Direct and Indirect Testing for Accountability of Regional Financial Management and Trust Level of Public-Stakeholders in Local Government

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Abstract. *Every organization wants to be trusted by public stakeholders. Their trust is a form of recognition for results, performance, and achievements. The central government's authority to regional governments regarding financial management is a demand for improvement in all areas to achieve a goal and target from the central government, one of which is that all parties trust. Therefore, this study aims to analyze the relationship between the presentation of regional financial statements, the accessibility of regional financial reports, and control activities on the public trust of stakeholders with regional financial management accountability as an intervening variable. This study used a quantitative approach by distributing questionnaires to the 160 local bureaucracies (Indonesian: OPD, which stands for Organisasi Perangkat Daerah) in Semarang. In addition, this study used structural equation modeling (SEM) with smart PLS. This study found that the presentation of financial reports, accessibility of financial reports, and control activities positively affected the accountability of regional financial management. Besides, this research also found that the presentation of financial reports, accessibility of financial reports, control activities, and accountability of regional financial management positively affected public stakeholder trust. Furthermore, the accountability of regional financial management fully mediates the relationship between the presentation of financial statements, the accessibility of financial reports, and control activities on public-stakeholder trust.*

Keyword: public-stakeholder trust; presentation and accessibility; control activities and accountability of financial statements

INTRODUCTION

The financial notes and draft of the central government's State Revenue and Expenditure Budget (APBN) since 2011 cannot be separated from the policy of strengthening regional autonomy, which is a policy aimed at the implementation of fair and equitable State development. The party closest to and in direct contact with the community regarding the implementation of regional autonomy is the regional government. Therefore, local government is seen as the party that knows firsthand the direction of fiscal policies that will impact prosperity and equitable development in society by prioritizing regional priority needs.

The implementation of policies on financial management is the responsibility of local governments. Furthermore, this makes a consequence that must be faced. The regional government is expected to be able to realize the vision of fiscal decentralization, namely to realize an efficient distribution of national resources through accountable, transparent, and fair management of central and regional finances. This is in line with the opinion by Grosso and Gregg (2011), that public satisfaction will be achieved by regulating financial reports and government performance reports to maintain accountability and transparency so that the level of public trust is maintained.

Public-stakeholder trust is something that every local government should have. According to (Tolbert and Mossberger, 2006), the implementation of e-government can increase public perceptions of government transparency. However, data on local governments in Central Java still show that regional financial management still needs to be improved. This is evidenced by the acquisition of an audit opinion from the Audit Board of the Republic of Indonesia (BPK), which shows that several districts/cities have not received the highest opinion.

The phenomenon of this research is supported by some information quoted from the media that in 2018, Brebes district received a Fair With Exception (WDP) opinion from the BPK, one of which was because the recording of assets in the education sector was still not sound and out of sync with the data in the field (Purbaya, 2019). In addition, in Rembang district in 2017 also received a WDP opinion from the BPK due to an asset calculation system that was not yet good, especially in the youth and sports services (Al-Musthofa, 2018). Then, in Klaten Regency in 2017, school operational assistance (BOS) funds had not been adequately recorded in accounting according to the norms (Prakoso, 2018). Therefore, it can be concluded that the accountability of local government financial management still needs to be improved so that the level of trust from the public will increase over time.

The first factor is the presentation of financial statements which contain several basic accounting concepts, namely independence of substance, continuity of substance, and measurement in units of money to produce good financial management accountability to create a good climate for public stakeholders. A complete presentation of information in financial report will be able to create transparency and a form of accountability (Nordiawan, 2010).

The second factor is the accessibility of financial reports. According to Mulyana (2006), this accessibility is defined as an easy way for public stakeholders to obtain the information needed, one of which is access to quality financial reports. Besides, accessibility is a form of accountability from the local government to the community..

The third factor is internal control activity. This activity can be interpreted as structured and continuous supervision related to effective and efficient rules to create reliable financial reports. It is contained in Government Regulation No. 60 of 2008.

The fourth factor is the accountability of financial report management. The public will believe in the accountable management of local government finances. According to Lin (2010), government performance is influenced by the accountability of its financial statements. Public stakeholder trust is important for every local government. There will be many effects that arise if this trust continues to increase, one of which is that public awareness to obey the government will be achieved or directly obedience to tax payments.

These considerations are used as one of the bases for researchers to prove directly what factors can increase public-stakeholder trust in local governments. Therefore, it can be said that this research focused more on financial management in local governments. In addition, the researchers expect that there will be a theoretical picture in the form of empirical research results related to the current state of accountability for local financial management with the level of public-stakeholder trust, so that local governments will obtain additional information for decision making.

LITERATURE REVIEW

This study used the theory proposed by Davis, S and Donaldson (1997), that is the stewardship theory which states that managers have no motivation for individual interests, but managers in this theory act as managers whose motivations are aligned with the principal goals of the organization. The assumption put forward in this theory is that executives, in this case are referred to as stewards, have a desire

to act honestly and responsibly to gain the trust of public stakeholders so that the goals of an organization will be achieved.

In the stewardship theory, there is a choice where self-serving and pro-organizational behavior. Service behavior will not be separated from the interests of the organization, while executive behavior is aligned with the interests of the principal where the steward is. Steward and principal do not have the same interests, but the steward will always try to uphold the value of togetherness (Asnida, N., Irwansyah & Aprilia N., 2018). The application of this theory is that local government can realize a quality financial report, a good report, a good internal control system, and can disclose or present in full. This signal is a form of openness or in this case, transparency which is expected to be able to increase trust from the public to the government (Puspita and Martanti, 2012).

Presentation of financial statements will increase accountability. This happens because the accountability of the financial statements by the local government to the transparent public will minimize the fraud that will occur. According to Fauzani and Sudjono (2018), the presentation of financial statements has a positive effect on accountability. This is also supported by Mulyani (2018), that the presentation of this financial report has a positive influence on the accountability of regional financial management.

This accessibility was created by the government to fulfill the rights of interested parties (stakeholders). Another function of the accessibility of financial reports is used to increase transparency and accountability in the financial reports. The results of research by Fauzani and Sudjono (2018) state that accessibility has a positive effect on the accountability of village fund management. In addition, Hehanussa (2015) strengthens that this accessibility has a positive effect on the accountability of regional financial management.

Internal control is the strongest foundation of good governance, where the internal control system includes a variety of management tools that have the aim of ensuring compliance with laws and regulations, safeguarding state assets, and the reliability of financial reports and financial data. The government's internal control system can carry out effective regional financial management accountability, such as in the inspection of goods, physical cash, and accounting records, and can be used to follow up on results or interviews given by financial report auditors. Mulyani (2018) states that this internal control system has a positive effect on the accountability of regional financial management.

In general, the financial statements are prepared to provide real, relevant, reliable, and understandable information related to all transaction activities that have been carried out in one reporting period. Based on Government Regulation 71 of 2010 concerning government accounting standards, financial reporting is intended to present information that has benefits for users to assess government performance and determine decisions both from an economic and social perspective, whether the presentation of financial reports is good or bad will determine how much public trust it is. stakeholders in the performance of the government in compiling its financial reports.

Ease of obtaining information is something someone expects, whether it is used as a learning material or to add insight. According to Rohman (2009), accessibility in a spatial perspective is the state or availability of a relationship from one place to another, or the ease with which a person or vehicle can move from one place to another safely, comfortably, and at a reasonable speed. This can be interpreted that in addition to the mandatory financial statements presented by the local government, the ease of access of these financial reports needs to be considered as well because creating public trust in the government is very important. If they find it difficult to get information, especially related to financial reports, it will automatically be lowering their level of confidence as well.

Control can be defined in several ways, one of which is a process of monitoring performance and taking action to ensure that a result can be achieved (Schermerhorn, 2002) in

Awali (2017). The reliability of a final result of a quality financial report is based on control activities that are measured, ordered, and evaluated on an ongoing basis. The control activities carried out by the local government will support the success rate of the local government in managing their government well, when the local government shows a good performance, the level of trust from the public stakeholders will certainly appreciate this performance.

Accountability in the form of the public is a means of providing information on all government financial activities and performance to parties who have an interest in financial reports. The existence of an accountable predicate indicates to the public-stakeholder that the local government has carried out its responsibilities as a mandate of the people. This means that the better the accountability provided, the higher the level of public-stakeholder trust. Nurrizkiana (2017) states that the accountability of regional financial management has a positive and significant effect on public-stakeholder trust.

RESEARCH METHODOLOGY

This study used quantitative data analysis methods. This study used primary data and also used questionnaire. The questionnaire was distributed to parties related to the preparation of local government financial reports and local government internal users who were sampled in this study. The population in this study were employees of Regional Apparatus Organizations (OPD) in Semarang, Central Java. The sampling technique used is the accidental sampling method. Accidental sampling is the determination of the sample by taking the respondents who are currently at the research site and following the research criteria. This method was chosen because not all OPD offices in Semarang were willing to participate in filling out the questionnaire. The considerations made in sampling are specifically focused on the head of the department, head of the financial sub-division, treasurer, financial report verifier, and financial statement administrator who has responsibility for financial management.

The indicators and measurements of each variable in this study are presented in the following table:

Table 1
Indicator and Variable Measurements

Variable	Indicators	Scale
Presentation of Financial Statements	• Reliable • Relevant • Comparable • Understandable Source: Government Regulation No. 71 of 2010	Likert scale 1-5
Accessibility of Financial Statements	• Available in mass media • Easy to access • Availability of information Source: Superdi (2017)	Likert scale 1-5
Control Activities	• Control Environment • Risk Assessment • Control Activities • Information and Communication • Monitoring Source: Krismiaji (2015)	Likert scale 1-5

Financial Management Accountability	• In accordance with applicable laws and regulations • Accountability to the public • Open, fast and precise • Preparation of APBD • Monitor performance and evaluate management Source: Superdi (2017	Likert Scale 1-5
Public-Stakeholder Trust	• Public trust • Public Participation • Public-stakeholder insights and knowledge • Compliance with rules Source: Nurizkiana et. al (2017)	Likert Scale 1-5

Source: Data processed (2020)

This study used a Structural Equation Model based on Partial Least Square (SEM-PLS) with SmartPLS software for data analysis technique to test the measurement model (outer model) and testing the structural model (inner model). The measurement model (outer model) which is used for validity test is measured by convergent validity and discriminant validity and reliability test is measured by composite reliability and Average Variance Extracted (AVE). Meanwhile, the structural model (inner model) is measured by the determinant coefficient (R-Squared / R2) and the Path Coefficient (Hypothesis Test), to measure the degree of variation in the change in the independent variable on the dependent variable. The SEM-PLS was used by researchers with the consideration that this technique is considerd superior and efficient compared to other SEM techniques and is considered suitable with the data used in this study.

RESULTS AND DISCUSSION

The objects used in this research are employees at OPD Semarang - Central Java, namely the sub-division of finance, treasurers, financial report verifiers, and financial report administrators. The questionnaire was given to respondents within a period of 1 month, namely in October 2020, with details as follows:

Table 2
Questionnaire Distribution Results

Explanation	Total	Percentage
Distributed questionnaires	169	100%
Non-returned questionnaire	9	5,4%
The questionnaires returned and met the criteria	160	94,6%

Source: Data processed (2020)

Respondent characteristics are divided into 3 categories, namely based on gender, position, and educational background. From the questionnaire data that has been distributed to 160 respondents using accidental sampling technique, it can be seen that the general description of respondents in table 3 follows:

Table 3
Characteristics of Respondents

No.	Characteristic	Dimension	Total	Percentage
1.	Gender	Male	64	40
		Female	96	60
		Total	160	100
2.	Position	Sub-division of finance	31	19
		Treasurer	31	19
		Financial Report Verifier	29	18
		Lap Manager. Finance	30	19
		Financial administration	39	24
		Total	160	100
3.	Education level	Senior High School	26	16
		Undergraduate Degree	58	36
		Master Degree	48	30
		Diploma	28	18
		Total	160	100

Source: Data processed (2020)

Hypothesis testing regarding the relationship developed in this model, the value of the p-value in the index range becomes the basis for the significance of the relationship between exogenous and endogenous latent variables. This study used a significance level of 5% because the type of data processed is primary data and is considered not to have high accuracy. The p-value is used in accepting and rejecting the hypothesis, the significance level of the p-value is > 0.05, the hypothesis is not supported, while the p-value is <0.05, the hypothesis is supported at 5% alpha (Ghozali, 2014).
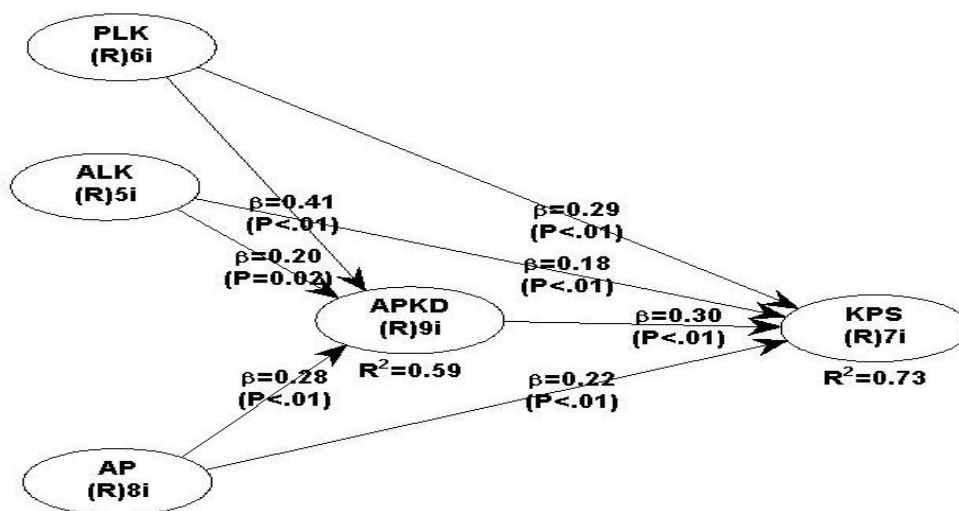
Source: WrapPLS 5.0 Output, 2020

Figure 1. Partial Least Square (PLS) Test Results

Based on Figure 1, it can be proven that all the hypotheses proposed are proven and declared accepted. Furthermore, the value of Path coefficients and P-values for hypotheses 1 to 7 of this study can be seen in the output of WarpPLS 5.0 Path coefficients and P-values in the following table:

Table 4. Path Coefficients and P-Values

Hypothesis	Path coefficients	P-value	Result
H1: The presentation of financial statements affects the accountability of regional financial management.	0.406	<0.001	**Supported**
H2: Accessibility of financial reports affects the accountability of regional financial management.	0.200	0.016	**Supported**
H3: Control activities affect the accountability of regional financial management.	0.282	0.002	**Supported**
H4: Presentation of financial statements affects public-stakeholder trust.	0.290	<0.001	**Supported**
H5: Accessibility Financial reports affect public-stakeholder trust.	0.183	0.002	**Supported**
H6: Control activities affect public-stakeholder trust.	0.219	<0.001	**Supported**
H7: Accountability of regional financial management affects public-stakeholder trust.	0.299	<0.001	**Supported**

Source: Data processed (2020)

Based on the results of hypothesis testing, the results show that the presentation of financial statements has a positive effect on regional financial management, this means that financial management accountability can increase if the presentation of financial statements also increases and vice versa. This result is also shown by the presentation of financial statements that have been carried out by OPD under existing rules and policies, such as reliable, relevant, and comparable. The results of this study are supported by previous research conducted by Fauzani and Sudjono (2018) and Mulyani (2018).

Based on the results of hypothesis testing, it shows that the accessibility of financial reports has a positive effect on the accountability of regional financial management, this means that the easier access to regional financial reports, the more accountable the financial management is. Another indication is that OPDs feel that their responsibility for preparing financial reports and reporting financial reports is fully implemented. The results of this study are in line with research conducted by Yolanda (2018).

Hypothesis testing on the relationship of these variable, it shows that control activities affect the accountability of regional financial management, this means that if control activities in an organization are increased, the accountability that the organization will also

increase. The implementation of a control system under the existing SOPs has been carried out properly by each DPOs so that efforts to minimize the risk of fraud can still be resolved properly. The results of this study are in line with research conducted by Mulyani (2018).

The test results of this variable indicate that the presentation of financial statements has a positive effect on public-stakeholder trust, this can be interpreted that if the presentation of financial statements is good then public trust - stakeholders will follow it. This is in line with the opinion of Nordiawan (2010), that complete presentation of information in a financial report will create transparency and a form of accountability, so that increased trust will be realized. This also means that there is a clear relationship between trust and accountability and there is hope that the government can provide the best (Hyndman, N., McKillop, D., 2018).

The results of hypothesis testing in the relationship between these variables are positive, this means that the increased accessibility of financial statements will be accompanied by an increase in public-stakeholder trust. This means that it is in line with the meaning and purpose of accessibility, namely determining the level of transparency and accountability of regional finance. In addition, quality financial information will be able to improve performance (Yen TT et al, 2020). Mardiasmo (2009) also revealed that one form of public and community accountability is a party that has given confidence to the government in managing public finances and can evaluate local governments in the future.

The results of hypothesis testing in the relationship between these variables indicate that control activities have a positive effect on public-stakeholder trust, this also means that the control system implemented by regional apparatus organizations is running well and effectively. It can also indicate that public-stakeholder trust will be built if the results of controlling activities are good. The quality of internal control also not only has implications

for the benefits that must be delivered, but also the possibility of influencing the internal reports used by management for future projections including public trust (Mei Feng et al 2009).

Hypothesis testing that has been carried out on this variable shows that the accountability of regional financial management has a positive effect on public-stakeholder trust, this means that increased accountability in regional financial management has a good impact on the level of public-stakeholder trust. This also shows that the efforts of OPD to maintain public trust have been proven to be running well, obeying laws and current regulations, are open and transparent to the community. The results of this study are supported by research conducted by Nurrizkiana, et al (2017).

The direct and indirect tests in this study are determined by if the VAF value is above 80%, then the role of Y2 is as a full mediator, if the value is between 20% -80%, it is said to be partial mediation but if the value is less than 20%, it is concluded that there is no mediating effect. The results of calculating the VAF value in this study can be found in Table 2 below:

Table 5. Calculation of VAF Value

Variable	Indirect Effect	Total Effect	VAF
Presentation of Financial Statements	0,121	0,093	130%
Accessibility of Financial Statements	0,060	0,042	143%
Control Activities	0,084	0,058	145%

Source: Data processed (2020)

The table shows that all VAF values are above 80%, it can be concluded that regional financial management accountability can fully mediate the relationship between financial statement presentation, financial report accessibility, and control activities on public-stakeholder trust.

CONCLUSION

The research discussion that has been carried out in the previous chapter found that the entire research model used in this study has been proven to influence each other among the variables and it can also be said that all hypotheses are proven. This means that the allegations that have been made before are true and under existing theories and also following the conditions in the field. These findings can also be interpreted that what is done by the local government in Semarang, in realizing accountability for financial management is implemented and also has a good impact on public-stakeholder trust. From the results of this tudy, OPD is expected to be able to increase the accountability of regional financial management by always paying attention to the financial report presentation system and its accessibility so that the public can obtain the information they need. The existing standard operating and procedures are carried out properly and correctly.

This research is still limited to one big city in Central Java and only examines the perceptions of DPOs, especially those in the financial sector, not to other fields that can still be considered relevant. In addition, respondents in this study in the public - stakeholder trust relationship are still in the internal scope, not yet leading to external parties outside the OPD.

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