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Improved Regional Financial Reporting Through Effective Information Technology and Regional Financial Accounting Systems



Abstract: - The quality of local government financial reports is highly dependent on the information technology (IT) and financial accounting systems used to process transactions and generate financial reports. This research aims to analyze the quality of regional financial reporting, which is determined by the success of IT and financial accounting systems operating in the South Sulawesi region. This study's respondents are heads of regional apparatus organizations functioning as budget users and heads of accounting and finance departments, who process regional government financial reports. This research uses a survey method, and the data collected are processed using the PLS application. The results of data processing reveal that Information Quality, Service Quality, and Control Environment influence the Quality of Financial Reports, while System Quality, Risk Assessment, Control Activities, Monitoring, and Information and Communication do not have a significant influence on the Quality of Financial Reports. Furthermore, this research demonstrates that the quality of regional financial reporting using SIPD provides quality information and services within the regulated regional government controlled environment.

Keywords: Committee of Sponsoring Organizations (COSO), DeLone & McLean, Financial Reports Quality, Regional Government Regulation

I. INTRODUCTION

During the plenary meeting of the Regional People's Representative Council (DPRD) to discuss the 2024 Regional Revenue and Expenditure Budget (APBD), the Governor of South Sulawesi Province stated that the South Sulawesi

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Regional Government is at risk of bankruptcy due to a budget deficit of 1.5 trillion Rupiah [1]–[3]. The phenomenon of regional government bankruptcy occurs when the regional government is incapable of fulfilling its financial responsibilities to both internal and external entities [4]. In Indonesia, this is intricately linked to the Law on Financial Relations between Central and Regional Governments (UU HKPD), which grants regional governments the authority to secure funding using loan instruments. When local government bankruptcy occurs, this can have a significant influence not just on the local government entity itself but also on the communities to which it provides general services. Local government bankruptcy can have numerous detrimental effects, such as heightened tax obligations, enduring economic setbacks, and lower-quality public services [5]. In many ways, local governments should be regarded and comprehended as an institution rather than as an instrument, as their primary function is shaped by the community's vision and political processes [6].

The risk of regional government bankruptcy has been found to be directly correlated with local government financial reports or Laporan Keuangan Pemerintah Daerah (LKPD) in Indonesia. High-quality LKPDs play a critical role in ensuring transparency and accountability in regional financial management, which is essential for preventing bankruptcy [7]. Furthermore, the accounting information presented in local government reports has an impact on the socioeconomic aspects of a particular region [8]. An LKPD of excellent quality can offer a precise presentation of a local government's fiscal state and facilitate the process of making suitable and efficient decisions [9]. LKPD quality is influenced by various factors, including information technology (IT), accountability, transparency, accounting standards, accounting system, audit quality, accounting procedures, and internal control [7], [9].

IT serves an essential component of enhancing the quality of LKPD. Using IT enhances the efficiency and timeliness of producing financial reports, such as LKPDs, by facilitating the collection, processing, and presentation of financial data. In turn, such an efficient process promotes transparency and accountability to the public [10]–[12]. Previous research indicates that the partial use of IT has a significant impact of 52.1% on the quality of LKPD [11]. In addition, LKPD quality is influenced by the accounting system, accounting procedures, accounting standards, and internal control outlined in regional financial accounting systems (RFASs) (e.g., SAKD). Prior studies have demonstrated that the adoption of the Standard of Accounting and Financial Reporting for Local Governments (SAKD) has had a substantial influence on the financial reports' quality issued by regional governments [9], [13].

Judging from the importance of the quality of regional government-generated financial reports, the current research aims to analyze the influence of IT and RFASs on the quality of regional government financial reports in South Sulawesi Province, Indonesia. Previous studies have investigated the impact of the RFAS [13], [14], the accounting information system [10], [15], and internal control [7], [15] on the quality of such financial reports. The present study integrates prior research on the influence of IT and RFASs on the accuracy of financial reports generated by regional governments in South Sulawesi Province. This is achieved through the development of a questionnaire that exhibits distinct attributes associated with the Indonesian regional government context.

The research being conducted aims at expanding the knowledge of the factors that contribute to improving the level of quality of financial statements from regional governments in South Sulawesi Province, Indonesia, through the use of the DeLone and McLean model to evaluate various aspects of IT success. This analysis is in line with the Regulation Number 70 of 2019 Indonesia Minister of Home Affairs and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) for aspects of the RFAS as regulated in Indonesia Government Regulation Number 60 of 2008 (PP 60/2008). The findings of this research can provide valuable insights for researchers, practitioners, and policymakers. This research also has the potential to contribute to the advancement of science by creating a development model that integrates the COSO and DeLone and McLean models in local governments. The results of this research can be regarded as an informative point of reference for future investigations on this subject matter.

II. LITERATURE REVIEW

A. *DeLone and McLean's Information Systems Success Model*

IT greatly enhances the operational efficiency of organizations across several sectors, including finance, business, education, health, and tourism [16], [17]. An organization must assess its performance to determine the elements that contribute to the success or failure of establishing an information system [18]. Assessing information systems (IS) is crucial in comprehending their influence on organizations [19].

The DeLone and McLean (1992) model is an important framework for assessing the effectiveness of IS. Established in 1992, this model became the foundation for numerous prior investigations. The DeLone and McLean approach, which presents a complete framework for assessing IS effectiveness has six variables: system quality, information quality, use, user satisfaction, individual impact, and organizational effect.

The IS success model proposed by DeLone and McLean consists of seven variables, which they also modified in their study. They included service quality variables, substituted the variables measuring the individual impact and organizational impact with the concept of net benefits, and incorporated a new variable measuring the intention to utilize as an alternative to the user variable. Therefore, according to a study [20], the factors determining IS success include information quality (IQ), system quality (SQ), service quality (SU), user satisfaction, intention to use, and net benefits.

In Indonesia, the use of IT in local governments is evident through the implementation of the Regional Government Information System (SIPD). This system is established in accordance with Minister of Home Affairs Regulation Number 70 of 2019, which mandates regional governments to provide information pertaining to regional development and regional finance. The dissemination of such information should be done in a transparent and accurate manner, thus ensuring its availability to the public. SIPD serves a vital role within the administrative and financial management of local government by combining different processes and functions. An SIPD that is both efficient and effective is crucial for ensuring transparency, accessibility, and optimal performance in the management of financial resources within a region [21].

B. Regional Financial Accounting System

The SAKD in Indonesia adheres to the Government Regulation on Government Accounting Standards (SAP) No. 71. This rule provides a set of comprehensive procedures, organizers, equipment, and other components that are systematically employed to perform accounting activities in various government settings, encompassing transaction analysis that make up a cohesive financial reporting [22]. The RFAS in Indonesia consists of multiple levels and processes including transaction recording and classification, transaction analysis, preparation of financial reports, and conducting audits to verify accuracy and compliance [23]. The main objective of the SAKD in Indonesia is to guarantee the accountability of financial reporting by regional leaders and to facilitate the optimal deployment of resources within regional government entities [24].

The attainment of the goals of the RFAS is driven by the necessity to implement efficient organizational governance and financial responsibility. The PP 60/2008 and the COSO framework provide valuable guidance in establishing a robust and cohesive internal control system [25]. In particular, this framework comprises five interconnected and indivisible components: control environment (CE), control activities (CA), risk assessment (RA), information and communication (IC), and monitoring activities (MO) [26], [27].

Given the important requirement of enhancing internal and integrated control systems, the Strategic Performance Improvement Program (SPIP) and the Committee of Sponsoring Organizations (COSO) framework play a crucial role in helping organizations establish efficient internal control systems and produce accurate financial reports [28]. Organizations can enhance transparency and accountability by adopting the SPIP and COSO methodologies [29].

III. RESEARCH METHODS

The research being conducted incorporates an empirical quantitative approach. The research population consisted of all heads of regional apparatus organizations (OPD) and heads of OPD accounting and finance sections in regencies/cities in South Sulawesi Province, Indonesia. The sampling approach employed a saturated sample, in which the complete population was sampled. The method for obtaining primary data comprised the conduct of a survey based on questionnaires. The questionnaire was designed using a Likert scale format, in which each statement has five potential answers, ranging from a scale of 1 (Strongly Disagree) to 5 (Strongly Agree). A pilot test was conducted on 43 students enrolled in the Master of Accounting program at the Faculty of Economics and Business, Hasanuddin University, prior to distributing the questionnaire to the actual study respondents. The data collected from the pilot test were then analyzed using the SPSS software to ensure the questionnaire's validity and reliability. The data were analyzed using the structural equation model smart partial least square (SEM-PLS) to assess the measurement model, structural model, and offered hypotheses. Figure [1]

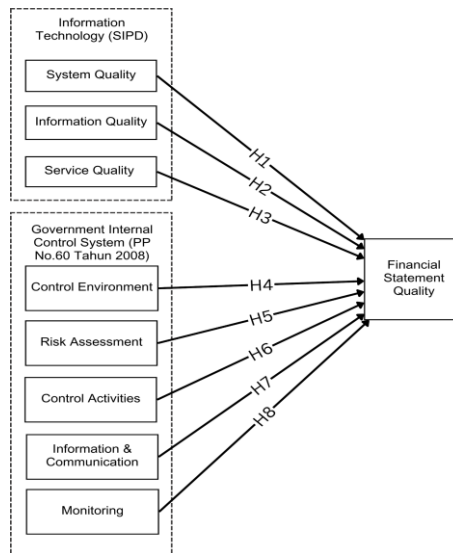


Figure 1. Research Model

IV. RESULTS

Research data processing involved conducting both outside model testing and inner model testing. The “outer model” refers to the relationship across each indicator and its associated latent variable. In the present research, the outer model was derived using convergent validity values, composite reliability, discriminant validity values, Cronbach’s alpha, and average variance extracted (AVE). The results of the outer model test indicate that All variables possess good validity and reliability, as shown in the appendix.

Table 1. The result of the hypotheses testing

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Information
H1 SQ -> FSQ	-,071	-,068	,081	,872	,384	Rejected
H2 IQ -> FSQ	,342	,346	,082	4,180	,000	Accepted
H3 SU -> FSQ	,310	,300	,076	4,080	,000	Accepted
H4 CE -> FSQ	,229	,225	,091	2,528	,012	Accepted
H5 RA -> FSQ	,112	,113	,095	1,188	,235	Rejected
H6 CA -> FSQ	-,023	-,016	,081	,280	,779	Rejected
H7 IC -> FSQ	-,027	-,027	,061	,446	,656	Rejected
H8 MO -> FSQ	,070	,072	,068	1,033	,302	Rejected

The evaluation of the inner or structural model involves examining the R2 value, which serves as a measure of the goodness-of-fit test. The FSQ Contract achieved an R2 value of 0.707, corresponding to 70.7% of the variance explained by the factors analyzed. The remaining 29.3% of the variance may have been ascribed to other variables that were not considered in the study. The next step involves conducting a hypothesis test, which examines the parameter coefficient values (from the original sample), the standard error (which represents the standard deviation), and the t-statistic and p-values. These numbers can be found in the attached document.

V. DISCUSSION

A. The Influence of SQ on FSQ

Table 1 shows that SQ does not have an impact on the quality of financial reports. The significance of the system-generated information outweighs the significance of the system’s overall quality, particularly in terms of financial reporting quality. This aligns with the findings from a previous research [30] on financial statements in local governments. Based on the indicators of the SQ variable, a system is considered to have good quality if it satisfies several criteria, one of which is if it demonstrates a high adaptability level. The importance of systems that can adjust to changes in the environment and user requirements cannot be overstated. It should be highlighted,

nonetheless, that system flexibility has no direct bearing on financial report accuracy. This is because financial reports often adhere to rigorous accounting standards and do not entail significant modifications, particularly to the government's ISs that are built around standard norms. Furthermore, a well-designed system demonstrates exceptional availability. Ensuring a high level of system availability is crucial for carrying out daily operational tasks; however, this does not directly affect the accuracy or reliability of financial reports. Financial reports are typically generated at regular periods, such as quarterly or annually.

Additionally, a commendable system possesses the attribute of dependability. System reliability can be assessed from functional and technical aspects. Within the realm of financial reports, the accuracy and completeness of the data have a greater impact on the quality of those reports. Furthermore, the system has a rapid response time. Optimal system reaction times are crucial in ensuring seamless user interaction with the system. However, quick response times could not directly affect the caliber of financial reporting. Usually, financial reports are produced on a regular basis and do not necessitate immediate engagement. Moreover, the system should be able to be effectively utilized (usability). Although the system's user-friendliness ensures improved user participation, it may not have a direct impact on the quality of financial reporting. The accuracy and thoroughness of the data have a greater impact on the overall quality of financial reporting than the user-friendliness of the system.

Overall, these statistics indicate that there exist supplementary aspects that influence the overall level of reports on regional government finances. Prior research has consistently demonstrated that internal control exerts a substantial impact on the integrity of financial reports, thus surpassing the influence of the underlying system's quality [31]. [32]. In comparison, a previous study [33] identified IQ and user satisfaction as mediating variables between SQ and net benefit in the setting of financial reports. These characteristics were found to play crucial roles in enhancing the quality of financial reports.

B. The Influence of IQ on FSQ

The data presented in Table 1, which pertain to IQ, exert a noteworthy influence on the quality of financial statements. The test findings demonstrate a direct association between an enhancement in IQ and an increase in the quality of financial reporting. Hence, the findings of the present study further validate the concept of the DeLone and McLean model, which asserts that the quality of information is a crucial factor in determining the efficacy of IS. [34]. Meanwhile, improvements in IQ are typically linked to enhancements in financial report quality. In accordance with the DeLone and McLean approach, improving the quality of information can enhance IS effectiveness. Previous research has demonstrated a significant association between the IQ and net benefit. In the specific context of financial reports, this refers to the improved overall quality of financial reports [33]. Each system has a direct correlation with one another, and the overall system directly impacts the quality of the information being produced. In this case, information is considered to be of high quality if it meets the following criteria: it is complete, relevant, easily comprehensible, customizable to individual needs, and possesses a high level of security. Based on the importance of the IQ variable, it can be inferred that the quality of the SIPD-generated financial reports is influenced by the IQ within the SIPD, particularly when utilized by local government authorities, is of paramount importance.

C. The Influence of SU on FSQ

The data in Table 1 show the substantial impact of SU on FSQ. Such a finding indicates that enhancements in SU are often linked to enhancements in financial report quality. The findings provide evidence for the validity of DeLone and McLean theory of IS success, which highlights SU as a crucial determinant of IS effectiveness. In this sense, "service" pertains to the degree of assistance and service rendered to users of the system [34]. Assurance, as determined by measures of SU, pertains to the personnel' knowledge and civility, and their capacity to instill trust and confidence. Within the realm of IS, this implies that the system is constructed and overseen by capable and reliable individuals. As such, the quality of financial reporting is enhanced by users' confidence in a system's reliability and ability to deliver accurate and timely information.

D. The Influence of CE on FSQ

The findings of the hypothesis test in Table 1 demonstrate that the CE has a considerable and noteworthy influence on the quality of financial statements. This conclusion is corroborated by the provisions of PP 60/2008, which emphasizes the significance of the CE as a crucial component of the government's internal control system (i.e.,

SPIP) in promoting good governance. An efficient CE can enhance the quality of financial statements. Therefore, the South Sulawesi government has effectively implemented an ideal CE by establishing appropriate structures, authority, and responsibilities. In this way, each individual in the government has a clear role and authority, thereby preventing gaps in responsibility and potential abuse of power. In turn, such a scenario helps maintain reliable and relevant financial statements. Furthermore, regular evaluations and supervision tasks are conducted by the South Sulawesi regional government to ensure that the CE operates efficiently and in compliance with current rules. The results obtained from this supervision and evaluation process are then leveraged to improve the existing internal control system.

The findings of this study further validate the COSO framework theory and are corroborated by past research [35]–[37]. These studies also confirm that a strong CE has a positive and significant influence on the quality of financial statements, supporting the belief that the quality of financial statements is improved by robust control.

E. The Effect of RA on FSQ

As indicated in Table 1 the results show that RA does not significantly affect the quality of financial statements. Consequently, it is important to optimize the RA conducted by the South Sulawesi regional administration. This may be attributed to the inefficiency in establishing acceptable objectives. If the government fails to define proper objectives, this can lead to a lack of clear and consistent aims and objectives at both the agency and activity levels. Furthermore, the government agencies may fail to efficiently identify and analyze risks, which might affect their progress, regardless of whether these risks come from within the agency or from external sources. Government agency leaders who fail to identify the risk of fraud are also rendered unable to apply the necessary risk management methodology and risk control to minimize risk. Furthermore, the government's failure to determine and assess critical changes prevents them from anticipating, identifying, and responding to risks that may arise from the ever-changing situations regarding government, industry, economics, regulations, operations, or other conditions. These risks have the potential to impact the overall goals and objectives of a government agency or a specific activity.

The findings of this study, however, do not align with PP 60/2008, which pertains to the government's internal control systems, as well as the concepts of internal control outlined in the 2013 COSO framework. The findings of this study also contradict the findings of previous research [38]–[40], which concluded that RA has a positive and significant impact on the quality of financial statements.

F. The Influence of CA on FSQ

The findings of the hypothesis test presented in Table 1 indicate that CA has no statistically noteworthy effect on the quality of the statements of finances. The results of this research are incongruent with the concepts outlined in the COSO framework and PP 60/2008. Within the COSO framework, CA in regional financial management is influenced by the effective implementation of CA, the application of comprehensive technology controls, and the establishment of robust internal control policies and procedures. Similarly, CA outlined in PP 60/2008 require that they play an essential part in ensuring the effective completion of directives issued by the leadership of government agencies. In addition, control operations must be efficient and effective to successfully achieve organizational goals.

The findings of this study are also inconsistent based on the studies concluded by [36] and [41], which indicate that CA exerts a substantial impact on FSQ. This finding demonstrates that despite an organization or government institution having sound control policies and procedures, their execution may not yield the desired results. Employees have the ability to disregard or fail to adhere to established procedures, resulting in control measures that do not affect financial reporting's level of quality.

G. The Influence of IC on FSQ

Based on the results of the hypothesis test for IC shown in Table 1, this variable does not exert a substantial impact on FSQ; thus, the hypothesis is either rejected or unable to be substantiated. The findings of this study also do not align with the control principles outlined in the COSO framework and the implementation of Government Regulation No. 60 of 2008. Within the COSO framework, the IC components are reinforced through the use of pertinent information for making financial management decisions at a regional level. Furthermore, this involves the internal communication of reports between different work units within the financial management regions, as well as the communication of reports with external parties outside of the regional financial management work unit. Ineffective communication among units, management, and departments can result in a failure to deliver relevant

information to the intended recipients. At the same time, Government Regulation No. 60 of 2008 stipulates the rules and regulations regarding IC. In particular, government agencies require pertinent and trustworthy information, encompassing both financial and nonfinancial data, pertaining to external and internal occurrences.

The findings of [37] and [41] contradict the results presented in the current study, as their research showcases a substantial influence of IC on the quality of financial statements. This demonstrates that certain organizations may not fully comprehend the significance of IC in ensuring the integrity and accuracy of financial reports. If both management and employees do not emphasize the importance of effective communication, it is unlikely to have a substantial influence.

H. The Effect of MO on FSQ

The results of the hypothesis test shown in Table 1 suggest that MO does not have a statistically significant impact on the quality of financial statements. Therefore, the hypothesis has been disproven. The results of this investigation do not support the concepts described in the COSO framework and Government Regulation No. 60 of 2008. Based on the COSO framework, MO is a component of control that relies on a dedicated team responsible for conducting regional-level assessments of financial management. These assessments are conducted periodically by specific teams within the regional government. Furthermore, there are designated teams responsible for identifying and communicating any shortcomings in regional financial management. MO implementation can differ among organizations. At the same time, the execution of the MO function is outlined in PP 60/2008, which specifies that the MO of the internal control system is carried out through ongoing surveillance, independent assessments, and the implementation of recommendations derived from audit findings and other assessments. Ongoing surveillance is typically conducted through regular managerial operations, oversight, comparison, reconciliation, and other actions associated with task implementation.

These findings, however, contradict those of [36] and [42], which indicate that MO has a substantial influence on the caliber of financial statements. Hence, the impact of MO could be limited if it is not consistently and correctly executed, without taking into account its effect on financial reporting.

VI. CONCLUSION

This study aims to analyze the correlation between IT and RFASs in relation to regional financial reporting quality. As demonstrated in this work, the quality of reporting by regional governments is heavily influenced by the IT they employ. Furthermore, such financial reporting is highly influenced by the RFAS in place. The effectiveness of local government IT is evaluated based on its use, with a focus on the SQ, IQ, and SU of the regional government information system (SIPD) application, as stipulated in the regulations of the Indonesian Minister of Home Affairs. The Indonesian government also regulates RFASs, which focuses on the government's internal control system. In turn, this system is evaluated based on the CE, RA, CA, MO, and IC. Indonesian government regulations oversee the quality of financial reporting, which is typically assessed based on its qualitative characteristics: namely, relevance, reliability, comparability, and understandability. These characteristics ensure that financial reporting meets the government's high standards of quality.

The study's findings demonstrate that IQ and SU both have a significant impact on the overall financial reporting quality. Thus, this finding demonstrates that regional governments, particularly in the South Sulawesi region, recognize the significant impact of the information and services provided by SIPD on the financial reporting quality. This is because the SIPD system offers comprehensive, user-friendly, personalized, and relevant information while ensuring the security of the local government. In addition, it has an IT support team that offers service guarantees, demonstrates empathy toward individuals experiencing technical issues, and promptly responds to problems, thereby enhancing the overall financial reporting quality. The research findings further demonstrate that the CE has a significant impact on the quality of financial reporting. This finding demonstrates that the regional government's CE has successfully incorporated principles of integrity and ethics. Furthermore, the supervision provided by regional inspectorates ensures that all personnel have a clear understanding of the organizational structure, authority, and responsibilities of regional financial management. At the same time, all personnel acquire and develop the necessary knowledge and skills in regional financial management. Finally, the implemented internal control systems effectively uphold regional government accountability.

However, in terms of its limitations, this research also indicates that several factors, such as SQ, CA, RA, MO, and IC, all have little impact on financial reporting quality. This finding indicates that the regional government information system (i.e., SIPD) has not yet achieved a level of adaptability that is in accordance with the performance requirements of the regional government. It is likely that the SIPD is still facing issues, particularly in terms of system reaction time, which results in its suboptimal functioning. Similarly, the RA components, CA, MO, and IC internal controls of the government have not yet been properly implemented in regional administrations, particularly in the South Sulawesi region.

However, this study variable has undergone extensive investigation, and the questionnaire used to measure this variable has not yet been standardized. Therefore, recommendations for future study should focus on using the same questionnaire across other government sectors to enhance the validity of the current study's findings. Nevertheless, this questionnaire pertains to preliminary research indicators that are aligned with current government rules governing the subject matter. The test findings for validity and reliability also indicate good levels.

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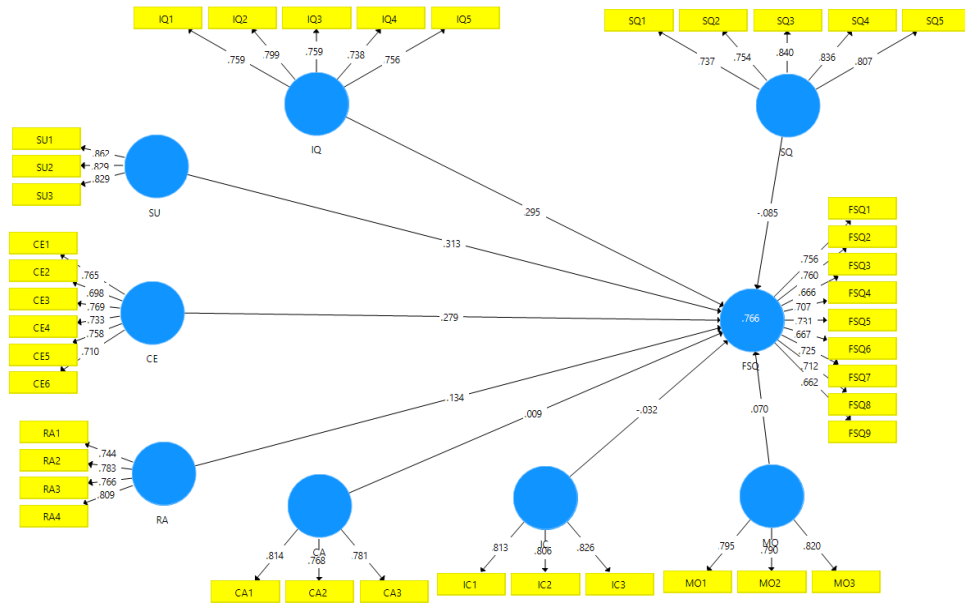
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Appendix

Model PLS Algorithm 1



Loading Factor Indikator (Algorithm 1)

	CA	CE	FSQ	IC	IQ	MO	RA	SQ	SU
CA1	,814								
CA2	,768								
CA3	,781								
CE1		,765							
CE2		,698							
CE3		,769							
CE4		,733							
CE5		,758							
CE6		,710							
FSQ1			,756						
FSQ2			,760						
FSQ3			,666						
FSQ4			,707						
FSQ5			,731						
FSQ6			,667						
FSQ7			,725						
FSQ8			,712						
FSQ9			,662						
IC1				,813					
IC2				,806					
IC3				,826					
IQ1					,759				
IQ2					,799				
IQ3					,759				
IQ4					,738				
IQ5					,756				
MO1						,795			
MO2						,790			
MO3						,820			
RA1							,744		
RA2							,783		
RA3							,766		
RA4							,809		
SQ1								,737	

RA	,757	,801	,713	,750	,734	,692	,776		
SQ	,671	,698	,679	,663	,773	,647	,731	,796	
SU	,666	,660	,754	,637	,761	,608	,667	,744	,840

Composite Reliability

	Composite Reliability
CA	,830
CE	,872
FSQ	,888
IC	,856
IQ	,874
MO	,844
RA	,858
SQ	,896
SU	,878

Cronbach's Alpha

	Cronbach's Alpha
CA	,694
CE	,816
FSQ	,848
IC	,747
IQ	,820
MO	,722
RA	,779
SQ	,854
SU	,791

Average Variance Extracted (AVE)

	Average Variance Extracted (AVE)
CA	,620
CE	,576
FSQ	,569
IC	,664
IQ	,582
MO	,643
RA	,602
SQ	,634
SU	,706

Bootstrapping

