

RESEARCH ARTICLE

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Analysis of the Noncompliance Factor against Regulation Legislation and Its Effect on the Quality of Financial Reporting (The empirical Study at the Provincial / District / City All Indonesia)

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ABSTRACT

This research was conducted with the background of the phenomena that occur under BPKRI audit that the poor quality of financial reporting in the government particularly provincial and city / district characterized by poor BPKRI audit opinion. Factors causing the poor quality of financial reporting, among others, non-compliance with the provisions of the laws and regulations as outlined in IHPS II 2015 BPK. This research is pursued through surveys and is grounded performed based on theories that already exist which later developed into a research model in which the model in this study was designed to examine The Noncompliance Factor Against Regulation Legislation And Its Effect on the Quality of Financial Reporting. This study aims to identify and obtain empirical evidence in order to obtain the answers to the problems of research on how much influence factor The Noncompliance Factor Against Regulation Legislation And Its Effect on the Quality of Financial Reporting. The non-compliance factor against regulation legislation include: regional losses, the potential regional losses, a lack of received and administrative weaknesses. The benefits of this research is to provide scientific contributions to knowledge of financial accounting and public sector accounting and solve the problem for the local government to deploy tasks associated with improving the quality of financial reporting. The results of this study stated that the Regional Losses, the Potential Regional Losses and Administrative Weakness affect on the Quality of Financial Reporting, while Deficiency Receipt does not affect on the Quality of Financial Reporting.

Keywords: The Noncompliance Factor Against Regulation Legislation, The Quality of Financial Reporting

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I. INTRODUCTION

The poor quality of financial reporting is a phenomenon occurring in Indonesia to date, especially in the provincial, district and municipal governments. The poor quality of these financial statements is marked by the acquisition of BPKRI audit opinion as outlined in Summary of Semester Audit Results (IHPS) II Year 2015 on Local Government Financial Statements (LKPD) are still few who get Unqualified Opinion (WTP). The development of quality of financial report and accountability of LKPD not yet as expected. This can be seen from the opinion of the LKPD given by BPK RI still have the opinion disclaimer or not give opinion. The results of BPK RI's audit of Local Government Financial Report (LKPD) in 33 provinces in Indonesia are presented in three categories: opinion, internal control system (SPI) and compliance with statutory regulations. The issue of non-compliance with statutory provisions that result in state losses, potential losses of the state and a lack

of received is a problem that has a financial impact. While administrative deviations, inefficiencies, inefficiencies and inefficiencies do not have a financial impact.

This condition illustrates that the quality of financial information, specifically presented in LKPD, has not fully met the qualitative characteristics of the financial statements in accordance with Government Accounting Standards (SAP). This is not because opinions are professional statements as the examiner's conclusion about the fairness of the information presented in the financial statements (Article 1 of Law No. 15 of 2004). In addition to containing opinions on LKPD, every result of the BPK audit of LKPD also contains suggestions for improvements based on the problems encountered, including those related to non-compliance with statutory provisions.

II. LITERATURE, THEORITICAL FRAMEWORK AND HYPOTHESES

2.1 LITERATURE

2.1.1 THE NONCOMPLIANCE FACTOR AGAINST REGULATION LEGISLATION

In every organization, both public and private sectors, the management is responsible for any activities carried out in accordance with the laws and regulations. In general, public sector entities are more subject to laws, laws and regulations than private sector organizations. Legislation, applicable laws, regulations, and other authorities applied to these public organizations may be statutory (/ regulatory / legal Formed / organized to run an organization) up to administrative requirements and detailed guidelines. The structure of laws / laws / regulations is the basis for the legislature to control the source and allocation of funds, as well as the use of state resources. A law / law may provide broader / more administrative and financial authority to governments, ministers, institutions, and corporations to develop regulations that the entity must comply with. The rules are hierarchically under the law / law and must be in compliance with the direction, conditions and limitations set out in the law / law.

The result of BPK RI's examination on LKPD shows that the administration is not yet in line with expectations. The examination of the financial statements aims to provide an opinion on the fairness of financial information presented in the financial statements based on (a) compliance with generally accepted accounting standards ie Government Accounting Standards for government entities and Financial Accounting Standards for state and local enterprises and or principles Accounting stipulated in various laws and regulations; (B) adequacy of disclosure (adequate disclosure); (C) compliance with laws and regulations; And (d) the effectiveness of the internal control system.

In the State Audit Standards (SPKN) it is stated that the examiner should design an inspection to provide reasonable assurance in order to detect material misstatements caused by non-compliance with the provisions of legislation that directly and materially affect the presentation of financial statements. Furthermore, to ensure that the auditor has performed the compliance tests, the SPKN requires that in the Inspection Result Report (LHP) on the financial statements be disclosed that the auditor has examined compliance with the provisions of laws that directly and materially affect the presentation of financial statements. The laws and regulations affecting the opinion of the examiner are merely non-compliance with laws and regulations that are related to the presentation of financial statements. Thus not all irregularities to the

provisions of legislation into consideration in giving opinion of the examiner

According to BPKRI set forth in the IHPS of Semester II of 2015, non-compliance with the provisions of legislation may result in: regional losses, potential regional losses, lack of received and administration.

2.1.2 The Quality of Financial Reporting

According to Iman Mulyana (2010: 96): "Quality is defined as compliance with standards, measured on the basis of non-conformity, and achieved through examination". While Heizer & Render (2006: 253) argues that: "Quality is the totality of features and characteristic of a product or service that bears on its ability to satisfy stated or implied need."

Huang (1999) suggests that: "Quality of information that are grouped into four classes: 1) the intrinsic quality: accuracy, objectivity, believability, and reputation, 2) the quality of accessibility: access, and security, 3) contextual quality: relevance, value added, timeliness, completeness and amount of data, and 4) the quality of representation: interpretation, ease of understanding, the representation concise, and consistent representation.

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The quality of financial reporting made into dimensions in this research is the opinion of BPKRI audit as stated in IHPS Semester II Year 2015. Because opinion is a professional statement as the conclusion of examiner about the fairness of information presented in the financial report (Article 1 of Law No. 15 year 2004) So opinions reflect the quality of financial reporting.

2.2 THEORITICAL FRAMEWORK

Organizational goals are grouped with criteria such as the effectiveness and efficiency of activities, financial reports or reliable information, and compliance with applicable laws and regulations (COSO, 1992; Sawyer et al., 2003: 65). Cris Kuntadi (2009) argues that the examination of local government financial statements (LKPD) is intended to provide reasonable assurance that financial statements comply with government accounting standards (SAP), legislation and internal controls in which inspections are conducted in order to create more transparent public accountability And accountable. Furthermore, he stated that government accountability is seen, among others, from the

opinion given by BPK to the financial statements examined.

The research conducted by Hottua and Siti Khairani (2013) indicates that there is a decrease of opinion given by the Supreme Audit Board to the Financial Reports to the Local Government of Empat Lawang Regency due to the weakness of material effectiveness of the internal control system, the

compliance of the Empat Lawang Regency Government against the Legislation Regulation and the appropriateness of Presentation of Financial Statement of Local Government of Empat Lawang Regency with Government Accounting Standard. The linkages between the non-compliance factor against regulation Legislation with the quality of the financial reporting can be described as follows:

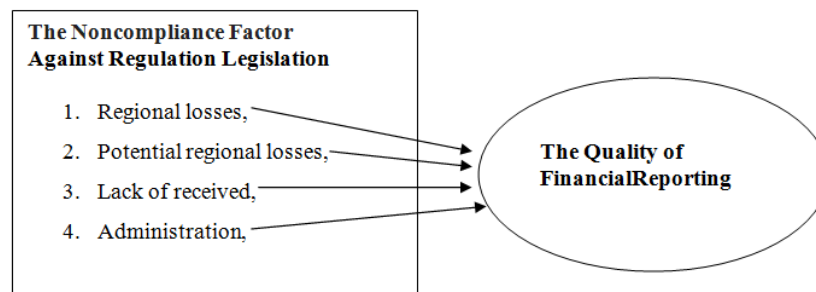


Figure 1 Theoretical Framework

2.3 HYPOTHESES

Based on the theoretical framework that has been stated previously, it can be prepared the following research hypothesis:

H1: Regional losses affect the quality of financial reporting

H2: Potential regional losses affect the quality of financial reporting

H3: Lack of received affects the quality of financial reporting

H4: Administration affects the quality of financial reporting

III. RESEARCH METHODS

This research is exploratory study with the type of investigation of causal study in which the researcher wants to find the cause of one or more problems (Uma Sekaran, 2013). In this study will be tested the influence of the non-compliance factor against regulation legislation on the quality of financial reporting.

The population of this study is all local governments in the territory of Indonesia which consists of 34 provinces and 539 districts and cities. The sampling technique used is purposive sampling with the criteria of the regional government that findings from BPKRI about non-compliance factor against regulation legislation set forth in IHPS Semester II Year 2015, consisting of 6 provinces 35 local governments. The unit of analysis in this research is provincial, district and city government.

IV. DISCUSSION

This study shows that the Regional Losses affect the Quality of Financial Reporting. The higher the Regional Losses that occur in each local government, the quality of financial reporting is

getting worse. Non-compliance with the provisions of laws and regulations that result in potential losses of the region the longer the higher the number both in the number of Rupiah and the number of cases. This can lead to poor quality of financial statements. The poor quality of these financial statements can be seen from the acquisition of unqualified opinion with fewer exceptions, especially in the targeted areas of research is only one district of Labuhan Batu Utara. The problem of regional loss generally occurs because: The responsible official is negligent and inadequate in obeying and understanding the applicable provisions; Not optimal in carrying out duties and responsibilities, and weak in conducting supervision and control; And the Officers / officers are not responsible in carrying out their work.

On the issue, the local government will follow up on the recommendations of BPK by coordinating with third parties / partners to return overpayments / funds, supervise and control the implementation of the work properly, improve budgeting and financial management, and conduct coaching.

On the issue of state losses, BPK recommends the regional heads to: Provide sanctions in accordance with the applicable provisions to officials who have not been optimal in carrying out their duties and responsibilities; Ordering officers responsible for improving oversight and control; And Responsible for the loss of the region by depositing into local treasury (IHPS BPKRI Semester II Year 2015).

Potential Loss Areas Affect the Quality of Financial Reporting. The higher the Regional Losses that occur in each local government, the quality of financial reporting is getting worse. The problem of potential regional losses generally occurs because:

The responsible official is negligent and inadequate in obeying and understanding the applicable provisions, and not yet optimal in carrying out his duties and responsibilities. The responsible official is not optimal in coordinating with related parties, and is weak in supervising and controlling.

On the issue, the local government will follow up the recommendations of BPK by urging the providers of goods / services to deposit overpayments and coordinate with interested parties related to the administration of revolving funds, the handover of recognition of claims for compensation, and the return of assets to the local government. Regarding the potential problem of regional disadvantage, BPK recommends to: the Regional Head to impose sanctions in accordance with the provisions applicable to the officials who are negligent and inaccurate in obeying and understanding the applicable provisions, as well as officials who have not been optimal in carrying out their duties and responsibilities. Head of the Region to improve coordination with relevant parties, and instruct officials responsible for improving oversight and control. Parties responsible for accountability of potential cases of regional losses and if not accountable for depositing to the local treasury.

The results of subsequent hypothesis testing shows that the lack of acceptance has no effect on the quality of financial reporting. The problem of lack of acceptance is generally due to: The responsible official is less understood tupoksi, less active in doing the work acceleration efforts, and not firmly in making the collection effort to the taxpayer. Officials responsible are not optimal / optimal in coordinating with related parties, and weak in supervision and control.

On the issue of lack of revenue, the local government will follow up among others by depositing a shortage of revenue to the regional treasury.

Administrative flaw affects the Quality of Financial Reporting. The problems of administrative weakness generally occur because: The responsible official is negligent and inadequate in obeying and understanding the applicable provisions, not yet optimal in carrying out his duties and responsibilities to administer and manage the property of the region. The responsible official is less proactive in requesting an accountability report, and is weak in supervision and control.

FIGURES & TABLES

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
RL	35	1.0	13.0	5.943	.5768	3.4123
PRL	35	.0	3.0	.657	.1356	.8023
LR	35	.0	7.0	1.886	.2417	1.4302
Adm	35	1.0	15.0	6.000	.5345	3.1623
QFR	35	1.0	5.0	2.657	.2623	1.5519
Valid N (listwise)	35					

Source: SPSS output

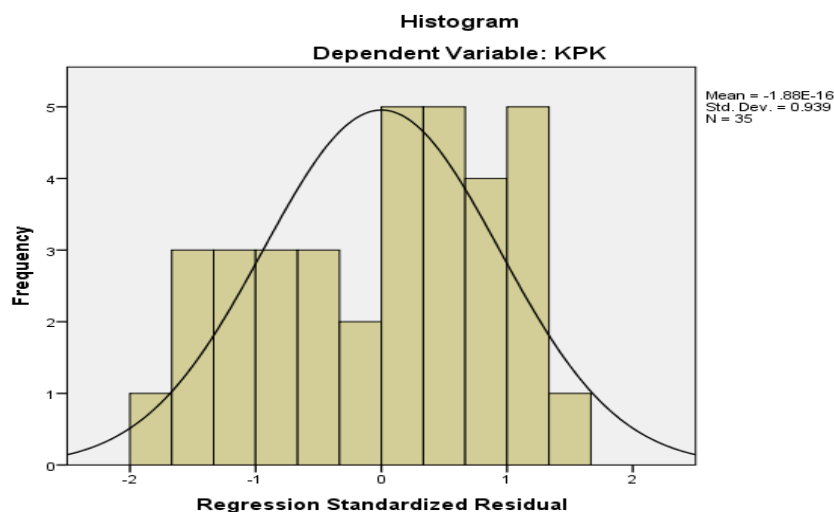


Figure 1 : Normality Test Chart

Source: Results of SPSS Data Processing

Table 2
Multicollinearity Test Results

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
	B	Std. Error	Beta				
1 (Constant)	4.413 -.218	.705		6.262	.000		
RL	.012	.077	.026	.154	.000	.866	1.155
PRL	.410	.322	.212	1.275	.000	.894	1.119
LR	.057	.175	.052	.323	.749	.952	1.050
Adm	.218	.080	.445	2.739	.010	.939	1.065

a. Dependent Variable: QFR

Table 3
Autocorrelation Test Results

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.508 ^a	.258	.159	1.4234	1.951

a. Predictors: (Constant), RL, PRL, LR, Adm.

b. Dependent Variable: QFR

Table 4
F Statistical Test Results
ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	21.101	4	5.275	2.604	.036 ^a
Residual	60.785	30	2.026		
Total	81.886	34			

a. Predictors: (Constant), RL, PRL, LR, Adm

b. Dependent Variable: QFR

Table 5
T Statistical Test Results
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	4.413	.705		6.262	.000
RL	.012	.077	.026	.154	.000
PRL	.410	.322	.212	1.275	.000
LR	.057	.175	.052	.323	.749
Adm	.218	.080	.445	2.739	.010

a. Dependent Variable: QFR

V. CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

Based on the test results and discussion above, it can be drawn conclusion as follows:

1. Regional Losses affect the Quality of Financial Reporting.
2. Regional Loss Potential Affects the Quality of Financial Reporting.
3. The lack of acceptance has no effect on the quality of financial reporting.
4. Administrative flaw affects the Quality of Financial Reporting

6.2 RECOMMENDATIONS

In this study still has limitations - later limits on subsequent research the researchers put forward the following suggestions:

1. For local governments, more discipline should be improved, especially in the case of compliance with laws and regulations, because non-compliance with laws and regulations may result in regional losses, potential regional losses, administrative deficiencies and weaknesses that may ultimately reduce the quality of financial reporting.
2. Further research is expected to develop other variables to add references from research that have never been done

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