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# The Influence of Good Governance on Financial Report Quality (Study on the Regional Financial and Assets Management Agency of West Java Province)

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**ABSTRACT:** *The goal of this research is to establish the extent of good governance implementation, financial report quality, and the impact of good governance on financial report quality at the West Java Province's Regional Government Financial and Asset Management Agency. The contents of the questionnaire answers have been used in this study to acquire information and data from respondents using descriptive quantitative methodologies. This study included all employees of the West Java Province's Regional Government Financial and Asset Management Agency in the field of accounting and regional financial reporting, reaching 25 people. Simple linear regression analysis was used to investigate the findings of the study. The information gathered was analyzed using SPSS version 22 software. The findings show that the West Java Province's Regional Government Financial and Asset Management Agency strongly applies the good governance principles and produces high-quality financial reports. Furthermore, the calculation results suggest that establishing strong governance has a 67.9% effect on the quality of financial reports, with the remaining 32.1 percent influenced by variables not analyzed.*

**KEYWORDS-** *Financial report quality, good governance, government*

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## I. INTRODUCTION

In a reform era such as nowadays, the government is a significant institution with its own policies for managing the living order of its citizens in nearly all aspects of their life. The Regional Government has administrative authority and is authorized to carry out all activities in its region, including serving as a reporting agency responsible for providing structured financial reports on the financial condition and transactions. The government must be able to produce financial reports with accurate financial data (Republik Indonesia 2010).

The West Java Province's Regional Financial and Asset Management Agency is a Regional Apparatus that combines the tasks and operations of the Finance Bureau with the Regional Property Management Bureau (BPKAD Provinsi Jawa Barat 2022). The Supreme Audit Agency gave them an Unqualified Opinion on the 2019 Government Financial Statements. However, there are still some issues with the Agency's performance, which isn't yet at its peak. According to the West Java Province Regional Financial and Asset Management, the quality of financial reporting has not been optimized (BPKAD Provinsi Jawa Barat 2021).

The Indonesian Institute of Accountants has classified financial reporting and government accounting into five degrees of quality. No local government however has yet reached this level. This suggests that the Indonesian government's financial disclosures are still of poor quality. Despite the fact that this circumstance presents a potential for corruption (Nurafiah et al. 2018). The inadequate quality of financial reporting creates the risk of corruption which can be avoided by implementing good governance, because poor state management demonstrates a lack of accountability for public money and violates good governance principles (Handayani 2012).

There has been research done on the value of effective governance. However, there is still discrepancy in the research findings. According to the findings of Wulandari (2018) research, increasing the implementation

of good governance will have implications for improving the quality of government financial reports, which is consistent with the findings of Sari and Tamrin (2017) research, which suggests that good governance has a significant impact on the Quality of Financial Report Information. However according to Hastuti (2017) research, strong governance has little effect on the quality of financial reporting. Sholohah et al. (2019) stated that the premise that the adoption of good governance impacts the quality of the financial statements of the Semarang City Financial and Regional Asset Management Office is denied in another study. The author intends to look into the implementation of good governance, particularly when it comes to enhancing the quality of financial reporting based on the phenomenon outlined above.

## **II. LITERATURE REVIEW**

Good governance is the method by which public organizations offer public goods and manage public resources (Khan 2019). Good governance entails more than just government performance efficiency and the smooth operation of social and economic institutions (Rao 2019). The term “good governance” refers to a set of government and citizen rights norms that are linked to the rule of law and democracy (Addink 2019). Governance can be defined as a means of managing affairs of the state, the establishment of state dominion to manage economic and social resources for community growth and the exercise of political administrative authority by managers of state affairs at all levels. Good governance can also be defined as sound development management based on democratic principles and an efficient market (Mardiasmo 2018).

Thus, good governance can be defined as the process by which the government is accountable at all levels as a public institution with political, social, economic, and administrative authority to manage the performance of a solid in providing public services and efficiently managing resources in order to achieve government and citizen rights norms in accordance with democracy and the rule of law for community development. Good governance serves as a framework for achieving public administration goals so that government objectives can be met. Today, good governance is a critical issue in public administration management (Kewo and Afiah 2017). The notion of good governance is critical to the attainment of local government objectives (Ambarwati et al. 2019). Good governance is a major topic in public administration management (Abdou 2021).

There are several fundamental facets of good governance that have become intertwined. Fairness and equity in interacting with citizens, as well as respect for the rule of law, transparency, accountability, and openness to democratic institutions are among the aspects of good governance that the authors consider useful (Addink 2019). Some of the qualities of good governance, such as accountability, rule of law, consultation and consensus, efficiency, effectiveness, openness, and responsiveness, are constantly recognized even if they are not fully achieved by benchmarks of good governance (Khan 2019). Transparency, responsiveness, rule of law, administrative simplicity, good commitment, vision and mission, participation, and accountability are eight indicators used in the study to illustrate how good governance is measured (Ambarwati et al. 2019). Participation, law enforcement, consensus-oriented, openness, strategic vision, effectiveness and efficiency, accountability, equality, and responsiveness are all elements of good governance in Indonesian law (Khusniyah 2018).

It can be classified as significant characteristics of good governance that are relevant to having a connection with the quality of financial reports consisting of 5 main principles, as explained above and readjusted with the study on the problem boundaries.

1. Law Enforcement
2. Transparency
3. Efficiency and Effectiveness
4. Accountability

## 5. Strategic Vision

Statements A written record of the overall financial status and performance of government activities is called a government financial statement. Financial reports provide useful data for making choices and evaluating the performance of a business (Mardiasmo 2018). The financial statements detail the reporting entity's economic resources and obligations as of the reporting date, as well as the flow of economic resources through time (Republik Indonesia 2010). Financial statements are created to convey pertinent information on a reporting entity's financial status and all transactions that took place within a reporting period (Republik Indonesia 2010). Financial reports are an example of how to improve openness and accountability (Republik Indonesia 2019).

The financial statements are an arrangement of relevant information that provides the financial position and all related transactions regarding the reporting entity's economic resources and obligations at the reporting date, as well as the movement of economic resources across time current period, and that is as a starting point for creating decisions and evaluating organizational performance as explained above in order to improve transparency and accountability. The fulfillment of all qualitative features as the expected basic reference characterizes financial accounts. The qualitative qualities of financial statements are normative measurements that must be realized in accounting information in order for it to meet its objectives (Republik Indonesia 2010).

Financial statements are one of the most significant pieces of information that management needs when making decisions and reviewing government performance, so financial report preparation must deliver high-quality data. Several good governance concepts can help to improve the quality of financial reports. There have been earlier investigations conducted by a number of different researchers (Sari & Tamrin 2017; Wulandari 2018; Kewo & Mamuaya 2019, Agung & Mulyani 2020; Sujana et al. 2020; Philadelphia et al. 2020) are some of the prior researches that have similarities and differences with this study and can be used as input and reference material for the author. The implementation of good governance principles, such as law enforcement, transparency, efficiency and effectiveness, accountability, and a strategic vision of financial reports, is expected to result in a strong and responsible government with a synergistic connection between government domains, commercial sector domains, and community domains that is constructive relates to the production of good governance with the goal of improving the quality of financial reporting.

Hypotheses Answers or a tentative guess about a phenomena or problem described in a research question are provided by research hypotheses, which must be tested empirically before being proven. The research hypothesis can be inferred as follows based on the framework that has been given.

$H_0$  = Good governance does not have a substantial impact on the quality of financial reports.

$H_1$  = Good governance has a major impact on the quality of financial reports.

### III. METHODOLOGY

The author's method of research in this study was quantitative hypothesis testing. The purpose of this study is to look into the connection between good governance and financial report quality in order to figure out why the Regional Financial and Asset Management Agency in West Java isn't maximizing government financial reporting quality. Type of relationship between variables seen from the characteristics between good governance and quality of financial statements is a causal relationship (causality). The research can be classified into the natural setting of a field study based on the parameters of the research environment and the level of involvement of researchers. In this study, the type of unit of analysis is an organization namely the West Java Province's Regional Financial and Asset Management Agency. A one-shot study is a period utilized by researchers to collect research data according on the peculiarities of the research topic to be solved.

The variables to be measured are good governance and financial report quality variables, which are reduced to dimensions and then turned into variable indicators on a Likert scale. The following formula is used to calculate the overall score for each variable indicator.

$$\frac{\text{Total Score}}{\text{Maximum Score}} \times 100\% \quad (1)$$

The following table can be used to determine the criterion for each variable.

TABLE 1. Variable Criteria

Value	Good Governance	Financial Report Quality
20% - 36%	Not Applied	Not Qualified
36.1% - 52%	Less Applied	Poor Qualified
52.1% - 68%	Fairly Applied	Enough Qualified
68.1% - 84%	Already Applied	Already Qualified
84.1% - 100%	Very Applied	Very Qualified

Source: Ramadhan (2019)

Subjects the participants in this study were all employees of the West Java Province's Regional Financial and Asset Management Agency, who were involved in financial management and financial statement preparation. Subject data (self-report data) from respondents' opinions is the type of data that will be collected in this study. Meanwhile, the primary data source for the author's research was gathered from the results of distributing questionnaires to respondents, according to the data source employed in the study. Questionnaires using Google Forms were utilized to collect the data and information needed for this investigation.

The Product moment correlation is used to investigate the relation between one independent variable and one dependent variable to establish the level of validity (Sugiyono 2015). The reliability test with the internal consistency formula Cronbach alpha was carried out by just attempting the instrument once, then analyzing the data acquired such that the analysis' results could be used to anticipate the instrument's reliability (Sugiyono 2015). Data presentation through tables, calculation of data spread through average and standard deviation, percentage calculation, and descriptive statistics can also look for the strength of the association between variables using the correlation analysis method, predict with regression analysis, and make comparisons with the average sample or population data are all examples of descriptive statistics used in this study (Sugiyono 2015). It will be possible to identify the statistical distribution for hypothesis testing using the assumption that the error is normally distributed, and then use the available tables to generate conclusions on hypothesis testing regarding parameters to test the classical assumption of error normality is to use the Lilliefors method (Suyono 2015).

The linear regression analysis test used in this study is a procedure that establishes a linear relationship between two variables in which one variable is thought to influence the other (Suyono 2015). The following is the formula for simple linear regression.

$$Y = \beta_0 + \beta_1 X + \varepsilon \quad (2)$$

Description:

$X$  = Independent Variable

$Y$  = Dependent Variable

$\beta_0$  = Regression Coefficient

$\beta_1$  = Regression Coefficient

$\varepsilon$  = Random Error

The following formula is used in the last approach, which is hypothesis testing decision making.

$$\text{Reject } H_0 = \text{If } |t| > ta/2 \quad (3)$$

Description:

$|t|$  = t count

$ta/2$  = t table

#### IV. RESULTS AND DISCUSSION

The time allowed for data collection in the form of answers to the Google Form is from March 28, 2022 to April 29, 2022 based on the study's findings research licensing bureaucratic legal action with the Regional Financial and Asset Management Agency of West Java Province in the Field of Regional Financial Accounting and Reporting. Twenty-five participants from the Regional Financial Accounting and Reporting Sector.

The variable good governance only includes the elements that researchers believe can influence the quality of financial reporting. In this study, 15 items were employed to assess the variable good governance.

TABLE 2. Results of Respondents' Responses to the Question of Good Governance (X)

Number Item (X)	Value					Total
	1	2	3	4	5	

1	0	0	0	10	15	25
2	0	0	0	14	11	25
3	0	0	0	9	16	25
4	0	0	2	9	14	25
5	0	0	5	15	5	25
6	0	0	4	11	10	25
7	0	0	0	11	14	25
8	0	0	0	11	14	25
9	1	1	4	14	5	25
10	0	0	0	15	10	25
11	0	0	1	17	7	25
12	0	0	0	12	13	25
13	0	0	2	11	12	25
14	0	0	3	8	14	25
15	0	0	3	12	10	25
Sum	1	1	24	179	170	375
Score	1	2	72	716	850	1641
Percentage Score	0.3%	0.3%	6.4%	47.7%	45.3%	100%
Minimum Score	375	0	0	0	0	375
Maximum Score	0	0	0	0	1875	1875

Source: Google forms questionnaire

TABLE 3. Boundary Values of Respondents' Good Governance Responses (X)

Value % Variable Good Governance (X)
Value X% = $\frac{\text{Total Score (X)}}{\text{Maximum Score (X)}} * 100\%$
$\frac{1641}{1875} * 100\%$
88% (Highly Applied)

Source: Analysis of study results

The quality of financial reports that is used to measure the quality of financial reports produced by local governments. Twelve items statement were used to measure things linked to the financial statement quality variable in this study.

TABLE 4. Results of Respondents' Answers to the Question of Financial Statement Quality (Y)

Number Item (Y)	Value					Total
	1	2	3	4	5	
16	0	0	2	8	15	25
17	0	0	0	12	13	25
18	0	0	0	10	15	25
19	0	0	0	9	16	25
20	0	0	0	8	17	25
21	0	0	0	9	16	25
22	0	0	0	7	18	25
23	0	0	0	7	18	25
24	0	0	3	10	12	25
25	0	0	0	11	14	25
26	0	0	0	12	13	25
27	0	0	1	9	15	25
Sum	0	0	6	112	182	300
Score	0	0	18	448	910	1376
Percentage Score	0.0%	0.0%	2.0%	37.3%	60.7%	100%

Minimum Score	300	0	0	0	0	300
Maximum Score	0	0	0	0	1500	1500

Source: Google forms questionnaire

TABLE 5. Financial Report Quality Boundary Values of Respondents' Answer Categories (Y)

Value % Variable Financial Report Quality (Y)	Total Y Score / Maximum Y Score * 100%
Value Y% =	1376 / 1500 * 100%
	92% (Very Qualified)

Source: Analysis of study results

TABLE 6. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.824 <sup>a</sup>	.679	.665	2.448

a. Predictors: (Constant), Variable X

Source: Statistical product and service solutions software analysis results

The coefficient of determination (R square) for the output is 0.679, implying that the independent variable (good governance) has a 67.9% effect on the dependent variable (quality of financial statements).

TABLE 7. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			
1 (Constant)	9.681	6.525			1.484	.151
Variable X	.691	.099	.824		6.972	.000

a. Dependent Variable: Variable Y

Source: Statistical product and service solutions software analysis results

Because the value of Constant (a) is 9.681 and the value of good governance (b/regression coefficient) is 0.691 in the output table above, the regression equation may be expressed as follows.

$$Y = 9.681 + 0.691X \quad (4)$$

The following is a translation of the equation. The constant of 9,681 indicates that the good governance variable has a consistent value of 9,681. The X regression coefficient is 0.691, meaning that for every 1% advance in the value of good governance, the value of financial statement quality rises by 0.691. Because the regression coefficient is positive, the direction of influence variable X to Y can be stated to be positive. The t-value from the table indicates that the t-count value is 6.972 > t-table 2.069, implying that hypothesis  $H_0$  is rejected and hypothesis  $H_1$  is accepted. The financial report quality variable (Y) is highly influenced by the good governance variable (X).

In addition, the technique for building a curve based on the previous results and a simple linear regression test is outlined below.

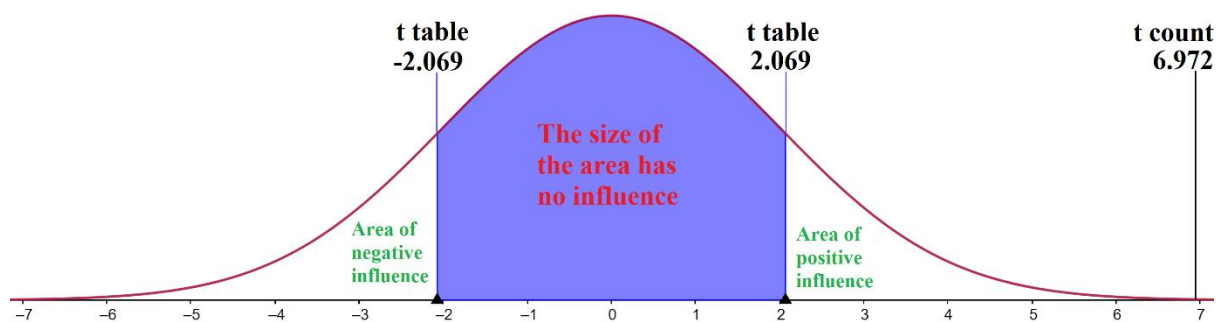


FIG 1. Curve of Simple Linear Regression

Increased implementation of good governance will have implications for improving the quality of government financial reports, in accordance with to the theory and findings of Wulandari (2018) research, which

is consistent with the findings of Sari and Tamrin (2017) research, which suggests that good governance has a significant impact on the Quality of Financial Report Information.

## V. CONCLUSIONS

1. Based on the total percentage of respondents' answers related to good governance, the implementation of good governance at the Regional Financial and Asset Management Agency of West Java Province is 88 percent. Which is in the range of 84.1 percent to 100 percent is included in the highly applied classification.
2. Based on the total percentage value of respondents' answers related to the financial report quality variable, the quality of financial reports is 92 percent. Which is in the range of 84.1 percent to 100 percent is included in the very quality classification.
3. With a regression coefficient of 0.691, good governance has a positive and significant effect on the quality of financial reporting. The regression coefficient indicates that for every 1% increase in the value of good governance, the quality of financial reports will improve by 0.691. The coefficient of determination (R square) is 0.679, which means that establishing good governance has a 67.9% effect on the quality of financial reports. The remaining 32.1 percent is influenced by factors that have not been studied.

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