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The Effect of Quality Financial Reporting on Good Governance

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ABSTRACT

One of the factors triggering a lack of financial reporting caused by dishonest application of records, it has not been effectively transparent and accountable by various government agencies in Indonesia. This study aims to find out how the application of the accrual basis in accounting records in the government and its effect on good governance. This study uses a method of verifying causality to determine the influence between variables. The population in this study were 44 regency and city governments in the provinces of Papua and West Papua. Whereas the Observation Unit is DPPKAD in 44 Provinces/Cities/Districts in the regions of Papua and West Papua. The sampling technique uses a census so that all members of the population become the study sample. The results of this study show empirical evidence that the application of the accrual basis of financial reporting affects good governance resulting from financial reporting of 44 district and city governments in the provinces of Papua and West Papua.

Keywords: Financial reporting, Organizational structure, Good governance
JEL Classifications: G2, G3

1. INTRODUCTION

Public sector organizations have been considered by the public to be unproductive, inefficient, always losing, low quality, poor in innovation and creativity, and various other criticisms (Solikin 2008). Therefore, Mardiasmo (2002) suggests that the implementation of regional autonomy in Indonesia can be seen as a good strategy to respond to the demands of the local community for sharing of power, distribution of income, independence of the management system in the region, strengthening the regional economy, the threat of national disintegration, public panic due to weak security and public order and legal uncertainty Ritonga, (2010): Changing the centralized system into a decentralized system realized in the form of regional autonomy is one of the fundamental changes felt in the reform era. The implementation of regional autonomy is the realization of a system of good governance and is characterized by increasing regional independence, transparency and public accountability, regional governments that are increasingly responsive to society, increased public participation in regional development, increased efficiency and effectiveness of financial management and public services, and increased democratization in the region (Mahmudi, 2010).

Further confirmed by Sulaiman, (2018), Darwanis, (2012) argues that public sector good governance is a process of good governance by involving stakeholders in various economic activities, social politics, and the use of various resources such as natural, financial and human resources to the interests of the people carried out by adhering to the principles of justice, equity, equality, efficiency, transparency and accountability. The same thing was stated by Hertati (2015), that good governance is closely related to reforms in the fields of bureaucracy, law enforcement, financial management, improving the quality of public services, changing mind-sets and culture-sets, and changing mindset, attitude patterns, and action patterns, become more productive, efficient and effective (Van Beest, 2009). The implementation of a country that implements good governance according to Mardiasmo (2004) means that the administration of the country is based on the principles of good governance, namely transparency, accountability, participation, law-abiding, responsiveness, consensus-oriented, fairness, effectiveness and efficiency, strategic vision and interrelationships. Research related to good governance has indeed been raised as much as Solikin (2008), Zeyn (2011).

Arja (2000), Cheng (2002), Christiaens (1999), Christiaens (2001). The results of Coal research (2006), prove that the implementation of good governance is a demand for renewal of the financial system with the aim that the management of public money is carried out transparently and accountability to realize community welfare (Christiaens 2007). The phenomenon that illustrates the low level of good governance was stated by Transparency International (TI) in the 2014 Corruption Perception Index (CPI) survey, which placed Indonesia as a country with a high level of corruption and ranked 107 out of 175 countries in the world with a score of 34 0-100 scale. CPI scores are in the range 0-100. Number 0 means that the state is perceived as very corrupt, while a score of 100 means that it is perceived as very clean (BPK RI, 2015). Furthermore, in 2015 TI in the CPI, also said that Indonesia still showed a consistent increase in eradicating corruption, but was hampered by the high level of corruption in the law enforcement and political sector. This condition causes improvements in public service governance to only be able to increase Indonesia's score to 36 and rank 88 of the 168 countries measured. Indonesia's score slowly rose 2 points, and rose quite high by 19 ratings from the previous year (BPK RI, 2015).

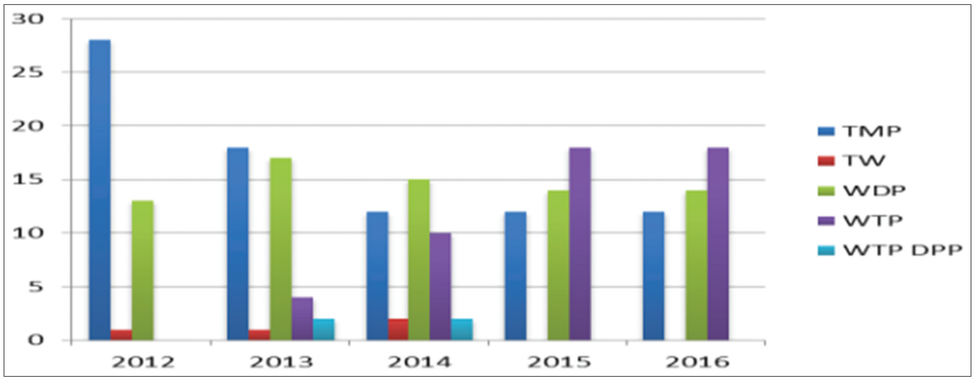
Then in Indonesia the CPI score in 2016 increased by one point by 37. The increase in this score indicates that there is still a positive trend to eradicate corruption in Indonesia. As of 2012, Indonesia's CPI score has increased by 5 (five) points in a clean 5 year period (BPK RI, 2015). Furthermore, the phenomena associated with inadequate government performance have also been stated by Minister of Administrative Reform and Bureaucratic Reform (PAN-RB), that the results of the evaluation of Performance Accountability of Government Agencies (AKIP) in 2016 and districts have increased 2, 95 points. Despite the increase, the average performance of Pemkab and Pemkot across Indonesia is still in category C. Compared to the previous year, the value of the performance of the Regency/City Government has increased from 46.92 to 49.87. Although the evaluation value has increased, 83 percent of districts and cities (425 regions) are still categorized as C values (BPK RI, 2016). The inadequate system of performance accountability of local governments also occurs in the provinces of Papua and West Papua, because based on the results of an evaluation of the regional government's performance accountability system carried out by Assistant Deputy Region III of Menpan-RB Naptalina Sipayung in 2016, said that the results of six evaluations were Jayapura City, Jayapura Regency, Mimika, Meruake, Mappi, Jayawijaya won the title C (somewhat less), while Nabire, Yalimo, Mamberamo Raya, Yapen Islands, Waropen and Keerom District were given the title D. While 17 districts in Papua did not submit reports Government Institution Performance Accountability System (SAKIP) 2016 to the Ministry of Administrative Reform and Bureaucratic Reform to be evaluated cleanly (BPK RI, 2015). While the results of the evaluation of the performance accountability system of local governments in West Papua Province in 2015 were given the predicate B for West Papua province, Sorong City, Sorong Regency, Fak-fak Regency and Tambraw Regency. There are also a number of other districts that are not rated because they have not submitted a clean Government Agency Performance Accountability report (BPK RI, 2016).

Based on the results of the evaluation of the performance accountability system of local governments in the provinces of Papua and West Papua, it can be said that it has not been a good commitment to realize good governance. The application of good governance in Indonesia is accompanied by the birth of the concept of New Public Management (NPM) which is considered as a manifestation of the public sector reform movement, a system used to realize good governance. NPM is the beginning of the birth of a bureaucracy marked by changes in public sector accounting in several countries related to organizational accountability practices (Stamatiadis, 2009). The NPM concept also led to reforms in the public sector accounting, meaning the period in which accounting principles that have been carried out in the private sector, can be adopted by the public sector so that information produced by accounting becomes a tool to measure the extent of efficiency and accountability (Van Der,2005), Van Beest, (2009).

Quality financial reports in the public sector Accounting Standards Board (IPSASB) (2010. p29) include the following characteristics: Relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Whereas according to Government Regulation Number 71 of 2010 there are four characteristics as normative prerequisites needed so that government financial reports can meet the desired quality which consists of: Relevant, reliable, comparable and understandable. The quality of financial statements is not only intended for business entities, but also for public entities. Quality financial reports in the public sector, especially in government, are financial reports that are able to present reliable and reliable financial information. To be able to find out whether the financial statements present relevant and reliable financial information, it is necessary to examine the financial statements. Examination of financial statements aims to assess the reasonableness of the presentation of financial information including the realization of regional budget reports, cash flow reports, balance sheets, and notes to financial statements prepared and presented by local governments (Mardiasmo, 2009).

The quality of financial statements can be reflected in opinions (Beest et al., 2009). Research Abdul and Abdullah (2006) states that regional financial statements can be said to be of high quality if the financial statements presented each year receive an assessment in the form of an Opinion from the Financial Supervisory Agency (BPK). When the BPK provides a Fair Without Exception (WTP) opinion on the LKPD report, it means that it can be said that the financial statements of a local government entity are presented and expressed in a reasonable and quality manner. The phenomenon of the low quality of local government financial reports (LKPD) also occurred in Papua and West Papua Provinces, because based on the results of the BPK-RI examination from 2012 to 2016 that the average opinion was given on the financial statements of the regency and city governments in Papua and Western Provinces is reasonable with exceptions (WDP), unnatural (TW) and not giving opinions (TMP). The following are developments in the results of the BPK-RI audit of the LKPD in the provinces and districts/cities in the Province of Papua and Western Provinces in 2012-2016 can be seen in Figure 1.

Figure 1: Development of LKPD opinions for 2012-2016 Papua and West Papua Provinces (in %)



Source: Data in the researcher

Based on the picture above, it can be said that the quality of opinion of the LKPD in the provinces of Papua and West Papua continues to increase. The figure also shows that in 2012 there were no WTP opinions on the financial statements of the district and city governments, but in 2013 it had increased to 4%, in 2014 obtained a 10% WTP opinion and in 2015 and 2016 obtained WTP opinions which increased dramatically namely an average of 18% The high percentage indicates a serious effort by local governments in the provinces of Papua and West Papua to further optimize efforts for better quality financial reporting. However, we cannot be satisfied with the quality of transparency and accountability in regional financial management with the improved BPK opinion, because it does not describe the actual conditions of regional development.

Harahap (2006), the quality of government financial reports can be produced through the application of accrual-based accounting systems (Harun, 2009). Accrual-based accounting is an international based practice in modern financial management in accordance with the principles of the NPM that promotes transparency and financial management accountability. According to (Harun, 2009) that the accrual basis has become the basis commonly used by companies, both large companies and small companies, both those who have gone public and those who have not gone public because the accrual basis is believed to provide a better picture regarding company performance, so companies can make policies that are more relevant for the future Nazier (2009). The same thing can be confirmed by Van Der Hoek (2005), the use of accrual basis is one of the characteristics of the practice of modern financial management in the public sector that aims to provide more transparent information about costs and also can improve the quality of government decision making using expanded information (Indra, (2006). Furthermore, Hertati's (2015) research on human factors, the inconsistency of the central government in issuing policies related to regional finance is a driving factor in the problematic regional financial accountability into a clean government Harahap, (2006).

2. ORGANIZATIONAL STRUCTURE

Hall (2005) states that the organizational structure is the distribution of responsibilities, authority and accountability of each part of an organization Robbins, W.A.,(1986). Similarly, according to Robbins & Judge (2014) which states that organizational structure is determining how work is divided, grouped, and formally coordinated. Madison (2010) that the organizational structure has two models, namely mechanistic and organic.

2.1. Departmentalization

Departmentalization is the basis used to classify jobs so that the same or similar tasks can be coordinated. The main advantage of the same type of grouping is the achievement of efficiency by collecting the same specialization. Functional department seeks to achieve economies of scale by placing people with the same skills and orientation into shared units.

2.2. Span of control (range of control)

Control range is the relationship that occurs between superiors and subordinates in the form of the number of subordinates who can be managed effectively and efficiently. The control range determines the number of managers an organization must have.

2.3. Formalization

Formalization is the level at which work in the organization is standardized. The implementation of the work has a minimum quantity of freedom regarding what must be done. Where there is a high formalization, there are job descriptions that are expressed in many organizational rules, and clearly defined procedures that cover work processes in the organization (Hall, 2005).

3. GOOD GOVERNANCE

Governance can be interpreted as a way of managing public affairs (Mardiasmo, 2002). Hasyim, (2006) suggests governance as a way for the government to manage social and economic resources for the benefit of community development Arja (2000). Good governance according to Perkasa, et al. (2012) is a solid and responsible management of development in line with the principles of democracy and an efficient market, avoidance of misallocation of investment funds and prevention of corruption both politically and administratively running budgetary disciplines as well as the creation of legal and politican frameworks for the growth of business activity (Zarkasyi.W.2008). Yamin and Kurniawan, (2011). In line with world bank, good governance according to the Van Der Hoek (2005), is the implementation of authority in the economic, political, and administrative fields to manage various state affairs in all levels and is an instrument of state policy to encourage the creation of conditions of welfare, integrity and social cohesiveness in the community or the establishment of synergic and constructive relationships between the state, the private sector and society. The main key to good governance is an understanding of the principles in it as a benchmark for assessing the merits and performance of a government. There are several good governance principles put forward by UNDP, namely community participation (participation), upholding the rule of law (rule of law), transparency (transparency), caring for stakeholders/ business world, consensus-oriented, equity, effectiveness and efficiency (effectiveness and efficiency), accountability and strategic vision (strategic vision).

Good governance according to Osborne and Geabler (1992) and Lundqvist (2001) is the implementation of solid and responsible and efficient and effective governance by maintaining the harmony of constructive interactions between domains (state, private sector and society). Furthermore, Osborne and Geabler (1992) suggested three basic pillars that are interrelated with each other in realizing good governance, namely (1) transparency, namely openness in government, environmental, economic and social management; (2) participation, namely the adoption of democratic decision making and recognition of human rights, freedom of the press and freedom to express people's opinions or aspirations; (3) accountability, which is the obligation to report and respond from those entrusted with trust to account for successes and failures to trustees until those who give satisfaction are satisfied and if they are not available or dissatisfied, they can be sanctioned.

Robbins (2014) provides a definition of governance as "the way state power is used in managing economic and social resources for development of society." Governance is defined as the way the government manages social and economic resources for the benefit of community development. The Van Der Hoek (2005), defines Good Governance as follows: Governance is the exercise of economic, political, and administrative authority to manage a country's affairs and means which promotes social cohesion, integration, and ensuring the well-being of their population which means: Governance is the implementation of authority/power in the economic, political and administrative fields to manage various state affairs in all levels and is an instrument of state policy to encourage the creation of conditions of welfare, integrity and social cohesiveness in society. In other words, a synergic and constructive relationship between the state, the private sector and society (state, prevate, society). But in reality, the state is still the most dominant. Furthermore Tjokroamidjojo (2000), states that: Good governance is safeguarded as long as governmental processes are transparent, individuals organize themselves, their expressions are priorities and demands to government offices. In other words, good governance but also with the executive; at the same time, it requires the declaration of decisions and of institutions and budgets. Good governance is protection during transparent government processes, individuals organize themselves, express their priorities and demands for government offices. In other words, good governance manifests itself in the success of interactions with constitutional power - especially with the legislature, but also with the executive; at the same time, which requires decisions and decentralization of institutions and budgets.

According to Mardiasmo (2002), that the World Bank provides a definition of governance as a way for the government to manage social and economic resources for the benefit of community development, while the UNDP focuses more on ways of managing the state by considering political aspects that refer to policy making processes; economic aspects that refer to the decision-making process that has implications for the problem of equity, reducing poverty, and improving the quality of life; and finally the administrative aspects that refer to the system of policy implementation. Thus the orientation of the public sector development is intended to realize good governance. In Indonesia the views on good governance are also expressed by several opinions, among others: The National Committee on Governance (KNKG) (2008) argues that good governance is the embodiment of a country that can be competitively healthy and able to create sustainable added value through responsible management of resources responsible so that the state's credibility is built, both in the framework of the administration of the country itself, as well as in various aspects of people's lives, including the application of good corporate governance by the business world.

Based on the above opinion, what is meant by good governance is a good governance that is capable of managing the resources it has to lead to a just and prosperous society and can be competitively healthy and high by upholding the values of divinity, human rights, openness, accountability and the rule of law. The World Bank reveals a number of principles of good governance, namely: Strong and participatory civil society; open; predictable policy making; responsible executive; professional bureaucracy; and obey the rule of law. The principles of good governance proposed by the National Committee on Governance Policy (KNKG) (2008) are as follows: Democracy, Transparency, Accountability, and Legal Culture as well as Fairness and equality. Next according to the National Committee on Governance (KNKG) (Zarkasyi, 2008), put forward the principles of Good Corporate Governance (GCG), namely.

3.1. Transparency

To maintain objectivity in conducting business, companies must provide material and relevant information in a way that is easily accessible and understood by stakeholders. The company must take the initiative to disclose not only problems that are implied by legislation, but also important matters for decision making by shareholders, creditors and other stakeholders. Here there are 2 indicators used in assessing company transparency, namely information and policies within the company.

3.2. Accountability

Companies must be able to account for their performance transparently and fairly. For this reason, the company must be managed correctly, measured and in accordance with the interests of the company while taking into account the interests of shareholders and other stakeholders. Accountability is a requirement needed to achieve sustainable performance. In assessing the accountability of a company can be seen from two indicators, namely the basis of work and audit.

3.3. Responsibility

Companies must comply with laws and regulations and carry out responsibilities to the community and the environment so that business continuity can be maintained in the long term and get recognition of Good Corporate Citizen Corporate Social Responsibility and compliance (compliance) with laws and regulations.

3.4. Independence (independency)

To facilitate the implementation of the GCG principles, companies must be managed independently so that each company organ does not dominate each other and cannot be intervened by other parties. There are 2 indicators to assess the company's independence, namely internal influences and external influences.

3.5. Equality and Fairness

In carrying out its activities, the company must always pay attention to the interests of shareholders, other stakeholders and all people involved in it based on the principle of equality and fairness. To assess equality and fairness that occur within the company there are 2 indicators that can be seen, namely shareholders and stakeholders. By implementing existing GCG principles, it is expected that the company can run effectively and efficiently, so that its performance becomes optimal.

Similar to the principles of good governance, which was put forward by Tjokroamidjojo (2000), especially in the word good (good), the integrity of the implementation of governance if governance - Both in government, business entities and community organization activities is carried out based on the following principles: a. Accountability; b. Transparency (transparency) c. Openess; d. Rule of law (rule of law); e. Fairness guarantee. Based on the above principles, then in this study to measure good governance is used the principle of transparency and the principle of public accountability, because according to Mardiasmo (2009. p18) based on the principles of good governance there are three things that can be played by public sector accounting namely transparency, public accountability, and value for money (economy, efficiency, and effectiveness). Therefore, in this study the principle that will be used is transparency and public accountability, because these two principles are most often stated.

4. QUALITY OF FINANCIAL REPORTING

Government financial reports are an important component in realizing the accountability of public financial management. The increasing demand for the implementation of public accountability has implications for management in government agencies to provide information to the public, one of which is information about financial statements. The function of information in financial statements will not have benefits if the presentation and delivery of financial information is not reliable and not timely. The dimensions of public accountability include legal accountability and honesty, managerial accountability, program accountability, policy accountability, and financial accountability. Regarding the task of enforcing financial accountability, especially in the regions, local governments are responsible for publishing financial reports to stakeholders. Accountability is the basis of financial reporting in government based on the right of the community to know and receive explanations for the collection of resources and their use. Financial reporting covers all aspects related to the provision and delivery of financial information. Financial statements are only one medium in the delivery of financial information. Financial statements are basically assertions from the government management that present information that is useful in decision making and to show the accountability of the reporting entity for the resources entrusted to it. Local government financial management must be based on good governance, namely financial management carried out in a transparent and accountable manner, which enables users to access the results achieved in the local government. Therefore, the information contained in the LKPD must be useful and in accordance with the needs of the users. It must be realized that there are many parties who will rely on information in financial reports published by local governments as a basis for decision making. Financial statements are information that is used by an entity to communicate circumstances related to its financial condition to interested parties both from internal entities and external entities (Kieso et al., 2012. p5). Accounting information is the result of an accounting process that includes the process of recording, grouping, and summarizing financial data of certain entities (Kieso et al., 2012). Financial statements can also be interpreted as the end result (output) of the accounting cycle, Laudon & Laudon, (2014).

Furthermore Aren (2014) and Homme (2010) say that financial statements can be produced by each entity, both business entities and public entities. Mardiasmo (2009) also argues that the financial statements of business entities usually provide a summary of the performance and financial position of the business. Whereas financial statements in the public sector, especially government financial reports are a form of transparency as a supporting condition for accountability, namely in the form of openness of the government to public resource management activities (Mardiasmo, 2009). Quality financial reports according to the International Public Sector Accounting Standards Board (IPSASB) (2010) are the following characteristics: Relevance, faithful representation, understandability, timeliness, comparability, and verifiability. Whereas according to Government Regulation Number 71 of 2010 concerning SAP states that there are four characteristics as normative prerequisites that are needed so that government financial statements can meet the desired quality consisting of: Relevant, reliable, comparable and understandable. The same thing was stated by Mardiasmo (2009) that quality financial reports in the public sector, especially in government, are financial statements that are able to present reliable and reliable financial information. Van Der Hoek (2005), define the quality of financial statements as reports that fairly present the state of the entity and activities for the end of the year and provide useful information for users of financial statements. Brooks (2006) defines the quality of financial statements as reports in accordance with financial reporting accounting standards that indicate the financial position and results of operations of an entity at the end of the period.

4.1. Purpose of Financial Statements

The opinion expressed by O'Briens and Marakas (2010) that the quality of accounting information can be explained from three dimensions, namely: Relevance, timelines, accuracy. Besides Madison (2010) which states that quality financial reports must be understood, relevant, reliable and comparable. In accordance with the opinion of Arens et al. (2014) which states that users of financial statements that rely on financial statements to take economic decisions assume that the auditor's report as an indication of the reliability of the financial statements. In line with the opinion of Boynton and Johnson (2006) that external users of financial statements rely on audited financial statements to obtain guaranteed reliability of financial statements used to support decisions in lending. Furthermore, according to Boynton and Johnson (2006) that relevance and reliability are the two main qualities that make accounting information useful for decision makers. Users of financial statements see the independent auditor's report for guarantees about the reliability of information and conformity to applicable accounting principles. According to Cohen and Kaimanakis (2011) that high-quality financial statements must not only be in accordance with accounting standards but at the same time financial statements must be accompanied by an external auditor's report regarding comments on compliance in the preparation of financial statements. Compliance is very important so that financial statements are more informative. The audit report attached to the annual financial report contains useful information and relates to the entity's compliance with accounting standards.

4.2. Effect of Quality of Financial Statements on Good Governance

The financial statements are the government's main tool of accountability to people's representatives in parliament or to other state institutions of interest and the general public. In Indonesia, the accountability report is presented in the State/Regional Budget (APBD) budget note. Based on these reports the parliament or any party that has an interest in assessing government performance (Harun, 2009). According to Mardiasmo (2002) that one of the tools to facilitate the creation of public accountability is through the presentation of comprehensive Regional Government Financial Reports. In line with the implementation of regional autonomy and fiscal decentralization, the challenge faced by public sector accounting is to provide information that can be used to monitor the accountability of local governments which include financial accountability, managerial accountability, legal accountability, political accountability and accountability of policy.

Mardiasmo (2002), argues that public accountability is the obligation of the trustee (agent) to provide accountability, present, report, and disclose all activities and activities that are his responsibility to the trustee (principal) who has the right and authority to ask for that responsibility. Public accountability consists of two types, namely: 1) Vertical accountability, is accountability for managing funds to higher authorities, for example the accountability of work units (dinas) to local governments, accountability of local government to the central government, and the central government to the MPR; and 2) horizontal accountability, namely accountability to the wider community. Public accountability in the context of government organizations is the provision of information and disclosure of government financial activities and performance to those interested in the report. The demand for public accountability requires public sector institutions to emphasize horizontal accountability not only vertical accountability (vertical accountability). The demand that later arises is the need to make an external financial report that can describe the performance of public sector institutions.

Local governments can make financial reports as a means of controlling and evaluating the performance of the government and local government work units (internal), while from the external user side the financial statements of local governments as accountability and decision making. The climate of reform requires more transparent public sector accountability in terms of more informative government financial reports as a necessity. Based on these reforms, the Indonesian government has adopted an accrual accounting system as an asset reporting tool, operational performance, and cash flow (Harun, 2009). Government Financial Reports that are made must meet the qualitative characteristics of adequate financial statements, namely normative measures that need to be realized in accounting information so that they can achieve their objectives. Qualitative characteristics of financial statements as normative prerequisites are needed so that quality government financial reports are relevant, reliable, understandable, and comparable (PP No. 71 of 2010). Based on PP 71 of 2010 which states that financial statements are prepared to provide relevant information about financial position and all transactions carried out by a reporting entity during a reporting period.

Information transparency, especially financial and fiscal information, must be carried out in a form that is relevant and easy to understand (Van Der Hoek, 2005). The management of regional governments with accountability cannot be separated from the regional government budget. This is in accordance with the opinion of Mardiasmo (2002), who said that the realization of the implementation of regional autonomy is the use of resources carried out economically, efficiently, effectively, fairly and evenly to achieve public accountability. The budget is needed in managing these resources well to achieve the performance expected by the community and to create accountability. Good governance requires that governance be carried out by following the principles of good management, namely transparency, accountability, and participation, so that state resources that are in the management of the government truly achieve the maximum goal for the prosperity and progress of the people and the state. One tool to facilitate the creation of public transparency and accountability is through the presentation of comprehensive Regional Government Financial Reports. The contents of the report, the accuracy of the numbers listed in the financial statements and produced by an adequate accounting system with good control will greatly determine the accountability of the reporting itself. Numbers that do reflect transactions, every economic event that results in changes to an entity. Numbers that reflect actual performance, numbers.

The results of research conducted by Nunuy and Peny (2015) state that the quality of financial statements of local governments has a positive and significant effect on the principles of good governance. Van Der Hoek (2005), states that financial and non-financial information has an effect on performance evaluation (financial accountability) and non-financial performance (efficiency and effectiveness). To monitor the results of the operation, the Governmental Accounting Standards Boards (GASB) uses an approach known as Service Efforts and Accomplishment (SEA), using non-financial indicators to measure the results of operations. From the research, the GASB provides recommendations, namely: 1) The central and regional governments should begin to submit external reports that contain a comprehensive set of SEA indicators. 2) More emphasis is placed on measuring outcomes in the reported set of SEA data. 3) Government entities should provide SEA indicators in a comprehensive format. 4) Reports should present to the reader, a comparison of the results achieved now with benchmarks Good governance as the quality of the relationship between the government and the people served and protected, good governance includes three things, namely: State/ Government, private sector/business world, and society. Public sector governance is defined as a process of governance, involving stakeholders, various economic activities, socio-politics and utilization of natural resources, finance implemented by adhering to the principles of justice, equity, equality, efficiency, transparency and accountability (Nunuy &Peny, 2015). Three pillars of the basic elements that are interrelated with each other in realizing govemace good are accountability, participation and transparency (World Bank, 2000).

4.3. Influence of Organizational Atructions to Good Corporate Governance

Organizational structure is a part that is related to corporate governance (Laudon & Laudon, 2014). The organizational structure associated with the implementation of tasks, roles and responsibilities is more coordinated and prevents irregularities in work and has become one of the bases that directs the implementation of a quality information system. Quality (Peny, 2015) can mean success/success is built with good corporate governance.

Peny (2015) that implementation can lead to an increase in the transparent quality of financial reporting reflected and it can be said that the organizational structure affects the quality of financial reporting.

Table 1: Hypothesis of indirect effects

H_0: $\gamma 1.1 \leq 0$	There is no positive influence on financial reporting on good governance
H_1: $\gamma 1.1 > 0$	There is a positive influence on financial reporting on good governance

5. DATA ANALYSIS

Component structural equation modeling (SEM) or variant based on SEM was chosen based on the limited number of samples, where only 44 samples were taken and did not qualify using SEM based on covariance for the second order factor model type. According to Hair et al. (2014), Partial Least Square (PLS) is a powerful analytical method because it is not based on many assumptions. Data does not have to be multivariate normally (indicators with categories, ordinal scale, intervals to ratios can be used on the same model), samples do not have to be large. Hypothesis testing: The hypothesis is formulated into operational equations as follows: Based on the framework that has been disclosed, it can be said that the quality of good government financial statements will have a positive effect on good governance (Table 1).

Tests are not carried out using the t-test but by comparing the magnitude of the influence value whether it is >0 or not. If the amount of influence is equal to 0 or smaller then H0 is accepted, but if the opposite path coefficient is greater, then H0 is rejected.

6. RESULTS AND DISCUSSION

6.1. Evaluation of Outer Models

In this study there are 2 latent variables namely financial reporting quality (Y), and Good Governance (Z). The first stage of evaluation of the measurement model is to evaluate the criteria for convergent validity. Based on the estimation results using the help of the Smart PLS 2.0 program application. the output obtained as shown in Figure 2 and Table 2. Furthermore, the results of the recapitulation of validity and reliability tests for Y variables (quality of financial statements) can be seen in the following table.

Based on Table 2, it can be seen that all statements submitted in shaping the quality of financial statements (X3) have validity coefficient values above the critical point of 0.3 which indicates that all statements submitted have been declared valid. And for the results of the reliability coefficient, the Cronbach's Alpha value of 0.854 is >0.700 and declared reliable, so it can be concluded that all statements submitted in shaping the quality of financial statements have been able to measure what they want to measure.

Table 2: Test results for instrument validity and reliability variables Y

Variable	Item No	Coefficient of validity	Critical point	Conclution
Quality of financial statements (Y)	1	0.814	0.300	Valid
	2	0.842	0.300	Valid
	3	0.767	0.300	Valid
	4	0.756	0.300	Valid
	5	0.649	0.300	Valid
	6	0.478	0.300	Valid
	7	0.557	0.300	Valid
	8	0.767	0.300	Valid
	9	0.814	0.300	Valid
	10	0.852	0.300	Valid
	11	0.462	0.300	Valid
Reliability coefficient			0.854	
Critical point			0.700	
Information			Reliabel	

Source: Data processed

Table 3: Test results for instrument validity and variable reliability

Variable	Item no	Coefficient of validity	Critical point	conclusion
Good governance (Z)	1	0.885	0.300	Valid
	2	0.885	0.300	Valid
	3	0.568	0.300	Valid
	4	0.783	0.300	Valid
	5	0.802	0.300	Valid
	6	0.784	0.300	Valid
	7	0.681	0.300	Valid
	8	0.810	0.300	Valid
	9	0.662	0.300	Valid
	10	0.876	0.300	Valid
	11	0.479	0.300	Valid
	12	0.805	0.300	Valid
	13	0.720	0.300	Valid
	14	0.786	0.300	Valid
	15	0.868	0.300	Valid
	16	0.865	0.300	Valid
	17	0.696	0.300	Valid
	18	0.885	0.300	Valid
	19	0.820	0.300	Valid
	20	0.691	0.300	Valid
	21	0.709	0.300	Valid
Reliability coefficient			0.961	
Critical point			0.700	
Information			Reliable	

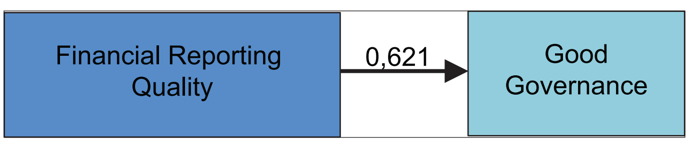
Source: Data processed

Table 4: Value of path coefficients and value of R-square quality of financial statements towards good governance

Sub structure	Endogenous variable	Exogenous variable	Path coefficient	t-statistic	R-square
2	Good Governance	Quality of financial statements	0.621	7.681	0.386

Source: Data processed

Figure 2: Effect of financial report quality on good governance



Furthermore, the results of the recapitulation of validity and reliability tests for the Z variable (good governance) can be seen in the following table.

Based on Table 3, it can be seen that all statements submitted in forming good governance (Z) have a validity coefficient value above the critical point of 0.3 which indicates that all submitted statements have been declared valid. And for the results of the reliability coefficient, the Cronbach's Alpha value of 0.961 is >0.700 and declared reliable, so it can be concluded that all statements submitted in forming good governance have been able to measure what they want to measure. The variable quality of financial statements is measured by four dimensions, namely relevant, reliable, understandable and comparable.

6.2. Respondents' Response

6.2.1. Regarding the principles of good governance

Measuring instruments on the principles of good governance in this study were measured using 5 dimensions which were operationalized into 21 relevant statements. Good governance variables are measured in five dimensions, namely transparency, participation, accountability, independence and equality. Effect of Quality of Financial Statements on Good Governance. The hypothesis that will be tested is the effect of the quality of financial statements on the good governance of the provincial/district/city governments in Papua and West Papua. Based on the results of data processing, the path coefficient results for the quality of financial statements on good governance are 0.621 and R2 is 0.386 as shown in Table 4.

From Table 4 above, the total effect of the quality of financial statements (Y) on good governance (Z) on the provincial/district/municipal governments in Papua and West Papua is 0.386 or 38.6%. This means that as much as 38.6% of good governance (Z) in the provincial/district/city governments in Papua and West Papua are influenced by financial report quality factors (Y). In the diagram, the effect of financial report quality (Y) on good governance (Z) can be seen in the following Figure 2:

From the path diagram depicted in Figure 2 above, it can be calculated the effect of variable financial report quality (Y) on good governance (Z) using the following formula Z = 0.621* Y. By knowing the magnitude of the path coefficient as seen in the equation and figure above, then further testing of the hypothesis can be done to find out whether the effect of the variable quality of financial statements on the variables of good governance is significant or not.

From the table above, it can be seen that the calculated value obtained by the financial statement quality variable (Y) is 7.681. This value is greater than t-table value 1.960. In accordance with the testing criteria of the hypothesis that H0 is rejected and Ha is accepted, it means that, the quality of financial statements has a significant effect on good governance in the Provincial/District/City Governments in Papua and West Papua. The results of hypothesis testing shown in table 4.4 show that the value of t count for the financial report quality variable is 7.681. This value is above the t-table value of 1.96. Thus, the hypothesis (Ho) which states the quality of financial report variables does not have a significant effect on the variables of good governance is rejected, and vice versa accepts the alternative hypothesis (H1) which states the variable quality of financial statements has a significant effect on the good governance variable. Thus, the effect of the quality of financial reports on good governance in the Provincial/District/City Governments in Papua and West Papua is significant.

7. CONCLUSION

Partially, the quality of financial statements has a significant effect on government governance with a contribution of 38.6%. This means that the better the quality of financial reporting, the better the governance system (god governance). The results of testing this hypothesis contribute to the development of accounting science, especially in the field of public accounting. Furthermore, the results of this study can also be used as a foundation by other researchers who are interested in conducting research in the field of public accounting by using the same research methods in different analysis units and samples in the hope that they will obtain the same results (replicability).

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