**THE EFFECT OF FINANCIAL STATEMENTS QUALITY ON**

**DECISION USEFULNESS FINANCIAL STATEMENTS**

**AT LOCAL GOVERNMENTS IN LAMPUNG**

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**Abstract**

Since 2015 government institutions in Indonesia must implement accrual-based accounting standards. Several years since its implementation, more and more local government financial reports have obtained qualified /unqualified opinions. The audit opinion is an indicator of local government financial statement’s quality. However, whether quality financial statements are useful in decision making

This study is a quantitative study in the form of primary data using questionnaires in the local government in Lampung. The sample selection technique uses purposive sampling method, with the criteria of respondents structural/functional officials in agencies whose tasks are related to planning, finance and control. The questionnaire was distributed to 16 local governments with 826 respondents, but the questionnaire that received responses was only 295 respondents and had fulfilled the minimum number of respondents based on Isaac & Michael table. The method of hypothesis analysis in this study was tested by Structural Equation Modeling (SEM) with SmartPLS 3.2 software.

The results in this study indicate that the quality of financial statements has a positive effect on the decision usefulness of financial statements of local governments in Lampung Province. It is evident that the quality of the financial statements of local governments throughout Lampung has a positive and significant effect on the decision usefulness of these financial statements in decision making. So that financial statements are concluded in addition to being a tool of accountability also used for decision making. The higher the quality of local government financial reports, the better decisions taken by local governments. So that it is expected that the regional governments in Lampung Province pay more attention to the quality of their financial statements.

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| --- | --- | --- |
| **Keywords** | **:** | **financial statement quality, decision usefulness of financial statement and decision making.** |

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1. **INTRODUCTION**

Revocation of Government Regulation Number 24 of 2005 concerning Government Accounting Standards was replaced with Government Regulation Number 71 of 2010 concerning Government Accounting Standards promulgated on October 22, 2010 that the government implemented SAP accrual based implemented gradually from the implementation of cash-based SAP to accruals into SAP implementation accrual based. Accrual-based Government Accounting Standards shall be applied no later than the reporting of Regional Government Financial Statements for Fiscal Year 2015. So that accrual-based SAP has been implemented in financial statements for at least the last four years. SAP accrual-based implementation is simultaneously expected to be able to provide more reliable and relevant accounting information in the context of decision making for stakeholders, not just a formality in the form of accountability for state financial management (Karno, 2017). Mardiasmo (2002) states for government organizations the general objectives of accounting and financial statements are:

1. To provide information used in making economic, social and political decisions as well as evidence of accountability and management.
2. Provide information that is used to evaluate managerial and organizational performance.

Since the preparation of the 2015 financial statements, all local governments have implemented accrual-based accounting as the implementation of Government Regulation Number 71 of 2010 concerning Government Accounting Standards. Based on data from the 2018 Semester Examination Results (IHPS) I by the Supreme Audit Board of the Republic of Indonesia that in the last 5 years (2013-2017), the opinion of the Regional Government Financial Statements (LKPD) has improved.

**Figure 1.1**

*Source : Ikhtisar Hasil Pemeriksaan Semester I (2018), BPK*

During the period 2013-2017, the financial statements in Lampung Province that received a Unqualified opinion rose by 48%, namely from 33% in 2013 LKPD to 81% in LKPD in 2017. Meanwhile, the number of LKPDs that obtained opinions Disclaimer opinion decreased by 6% compared to LKPD in 2014 to 0% in LKPD 2017. Opinion is a professional statement of the examiner concerning the reasonableness of financial information presented in financial statements, which one of the criteria is conformity with SAP. So with the increasing development of opinion that continues to increase over the period 2013-2017 in regional governments in Lampung Province, it can be said that the quality of 2017 Local Government Financial Statements (LKPD) in Lampung Province has increased as indicated by the increase in Unqualified opinion achieved.

By looking at the development of opinions on LKPD in Lampung Province, before and after the application of SAP accrual-based LKPD opinion continued to improve opinion. So that it can be said that with the adoption of accrual-based accounting standards, there is always an increase in opinion. Based on Government Regulation Number 71 of 2010 concerning SAP, it is stated that the information presented in financial statements is general purpose to meet the information needs of all user groups. The government must pay attention to the information presented in the financial statements for the purposes of planning, controlling and making decisions in supporting the management activities of the regional government.

The importance of the role of the Regional Government Financial Statements (LKPD) in regional government management activities, as stated in the Conceptual Framework of Government Accounting Standards Appendix I Government Regulation Number 71 of 2010. This is in line with previous research, one of which was carried out by Andriani et al. (2010) in the Western Australian public sector found that accrual accounting was perceived to be more used than cash accounting in 16 of the 19 decision-making situations, this implies that the perceived usefulness of accrual accounting systems increased over time the usage habits and experience of using a system . In Australia, accrual-based accounting systems are considered more useful than cash-based accounting for decision-making conditions (Kober et al., 2010).

Furthermore, it was found in city governments in Portugal by Nogueira and Jorge (2015; 2017) and Nogueira et al. (2013) that the information produced by the accrual accounting system is more useful for internal decision making and internal control. But in reality the use of information contained in financial statements is still very minimal, this is indicated by the qualitative characteristics of financial statements, namely relevance that can affect user decisions and help evaluate past events (feedback value) and predict the future (predictive value) still not feels the impact. So in reality the the Regional Government Financial Statements (LKPD) is still not widely used by regional government administrators, both the Regional House of Representatives (DPRD) as the legislature and the Regional Head (Governor / Regent / Mayor) in making decisions in the area of ​​regional government management. This is due to the "political paradigm" which dominates the management of regional government. The socio-political role greatly influences the application of accrual-based accounting to government, so that it is not utilized in decision making (Cohen et al.2013; Cohen and Karatzimas, 2017).

In a previous study, Connolly and Hyndman (2006) found that the difficulty in implementing accrual-based accounting was very complicated in this case an expensive system with little benefit at that time. It is possible that the benefits of accrual-based accounting are not as expected. Furthermore, Hyndman and Connolly (2011) again found that after experiencing a transition from cash-based accounting to accrual-based accounting for ten years built on the UK, the implementation of the Republic of Ireland (RoI) did not provide significant benefits. Research conducted on local governments in Japan by Kobayashi (2016) found that accrual information is more used by officials for management performance than for budgeting, evaluation, asset management or debt management. In decision making that contributes significantly is experience and leadership.

From the description above, it can be seen that there are differences in the results of accrual-based accounting implementation in various public sectors related to the use of quality financial reports as a basis for decision making in local governments in taking management policies of local governments. While the results of the implementation of accrual-based accounting that have been applied in Government Regulation Number 71 of 2010 concerning Government Accounting Standards and are required for local government financial reporting since the fiscal year 2015 and are considered to have been able to increase the opinion of the BPK audit in Lampung Province, so that the level of confidence in the report local government finance should have increased. This is certainly an indicator of quality improvement, of course this is expected to be useful in making more appropriate local government decisions. Based on the phenomena and previous learning, the main problem is whether quality financial reports have been used as the basis for management decisions made by the local government.

1. **LITERATURE REVIEW**
   1. **Government Accounting Standards**

The accounting process is carried out to produce financial statements that have information for users. In order to achieve this, a standard is needed as a reference and guideline for financial report compilers who are in public sector organizations. According to Mardiasmo (2002) accounting standards are guidelines or principles that govern accounting treatment in the preparation of financial statements for the purpose of reporting to users of financial statements. If there is no accounting standard, a negative impact can occur in the form of low reliability and objectivity of the information presented in the financial statements. Article 32 paragraph (2) of Law Number 17 of 2003 concerning State Finance states that government accounting standards are prepared by a standard committee that is independent and stipulated by government regulations after first being considered by the Supreme Audit Board (BPK). Because the inconsistency of a financial statement will make it difficult for the audit process.

Accountability for regional financial management manifested in the form of financial statements presented must be in accordance with Government Accounting Standards. Government Regulation Number 71 of 2010 concerning Government Accounting Standards, defines that Government Accounting Standards are accounting principles applied in compiling and presenting government financial reports. In Appendix I of Statement No. 11 of Government Regulation Number 71 of 2010 concerning Government Accounting Standards, it is also stated that the purpose of the standard statement is to regulate the preparation of consolidated financial statements in government units in order to present general purpose financial statements in order to improve the quality and completeness of the intended financial statements.

* 1. **Users of Financial Statements**

The financial statements resulting from the accrual-based implementation of SAP are intended to provide better benefits to stakeholders, both users and government financial report examiners, compared to costs incurred (Government Regulation Number 71 of 2010). Furthermore, in point 25 of Government Regulation Number 71 of 2010 concerning Government Accounting Standards Appendix I.01 the Conceptual Framework is stated, that each reporting entity has an obligation to report on the efforts that have been made and the results achieved in the implementation of activities in a systematic and structured manner during a reporting period in the interests of accountability, management, transparency, intergenerational equity and performance evaluation. This certainly confirms that the government management is an internal user of the government's financial report itself.

Steccolini (2002) divides potential financial user users as internal users and external users. Granof et al. (2015) mentions the main users of government financial reports and non-profit organizations, such as business financial reports, are those responsible to the organization, namely government councils, investors and creditors, taxpayers and citizens as well as members of the organization, donors and grant providers, policy parties and supervisors, employees and other elements. Government Regulation Number 71 of 2010 concerning Government Accounting Standards Appendix I.01 Conceptual Framework in point 17, that there are several main groups of users of government financial reports, but not limited to:

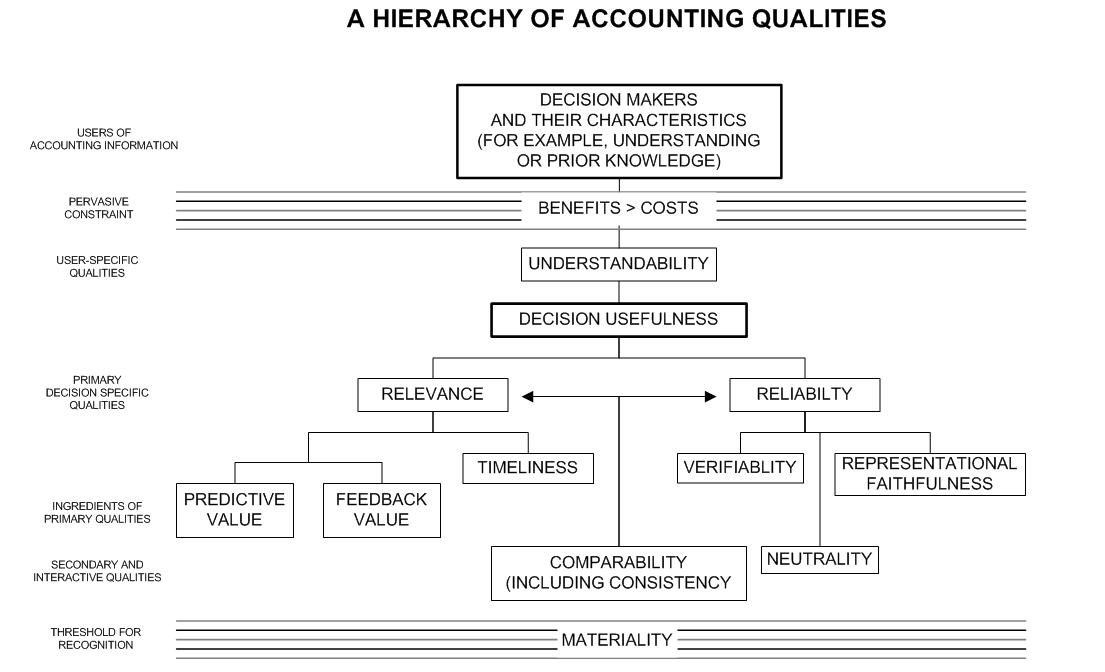
1. society,
2. people's representatives, supervisory institutions, and examining institutions;
3. parties who give or play a role in the process of donations, investments and loans; and
4. government.

So that the internal parties of the local government are users of financial statements, this is because management in planning, financial and supervisory activities uses information on financial statements to make decisions.

* 1. **Quality of Financial Statements**

Based on the Statement of Financial Accounting Standards Number 1 Paragraph 09, it is stated that the purpose of financial statements is to provide information about the financial position, financial performance and cash flow of an entity that is beneficial to the majority of report users in making economic decisions. The financial statements also show the results of management's responsibility for the use of the resources entrusted to them. International Accounting Standard Board (2008) in An Improved of Conceptual Framework For Financial Reporting defines the general purpose of financial reporting is to provide financial information about entity reporting that is used to describe the entity's ability to investors, creditors and other creditors in making decisions in capacity they are providers of funds, that information is useful for decision making in providing funds that may also be useful for other financial report users who are not providers of funds.

The qualitative characteristics of financial statements are characteristics that indicate that the information presented in financial statements is useful for users in making economically valuable decisions. Just as stated in the APB Statement No. 4, one of the objectives of financial statements is a qualitative objective which is formulated to be relevance, understability, verifiability, neutrality, timeliness, comparability and completeness.

**Figure 2.1 - *SFAC No. 2***

FASB (1980) establishes a Statement of Financial Accounting Concept No. 2, "Qualitative Characteristics of Accounting Information" can be seen in Figure 2.1, FASB proposes financial report qualitative criteria, namely, relevance, and reliability as the main characteristics. Then comparability and neutrality as secondary quality and the last characteristic is materiality. According to Shahwan (2008), there are 7 (seven) qualitative characteristics that are expected to be contained in a corporate report, namely, relevant, understandable, reliable, complete, objective, timely and comparable. Based on Government Regulation Number 71 of 2010 concerning Government Accounting Standards Appendix I that there are 4 (four) qualitative characteristics that must be fulfilled with information presented in financial statements, namely relevant, reliable, comparable and understandable.

Furthermore, IASB (2008) divides the qualitative characteristics of financial statements based on how useful the information in the financial statements is. The qualitative characteristics are divided into fundamental characteristics and enhancing characteristics. Fundamental characteristics are relevance and faithful representation. While enhancing characteristics are comparability, verifiability, timeliness and understandability. Fundamental characteristics are characteristics of information that distinguish information from being useful or even misleading, while enhancing characteristics are more likely to increase or decrease the benefits of the usefulness of that information. Beest, Braam and Boelens (2009) make a comprehensive tool to measure the qualitative characteristics of financial statements contained in the financial report conceptual framework published by the IASB in 2008.

* 1. **Decision Usefulness of Financial Statements**

Government financial reporting should present information that is useful for users in assessing accountability and making decisions both economic, social, and political decisions (Government Regulation No. 71 of 2010). In the International Public Accounting Standard Board Sector (2014) it is explained that the purpose of financial reporting is to provide information about the financial position and performance of an organization that is useful for various users (internal and external stakeholders) in decision making. According to the Statement of Financial Accounting Standards Number 1 that the purpose of financial statements is to provide information concerning financial position, performance, and changes in the financial position of a company that is beneficial to a large number of users in economic decision making. It can be said that the function performs accounting activities to produce information on the activities carried out, and that information can be used for decision making.

In addition, it is also specifically mentioned in Appendix I.02 PSAP 01 Government Regulation Number 71 of 2010 that the purpose of government financial reporting is to present information that is useful for decision making and to show the reporting entity's accountability for the resources entrusted to it. So from the description above, it can be concluded that the provision of useful information needed for decision making is still recognized as the purpose of accounting information.

Decision usefulness is a financial reporting information preparation approach that studies the theory of investor decision making to understand the nature and type of information needed by investors (Scoot, 2005). Information perspective is related to equating the use of information with information content (Scott, 2005). According to this theory, the information presented in government financial statements is expected to be used in strategic decision making so as to realize good governance.

In studying decision making by user, as well as the impact on providing information, accounting theorists adhere to 2 (two) strategies, namely normative approaches and positive approaches (Hendriksen and Breda, 2000). Hendriksen and Breda (2000) state that the normative approach asks how people should make decisions, usually starting with an economic model and trying to infer what information is needed so that the model functions it becomes important because many financial accounting standards are based on deductive logic. While the positive approach of Hendriksen and Breda (2000) asks how people actually make decisions, so that what is learned is how individuals use available financial data, this is important to learn because it provides an understanding of the most useful information.

Larcker and Lessig (1980) have developed instruments to assess the perceived usefulness of accounting information. According to Larker and Lessig (1980) perceived usefulness is "usefulness related to items of information by decision makers for certain decision-making processes". Larcker and Lessig (1980) aim to measure two aspects of perceived usefulness of information, namely information is important and information is felt to be useful, both of which are related to the context of the decision. Information that is considered important refers to "quality that causes part of certain information to be determined to obtain relevance in decision making", while useful information refers to "quality information that allows decision makers to utilize a series of information as input to solve problems "

* 1. **Hypothesis**

If we cannot prepare the correct financial statements, at least we can try to make useful financial reports (Scoot, 2005). Nirmala (2014) states that one of the reasons for the basis of accounting for public sector financial reporting is an accrual basis because cash-based accounting does not produce sufficient information for economic decision-making such as debt and debt information so that the use of accrual basis is highly recommended. So that accrual-based accounting is considered more capable of producing reliable and comprehensive financial information, this becomes more relevant when used as a basis for decision making.

Accrual basis is used in the preparation of government financial statements because on an accrual basis allows disclosure of information about greater use for decision making such as budgeting and determining fees (Nogueira et al. 2013). The information produced is able to improve transparency and accountability of the government which will ultimately benefit the users. Nogueira et al. (2013) confirmed the research hypothesis that the average usefulness of accrual basis information for internal decision making is high (above 3), measured on a scale of 1 (not useful) up to 5 (useful). In Government Regulation Number 71 of 2010 concerning Government Accounting Standards it is stated that the general purpose of financial statements is to provide information that is useful for users in making and evaluating decisions regarding the allocation of resources.

Local government financial reports are a form of government accountability to the public, the results of research conducted at the regional government inspectorate in Lampung Province that the competence of internal auditors increases the quality of internal audit which has implications for increasing accountability of local governments (Nurdiono & Gamayuni, 2018). The competence and objectivity of internal auditors, as well as the effectiveness of the internal audit function affect the quality of financial reporting (Gamayuni, 2018). The use of accrual accounting information as a result of the implementation of accrual-based accounting in the public sector in the APIP frame is useful for increasing transparency and accountability in regional financial management. So in addition to using financial statements as a basis for evaluating activities and reviews of a planning activity, APIP also plays a role in determining the quality of financial reports as a tool for accountability of local government to the public.

Andriani et al. (2010) conducted research by examining 19 decision-making situations in the questionnaire shown to public sector managers in 24 departments from 25 departments in Western Australia. The results of these studies show that public sector managers in Western Australia consider accrual information more useful in most of the decision-making situations tested. The test shows that accrual accounting information is more useful for 16 of the 19 decision-making situations. Kober et al. (2010) have found in Australia that accrual-based accounting systems are considered more useful for most decision-making situations compared to cash-based accounting systems.

Noguiera et al. (2013), found that accrual-based accounting information especially in municipal governments in the country of Portugal was sufficiently felt and useful for internal decision making. Furthermore, Nogueira & Margarida (2015) found that information on accrual accounting in the public sector in regional governments in Portugal was sufficiently felt and useful for political decision making and technical decision making. Nogueira & Margarida (2017) again found that the benefits of accrual accounting information in the public sector especially local governments in the country of Portugal were sufficiently felt and useful for increasing internal control.

In addition, the results of research conducted in Indonesia, namely by Karno (2017) found that the level of use of accrual-based information is high in decision making at the Budget User Proxy Accounting Unit. Whereas Nirmala et al. (2014) found that the level of use of accrual-based information was high in decision making at the Inspectorate General of the Ministry of Trade. With the need for quality accrual-based accounting information to be used in certain decisions by the local government. From the explanation above, the hypothesis that you want to prove in the study is as follows:

|  |  |  |
| --- | --- | --- |
| H | : | The Quality of Financial Statements affects the Usefulness Decision of Financial Statements |

Based on the framework that has been described, the relationship between research concepts can be described as follows:

**Figure 2.2**

**Framework**

Decision Usefulness of Financial Statement (Y)

Quality of Financial Statement (X)

1. **METHODOLOGY**

The population in this study is the Provincial, Regency and City Governments in Lampung. Samples were taken through purposive sampling method, respondents were deliberately selected based on specific criteria that set researchers with a rational basis (Sekaran and Bougie, 2016). The sample criteria used in this study are:

1. All structural and functional officials in the planning, financial and evaluation/ supervision sections;
2. Regional Government Organizations (OPD) related to the fields of planning, finance and supervision.

So that the chosen analysis unit is the Regional Planning Agency, the Regional Financial and Asset Management Agency and the Inspectorate. The reason is because the three OPDs are most related to using Local Government Financial Reports. So that the number of selected samples is as follows as many as 826 respondents, with a level of accuracy of 95%. Based on the table determining the number of samples from a particular population that Isaac and Michael developed can be determined the minimum number of samples that must be collected from 826 respondent populations is 247 respondents (Sugiyono, 2014).

To get data from respondents used research instruments in the form of questionnaires consisting of instruments questions/statements relating to the variables to be studied. The questionnaire is divided into two parts, namely the first part that contains the personal data of the respondent and the second part contains questions from each operational variable. Questionnaires were submitted to respondents using online questionnaires through the Google Form. Based on data from the Semester I IHPS of the Republic of Indonesia Supreme Audit Agency of 16 regional governments in Lampung Province there are 13 regional governments that receive a Unqualified opinion (WTP) for 2017 LKPD, while there are 3 (three) local governments in the provincial government Lampung, which received a Qualified (WDP) opinion for LKPD 2017 Budget Year.

This study uses a Likert scale that is used to determine the attitudes, opinions and perceptions of a person or group of people about social phenomena. Likert scale and scoring used in this study 1 (one) up to 5 (five).

**Table 3.2**

**Dimension and Indicators of Variable**

|  |  |  |
| --- | --- | --- |
| **Variable** | **Dimensions** | **Indicators** |
| Quality of Financial Statements  - Government Regulation No. 71 of 2010 – SAP/GAS;  - Boelens, Braam & Beest (2009). | Relevant | * + - 1. Predictive benefits,       2. Expressing opportunities and risks,       3. Current, and       4. Benefits of feedback. |
| Reliable | * + - 1. Not biased,       2. Free from material errors,       3. Neutrality,       4. Honest presentation regarding audit reports does not meet the requirements, and       5. Honest presentation related to governance reports. |
| Understandable | * + - 1. Well organized,       2. Full disclosure,       3. Concise,       4. Easy technical instructions, and       5. The term can be understood. |
| Comparable | * + - 1. Consistency of accounting procedures and policies,       2. Consistency of accounting procedures and policies,       3. Consistency of adjustment,       4. Comparison of periods,       5. External comparisons between entities, and       6. Comparison between accounts. |
| Decision Usefulness of Financial Statements   * Larcker and Lessig models (1980) | Important | 1. Needed, 2. Enough, and 3. An important role. |
| Useful | 1. Practical, 2. Many information is correct for assessment, and 3. Many practical information for assessment. |

The data processing analysis technique in this study uses path analysis method with Partial Least Square (PLS) measurements.

1. **RESULT**

The target respondents in this study were 826, but the questionnaires returned as many as 295. A total of 19 questionnaires could not be used because they did not originate from the regional government in Lampug Province, so that only 276 could be processed that met the minimum samples required in Isaac & Michael's table.

1. **Desciptive Analysis**

For the variable financial report quality (X) respondents answer theoretical ranges between 1-5 with an average answer with a Likert scale 4, meaning that respondents as the regional government in Lampung Province state that the financial report quality variable (X) is of quality to be used as a basis in decision making. In detail based on the mode value (which often arises) from the respondent's answer to the quality of the financial statements of relevant, reliable, understandable and comparable characteristics of all four of them having a value of 4, this reinforces that indeed the LKPD in Lampung Province has quality.

**Table 4.1**

**Descriptive Statistics**

| **No.** | **Variable** | **Mean** | **Median** | **Modus** | **Theoritical Range** |
| --- | --- | --- | --- | --- | --- |
| 1. | Quality of Financial Statements (X) | 3,99 | 4 | 4 | 1-5 |
| * *Relevant* | 4,04 | 4 | 4 | 1-5 |
| * *Reliable* | 4,01 | 4 | 4 | 1-5 |
| * *Understadable* | 3,98 | 4 | 4 | 1-5 |
| * *Comparable* | 3,95 | 4 | 4 | 1-5 |
| 2. | *Decision Usefulness* of Financial Statement (Y) | 4,20 | 4 | 5 | 1-5 |
| * *It is Important* | 4,25 | 4 | 5 | 1-5 |
| * *It is Useful* | 4,17 | 4 | 5 | 1-5 |

Whereas for the decision usefulness of financial statement variable (Y) the respondent answers the theoretical range between 1-5 with the average answer with a Likert scale 4, meaning that the respondent as the party of the regional government in Lampung Province states that the financial statement decision usefulness variable (Y) has been used in the decision making process. But by looking at the answers often given by respondents both on perceived important characteristics and characteristics are useful from financial statement decision usefulness variables, the answer that often appears is the value of 5, so this actually shows that the financial statement decision usefulness variable (Y) has been very used in decision making process. The results of the Likert scale 4 measurement also prove that the financial statements of local governments in Lampung Province are useful in the decision-making process.

**4.2 Validity Test**

The validity test carried out in the measurement of the outer model used is as follows:

1. **Test of Convergent Validity**

Based on the value of the outer model that has been processed by SmartPLS, the total questions totaling 26 items are reduced to 19 question items. This is because there are six indicators of the quality of financial report variables reduced from the structural equation model in this study, because they have a loading factor value below 0.7, namely X2 (0.681), X7 (0.574), X9 (0.644), X14 (0.535), X19 (0.692) and X20 (0.519). While one indicator of the decision usefulness of financial statements must be reduced because it has a factor loading value below 0.50, which is the indicator Y4 (0.237). This is intended to increase the predictive value of the model. With the increase in construck score> 0.7 it is expected that the test results will be more predictive than the path diagram 1 model.

1. **Test the validity of discrimination**

Based on the results of the cross loading estimation above it is shown that the construct correlation value with indicators is greater than the value of other constructs. Thus it can be concluded that all latent constructs predict indicators on evenly distributed blocks better than other block indicators. The model has good discriminant validity if the Average Variance Extracted for each construct is greater than the correlation between the two constructs in the model. A good AVE has a value greater than 0.5. The following will be presented the AVE value along with the square root value:

**Table 4.2**

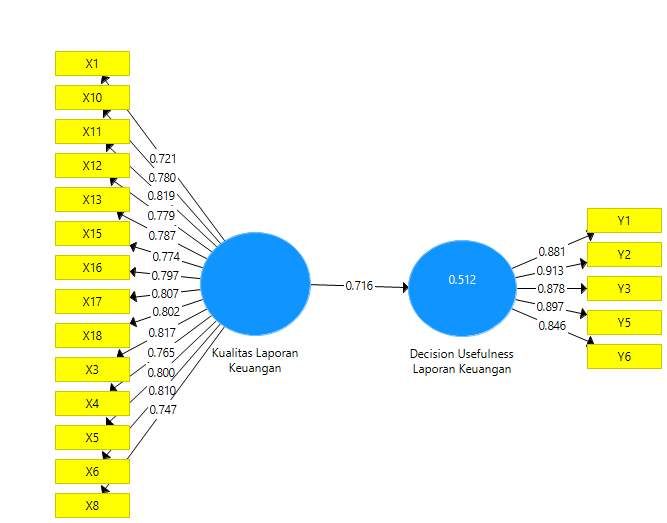
**Construct Validity Test**

|  |  |  |  |
| --- | --- | --- | --- |
| **No.** | **Variable** | ***AVE > 0,5*** | **Result** |
| 1. | Quality of Financial Statements | 0,780 | Valid |
| 2. | Decision Usefulness of Financial Statement | 0,619 | Valid |

From the table above, the model of AVE values is greater than 0.5, so it is concluded that the measurement model in this study is valid. To summarize the analysis of the measurement model as discussed above, it will be shown Figure 4.1 which explains the PLS estimation model as a whole the research model proposed through the PLS Algorithm procedure as follows:

**Figure 4.1**

**Measurement Model - Path Model 2**



**4.3 Reliability Test**

The overall value of cronbachs alpha in all constructs has a value above 0.6 as well as for the composite reliability value of all constructs having a value above 0.7. Thus it can be concluded that all constructs have good reliability.

**Table 4.3**

**Reliability Test**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **No.** | **Variable** | ***Cronbach’s Alpha***  ***> 0,6*** | ***Composite Reliability***  ***> 0,7*** | **Result** |
| 1. | Quality of Financial Statements | 0,952 | 0,958 | Reliable |
| 2. | Decision Usefulness of Financial Statement | 0,929 | 0,947 | Reliable |

**4.4 Structural Model (Hypothesis)**

**Table 4.4**

**Hypothesis Test**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variable** | **Coefficient Path** | ***T Statistics*** | ***P Values*** | **Result** |
| Quality of Financial Statements -> Decision Usefulness of Financial Statement | 0,716 | 28,702 | 0,000 | Significant |

\*Significant at an level of 5%, t-table 1,96

The quality of financial statements against the decision usefulness of the financial statements testing using the path diagram 2 model produces path coefficient values 0.716 and T statistics (28.702)> T Table (1.96). Thus, based on testing using the path diagram model, it can be concluded that the hypothesis is acceptable, namely the variable quality of financial statements has a positive and significant effect on the decision usefulness of financial statements.

1. **CONCLUSION & DISCUSSION**
   1. **Discussion**

Based on the results of statistical calculations, the quality of financial statements has a positive influence on the decision usefulness of the financial statements. This has been in line with the main objective of financial statements, namely to provide information that is useful in decision making (Trueblood Committee, 1973). So as to help the users (management) to evaluate the implementation of the activities of a reporting entity in the reporting period to facilitate the functions of planning, managing and controlling all assets, liabilities, and government equity for the public interest (Government Regulation Number 71 of 2010).

It can be concluded that with the change in accounting standards from the cash basis to accrual based, it has been able to improve the quality of financial statements as required normatively in the Government Accounting Conceptual Framework in Government Regulation Number 71 of 2010 concerning Government Accounting Standards. With the increasing quality of LKPD, the decision usefulness of financial statements increases. So as to provide information about the financial position and performance of an organization that is useful for diverse users (internal and external stakeholders) in decision making (IPSASB, 2014). This of course has been consistent with the purpose of financial reporting is to present information that is useful for decision making and to show the accountability of reporting entities for trusted resources to the government (Government Regulation Number 71 of 2010).

This is in accordance with the study of Efendi et al. (2018) motivational frames about the usefulness of accrual accounting information in the financial statements of regional governments in terms of TAPD can facilitate decision making and decision making to be more appropriate, while the APIP side can help regional leaders in decision making. Empirically this research is also relevant to the research conducted by Andriani et al. (2010) which shows that public sector managers in Western Australia consider accrual information more useful in most of the decision-making situations tested.

In addition, research by Kober et al. (2010) have found in Australia that accrual-based accounting systems are considered more useful for most decision-making situations compared to cash-based accounting systems. Noguiera et al. (2013), found that accrual-based accounting information especially in municipal governments in the country of Portugal was sufficiently felt and useful for internal decision making. Furthermore, Nogueira & Jorge (2015) found that information on accrual accounting in the public sector in local governments in Portugal was sufficiently felt and useful for political decision making and technical decision making. Nogueira & Jorge (2017) again found that the benefits of accrual accounting information in the public sector especially local governments in the country of Portugal were sufficiently felt and useful for increasing internal control.

In addition, the results of research conducted in Indonesia, namely by Karno (2017) found that the level of use of accrual-based information is high in decision making at the Budget User Proxy Accounting Unit. Whereas Nirmala et al. (2014) found that the level of use of accrual-based information was high in decision making at the Inspectorate General of the Ministry of Trade.

So that based on theory and previous research has provided evidence that the quality of financial statements has an influence on the decision usefulness of financial statements within the Lampung provincial government. Conformity between theory and statistical analysis is expected to be a reference for local governments in Lampung Province to be able to improve the quality of local government financial reports in order to have a positive impact on the usefulness of financial statements in decision making, so that decisions made by local governments become more right.

* 1. **Conclusion**

From the results of this study, it is known that the Local Government Financial Statements (LKPD) in the provincial, regency and municipal governments of Lampung Province are already qualified based on respondents' evaluations of 71.6% having a positive effect on the usefulness of financial statements as a basis for decision making. So that the conclusions of this study prove that the quality of financial statements has a positive and significant effect on the decision usefulness of financial statements in decision making.

Based on the conclusions above, the quality of LKPD should have received more attention because in addition to being a tool of accountability, LKPD is also used / utilized as one of the bases in decision making. Law Number 17 of 2003 concerning State Finance financial statements is received by the Regional House of Representatives (DPRD) no later than six months after the fiscal year ends as a form of accountability for the implementation of the Regional Budget, this is considered to reduce the timeliness of financial statements to be used / utilized in decision making. So that the financial statements are expected to be delivered before six months after the end of the fiscal year, with more quality LKPD (on time), it is expected that the decisions taken by the regional government will be more appropriate.

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