments in Indonesia already have good quality accounting information. Local governments have also implemented an effective internal control system and good governance in carrying out various local government activities related to the accounting information. The application of internal control has a positive influence on accounting information quality. Local governments that have implemented internal control can record accounting information better so as to obtain high-quality accounting information. The high-quality accounting information is indicated by the increasing number of local governments receiving Unqualified Opinions from the Audit Board of the Republic of Indonesia. The implementation of good government governance also has a positive influence on accounting information quality. Local governments that have implemented good governance will produce high-quality accounting information. The implementation of good governance is shown, among

others, by the availability of an organizational structure and standard operational procedures for managing accounting information.

LIMITATIONS & FUTURE RESEARCH DIRECTIONS

This study was conducted during the Covid-19 pandemic, and this condition could affect the psychology of the respondents in delivering their answers. Although it has been anticipated by providing measurable answer choices in the questionnaire, the bias could not be entirely eliminated. In addition, there were limitations in the application of the research method. The implementation of a cross-sectional survey design also has limitations which allowed the data to be collected from the respondents at a certain time. Therefore, further studies should explore the other research designs, such as the longitudinal survey design which makes data collection over a long period of time available, thereby increasing the strength and correctness of the research results. The use of moderator variables and other control variables can also be introduced to increase the robustness of the research results. Future studies are expected to be able to expand the research objects by adding other predictor variables through qualitative analysis of certain loci that have the same phenomenon as this study, to find out other factors that affect the quality of local government accounting information besides the effectiveness of internal control and the implementation of good government governance.

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