

A Conceptual Paper: Exploring The Determinants of Financial Reporting Quality in Brebes Regency Local Government, Central Java, Indonesia

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ABSTRACT

The quality of financial reporting is a government accountability and output that shows performance during the current period. This study aims to analyze the factors that affect the quality of financial reports, namely the application of government accounting standards, good governance and the use of information technology. This study also aligns with the broader theme of digital innovation and sustainability by highlighting the role of information technology utilization in enhancing sustainable governance and financial accountability within local governments. The population of this study is the head of the program and finance subdivision and the staff compiling financial reports in the Brebes Regency Regional Apparatus Organization with a target of 100 respondents. The method used in this study is a quantitative method with primary data sources obtained from a questionnaire with a 5-point likert scale measurement. All data obtained from the questionnaire will be processed with multiple linear regression analysis. The expected findings indicate that all three variables positively influence financial reporting quality, supporting agency theory in public sector governance and suggesting practical strategies for enhancing sustainable, technology-based reporting quality in Brebes Regency. The results of this study are expected to synergistically contribute significantly to increasing the transparency and accountability of the Brebes district government's financial reports.

Keywords: Government Accounting Standards, Good Governance, Information Technology Utilization, Financial Statement Quality.

1. INTRODUCTION

A financial report is one of the important tools in assessing the financial performance of an organization, including in the government sector. For government agencies, in one fiscal year the local government must make an accountability report for regional financial management in the form of a local government financial report (Dariana & Oktavia, 2018). As a document that provides an overview of the financial position and operational results of the local government. The quality of financial reports is the main measure to provide an overview of financial conditions and as a means of public accountability that can reflect transparency, effectiveness of financial management and good governance. Based on the results of the Audit Board of the Republic of Indonesia audit of the Local Government Financial report, the Brebes Regency Government obtained an unqualified opinion for 5 (five) consecutive years, namely from 2019 to 2023. This shows that the financial reports of the Brebes Regency Government have presented fairly all material matters, financial

position, results of operations and cash flows in accordance with generally accepted accounting principles in Indonesia.

Table 1. Opinion on the Financial Report of the regional government of Brebes Regency
Year 2019 - 2023

Year	Opinion on the Financial Report of the regional government of Brebes Regency
2019	Unqualified
2020	Unqualified
2021	Unqualified
2022	Unqualified
2023	Unqualified

Presentation of Financial Statements, Local Government must be guided by Government Accounting Standards. Government Accounting Standards requires each reporting entity including local governments to report the efforts made and the results achieved in carrying out activities in a systematic and structured manner in a reporting period for the purposes of accountability, management, transparency, balance between generations, and performance evaluation (Pebriani, 2019). According to Aminy et al., (2021) state financial management must be in line with the principles of good governance, where to improve the quality of financial reports, financial governance must be applied properly and correctly. In addition, the quality Local Government Financial report can be improved by utilizing information technology, because it opens access for the public to obtain and use financial information quickly and accurately (Hartawati & Naim, 2020).

Government Accounting Standards is the accounting principles set out in preparing and presenting government financial statements. According to Government Regulation Number 71 of 2010 concerning government accounting standards, there are four characteristics which are normative requirements so that government financial reports can meet the desired quality, namely Relevant, has feedback benefits, has predicate benefits, is timely, sticky, reliable, comparable and understandable (PP No.71, 2010). According to Aminy et al., (2021) states that the application of government accounting standards affects the quality of financial statements. This means that the better the users and compilers of financial statements understand the principles used in government accounting and financial reporting, the better the quality of the resulting financial statements will be. The results of this study support the results of research by Setyarini et al., (2024) which states that the application of government accounting standards has a positive effect on the quality of regional financial reports. The results of this study are not in line with the results of research by Siahaan and Fachruzamman (2013), and Handayani (2012) which state the opposite.

Good governance is the implementation of a solid and responsible state government, as well as efficient and effective, by maintaining the continuity of constructive interactions between the domains of the state (state), the private sector, and society (society) (LAN RI, 2004: 25). The implementation of Good Governance has a very important role in building the quality of regional financial reports. Several studies support this, such as research by

Dwi Rahmadani, Zulaikha (2023) which states that Good Governance has a significant positive effect on the quality of government financial reports. This shows that the better the level of good governance, the better the quality of financial reports. In line with the results of research by Advia et al., (2022) that good governance affects the quality of regional finances. Not in line with the results of research conducted by Ariyanti et al., (2023) which says that the application of good governance has no effect in assessing the quality of regional financial reports, meaning that governance is good but is not a benchmark in making quality financial reports. Likewise, research by Aminy et al., (2021) states that good governance does not affect the quality of regional finances.

Information technology is technology that is utilized in data processing activities. These activities include obtaining, entering, processing, organizing, archiving, and manipulating data in creating quality information (Uno & Lamatenggo, 2011). Information Technology (IT) utilization can be measured through the use of hardware, software and brainware as well as networks and communications (Pravasanti & Ningsih, 2019). The development and utilization of IT must be carried out by the central and regional governments when carrying out financial management activities and presenting financial information to the public (President of the Republic of Indonesia, 2005). The results of research by Mirnawati et al., (2020) state that the use of information technology has a significant effect on the quality of financial reports in the Bengkalis Regency local government. This indicates that utilization of information technology can improve the ability to manage regional finances so as to produce good quality of financial reports and can create regional financial transparency and accountability.

This research is a replication of Tabupook and Wulandari's research (2024) with the first difference, namely this study adds the variable utilization of information technology as an independent variable, this variable is taken from Luthfya et al.'s research (2024). Beyond adding information technology utilization as a new variable, this study also integrates all three determinants into a single conceptual model specifically contextualized for Brebes Regency, providing insights into how these factors interact to influence financial reporting quality, which has not been comprehensively addressed in previous studies. Second, the object of research in the previous study was conducted at the Central Sulawesi Regional Financial and Asset Management Agency while this research was conducted at the Brebes Regency Government Regional Apparatus Organization. The selection of the object of this research was carried out in Brebes Regency because the Brebes Regency Government has good quality financial reports, this is evidenced by the obtaining of an unqualified opinion from Audit Board of the Republic of Indonesia for five consecutive years, namely from 2019 - 2023. In addition, Brebes offers unique insights due to its status as one of the largest districts in Central Java with diverse economic sectors. Studying Brebes allows an understanding of the determinants of stable financial performance as a best practice basis for other local governments seeking to improve the quality of their financial reporting.

The author is interested in taking this research because there are still differences in research results with previous studies, one of which is research by Junyantara, A et al., (2021). The conflicting findings in prior research indicate a gap in understanding the combined effect of government accounting standards, good governance, and information technology utilization on financial reporting quality. This study seeks to address this gap by

developing a conceptual model that explains these relationships specifically in the context of Brebes Regency.

1.1 Problem Formulation

Based on the background of the problems that have been presented above, the problem formulated in this study is “How the application of government accounting standards, good governance and the use of information technology can affect the quality of Brebes Regency local government financial reports”.

1.1.1 Literature Review

Agency Theory

According to Jensen & Meckling, (1976) an agency relationship is a contract in which one or more people (principals) order other people (agents) to perform some services on behalf of the principal and authorize the agent to make the best decisions for the principal. Agency theory has the main principle, namely the working relationship between two parties, namely the party that gives authority (principal) and the party that receives authority (agency) in a form of cooperation called the “nexus of contract”.

Quality of Financial Reports

According to Setiawan & Kurniasih (2021) financial reports are the result of an accounting process regarding financial information. This financial information is used by interested parties to serve as a means of controlling and evaluating managerial and organizational performance. As well as financial reports are a form of accountability and as a basis for making a decision. The qualitative characteristics of financial statements according to Government Regulation No. 71 of 2010 are normative measures that need to be realized in accounting information so that it can fulfill its purpose. The four characteristics are (1) relevant; (2) reliable; (3) comparable; (4) understandable.

Government Accounting Standards

Government Accounting Standards is an accounting principle applied in preparing government financial statements. Government Accounting Standards can be said to be a legally enforceable requirement in an effort to improve the quality of Indonesian government financial reports (Pujanira, 2017). Law Number 17 of 2023 concerning State Finance and Law Number 1 concerning State Treasury which instructs that the form and content of financial statements are in accordance with Government Accounting Standards.

Good Governance

Good governance is governance that builds and applies the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, rule of law and is acceptable to all people (Anggara, 2016). Meanwhile, according to Junyantara & Samtika Putra (2021) good governance is governance that is

carried out transparently from the process of preparing financial reports, the process of accountability for the financial reports prepared.

The United Nations Development Program (UNDP) defines Good Governance in a document entitled “Governance for Sustainable Human Development, January 1997” as the exercise of authority/power in the economic, political, and administrative fields to manage various state affairs at every level and is an instrument of state policy to encourage the creation of conditions of welfare and integrity in society. This term is often referred to as good governance.

Information Technology Utilization

Information technology is technology that is utilized in data processing activities. These activities include obtaining, entering, processing, organizing, archiving, and manipulating data in creating quality information (Uno & Lamatenggo, 2011). Information technology can also be said to be knowledge in the field of computerized information, where its progress is growing rapidly (Lantip & Riyanto, 2011).

Information Technology Utilization can be measured through the use of hardware, software and brainware as well as networks and communications (Pravasanti & Ningsih, 2019). Law Number 19 of 2016 concerning Information and Electronic Transactions Information can then be described as a technique for collecting, preparing, processing, announcing, investigating and disseminating information. Therefore, the development and utilization of IT must be carried out by the Central and Regional Governments when carrying out financial management activities and presenting financial information to the public (President of the Republic of Indonesia, 2005).

1.1.2 Hypothesis Development

The Effect of Government Accounting Standards on the Quality of Financial Reports

Based on agency theory, where in agency theory there is a bonding cost, namely the cost borne by the agent to establish and comply with mechanisms that ensure that the agent will act in the interests of the principal. This is in line with agency theory where government accounting standards are a bonding cost mechanism because they require a rule or benchmark in the government so that agents carry out their duties in accordance with the interests of the principal (Alfifah, 2019).

Research conducted by Putri Dwi Rahmadani and Nurfitri Zulaika (2023) states that if Government Accounting Standards are implemented properly, the better the quality of the resulting financial statements. In accordance with the objectives of the existence of Government Accounting Standards, namely so that the implementation of government runs structured and in accordance with applicable guidelines so that it will produce quality and accurate financial reports to be accounted for. Based on the description above, the hypothesis is proposed as follows:

H1: The application of Government Accounting Standards has a positive effect on the Quality of Financial Reports.

The Effect of Good Governance on the Quality of Financial Reports

Good governance is governance that builds and applies the principles of professionalism, accountability, transparency, excellent service, democracy, efficiency, effectiveness, rule of law and is acceptable to the entire community (Anggara, 2016).

The relationship between good governance and the quality of government financial reports is based on agency theory, where with good governance, the government acting as an agent is authorized by the community as a principal is expected to carry out good and open government management by the public, with the establishment of a good relationship between local government and users of government financial information (principal) so that public trust in the government increases (Jati, 2019). Research conducted by P,D Rahmadani and N Zulaika (2023) states that good governance has a positive effect on the quality of government financial reports. This shows that the better the level of good governance, the better the quality of financial statements. Based on the description above, the hypothesis is proposed as follows:

H2: Good Governance has a positive effect on the Quality of Financial Reports.

The Effect of Information Technology Utilization on the Quality of Financial Reports

Information technology is technology that is utilized in data processing activities. These activities include obtaining, entering, processing, organizing, archiving, and manipulating data in creating quality information (Uno & Lamatenggo, 2011). The relationship between the use of information technology and the quality of government financial reports according to agency theory, the agent or local government must be able to account for its duties to the maximum extent by using existing information technology to support the formation of quality financial information and timely reporting to the principal. The development and utilization of IT must be carried out by the central and local governments when carrying out financial management activities and presenting financial information to the public (President of the Republic of Indonesia, 2005). Research conducted by Zulvia et al., 2021, states that the use of information technology affects the quality of financial reports. Based on the description above, the hypothesis is proposed as follows:

H3: Information technology utilization has a positive effect on the quality of financial reports.

1.1.3 Empirical Research Model



Figure 1. Research Model

2. METHODS

This research is quantitative research. The quantitative method was chosen because this research aims to test hypotheses and analyze the relationship between variables through numerical data processing obtained from questionnaires. The population of this study is the head of the program and finance subdivision and the staff preparing financial reports in the Brebes Regency Regional Apparatus Organization with a target of 100 respondents. All data obtained from the questionnaire will be processed with multiple linear regression analysis. The population was selected because heads of program and finance subdivisions and staff compiling financial reports are directly involved in preparing and implementing financial reporting processes, thus having relevant knowledge and experience.

This study ensured ethical conduct of research by obtaining informed consent from all respondents, maintaining confidentiality and anonymity of their responses, and obtaining ethical clearance from each agency prior to data collection. The questionnaires distributed in this study have also been tested for validity and reliability using the SPSS application and the results of the Cronbach Alpha coefficient for each variable exceed 0.70 which indicates good reliability.

2.1 Measurement Method

The variables of this study consist of three independent variables, namely government accounting standards, good governance and utilization of information technology, and one dependent variable, namely the quality of financial reports.

Quality of Financial Reports

Based on Government Regulation No. 71 of 2010 No. 01 concerning Government Accounting Standards that financial statements must have four qualitative characteristics, namely the relevance of financial statements, Reliability of financial statements, Understandable, Comparable.

Government Accounting Standards

Government Accounting Standards is a principle of accounting that is applied in making government financial reports. Government Accounting Standards indicators can be measured by the application of accrual-based Government Accounting Standards, compliance with Government Accounting Standards principles and policies, understanding of Government Accounting Standards.

Good Governance

Good governance is the implementation of a solid and responsible development management that is in line with the principles of democracy and efficient markets, avoiding misallocation of investment funds and preventing corruption both politically and administratively, running budget discipline and creating a legal political framework for the growth of business activities. Good governance can be measured by indicators Transparency of information in the preparation of government financial reports, Public participation in the budgeting and reporting process accountability in financial reporting.

Information Technology Utilization

Information technology is a technology that can assist humans in creating, converting, storing and disseminating information. (Information technology utilization can be measured by the use of regional financial system applications, the effectiveness and efficiency of IT-based financial accounting systems, IT usage training.

2.2 Data Collecting Plan

The type of data used in this study is primary data obtained from the results of filling out questionnaires distributed to respondents.

2.3 Data Analysis Plan

All hypotheses were processed using multiple linear regression analysis with the following equation:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

In which:

Y = Quality of Financial Statements

α = Constant

$\beta_1, \beta_2, \beta_3$ = Regression Coefficient of each variable

ε = Error (residual)

3. DISCUSSION

Based on the conceptual framework, it is expected that the application of government accounting standards, good governance, and utilization of information technology will each have a significant positive effect on financial reporting quality. Theoretically, this supports agency theory by demonstrating how these determinants reduce information asymmetry and enhance accountability. Practically, the findings suggest that Brebes Regency should prioritize strengthening standards compliance, governance structures, and digital reporting systems to improve public trust and sustainable financial performance.

4. CONCLUSION

The presentation of financial reports is a form of government (agent) accountability to the public (principal) for regional financial management. the quality of financial reports is the main measure to provide an overview of financial conditions and as a means of public accountability that can reflect transparency, effectiveness of financial management and good governance. The results of this study are expected to synergistically contribute significantly to improving the transparency and accountability of the financial statements of the Brebes district government.

Theoretically, this conceptual paper contributes to agency theory and digital governance literature by proposing an integrated model of determinants influencing financial reporting quality. Practically, it offers strategic recommendations for Brebes Regency to enhance reporting quality through improved standards application, governance implementation, and information technology utilization to achieve sustainable accountability and performance.

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