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-RESEARCH ARTICLE-

DETERMINANTS OF FINANCIAL REPORTING QUALITY: AN EMPIRICAL STUDY AMONG LOCAL GOVERNMENTS IN INDONESIA

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─Abstract─

The maintenance of financial reporting quality is a crucial concern for organizations due to pressure for compliance with increased regulations and legal requirements. One of the critical shortcomings of existing literature is the lack of studies to explain the factors affecting financial reporting quality. Therefore, this study aims to examine the determinants of Financial Reporting Quality (FRQ). An empirical study was conducted across local governments in Indonesia to test the hypothesis**.** In this study, 302 qualified questionnaires were collected from local government employees through self-administered surveys. Furthermore, the Partial Least Square-Structural Equation Modelling (PLS-SEM) technique was used for data analysis. The result showed that Internal Control System (ICS), Effective Information Technology Governance (ITG), Regulation on Performance Measurement (RPM), and Political Influence (PIN), as well as Transparency (TRS), have a relationship with FRQ. Meanwhile, the hypothesis that Commitment to Organization (COR) strengthens the effect of ICS, ITG on FRQ was rejected. The result provided evidence of the significant indirect effect of RPM and PIN on FRQ through TRS. In conclusion, FRQ, as the result of accounting activities, provided financial information understood by users and used for decision-making in the future.

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Keywords Internal Control System, Information Technology Governance, Political Influence, Commitment to Organization, Transparency and Financial Reporting Quality

JEL Classification: H1, M4 and M48

1. INTRODUCTION

Several studies are increasingly interested in financial reporting quality (FRQ), which is not an easy indicator to quantify or directly observe. Each category of users looking for financial information will have expectations about what can be considered valid or high-quality. According to Bajra et al. (2018), FRQ conveys transparent and complete financial information constructed to avoid the possibility of misleading or obfuscating its users. A firm's operational precision communicates information to apprise equity investors about the firm's operations and cash flow. According to Bajra et al. (2018), the usefulness of financial information can be improved by presenting in a more relevant and accurate manner or examining the qualitative characteristics of financial reporting and the comparability and timeliness verifiability understandability stated in the FASB's framework.

Accounting quality can be defined as the precision with which financial reports convey information to equity investors about the expected cash-flows of a company. On the other hand, reporting quality refers to the extent to which a company's financial reports communicate the underlying economic state and performance during the period of measurement, as stated by the Financial Accounting Standards Board (Greenwood et al., 2021). When considering the critical role in decision-making for internal and external users (Bajra et al., 2018), FRQ mitigates information asymmetry, improving investment efficiency. Furthermore, FRQ attracts more investors and encourages the management of cash flow to reduce the impact of the agency theory, which is particularly important when there is high trust in the quality of financial reporting.

The primary purpose of financial reporting is to create valuable information for decision-making of a financial nature (Gamayuni, 2020). The gap in terms of financial independence between regions including provinces, cities, and districts is very high from 2015 until 2019. The percentage of independence shows a striking difference between province, city, and districts. At the local government level (district), between 2015 to 2019, the regional independence is still recorded to below. It is below 25% and is included in the instructive relationship pattern, which indicates that Indonesia's district government cannot financially exercise regional autonomy. A picture of the increase or decrease in numbers from 2015 – 2019 is shown in Figure 1. In 2015, the independence ratio was 9.30%, decreasing to 8.64% in 2016. However, in 2017, this level increased again to 11.71% but decreased to 10.52% in 2018 and 10.50% in 2019 (See Figure 1). This indicates that the level of financial reporting on the island is low. Subsequently, local governments are not able to finance regional activities independently. Therefore,

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the level of financial reporting of local governments (districts) is lower than provinces and cities.

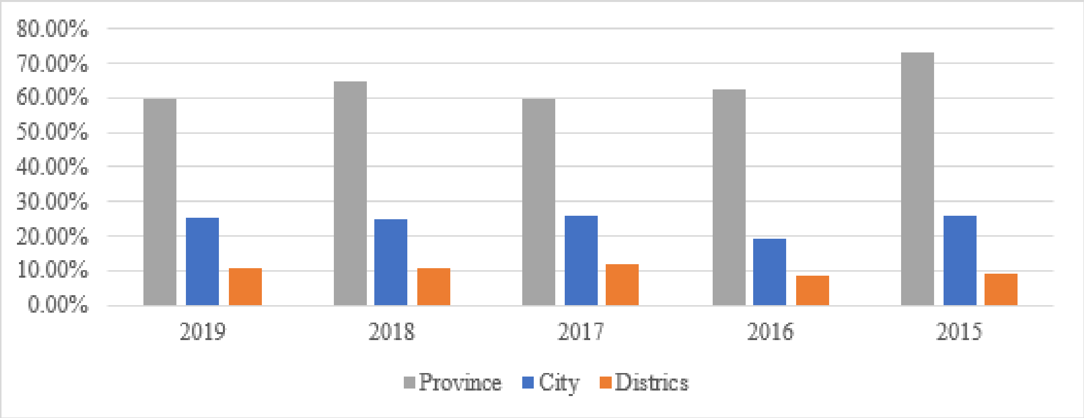

Figure 1 Independent Level in Local Government of Province, City and Districts 2015-2019
Source: Audit Board of the Republic of Indonesia, 2020

This study contributes to an improved understanding of the factors that affect financial reporting quality. One of the notable shortcomings of previous literature is the absence of convincing studies to explain the role and impact of factors that affect the quality of financial reporting. For example, previous studies have investigated some of the factors related to stakeholders in the company, data quality characteristics and characteristics of accounting information systems, and factors that affect financial performance. Therefore, this study investigates unexplored areas in terms of exploring internal and external factors related to financial performance and can potentially influence the quality of financial reporting in the local government.

2. LITERATURE REVIEW

2.1 Theoretical Foundation

The agency model is one of the most well-established theories in management and economics literature, developed over a century ago (Greenwood et al., 2021). The agency theory discusses the problems that arise in firms due to the separation of owners and managers. It places a strong emphasis on reducing these problems. It is possible to use this theory to implement various governance mechanisms that control agents' actions in jointly held corporations. For example, Means (1932) discover that the modern corporation in the United States of America has dispersed ownership, which results in the separation of ownership from control.

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In simple words, the agency is a relationship between the principal and the agent that makes decisions on behalf of the principal (Jensen et al., 1976). The principals are the job delegators, while the agents are the individuals that accept these jobs (Welbourne et al., 1996). As a result of delegating this responsibility, there is separation and control in the organization. The idea of separation and control within was introduced by (Means, 1932) and later developed by (Fama et al., 1983). Regional autonomy policy has brought a change based on the Local Government (executive) relationship with the council representatives of the district (legislature), where the legislature selects and dismisses the regional head. This shows a relationship of agency between the legislature and executive (Johnson, 1994). For this reason, the agency theory underpins the theoretical model of the study presented in Figure 2.

2.2 Hypotheses Development

Internal control plays an important role and positively impacts the quality of financial reporting, especially when all parties involved comply with the objectives of public financial management in Ghana. Most foreign internal control mechanisms positively impact the financial reporting quality to provide a clearer picture of the country's economy and make information available for decision-making and control corruption. Furthermore, the improvement of monitoring and reporting of internal control improves the quality of financial reporting in the banking sector. It highlights the importance of internal control over financial reporting in progressively realizing financial reporting standards and best practices (Kewo & Afiah, 2017). Therefore, the first hypothesis is formulated as follows:

H 1. There is a significant relationship between ICS and FRQ

Such effective information technology is the optimal use of computers and software. As a result, the information technology used in preparing financial reports is directly proportional to the quality of financial reporting (Hertati et al., 2015). Furthermore, technology governance strongly supports the timeliness to present financial information that improves reports (Herath et al., 2017; Rubino et al., 2014). Therefore, information technology utilization is rising at unprecedented levels with implications and consequences for various fields and industries, including in the fields of accounting and government financial reporting (Mardinan et al., 2018; Nurlis et al., 2017). Therefore, the second hypothesis is generated as follows:

H2. There is a significant relationship between ITG and FRQ.

Leaders and superiors will continue to operationalize the internal control system for good organizational commitment to moderate financial reporting quality (Bangsa, 2018). Employees should consider the quality of internal control and perceived fairness of organizational rules and policies to minimize fraud. They are primarily sourced from controlled finance or the chief accountant of a company to achieve financial reporting

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quality (Hasnawati & Amin, 2020). The commitment of the government apparatus is directly proportional to the level of accountability and the management of finances (Pancawati et al., 2020). Therefore, the third hypothesis is created as follows:

H3. COR significantly moderates the relationship between ICS and FRQ.

An organization attaches great importance to effective information technology to create an open and dynamic atmosphere, internal and external, and horizontal and vertical communication. It ensures the suitability of information technology following organization goals and the relationship between perceived usefulness and user commitment (Terek et al., 2018).

Higher internal control in local government will make finance effective and efficient, improve financial report quality, reduce operating costs and strengthen loyalty (Ade et al., 2020). As a result, employees are motivated to become loyal to the organization, which will affect organizational commitment. The financial statements will come through more effectively and efficiently (Chairul Anwar, 2016). Therefore, the fourth hypothesis is formulated as follows:

H4. COR significantly moderates the relationship between ITG and FRQ.

This transparency ensures whether organizational behavior conflicts with other relevant laws and regulations to promote access to information; and, in particular, to consistency with the Constitution (Vawda et al., 2017). Corporate social responsibility entails the expertise of how a company implements regulations and performs transparent actions to advance the company's interests (Kojola et al., 2020). Transparency regarding regulatory decisions can increase citizens' trust in regulatory bodies. This study shows that transparency of regulatory decisions positively affects public trust in the regulators (Grimmelikhuijsen et al., 2021). A possible way to reduce public skepticism is to increase transparency by making regulations that ensure that information is accessible (Brock et al., 2021). Transparency is a core value of governance; therefore, government regulatory activities are one of the critical contexts in which it should be guaranteed. Increasing levels of transparency have reaped significant benefits in terms of regulatory quality (Deighton-Smith, 2004) by promoting transparency in the laws and regulations governing accounting services (Bajra et al., 2018). Therefore, the fifth hypothesis is formulated as follows:

H5. There is a significant relationship between RPM and TRS.

Improved public perception of transparency in political decision-making can be an efficient strategy when decision-makers want to improve the level of public decision acceptance (de Fine Licht, 2014). Moreover, transparency of decisions can maintain or even increase citizens' trust (Grimmelikhuijsen et al., 2021).

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Transparent budgets increase political will and commitment among policymakers. A lack of transparency can impair effective budget control in fiscal responsibility, especially when substantial fiscal adjustments are required (Benito et al., 2009). Politics and transparency have been identified as critical factors for territorial success and enable more substantial achievement and sustainable growth of collaborative projects and strategies (Castanho et al., 2019). Political connections can only help a foundation get more donations when its transparency score exceeds a certain threshold (Cheng et al., 2021). Therefore, the sixth hypothesis is formulated as follows:

H6. There is a significant relationship between PIN and TRS.

Financial reporting that promotes transparency can improve the understanding of information in a financial report (Barth et al., 2008). The financial reporting quality through audit opinions and the political environment has a significant positive effect on the transparency of local governments in Indonesia (Adiputra et al., 2018). Without transparency, there can be no trust or accountability in financial reporting/practice. Citizens of a country are entitled to timely and transparent management reports of state finances and other activities carried out by officials who are given these responsibilities according to the provisions of the Constitution (Nwaobia et al., 2013). Increasing transparency will assist and promote the development of countries by improving financial reporting quality (Muniandy et al., 2012). Therefore, the seventh hypothesis is formulated as follows:

H7. There is a significant relationship between TRS and FRQ.

In compliance with the regulation regarding financial reporting quality, the results are consistent with why the financial reporting quality should be improved by a well-implemented regulation (Korutaro Nkundabanyanga et al., 2013). Regulations are impossible to eliminate to improve the financial reporting quality (Greenwood et al., 2017). Law enforcement is essential because it improves financial reporting quality and helps guarantee a certain level of financial reporting quality (H. B. Christensen et al., 2020). One of the critical factors that affect financial reporting quality and has not been widely explored in accounting literature is the legal and regulatory environment. A study has focused on the environmental impact of laws and regulations on financial reporting quality; naturally, a country's laws play a significant role in establishing the company's annual report (Kaur et al., 2017). Regulatory changes to international accounting and auditing standards will increase legislation. It can present a significant and potential impact on costly implementation challenges for companies. Accounting regulations play a crucial role in determining the financial reporting quality, thereby increasing its usefulness for investors (Muniandy et al., 2012; Palea, 2013). Therefore, the eighth hypothesis is established as follows:

H8. There is a significant relationship between RPM and FRQ

Political connections can emerge through close friends and relatives. However, due to issues vis-à-vis the availability of data, these political connections may not be detected. Therefore, this study was conducted through an in-depth qualitative analysis of politically connected directors, such as director remuneration, frequency of political meetings, and political donations. These findings are consistent with the argument that political influence plays a significant role (Mohammed et al., 2016). The presence of politically connected people on the board or in senior management can create agency costs, resulting in poor financial reporting quality (Sadiq et al., 2019). Politically connected companies have resulted in poor financial reporting quality due to this involvement (Al-dhamari et al., 2015). The influence can create agency problems and reduce the overall financial reporting quality (Sadiq et al., 2019). Political connections reflect a lower level of financial reporting quality as accrual manipulation increases with the strength of connected politicians (Belghitar et al., 2019). The political influence can negatively affect the quality of financial reporting (Sadiq et al., 2017). Corporate political connections can significantly influence financial reporting (M. Mustapha, 2018). Therefore, the ninth hypothesis is constructed as follows:

H9. There is a significant relationship between PIN and FRQ.

To improve transparency, financial reporting, and the level of compliance with accounting regulations and enforcement of accounting regulations. It assists and encourages developing countries to improve their financial reporting quality standards (Muniandy et al., 2012). Regulatory accounting standards and transparency regulations are ways to achieve financial reporting quality to improve understanding of financial statements' information (Barth et al., 2008)**.** In the context of local governments, financial reporting explores the availability of transparency requirements stipulated in the laws and regulations governing accounting. It provides services to its citizens and enables government reporting to improve transparency and financial reporting quality (Bajra et al., 2018). Regulatory standard actions that can increase the transparency of financial reporting are determinants of financial reporting quality (Isidro et al., 2020). Financial managers follow accounting principles' rules and, therefore, need to ensure transparency when preparing financial reports (Rubin & Segal, 2019). Lax regulations can lead banks to experience financial difficulties and regulatory problems, thus impacting financial reporting (Aikman et al, 2019). The level of disclosure according to regulations is inversely related to the risk of information. Therefore, low risk gives a higher assessment since the company purports to build a reputation for transparent financial reporting. This reputation ultimately results in the management's enhanced credibility (H. B. Christensen et al., 2020). Therefore, the tenth hypothesis is formulated as follows:

H10. There is a significant indirect effect of RPM on FRQ through TRS.

The financial transparency factor is mainly related to the political economy, characterized by a high risk of asset confiscation. The state's influence on financial reporting practice is reminiscent of the political cost arguments (Habib et al., 2018). In the public sector, politics ensures that an organization implements transparency to pressure-related officials and enables the implementation of valuable policies in its application. For this reason, the implementation of transparency in reporting finances can help characterize an organization. Therefore, it is possible to generate financial reports that are open and honest to the public through the accountability of political parties to implement financial reporting transparency. This should be based on the consideration that the community has the right to thoroughly follow up on the government's responsibility for managing resources entrusted to it. Political factors influence the implementation of transparent financial reporting to the Padang city government. The application of transparency can be used to formulate and adapt future government policies vis-a-vis financial reporting. The role of managerial ability and political connections reduces fraudulent behavior in general and fraudulent financial reporting in particular (Wang et al., 2017). Political momentum for new demands for transparency and financial challenges for corporate wealth chains help normalize the notion of transparency as a risk assessment (R. C. Christensen, 2018). Therefore, the eleventh hypothesis is organized as follows:

H11. There is a significant indirect effect of PIN on FRQ through TRS.

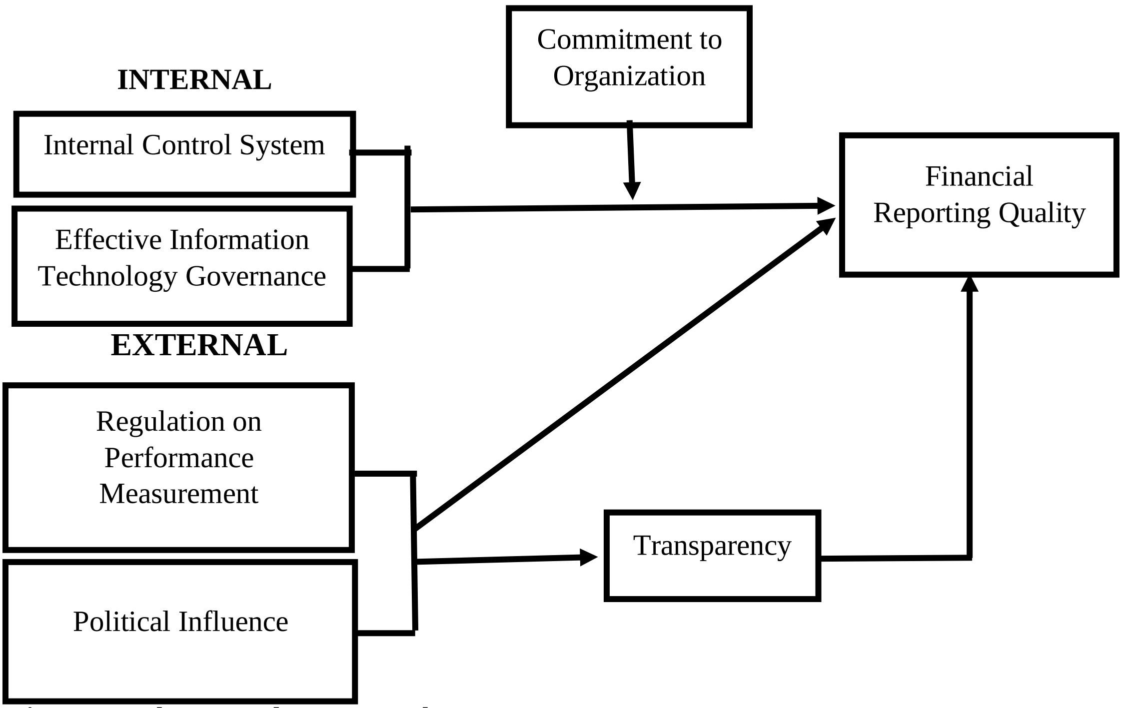

Figure 2. Theoretical Framework

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3. RESEARCH METHODOLOGY

The present study has adopted a cross-sectional and quantitative design. A total of 302 individuals were selected as respondents, serving in various positions such as head of accounting, senior and junior accounting which constitute the financial management in local governments. Meanwhile, the technique of data collection used is known as snowball sampling. From several local governments, 20 employees willing to be involved in the survey were identified. Then, these respondents asked other groups and communities when they would like to be involved in this online survey and received 302 positive responses. The measurement items in the questionnaire were based on a seven-point Likert scale adapted from ICS 26 items (Yakubu et al., 2017); ITG 3 items (Sofyani et al., 2020); RPM 5 items (Nurkholis et al., 2014); PIN 15 items (Ferris et al., 1992); COR 15 item (Ashman, 2007); FRQ 4 items (M. Mustapha, Ku Ismail, K. N. I., & Ahmad, H. N, 2019). Data collected from self-administered questionnaires were analyzed using Partial Least Square (PLS) with Structural Equation Modeling (SEM) to test the validity of statistical conclusions (Cook & Campbell, 1979). Specifically, the SmartPLS was used, one of the most commonly used software, on account of its favorable terms, methodological options, and ease of usability (Ringle, 2005).

4. RESULT AND DISCUSSION

4.1 Result

The demographic profile of respondents is presented in Table 1. According to the findings, female respondents are greater in number than males. Subsequently, most of the respondents are between 38-50 years of age, and the majority hold a Bachelor's degree. However, in terms of position, the respondents varied across every category, including Head of Accounting, Senior Accounting, and Junior Accounting.

Table 1. Demographic Characteristics of the Respondents

Demographic	Category	n	%
Gender	Male	113	37.42%
	Female	189	62.58%
Age	<25	53	17.55%
	25-37	76	25.16%
	38-50	132	43.71%
	>50	41	13.58%
Education	Bachelor Degree	193	63.91%
	Master Degree or Above	109	36.09%
Position	Head of Accounting	102	33.78%
	Senior Accounting	117	38.74%
	Junior Accounting	83	27.48%

The evaluation of the measurement model was the first step of model evaluation in PLS-SEM. The validity needs to be determined before a model check or hypothesis test is performed. This includes checking that the instruments are measuring what they are attempting to measure. Firstly, composite reliability should be tested because reliability and validity are related. It is acceptable when the composite reliability value is above 0.7 (Chairul Anwar, 2016). Table 2 showed that the composite reliability value of ICS, ITG, RPM, PIN, COR, TRS, and FRQ is all > 0.7 and meets the requirement for establishing convergent validity.

Table 2. The Result of Composite Reliability

Model Construct	Item	Composite Reliability
ICS	26	0.910
ITG	3	0.921
RPM	5	0.932
PIN	15	0.920
COR	15	0.947
TRS	5	0.909
FRQ	4	0.910

Meanwhile, the convergent validity of this model should be tested. According to the guidelines (Chairul Anwar, 2016), for an acceptable convergent validity, the factor loading and composite reliability require a value greater than 0.70. Also, the average variance extracted (AVE) has to be greater than 0.50. The convergent validity of all four variables is shown in Table 2 and Table 3. The composite reliability of ICS, ITG, RPM, PIN, COR, TRS, and FRQ is more significant than 0.7. Their AVE is all over 0.5, which means that the convergent validity of all 4 is acceptable (Chairul Anwar, 2016). The test results of the measurement model are shown in Table 3.

4.2 Relationship between Internal Control System and Financial Reporting Quality

Internal Control System (ICS) on Financial Reporting Quality (FRQ) had a statistical value of 5.241 and a p-value of 0.000. The P-value was lower than 0.05; therefore, it has a statistically positive effect on the FRQ. There is sufficient empirical evidence to support the H1 hypothesis. This provides adequate assurance to achieve effective and efficient management based on Government Regulation No. 60/2008, with control environment, risk assessment, control activities, information and communication, and monitoring (Ayu, 2021; Ud Din et al., 2021). Furthermore, the implementation of the ICS can improve the reliability and objectivity of information, prevent inconsistencies, and facilitate the process of auditing financial statements to create FRQ (Bentley-Goode et al., 2017; Seitzinger, 2016).

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Table 3. The Result of Convergent Validity

Model Construct	Measurement Items	Loading	AVE
ICS	ICS 1	0.920	0.800
	ICS 2	0.937	
	ICS 3	0.901	
	ICS 4	0.862	
	ICS 5	0.891	
	ICS 6	0.946	
	ICS 7	0.796	
	ICS 8	0.927	
	ICS 9	0.889	
	ICS 10	0.842	
	ICS 11	0.907	
	ICS 12	0.934	
	ICS 13	0.887	
	ICS 14	0.922	
	ICS 15	0.961	
	ICS 16	0.854	
	ICS 17	0.832	
	ICS 18	0.880	
	ICS 19	0.845	
	ICS 20	0.862	
	ICS 21	0.901	
	ICS 22	0.995	
	ICS 23	0.858	
	ICS 24	0.891	
	ICS 25	0.939	
	ICS 26	0.833	
ITG	ITG 1	0.949	0.796
	ITG 2	0.883	
	ITG 3	0.841	
RPM	RPM 1	0.779	0.734
	RPM 2	0.862	
	RPM 3	0.942	
	RPM 4	0.839	
	RPM 5	0.841	

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Table 3. Continued

PIN	PIN 1	0.872	0.793
	PIN 2	0.929	
	PIN 3	0.333	
	PIN 4	0.892	
	PIN 5	0.889	
	PIN 6	0.865	
	PIN 7	0.859	
	PIN 8	0.868	
	PIN 9	0.618	
	PIN 10	0.874	
	PIN 11	0.881	
	PIN 12	0.861	
	PIN 13	0.916	
	PIN 14	0.846	
	PIN15	0.988	
COR	COR 1	0.837	0.766
	COR 2	0.982	
	COR 3	0.703	
	COR 4	0.891	
	COR 5	0.853	
	COR 6	0.830	
	COR 7	0.770	
	COR 8	0.890	
	COR 9	0.717	
	COR 10	0.821	
	COR 11	0.724	
	COR 12	0.721	
	COR 13	0.904	
	COR 14	0.809	
	COR 15	0.706	
TRS	TRS 1	0.789	0.668
	TRS 2	0.927	
	TRS 3	0.792	
	TRS 4	0.768	
	TRS 5	0.801	
FRQ	FRQ 1	0.792	0.716
	FRQ 2	0.835	
	FRQ 3	0.824	
	FRQ 4	0.929	

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Discriminant validity belongs to construct validity, and as shown in Table 4, the square root of the AVE of the model constructs was all higher than the squared correlations. This signifies that the discriminant validity of all eight variables is acceptable.

Table 4. Discriminant Validity of Constructs

	COR	FRQ	ICS	ITG	PIN	RPM	TRS
COR	0.875						
FRQ	0.685	0.846					
ICS	0.625	0.727	0.894				
ITG	0.575	0.660	0.660	0.892			
PIN	-0.272	-0.427	-0.213	-0.169	0.890		
RPM	0.318	0.503	0.251	0.347	-0.391	0.857	
TRS	0.571	0.717	0.531	0.473	-0.453	0.530	0.817

The R2 values can be used to investigate the quality of each variable in the structural model through the specification. When the value of R2 is within the range of 0-1, then it is acceptable (Chairul Anwar, 2016).

The structural model is better when the communality value is above 0.4, and the redundancy value is less than 0.10. The values of the structural model specification of all four variables are shown in Table 5.

Table 5. Structural Model Specification

Constructs	**R2**	**Communality**	**Redundancy**
ICS	Predictor	0,800	Predictor
ITG	Predictor	0,796	Predictor
RPM	Predictor	0,734	Predictor
PIN	Predictor	0,793	Predictor
COR	Predictor	0,766	Predictor
TRS	Predictor	0,668	Predictor
FRQ	0.825	0.716	0.557

As shown in Table 6, all constructs have met the requirements for the verification of communality. As for redundancy, although the value of FRQ was higher than 0.1, it is still acceptable considering R2 and communality. Therefore, all constructs satisfied the requirements for the verification of the structural model.

Hypothesis testing is also known as the bootstrapping technique. Tables 6 and Figure 3 show the PLS Bootstrapping results for the model.

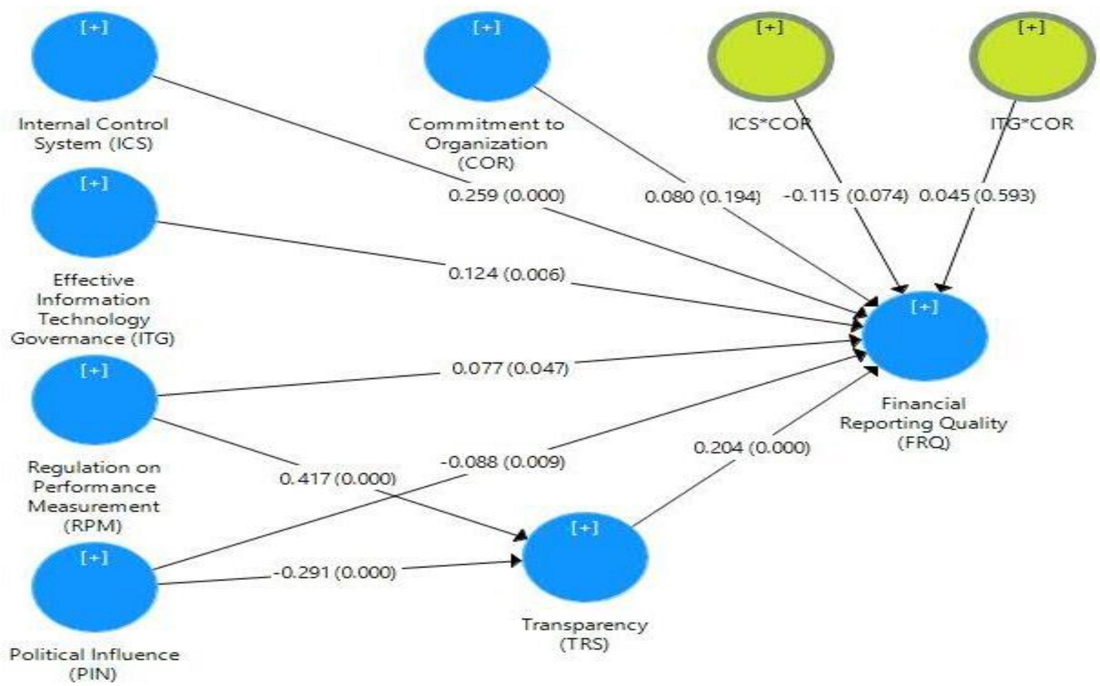

Figure 3. The Structural Model for Individual Latent Variables

4.3 Relationship between Effective Information Technology Governance and Financial Reporting quality

Effective Information Technology Governance (ITG) on Financial Reporting quality (FRQ) had a statistical value of 2.776 and a p-value of 0.006. The P-value was lower than 0.05; therefore, it has a statistically positive effect on the FRQ. There is sufficient empirical evidence to support the H2 hypothesis. Advanced use of information technology is directly proportional to the quality of local government's financial reports. Information technology has an essential role in improving the quality of local government financial reports. In Government Regulation No. 56/ 2005 concerning the regional financial information system, it is stipulated to follow up the implementation of the development process in line with the principles of good governance. Therefore, the quality of local government financial reports depends on the technological advances used. The use of information technology governance strongly supports the timely presentation of financial information that results in financial improvements for making FRQ (Herath et al., 2017; Rubino et al., 2014). ITG, including computer technology, internet, and communication technology in financial management, increases transactions and other data. Furthermore, it can provide accuracy in calculating and preparing reports (Hendaris et al., 2021; Hertati et al., 2015; Tamher, 2020).

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Table 6. Hypothesis Testing

Hypothesis	Relationship	Original Sample	Standard Deviation	T Statistics	P Values	Supported
H1	ICS -> FRQ	0.259	0.050	5.241	0.000	Yes
H2	ITG -> FRQ	0.124	0.045	2.776	0.006	Yes
H3	COR X ICS -> FRQ	-0.115	0.064	1.788	0.074	No
H4	COR X ITG -> FRQ	0.045	0.084	0.535	0.593	No
H5	RPM -> TRS	0.417	0.053	7.801	0.000	Yes
H6	PIN -> TRS	-0.291	0.058	4.980	0.000	Yes
H7	TRS -> FRQ	0.204	0.055	3.718	0.000	Yes
H8	RPM -> FRQ	0.077	0.039	1.996	0.047	Yes
H9	PIN -> FRQ	-0.088	0.034	2.615	0.009	Yes
H10	RPM -> TRS -> FRQ	0.085	0.027	3.159	0.002	Yes
H11	PIN -> TRS -> FRQ	-0.059	0.020	3.029	0.003	Yes

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4.4 Internal Control System effect on Financial Reporting Quality to be moderated Commitment to Organization

The effect of the Internal Control System (ICS) on Financial Reporting Quality (FRQ) using Commitment to Organization (COR) as a moderator had a statistical value of 1.788 and a p-value of 0.074. The P-value was more significant than 0.05; statistically, COR does not moderate the effect of ICS on FRQ. Therefore, the H3 hypothesis, which states that COR strengthens the effect of ICS on FRQ, is rejected. In an organization, the roles and policies adopted by top management are decisive by nature, as every task completed by subordinates only follows what is ordered by the superiors. Therefore, when they are not consistent with the policies taken by the leadership, good SPI and COR will certainly not improve the FRQ produced. Local governments should also motivate employees in the finance department to create competent human resources with high COR and improve local governments' financial performance in preparing FRQ. Employees or subordinates with a high level of commitment to their organization should assist leaders in achieving organizational goals. Employees should avoid and minimize the occurrence of budget slack because subordinates with high COR will seek to develop the organization in a better direction.

Meanwhile, subordinates with low COR will use budget planning and implementation to achieve personal interests; therefore, they tend to create a budget slack. However, the level of COR and internal control system should be carried out properly by the leadership and superiors. This will prevent good COR from moderating the influence of the COR and ICS on the FRQ. These stud results are consistent with Bangsa (2018).

4.5 Effective Information Technology Governance effect on Financial Reporting Quality to be moderated Commitment to Organization

Effective Information Technology Governance (ITG) on Financial Reporting Quality (FRQ) using Commitment to Organization (COR) as a moderator had a statistical value of 0.535 and p-value of 0.593. The P-value was more significant than 0.05; statistically, COR does not moderate the effect of ITG on FRQ. Therefore, the H4 hypothesis, which states that COR strengthens the effect of ITG on FRQ, is rejected. According to the provisions of Government Regulation Number 56/ 2005 concerning Financial Information Systems, the central and local governments are obliged to develop and utilize advances in ITG to manage finances and disseminate financial information to public services. Therefore, the use of information technology must still be carried out, whether the COR cannot strengthen (or weaken) the influence of the use of information technology on the FRQ. This study indicates that leadership commitment cannot moderate the relationship between the use of information technology and the FRQ.

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4.6 Relationship between Regulation on Performance Measurement and Transparency

The effect of Regulation on Performance Measurement (RPM) on Transparency (TRS) had a statistical value of 7.801 and a p-value of 0.000. The P-value was lower than 0.05; therefore, it has a statistically positive effect on the FRQ. There is sufficient empirical evidence to support the H5 hypothesis, and the analysis results show that there is RPM to TRS. This transparency seeks to confirm whether it is against other relevant laws and regulations to promote access to information, thereby increasing citizens' trust (Grimmelikhuijsen et al., 2021; Vawda et al., 2017) and promoting transparency in the laws and regulations governing accounting services for citizens (Bajra et al., 2018). The need for financial transparency was first mentioned in Law 17 of 2003 concerning State Finance. The government should be transparent in the management and accountability of state finances. (Mardiasmo, 2018). The result of this study is consistent with (Grimmelikhuijsen et al., 2021; Puron-Cid et al., 2019).

4.7 Relationship between Political Influence and Transparency

Political Influence (PIN) on Transparency (TRS) had a statistical value of 4.980 and a p-value of 0.000. The P-value was lower than 0.05; therefore, it has a statistically negative effect on the FRQ. This means there is sufficient empirical evidence to support the H6 hypothesis. The analysis results show that there is a PIN that has a negative and significant effect on TRS. In the absence of external political influence, local governments as regional financial managers should provide information to the public to gain legitimacy and operate in terms of managing regional finances within existing limits. A transparent budget increases the level of commitment of politicians who are fiscally responsible for a country's resources. Politics becomes an efficient strategy for decision-makers to increase acceptance of public decisions because transparency influences politics. It can be associated with power, and the legislature creates transparency to gain influence (Broniecki, 2020). This study supports Castanho et al. (2019), Baldissera et al (2020) and Tavares & da Cruz (2020).

4.8 Relationship between Transparency and Financial Reporting Quality

Transparency (TRS) on Financial Reporting quality (FRQ) had a statistical value of 3.718 and a p-value of 0.000. The P-value was lower than 0.05; therefore, it has a statistically positive effect on the FRQ. This implies that there is sufficient empirical evidence to support the H7 hypothesis. The results of the analysis show that there is a TRS on FRQ. Transparency provides open and honest financial information to the public based on the consideration that members have the right to know the government's accountability in managing the resources entrusted to it (Adiputra et al., 2018). Transparency means performing tasks by making decisions, regulations, and other information visible from the outside (Hood, 2007; Stiglitz, 1999). According to Hood (2007), the concept encompasses the transparency of events (open information about

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inputs, outputs, and outcomes), process transparency (open information about the transformation that takes place between inputs, outputs, and outcomes), real-time transparency time (information released immediately), or retrospective transparency. Ease of accessing information owned by the government is one consideration that is of concern to the citizens or public (Heise, 1985). Transparency is a critical element of realizing good governance in guaranteeing access and freedom for everyone to obtain information on government administration, including the management of public finances. The study is also supported by Muniandy et al. (2012) and Barth et al. (2008).

4.9 Relationship between Regulation on Performance Measurement and Financial Reporting Quality

The effect of Regulation on Performance Measurement (RPM) on Financial Reporting quality (FRQ) had a statistical value of 1.996 and a p-value of 0.047. The P-value was lower than 0.05; therefore, it has a statistically positive effect on the FRQ. There signifies that there is sufficient empirical evidence to support the H8 hypothesis. The results of the analysis show that their RPM is related to FRQ. The RPM is a provision used to regulate human relations in a society or a country (Astariyani & Nurmawati, 2017). Public regulations are provisions implemented and complied with when managing public organizations in central and regional governments, political parties, foundations, religious institutions, and other social organizations (Bastian, 2010). Local governments can formulate regulations governing the public accounting system as a product of government regulations and statutory provisions on regional financial management Government Regulation No. 71/2010. The level of implementation of regulatory systems and procedures regarding the financial management of local governments is directly proportional to the compilation and production of FRQ. The laws of a country play a significant role when determining the quality of the organization's annual reports (Kaur et al., 2017). To protect public money, recipients of public funds should be financially sound, and the funds provided should be used for their intended purpose (Greenwood et al., 2021). This study is supported by Muniandy et al. (2012), Palea (2013).

4.10 Relationship between Political Influence and Financial Reporting Quality

The effect of Political Influence (PIN) on Financial Reporting quality (FRQ) had a statistical value of 2.615 and a p-value of 0.009. The P-value was lower than 0.05; therefore, it has a statistically negative effect on the FRQ. This means there is sufficient empirical evidence to support the H9 hypothesis. The results of the analysis show that PIN has a negative and significant effect on FRQ. The role of the local government as an organization can significantly impact the implementation levels vis-a-vis development in the region. Affective politics can affect the characteristics of the pattern of implementation or governance and facilitate the achievement of goals. Effective local government is based on a political system that starts at the most local level within a national political system. It provides a rich laboratory for examining some of the most fundamental questions and practices of public administration, public policy formulation, and administration accountable to the people's will. The PIN presence shows that when the FRQ is lower, the level of financial manipulation will increase (Belghitar et al., 2019). Therefore, PIN can reduce the FRQ (Sadiq et al., 2017). The parties have poor FRQ and pay less attention to FRQ because they are protected through established political relationships (Al-dhamari et al., 2015; Zandi et al., 2019). This study is consistent with Sadiq et al. (2017), and M. Mustapha (2018).

4.11 Relationship between Regulation on Performance Measurement, Transparency, and Financial Reporting Quality

The effect of Regulation on Performance Measurement (RPM) on Financial Reporting Quality (FRQ) using Transparency (TRS) as a mediation had a statistical value of 3.159 and p-value of 0.002. The P-value was smaller than 0.05; statistically, TRS can mediate the effect of RPM on FRQ. Therefore, the H10 hypothesis, which states that TRS directly affects RPM on FRQ, is accepted. High TRS can increase the FRQ when supported by a reasonable RPM and TRS mediated RPM on FRQ. Public information can be accessed by the public, while information excluded from them should not be disseminated because it may pose a security threat to the state, such as unaudited financial statement information. Law Number 14/ 2008 concerning Disclosure of Public Information and Domestic Instruction Number 188.52/1797/SJ on increasing transparency of regional budget management should be the beginning of the implementation in regional financial management. The government mandates the provincial and district/city governments to prepare a context menu with 'Transparency of Regional Budget Management on the official website and publish the latest data on the context menu as a concrete step towards regional financial transparency. With this transparency, external parties can identify important government factors, including capacity, reluctance or acceptance, interests, and government goals (Park & Gil-Garcia, 2021).

4.12 Relationship between Political Influence, Transparency, and Financial Reporting Quality

The effect of Political Influence (PIN) on Financial Reporting Quality (FRQ) using Transparency (TRS) as a mediating variable had a statistical value of 3.029 and p-value of 0.003. The P-value was smaller than 0.05; statistically, TRS can mediate the effect of PIN on FRQ. Therefore, Hypothesis 11, which states that TRS directly affects PIN on FRQ, is accepted. High TRS can increase the FRQ when supported by a suitable PIN and TRS mediated PIN on FRQ. In government set-ups, political factors ensure transparency by putting pressure on relevant officials and implementing policies useful in their implementation. Therefore, the application of transparency in good financial reporting can steer the direction of an organization. However, with the application of financial reporting transparency in the excellent category, the accountability of political parties still needs to be improved since financial statement information is open and

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honest to the public. This follows the consideration that the public should know the responsibility for managing the resources entrusted to the parties.

5. CONCLUSION

The present study aims to identify the significant determinants of financial reporting quality. The results contributed to an enhanced understanding of the factors that influence the quality of financial reporting. Inadequacies in previous literature include a scarcity of studies to explain the role of factors influencing the quality of financial reporting, which is a significant shortcoming. Furthermore, specific factors affecting financial performance identified and investigated in previous studies include stakeholders, data quality attributes, and characteristics of accounting information systems and factors affecting financial performance. The current study investigates other internal and external factors influencing the financial performance of local governments to overcome this ga. The result shows that ICS, ITG, RPM, PI, and TRS have a relationship with FRQ. Therefore, the hypothesis that COR strengthens the effect of ICS, ITG on FRQ is rejected. The results further provide evidence of the significant indirect effect of RPM and PIN on FRQ through TRS. In conclusion, the FRQ is the combined result of accounting activities to provide financial information understood by users and used for decision-making in the future.

6. RESEARCH IMPLICATIONS

Several strategies are known to improve the quality of financial reporting. For example, reviewing financial reports from the level of regional work units, regions, echelon to ministries ensures that the cash balance in the expenditure treasurer is similar to the accountability report and applications used by local governments. Subsequently, it ensures that inventory balance is the value of the physical inventory as of December 31, administering receivables and providing an allowance for uncollectible accounts. Moreover, it administers and digitizes all transaction source documents, including adjustment memos, and utilizes the quality profile menu of financial reports on the application used for monitoring and evaluation of compliance, completeness, and validity of financial report data.

Furthermore, implementing government regulations on financial reporting helps report on the implementation of the regional government to the central government, reporting on accountability of regional heads to the regional house of representatives, and providing information on the implementation of the regional government reports to the community. Moreover, it optimizes the role of the government's internal supervisory apparatus in maintaining the reliability of the presentation and the quality of local government financial reporting. In conclusion, the availability of planning and budgeting documents and budget allocation helps ensure the transparency of local government financial management. Information on financial conditions is essential because it assists the local governments to achieve state goals as stipulated in Law No.17/2003 article 7 (1), "power over the management of state finances is used to achieve the state's goals."

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