

## ICS EFFECTIVENESS, APPLICATION AIS, HRC ON GOOD GOVERNANCE AND IMPACT QUALITY FS

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### Abstract:

This study aims to determine the effectiveness of the internal control system, the application of accounting information systems, and the competence of human resources in implementing good governance and its impact on the quality of regional financial statements. This research was conducted at the Regional Organization (OPD) in South Tangerang City using the purposive sampling method and conducted a survey of 30 OPD as a research sample. Data collection was carried out by distributing questionnaires to 100 respondents. The data analysis method uses descriptive statistical analysis using SEM PLS as an analytical tool in this study. The results showed that: the effectiveness of the internal control system has a positive and significant effect on good governance, the application of the accounting information system does not have a significant effect on good governance, Human resource competence does not have a significant effect on good governance, the effectiveness of internal control does not have a significant effect on the quality of financial statements, the establishment of accounting information systems has no significant effect on financial statements, human resource competence has no significant effect on financial statements, and good governance has a positive and significant impact on the quality of financial statements.

**Keywords:** Effectiveness of Internal Control System, Accounting Information System, Human Resources, Good Governance, Quality of Financial Statements.

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## INTRODUCTION

Everyone in society, from the lower, middle, or upper classes, hopes for a clean government. Local government must give accountability based on strategic planning and what has evolved into the community's objectives as an entity entrusted by the community to carry out its functions and duties. So that local governments need a concept that becomes the basis for the regional development process. Therefore, good governance is the foundation of values in the development of local government.

Local government implementation results from the product of government laws during the reform era relating to regional autonomy. Law Number 32 of 2004 relates to the regional government, which gives authority and responsibility to each district and city to manage government and implement regional development. So that then based the law gave birth to a policy decentralization, in which the government has the authority to formulate a policy and implement development. Therefore, there will be no centralized power through a policy decentralization system. In the end, the principles of good governance will be easily realized through an effective and efficient government development process.

Building a clean government is not an easy thing, so it requires the role of employees with high integrity. Through the integrity of employees, they can realize clean regional government administration by applying the principles of good governance. However, the foundation of good

governance, initially built from the reform era to the present, has yet to show optimal results because there are still unscrupulous government employees, especially high-ranking officials, who are not a few later trapped in corrupt practices. It shows that there still needs to be a stronger integrity of the actors in the government environment, which is one of the problems in achieving good governance. LP3ES senior Malik Ruslan stated that the application of good governance or implementation of robust and accountable development management in the Indonesian government system had not run optimally. According to him, this was because many of the corruptors who were caught and tried came from the territory of government officials (KOMPAS.com, 2020).

The implications of the principles of good governance can undoubtedly affect the level of regional financial quality information. An indicator that the local government's financial reports are of high quality is that there is an unqualified opinion given by the Audit Board of the Republic of Indonesia on the Regional Government Financial Statements (LKPD). In this case, the presentation of financial information has been free from material error and, of course, has met the applicable accounting standard.

As stated by the Head of the Financial Audit Agency (BPK), there were several problems in the 2019 central government financial reports, including problems in the internal control system and compliance with statutory provisions. Whereas the results of BPK's examination of 541 LKPDs in 2020 revealed Unqualified Opinions (WTP) on 486 (90%) LKPDs, Qualified Opinions (WDP) on 49 LKPDs (9%), Disclaimer of Opinion Opinions (TMP) on 4 (0.7%) LKPD, and Unfair opinion (TW) on 2 (0.3%) LKPD. These findings are disclosed in the Examination Results overview book (IHPS).

From the results of BPK's audit, there is a discrepancy between giving unqualified opinions. However, on the other hand, the results of the audit also found findings regarding problems such as the weakness of the internal control system (SPI) and non-compliance with statutory provisions, so the researcher will confirm with the respondents regarding this matter.

**Stewardship Theory.** Donaldson and Davis. (1991) said in (Sanjaya, 2017) that the implication of the steward is being able to describe the role of regional agencies as parties entrusted with carrying out their functions and duties, one of which is regional financial reports.

**Internal Control System.** According to (Marshall B. Romney, 2017) that internal control is an activity carried out to provide proper assurance that the monitoring objectives have been achieved and is an activity that is spread throughout all operational activities of the entity and as an integral part of the entity's activities. Chodijah & Hidayah (2018) said that internal control affects the quality of financial information. Implementing an internal control system does not affect reporting quality financial information (Setiyawati, 2013).

**Accounting Information System.** Government Regulation No. 71. of 2010 that the Government Accounting Information System is a systematic process of the stages of activities, implementation, instruments, and other elements to create an accounting function from analyzing financial activities to preparing government financial reports. Previous research (Darwanis, 2016) showed that government accounting information systems impact good governance, and research (Tawaqal, 2017) results show that regional financial accounting systems impact the quality of financial reports.

**Human Resource Competence.** According to (Hasibuan, 2016), human resource management is a strategic way of expertise, motivation, progress, and management of employees. Previous research (Anita Ardiyanti, 2018) shows that human resource competence positively impacts the implementation of good governance.

**Good Governance.** According to (Alamsyahril, 2020), good governance is implementing compact and accountable organizational management based on deliberation, market efficiency, and avoiding misuse of funds for investment and corrupt practices. Previous research (Hidayah, 2018)

said that the GCG variable (number of commissioner meetings) significantly impacts the Quality of Financial Reporting Information. Other proxies from GCG and other Intellectual Capital have no effect.

**Financial Report Quality.** According to Government Regulation No. 71 of 2010, regional financial information reporting is systematic reporting relating to financial positions and financial events carried out by management. Then the criteria for assessing the quality of financial information are easy to understand, relevant, reliable, and comparable.

From this phenomenon, the authors take the title "The Influence of the Effectiveness of Internal Control Systems, Application of Accounting Information Systems, and Competence of Human Resources on the Implementation of Good Governance, and Their Impact on the Quality of Regional Financial Reports."

The purpose of this study was to examine and analyze: a) The effect of the effectiveness of the internal control system on the implementation of good governance, b) The effect of implementing accounting information systems on the implementation of good governance, c) The influence of human resource competence on the implementation of good governance, d) The effect of effective internal control system on the quality of financial reports, e) The effect of implementing accounting information systems on the quality of financial reports, f) The effect of human resource competence on the quality of financial reports, g) The effect of implementing good governance on the quality of financial reports.

## METHODS

This research uses a quantitative approach. The study objective of this research is causality. The data collection technique used in this study used primary data, namely data obtained using questionnaires and interviews through direct surveys at the South Tangerang City OPD. The population in this study is the OPD (Regional Apparatus Organization) in the City Government of South Tangerang, with a total of 38 OPD. Then, for several 38 OPD, the merging accounting entity is a combination of the UKPD below it. The sampling technique in this study is by using the purposive sampling method. Determination of the sample of the 38 OPDs that were used as the criteria for the research sample was the OPD of the regional apparatus work unit (UKPD) for the 2020 Service Office and Technical Service Unit, which the BPK RI Representative had examined for South Tangerang City, namely 30 OPD. Data analysis in this study will use descriptive statistical techniques. The results of the data tabulation are then processed using the innovative PLS program, which explains whether there is an influence between several variables.

## RESULT AND DISCUSSION

In general, the profile of respondents based on gender is 43 male respondents (51%) and 41 female respondents (49%). Then seen from the variation in age, most respondents were between 40-50 years, namely as many as 28 respondents (33%). Then from the length of work, most respondents have worked 1-5 years, namely as many as 41 respondents (49%). Based on the type of education level, there were 15 respondents for the D3 education level, 40 respondents for the S1 education level, and 29 respondents for the postgraduate level. Based on the range of values and categorization carried out, descriptions of the variables can be seen in the following table.

**Table 1. Descriptive of Each Variable**

No	Variable	Mean	Category
1	Internal Control System Effectiveness	4.43	Very high
2	Application of Accounting Information Systems	4.41	Very high
3	Competency of Human Resources	4.40	Very high

4	Implementation of good governance	4.38	Very high
5	Quality of regional financial reports	4.45	Very high

Source: Data Processed 2023

With an average value of 4.43, the internal control effectiveness variable falls into a very high category. It indicates that the Regional Devices in the South Tangerang City region have been functioning well, particularly concerning implementing the internal control system. The average value for the variable implementation of the Accounting Information system is 4.41, with a very high category. It illustrates that the Government has implemented the Accounting Information System properly. The mean value of the employee's ability variable is 4.40, with a very high category. It means South Tangerang City Government Employees already have adequate human resource competence. Implementing the good governance variable has a mean value of 4.38, with a very high category. It means that implementing the principles of good governance in the South Tangerang City Government area has been going well. The mean value of the variable quality of regional financial information reports is 4.45, with a very high category. It means that the Regional Apparatuses in the South Tangerang City area already have quality regional financial information.

From the results of the loading factor, it is concluded that it meets convergent validity. That is, all indicator values have reached above 0.5. All loading factors are significant at the 5% level, so all these indicators have been declared valid.

**Table 2. Convergent Validity Results**

Variable	Dimensions	Indicator Loading Factor	Description
Internal Control System	Environmental Control	0.818	Valid
		0.800	Valid
		0.776	Valid
		0.775	Valid
		0.808	Valid
	Control Activities	0.709	Valid
		0.863	Valid
		0.820	Valid
		0.822	Valid
		0.806	Valid
Information and Communication	0.715	Valid	
	0.874	Valid	
	0.815	Valid	
	0.776	Valid	
	0.737	Valid	
Accounting Information System Database	0.776	Valid	
	0.737	Valid	
	0.776	Valid	
	0.731	Valid	
	0.871	Valid	
Human Resource Competence	Knowledge	0.843	Valid
		0.865	Valid
		0.815	Valid
	Skill	0.845	Valid
		0.774	Valid

Good Governance	Behavior	0.828	Valid
		0.777	Valid
	Transparency	0.783	Valid
	Accountability	0.829	Valid
		0.886	Valid
	Responsibilities	0.810	Valid
		0.833	Valid
	Independence	0.860	Valid
		0.723	Valid
		0.829	Valid
Quality of Regional Financial Statements	Relevant	0.823	Valid
		0.814	Valid
	Reliable	0.832	Valid
		0.825	Valid
	Comparable	0.850	Valid
		0.739	Valid
	0.852	Valid	
	Understandable	0.785	Valid

Source: Smart PLS data processing results by Author, 2023

**Table 3. Reliability Test Results**

Variable	Cronbach's Alpha	Composite Reliability
Internal Control System (X1)	0.941	0.949
Sistem Informasi Akuntansi (X2)	0.876	0.906
Human Resource Competence (X3)	0.934	0.946
Good Governance (Y)	0.918	0.934
Quality of Regional Financial Statements (Z)	0.938	0.947

Source: Smart PLS data processing results by Author, 2023

A variable is reliable if it has a composite reliability value above 0.70 and Cronbach's alpha above 0.60. From the data results above, all variables have a composite reliability value above 0.70 and Cronbach's alpha above 0.60. So, all indicators applied to each variable have proper reliability or can measure the construct.

Testing the structural model uses the value of R-square ( $R^2$ ), a goodness of fit model test. The following is a table of R-square values.

**Table 4. Hasil R-Square**

Variable	R-Square
Good Governance	0.755
Predictive-Relevance ( $Q^2$ )	0.488

Source: Processed by Author, 2023

Based on the table above, the coefficient of determination for the excellent governance variable has an R-square value of 0.755, indicating that the ability of the independent variables, namely the effectiveness of internal control systems, financial accounting information systems, employee competence when presenting relevant governance variables, is as much as 75.5%. In comparison, 48.8% is explained by variables that others and not in this research. The hypothesis testing in this research is with a significant level ( $\alpha$ ) of 5% and is determined by the following criteria: (1) If  $t$  count  $>$   $t$  table (1.689), then the hypothesis is accepted; (2) If  $t$  count  $<$   $t$  table (1.689) then the hypothesis is rejected.

The following is the parameter coefficient value and  $t$  statistical significance value, as seen in the table below.

**Table 5.** Hypothesis Testing Results

Relations Between Variables	Parameter Coefficient	T Statistics (10/STDEVI)	P Values	Keterangan
Effectiveness of Internal Control System >>> good governance	0.449	3.448	0.001	Significant effect
Application of Accounting Information System >>> good governance	0.169	0.818	0.413	No effect
3 Human Resources Competence >>> good governance	0.309	1.478	0.139	No effect
Effectiveness of Internal Control System >>> quality of financial statements	0.253	1.509	0.131	No effect
Application of Accounting Information System >>> quality of financial statements	0.043	0.272	0.785	No effect
Competence of Human Resources >>> quality of financial statements	0.157	1.086	0.278	No effect
Good Governance >>> quality of financial statements	0.485	2.903	0.004	Significant influence

\* Signifikan pada level 5%  
Source: Data Processed 2023

Results The path coefficient obtained from the variable effectiveness of the internal control system in implementing good governance is 0.449 with a  $t$  statistic of 3.448  $>$  1.689 with a significant level of  $\alpha = 0.05$  (5%). Shows that the variable effectiveness of the internal control system has a positive and significant impact on implementing good governance. The results of the path parameter coefficients obtained from the influence of the variables of the application of accounting information systems on the implementation of good governance are 0.169 with a statistical  $t$  value of 0.818  $<$  1.689 with a significance level of  $\alpha = 0.05$  (5%). Shows that implementing the financial accounting information system has no impact on implementing good governance. The results of the path parameter coefficient obtained from the influence of the human resource competence variable on good governance are 0.309 with a  $t$  statistic value of 1.478  $<$  1.689 with a significance level of  $\alpha = 0.05$  (5%). It means that the ability of employees does not have an impact on good governance.

From the results of the path parameter coefficients, the variable effectiveness of the internal control system on the quality of regional financial report information is 0.253 with a  $t$  statistic of 1.509  $<$  1.689 with a significance level of  $\alpha = 0.05$  (5%). It means that the effectiveness of the internal control system does not affect the quality of regional financial report information. The coefficient of the path parameter obtained from the influence of the variable implementation of the accounting information system on the quality of regional financial reports is 0.043 with a statistical  $t$  value of

0.272 < 1.689 with a significance level of  $\alpha = 0.05$  (5%). It means that applying accounting information systems does not affect the quality of regional financial reporting information. The coefficient of the path parameter obtained from the influence of the employee's ability variable on the quality of regional financial reporting information is 0.157 with a statistical t value of 1.086 < 1.689 with a significance level of  $\alpha = 0.05$  (5%). It means that employees' ability does not impact the quality of regional financial reports. The path parameter coefficient obtained from the influence of the variable implementation of good governance on the quality of regional financial reports is 0.485 with a statistical t value of 2.903 > 1.689 significant level  $\alpha = 0.05$  (5%). Shows that implementing good governance has a positive and significant impact on the quality of regional financial information.

**The Effect of the Effectiveness of the Internal Control System on the Implementation of Good Governance.** The effectiveness of the Internal Control System has a positive and significant impact on the Implementation of Good Governance. These results can be interpreted that when the effectiveness of the internal control system in regional institutions is higher, the implementation of governance in these institutions will also look good. Internal control is the most important part to be built and implemented by agencies, especially in the government environment, in this case, the OPD. So that along with the effectiveness of the internal control system in an agency, what will happen is increasing public trust through the realization of good management.

The internal control system for regional apparatuses in the South Tangerang city environment has run effectively. One is how the government performs its role in optimizing the internal control system to realize an increase in good governance. Then this research confirms the steward's theory which describes local agencies' role as parties entrusted or entrusted with acting in the public interest in carrying out their functions and duties.

This research aligns with that researched by (Mailoor et al., 2017; Anita Ardiyanti, 2018), where the results show that internal control has a positive and significant impact on applying good governance. Then different results from research (Dhiyavani, 2017) show that the internal control system has no impact on good governance.

**The Effect of Accounting Information System Implementation on the Implementation of Good Governance.** Implementing Financial Accounting Information Systems has no significant effect on implementing Good Governance. The reason is that the regional apparatus has not made efforts to strengthen database security to prevent fraud which can lead to acts of corruption. Regional financial information tools are not in line with the implications of stewardship theory. In this study, the theory explains the existence of regional institutions as agencies that gain trust in playing a role in community needs. So, research produced from accounting information systems has not shown optimal performance. The results of this study are not in line with research conducted by (Anita Ardiyanti, 2018; Darwanis, 2016), where research found that government financial accounting information tools had a positive and significant impact on good governance.

**The Effect of Human Resource Competence on Good Governance.** Human Resource Competence has no significant effect on Good Governance. It is because some employees tend to accept interference from superiors, which can result in violations of established regulations, and employees have not performed their functions based on generally accepted practices. This research shows that agency employees do not yet have adequate human resource competence. Thus, a continuous evaluation is needed for employees in each respective field. So that local governments can more easily gain the public's trust through the performance carried out by employees, which is then demonstrated by applying good institutional management.

This research illustrates that employees' ability is not in line with the stewardship theory. In contrast, for this research, the theory explains the existence of the government as an institution entrusted with playing a role in the community's needs in carrying out its functions and duties.

However, in this case, local government employees have not shown maximum performance, so the mandate to carry out their duties and functions to realize the principles of good governance has not been achieved. Then the research results are not aligned with the results (Helmayani Lia, 2017). The results show that human resource competence positively and significantly affects good governance.

**Effect of The Effectiveness of Internal Control Systems on The Quality of Regional Financial Statements.** The effectiveness of the Internal Control System has no significant effect on the Quality of Regional Financial Reports. Because the regional apparatus has not implemented the right concept to mitigate various risks, there is a separation of functions between divisions to ensure that fraud and deviation from the duties of each division do not occur. The resulting research shows that the effectiveness of the internal control system has not maximally contributed to the quality of information on institutional financial reports. Thus the effectiveness of internal control is low, so the quality of regional financial reports is not good.

The effectiveness of internal supervision of regional apparatuses seems inconsistent with the stewardship theory. In this study, the theory explains the existence of local government as an agency that is given public trust in carrying out its functions and duties. Nevertheless, based on the study's findings, it appears that the internal control system has not been functioning correctly, which has prevented it from fulfilling its mandate to carry out its obligations.

The condition is in line with what was informed by the council's secretariat during interviews for data collection, that he said that each agency already has a function and has also implemented an internal control system. However, its implementation has not been implemented optimally. Further research carried out by Sanjaya (2017), Eveline (2016), and Chodijah & Hidayah (2018) results illustrate that the internal control system has a positive and significant impact on the quality of financial reporting. This research is also consistent with the results (Tarigan & Sari, 2021), (Philadelphia et al., 2020). The results show that the internal control system has no impact on the quality of regional financial reports.

**Effect of Accounting Information System Implementation on the Quality of Regional Financial Statements.** The Accounting Information System has no significant effect on the Quality of Regional Financial Reports. These results are because the regional apparatus has not updated the accounting database regularly so that data information can be relevant. It means that regional government accounting information tools must contribute optimally to the quality of financial reporting information. Therefore, it is necessary to supervise the implementation of reporting related to how the system has indeed adjusted to the established accrual-based SAP so that it can affect the quality of regional financial reporting information.

The application of accounting information tools seems to be inconsistent with stewardship theory, where in this study, the theory explains the existence of the government as an institution that is entrusted with playing a role for the needs of the community in carrying out its functions and duties, for example, each local government has applied local government accounting tools that have been customizing (SAP). However, from the research, accounting information device applications have not run optimally. His research results align with research conducted by (Tarigan & Sari, 2021). The results illustrate that accounting information tools do not significantly impact the quality of financial reporting. Further research carried out by Eveline (2016), Novtania et al. (2017), and Putri et al. (2020) the results show that accounting information tools have a positive and significant impact on the quality of financial reporting.

**The Effect of Human Resource Competence on the Quality of Regional Financial Statements.** It illustrates that the lower employees' ability, the lower the quality of financial reports can have an impact. Employees' ability has little impact on the Quality of Regional Financial Reporting. It is because some employees do not have a good level of understanding regarding



policies and accounting information systems, and employees have not optimally received training related to regional financial management. Employees' ability therefore, regional apparatuses need to carry out supervision, evaluate periodically and continue to improve the capabilities of the resources they have, such as providing various pieces of training or seminars on how to improve the ability to prepare regional financial reports, provide other facilities and infrastructure such as scholarship facilities et cetera. so that it can support the quality of knowledge for employees.

This research shows that human resource competence is not in line with stewardship theory. This theory explains the existence of local government as an institution trusted by the public to carry out its functions and duties. For example, employees have an adequate understanding of accounting policies and systems. However, the results of this research show that employees' ability is inadequate, which means that local government employees have not shown optimal performance. Different studies' results illustrate that human resources significantly positively impact the quality of regional financial reporting (Tarigan & Sari, 2021; Saipullah, 2017; Lasmara & Rahayu, 2016). The resulting research also aligns with the results by Philadelphia et al., 2020) and Eveline (2016). The results show that employees' ability does not impact the quality of regional financial reporting.

**The Effect of Good Governance Implementation on the Quality of Regional Financial Statements.** The application of Good Governance has a positive and significant impact on the Quality of Regional Financial Reporting. The results illustrate that the better the governance of regional agencies, the higher the quality of regional financial reporting. Good governance is a critical system to be built and implemented by agencies, especially in the local government environment, in this case, every OPD. Along with good agency management, what will happen is increasing public trust in these agencies.

The steward theory explains the role of regional apparatuses as parties entrusted with or mandated to carry out their functions and duties, one of which is to make regional finances accountable. Therefore, with quality financial reports, community service goals can be optimally realized by the principles of good governance. The research results are those carried out by Tullah et al. (2018), Purnomo (2021), and Trisnawati & Fitriyanto (2019). The results show that good governance impacts the quality of financial reporting.

## CONCLUSION

Based on the background, problem formulation, objectives, literature review, hypothesis testing, and discussion, the effectiveness of the internal control system has a positive and significant effect on implementing good governance. It means that the internal control system in the regional device work unit has been running effectively. Thus, for the effect of internal control, government agencies can realize good governance quickly. The application of the accounting information system has little effect on the implementation of good governance. It means that a government accounting system becomes strong when the accounting information system and its procedures are not by SAP, and financial information is carried out consistently. Because of this, government agencies will need help implementing good governance fundamentals. Good governance is not much impacted by human resource competency. It means that the competence of human resources owned needs to be improved. It can impact the low level of implementation of the principles of good governance. The effectiveness of the internal control system has no significant effect on the quality of regional financial statements. It shows that the internal control system has not been implemented optimally, so the lower the effectiveness of internal control, the lower the quality of the financial report. Although the BPK results state the WTP opinion on the financial statements, there are still weaknesses in the internal control system. The application of the accounting information system does not have a significant effect on the quality of regional financial statements. It means that there

is a need for supervision of the implementation of reporting related to how the accounting information system should have adjusted to the established accrual-based SAP so that it can affect the quality of regional financial statements. The competence of human resources does not have a significant effect on the quality of financial statements. It shows that the lower the competence of human resources owned by agency employees, the lower the quality of financial statements. Implementing good governance has a positive and significant effect on the quality of regional financial statements. It shows that the better the governance of government agencies, the better the quality level of regional financial statements.

Some of the suggestions that researchers want to give about this research are: (1) The South Tangerang City Government should continue to optimize the effectiveness of the internal control system, especially in each regional apparatus work unit. These efforts are to carry out SOPs optimally related to governance and regional financial management So that the goal of building the principles of good governance will be easily realized, which in the end can have an impact on a good performance that is realized through a form of accountability including the quality of regional financial statements; (2) Regional financial statements are part of the form of accountability for the implementation of the APBD to the public, so the local government of South Tangerang city requires quality regional financial reports. To make it easier to prepare regional financial statements, the government should continuously improve an adequate accounting information system which is then adjusted to the rules in the government accounting system so that financial statements can produce quality information and avoid an error or, what is more, fatal is to the level of fraud; (3) The South Tangerang City Government always conducts periodic evaluations of employees to ensure that employees have good resource competence in each field. Among them are providing training and educational programs to deepen knowledge and skills, especially in the governance of an organization and regional financial management. So that with good competence, the objectives of an agency in achieving a good governance principle can be realized and ultimately affect the preparation of quality financial statements; (4) This study, of course, still has many shortcomings and imperfections. Therefore, for subsequent researchers, if they are interested in conducting the same research, it is hoped that they can discuss more deeply by adding other independent variables so that the coefficient of determination in the research can be improved so that the influence on governance and quality of regional financial statements can increase.

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