

The Effect of Understanding Accounting, Utilisation of Regional Financial Accounting Information Systems and the Role of Internal Audit on the Quality of Local Government Financial Statements

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ABSTRACT

The following research examines the influence of accounting literacy, SIAK, and internal audit on the quality of financial statements of the Medan City Government. Quality financial reports support transparency, accountability, public trust, and sustainable regional development. Variables analyzed include accounting understanding (including knowledge and skills in accounting), use of SIAK to support the efficiency and accuracy of financial data processing, and internal audit capability to ensure the reliability of financial reporting. This includes the role you want to secure. Testing and evaluation. This research used the purposive sampling method to survey relevant agencies in the Medan City Government. Data analysis using multiple linear regression showed that accounting knowledge, SIAK, and internal audit positively affect the quality of financial reports of the Medan City Government. The findings recommend that local governments improve their organizational capacity, utilize information technology, and strengthen their internal monitoring function to improve the quality of their reports.

Keywords: Accounting understanding, accounting information system, internal audit, financial report quality, local government.

INTRODUCTION

Quality reports describe the results of the accounting process that records and summarises financial transactions. They present information about assets, liabilities, equity, and profit and loss. Reports are said to be of quality if they are easy to understand, able to reduce uncertainty, and prepared using valid data so that they can be compared between periods (Emilda, 2019).

In addition, financial quality serves to identify potential problems that may arise within the company. Three main factors influence the occurrence of workplace fraud: the availability of time or opportunity to do so, the ease of access to technology that allows it to occur, and changes in individual characteristics (Hall, 2019). Given the importance of the audit system in a business, it isn't easy to imagine a company operating without an audit system. Without audits, companies cannot improve transactions in a clear, accurate, and organized manner.

Accounting comprehension is the ability of individuals to recognize, understand, and learn the accounting process. According to Arismawati et al. (2019), accounting understanding includes the ability of individuals to understand the accounting process, both manually and using computer technology. Good understanding is marked by the ability to understand and

explain the financial process to produce financial reports that are valid with the rules and standardization in the Financial Accounting Standards.

A limited understanding of accounting can reduce the quality of financial statements, especially due to the lack of maximum implementation of Regional SIAK and weak supervision through internal audits. A person is considered to have accounting knowledge if they can carry out the accounting process by the rules and standards adjusted in PP No. 71 Thn 2010.

AIS plays an important role in company operations. SIA is a sub-system of computer-based SIM designed for the financial sector. Its function is to coordinate data sources and process them into financial information that is relevant and useful for the company (Yunilasari, 2019). According to Laturette (2019), AIS is an actor that plays an important role in accounting because accounting provides information that reflects company activities. AIS designs implements and utilizes this information to support appropriate decision-making.

According to Kandouw (2019), a reliable information system provides the information company management needs, including planning, coordination, data collection, and decision-making. A good information system strives to provide valid information to support the planning of company goals. However, inaccurate or incomplete information can interfere with management decision-making, which has the potential to negatively impact the company's continuity.

Internal audit in a company has a very important purpose: to assist management in carrying out their responsibilities and duties properly. An internal audit is used to evaluate the activities carried out by the organization in an effort to achieve its goals. Internal audits allow business managers to focus more on managerial tasks without compromising the effectiveness and efficiency of company operations. In addition, internal audits assist managers in terms of analysis, planning, and follow-up, as well as providing information related to activities carried out within the company.

LITERATURE REVIEW

H1 Accounting understanding affects the quality of financial reports of the Medan City Government.

According to **Mahmudi (2019: 124)**, knowledge is the ability to understand and use knowledge, both as a collection of information and as a process, ranging from transactions to financial management. According to **Yuliani et al. (2019)**, accounting understanding affects financial quality reporting. This means that efforts to improve understanding of accountability in local government can contribute to improving the quality of financial reports.

H(2) Information system utilization affects the quality of financial reports of the Medan City Government.

According to Rizki Ahmad Fauzi (2019: 25), the audit system is an organizational element that functions to manage information, starting from the stages of collection, processing, and analysis to communication with related parties. Necessary for financial decision making to internal and external stakeholders. According to Gusherinsya and Samukri (2020), their research shows that AIS is closely related to the quality of financial reporting. In addition, Wiranti's research (2021) reveals that a smooth audit system can improve the quality of financial reports, making them precise, relevant, easy to understand, and comparable.

H3: The role of internal audit affects the quality of the financial statements of the Medan City Government.

According to **Sukrisno (2019: 238)**, internal audit is the process of examining the company's financial records and internal controls, as well as its compliance with existing management practices, government regulations, and applicable knowledge. According to **Ade Suherman and Yuyun Susanti (2019)**, internal audits positively impact financial performance. This shows that internal audit is increased, the quality of financial reporting will improve.

H(4) Accounting understanding, information system utilization, and the role of internal audits simultaneously on the quality of financial statements of the Medan City Government. According to **Ibrahim Ingga (2019: 163)**, financial report quality can be defined as a relative measure of success. In addition, according to **Wastam Wahyu Hidayat (2019: 2)**, the quality of financial statements describes a company's financial information, which can be used as a sheet about the company's financial performance. According to **Bahri (2019)**, financial products are products created by a company or a clumped field that requires qualified human resources to achieve optimal financial results. With high-quality human resources and good knowledge and understanding of trust-related issues, financial problems can be identified and resolved in a timely manner. The faster the funds are disbursed, the better the conditions created.

METHODS

The following research applies quantitative descriptive methods, which focus on collecting data to test hypotheses or answer questions about the prevalence of a problem. Numerical data is analyzed through statistical approaches to identify relationships between relevant variables.

The procedure applied in this research is quantitative analysis. Quantitative research collects numerical data and analyses it using statistics. This research uses a quantitative descriptive approach. A qualitative problem involves one or more variables. This study is descriptive, which aims to analyze the relationship between variables in order to validate or prove existing hypotheses.

Purposive sampling is a non-random sampling method based on certain criteria or rules. This study used it to collect 80 samples to represent the entire population.

The way data was collected by applying documentation, which includes collecting data from the company's financial reports that have been recorded or published in full, as well as government financial reports published by the Medan City Government.

This research used a quantitative approach, with data presented in numbers to facilitate the collection and analysis process. The data includes various information related to the company, organizational structure, and other relevant data taken from the literature review.

Table 1. Variable Definition Table

Variables	Definition of Variables	Indicators	Scale
Accounting Understanding (X_1)	Accounting understanding refers to a person's ability to master accounting, both as knowledge and process, from	1. Recording stage 2. Summarising Stage	<i>Likert</i>

	recording transactions to preparing financial statements.	3. Reporting stage	
Accounting Information System Utilisation (X ₂)	SIAK collects, processes, and delivers financial information for internal and external decision-making.	1. Flexible 2. Efficient 3. Easily accessible 4. On time	<i>Likert</i>
Internal Audit Role (X ₃)	Internal audit is tasked with examining financial statements and ensuring compliance with applicable policies, regulations and standards.	1. Independence 2. Professional Qualifications 3. Scope of Activities 4. Implementation of Audit Assignment	<i>Likert</i>
Quality of Financial Statements (Y)	The quality of financial statements reflects the extent to which financial information describes the company's performance.	1. Understandable 2. Relavan 3. Reliability 4. Comparable	<i>Likert</i>

Multiple linear regression analysis is a statistical method that uses several independent variables to analyse their effect on one dependent variable. The calculation of this analysis is carried out using the regression formula.

$$Y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \epsilon$$

It is known that Y refers to the quality of financial statements, α refers to the constant, X1 refers to accounting understanding, X2 refers to the utilisation of accounting information systems, X3 refers to the role of internal audit, and ϵ refers to error.

RESULTS

Descriptive statistics provide an overview of the data used in the study. Data analysis was carried out using the SPSS version 26 programme. The statistical data is displayed as follows:

Table 2. Statistical Descriptive Analysis Table

	N	Minmum	Maxmum	Mean	Std. Devition
Accounting Comprehension	80	19	39	28.53	4.003
Utilisation of Regional Financial Accounting Information System	80	22	40	31.53	3.438
Intrnal Audit Role	80	18	37	27.18	4.224

Quality of Local Government Financial Statements	80	23	40	30.61	3.509
Vaid N (listwise)	80				

Classical Assumption Test Results

Based on the K-Smirnov test results, the Asymp. The sig value is 0.200, which exceeds 0.05. This shows that the data as a whole is usually distributed, making it feasible for regression to function as a tool to see or predict the independent variable based on the dependent variable. The histogram of the real data distribution, which has an asymmetrical and irregular curvature, shows that the data is normally distributed, so the ideal regression is in accordance with the normality assumption. The data is spread along the diagonal, indicating the distribution is normal. Based on the K-Smirnov test results, the Asymp. The sig value is 0.200, which exceeds 0.05. This shows that the data as a whole is usually distributed, so it is appropriate for regression to function as a tool to see or predict the independent variable based on the dependent variable.

The multicollinearity test results show no significant problems among the independent variables in the regression model. The Accounting Understanding variable, with a Tolerance of 0.960 and a VIF of 1.042, and the SIAKD Utilisation variable, with a Tolerance of 0.998 and a VIF of 1.002, do not show strong multicollinearity. Likewise, the Internal Audit Role variable has a Tolerance of 0.962 and a VIF of 1.040. All independent variables can contribute independently to the dependent variable, so the regression model is considered valid.

Table 3. Determination Coefficient Test

Model Summary ^a			
R	R Square	Adjusted R Square	Std. Error of the Estimate
.588 ^a	.346	.320	2.894

Overall, the statistical results that the regression model enabled can explain about 34.6% of the variation in Local Government Financial Quality, indicating a strong relationship, although there are likely to be other variables influencing the results.

Table 4. T-test

Model		t	Sig.
1	(Cont)	2.817	.006
	X1	2.626	.010
	X2	3.499	.006
	X3	5.137	.000

$$T_{table} = (\alpha / 2; n-k-1)$$

$$= (0,025 ; 76) = 1.991$$

Accounting Understanding, with a t value of 2.626, is greater than the t table (1.991) and a value of Sig. 0.010, which is smaller than 0.05, indicates that Accounting Understanding has a significant effect on the Quality of Local Government Financial Statements.

Utilisation of Regional Financial Accounting Information Systems, with a t value of 3.499, which is much greater than the t table (1.991), and a Sig. A value of 0.006, which is smaller than 0.05, indicates that it significantly affects the quality of financial statements.

The role of Internal Audit, with a t value of 5.137, is much more significant than the t table (1.991) and has a very small Sig. A value of 0.000 indicates that the Role of Internal Audit significantly affects the Quality of Local Government Financial Statements.

Table 5. F-test ANOVA^a

Mdel		F	Sig.
1	Regeession	13.392	.000 ^b
	Resiual		
	Total		

Based on the results that have been tested, the F value obtained is 13.392, the F value in the table (2.72) is greater than the calculated f value, with a Sig value. 0.000 which is smaller than 0.05. This indicates that the regression model is statistically significant, which means that at least one independent variable (Internal Audit Role, Regional SIAK Utilisation, and Accounting Understanding) has a significant effect on local government financial quality. Hence, the null hypothesis (H₀) is rejected, and the regression model is valid to explain the variation in financial liquidity.

DISCUSSION

Understanding Accounting on the Quality of Local Government Financial Statements

A strong understanding of accountability principles and established standards ensures financial management produces accurate, transparent, and reliable results. Effective management of public funds requires accountability, transparency, and efficiency. On the other hand, a lack of understanding can lead to problems such as corruption and abuse of authority, ultimately lowering the quality of financial services and undermining public trust in local government. In collaboration with Ningsih, N. (2020), this research explores the determinants that govern the quality of local government spending, with awareness as one of the independent variables. It shows that a good understanding of accountability significantly improves the quality of financial reporting, especially regarding accuracy and compliance with regulations.

Utilization of Regional Financial Accounting Information Systems on the Quality of Local Government Financial Statements

Utilization of the Regional Financial Accounting Information System (SIKAD) significantly affects the quality of financial reporting. Utilization of SIKAD improves the quality of local government services by ensuring transactions are more accurate, timely, and consistent. SIKAD simplifies preparing reports, reduces errors, and accelerates the preparation of clean and accountable financial reports. This improves accountability, efficiency in managing local resources, and better decision-making. This study, along with Hidayat, R., and Kurniawan, F. (2019), analyses the impact of SIKAD use on the financial quality of local governments in Indonesia. The study showed that using SIKAD significantly increased the accuracy and transparency of local finances, contributing to increased accountability and

efficiency in local government finances.

The Role of Internal Audit on the Quality of Local Government Financial Statements

Internal audit is crucial in ensuring that government finances are managed appropriately. Auditors help identify problems or areas for improvement in financial management and provide recommendations to improve accuracy, transparency, and compliance with accounting standards. Thus, internal audits strengthen public accountability and trust in local government finances. This research is related to Halim, F., and Salim, M. (2020). This study found that internal audits have a significant impact on improving the quality of government financial reporting by ensuring accountability for policies and procedures that have been implemented and identifying potential growth opportunities that can improve financial reporting.

Understanding accounting, utilizing local financial accounting information systems, and the role of internal audit in ensuring the quality of local government financial reports.

The results show that the regression model can explain 34.6% of the variation in local government financial quality, with a strong relationship despite other influencing variables. The calculated F value (13.392) exceeds the F table value (2.72), and the Sig. (0.000) is smaller than 0.05, which indicates that the regression model is significant. Factors such as deep understanding, effective implementation of SIAKD, and efficient internal audit significantly impact the quality of local government finances, ensuring that financial transactions are conducted accurately, transparently, and timely.

CONCLUSION

Based on research entitled 'The Effect of Accounting Understanding, Utilisation of Local Government Accounting Information Systems, and the Role of Internal Audit on the Quality of Local Government Financial Statements' the findings show that Accounting Understanding, with a t-table value of 2.626 (more significant than the t-table value of 1.991) and a significance of 0.010, significantly affects the Quality of Financial Statements. Utilizing local government accounting information systems, with a t-table value of 3.499 and a significance of 0.006, also significantly impacts report quality. The internal audit function, with a t-table value of 5.137 and a significance of 0.000, significantly affects report quality. Furthermore, the F-test confirms that accounting knowledge, system utilization, and internal audit together significantly impact the quality of financial statements. To improve the quality of financial statements, periodically increase accounting knowledge for financial managers, optimize SIAKD by improving infrastructure and training staff, and strengthen internal audit by increasing auditor competence. Future research Should expand the sample size and include additional variables affecting regional financial statement quality.

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