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# Effect of Employee Competence and Internal Control Systems on Accounting Information Quality of the local Government in West Java region

*Efecto de la competencia de los empleados y sistemas de control interno sobre la calidad de la información  
contable del gobierno local en Java Occidental*

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### ABSTRACT

The purpose of this study was to empirically examine the effect of employee competence and internal control system on accounting information quality. The research was conducted to all local governments in the West Java region. The respondent are SKPD, PPKD, and the Regional Inspectorate on Local Government respectively; each local government sent six research questionnaires. The data analysis tool used was structural equation modeling (SEM). The results also show that employee competence and internal control system simultaneously gave the significant effect on accounting information quality, therefore a combination of both aspects can be considered as an improvement.

**Keywords:** Accounting information quality, employee competence, internal control system.

### RESUMEN

El objetivo de estudio fue examinar empíricamente el efecto de la competencia de los empleados y el sistema de control interno sobre la calidad de la información contable. La investigación es realizada a todos los gobiernos locales en la región de Java Occidental. Los encuestados son SKPD, PPKD y la Inspección Regional de Gobierno Local, respectivamente; cada gobierno local envió seis cuestionarios de investigación. La herramienta de análisis de datos utilizada es el modelado de ecuaciones estructurales (SEM). Los resultados también muestran que la competencia de los empleados y el sistema de control interno simultáneamente dieron un efecto significativo en la calidad de la información contable, por lo tanto, una combinación de ambos aspectos puede considerarse como un enfoque de mejora.

**Palabras clave:** Calidad de la información contable, competencia del empleado, sistema de control interno.

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## INTRODUCTION

Accounting information is one of the important information that should be owned by government agencies to carry out strategic policies. The availability of quality accounting information make local government can make right and harmonic decisions in accordance with the objectives and strategies that have been set, because the level of the inherent quality of the information would affect the strength of decision to be taken. Valuable information could improve decision-making capacity, it affected by the inherent quality of the information. Besides, Haag and Cummings explained that the information will have a high quality only when the information is appropriate (pertinent), relevant, and useful.

The local government in Indonesia is still difficulty in generating quality accounting information. BPK (the Indonesian Government Audit Board) data says from 256 provincial government, district and city in Indonesia, only 30% who received unqualified opinion<sup>18</sup>. The users of accounting information, particularly external users used the auditor opinion to obtain reasonable assurance about the quality of the information<sup>2</sup>.

Difficulty producing quality accounting information which are caused by the inadequate accounting human resource capacity and the employees educational backgrounds which did not come from accounting or finance areas<sup>1</sup>. Besides other issues have found that it is still a lot of hidden knowledge untapped by the employees<sup>19</sup>.

As a result, the employees in the accounting/financial areas cannot maximize its function optimally or do a mistaken accounting treatment. The problems which occur in the administration of fixed assets. Fixed asset management processes that have not been maintain properly is one of the main reasons why local governments in West Java has not been able to get unqualified opinion of the BPK<sup>17</sup>. Based on research conducted by Xu<sup>25</sup>, it is found that some issues related with employee competence, system, and organization has a critical role to make accounting information quality.

Beside employee competence, internal control system factor is also considered to have an influence in creating quality accounting information. The existence of internal controls over accounting information generation process can improve the quality and efficiency by ensuring the organization's resources have been secured properly, prevent fraud, and ensure the reliability and accuracy of accounting information generated<sup>16</sup>. This is also emphasized by research conducted by Brandas<sup>4</sup>, where it is stated that control in the accounting information generation process can assist organizations in ensuring of the integrity, reliability, accuracy, and availability of obvious financial statements.

Problems related to the employees competency and implementation of internal control systems that is not maximized found in government agencies in West Java region. It related to the competence of employees and implementation process of internal control systems visible from the weakness of the system, rules, regulations, organizational governance, SOP of working process, until to the human resources capability in carrying out the task and look for solutions to the problems faced<sup>17</sup>. On the other hand there are still problems occurred related to the internal control system which is associated with still many government officials and staff who run double duty, the implementation of accounting information system which not yet uniform, also accounting systems and procedures that do not implement properly<sup>3</sup>.

It has been found that the competence of the employees also have relevance to the internal control system. Hawker<sup>8</sup> explains that the competence is one of the factors that may affect the control measures what needs to be done. Besides, the level of employee competence may also affect the level of threat that can occur within an organization. Then the threat level would affect the control mechanism.

Based on the above phenomenon, there is a gap in producing quality accounting information concept with the reality. The differences lead accounting information generation process could not be maximized. However, it is unclear whether employee competence and internal control systems will be able to affect the quality of accounting information on a local government agency in West Java.

## LITERATURE REVIEW

### Employee competence

Competence by Spencer and Spencer<sup>21</sup> defined as an underlying characteristic of an individual that is causally related to criterion-referenced effective and/or superior performance in a job or situation. While according to Wheelen and Hoffman<sup>23</sup> competence is the integration and coordination on cross-functional capabilities owned.

Mejia, et al<sup>15</sup> explains that the competence is a characteristic associated with the success of the performance. Mathis and Jackson<sup>13</sup> adds the aspect of competence could affect performance improvement for individual or in a team. At the minimum level, employees who have competence should be able to: 1) Recognize the capabilities, attitudes and attributes that are required to meet the employment needs of current and future as an organization priorities and direction also the strategic placement purposes. 2) Focus on development efforts to eliminate the gap between the capabilities required by the available<sup>20</sup>. Capability is an important aspects of employee competence to describe the characteristics of a person in doing an activity, either physically or mentally<sup>5</sup>.

In the employee competencies development process that necessary to note the capabilities and talents possessed, so the employee career development can walk on an ongoing basis, and the output of the whole process can make the employee has specific expertise. Training program for employee is a way that can be done to improve employee skills and talents. The organization could make some analysis so the employee competency development process can be more focused.

It is need to consider that the important of employees competence not only on the ability to do a daily job, further it can make employee have the opportunity to get job promotion, large salary, and solve organization problem. So the employee competence has a huge impact to the employee productivity and value, beside for the organization. Citing the opinion of the researchers before, the dimensions used to measure employees competence in this study is the knowledge, skill, and value.

### Internal control system

Internal control system defined as a system that consists of policies and procedures designed to provide management with reasonable assurance that company achieves its objectives and goals. These policies and procedures are often called controls, and collectively they comprise the entity's internal control<sup>2</sup>.

Meanwhile Hall<sup>7</sup> explained the internal control system comprises policies, practices, and procedures employed by the organization to safeguard assets of the firm, ensure the accuracy and reliability of accounting records and information, promote efficiency in the firm's operations, and measure compliance with management's prescribed policies and procedures.

Associated with internal control processes carried out at government agencies in Indonesia, the details have been arranged in the PP (Indonesian Government Regulation) No. 60 Year 2008 on Government Internal Control System. On the PP the concept of internal control implemented known as SPIP (the Government Internal Control System), which is the overall implementation concept of internal control system in the state and local governments<sup>9</sup>.

In the practice of internal controls on government agencies in Indonesia, established APIP (Government Internal Inspector Apparatus) consisting of: BPKP, Inspectorate General or any other name that is functionally implement internal supervision, Provincial Inspectorate, District/City Inspectorate.

Dimensions used to measure the internal control system variables in this study are control environment, risk assessment, control activities, information and communication, monitoring.

## Accounting information

Laudon and Laudon<sup>12</sup> defined information as a data that have been shaped into a form that is meaningful and useful to human being. McLeod and Schell<sup>14</sup> added, besides molded/processed that has meaning; information also contains something unknown by the user. Stair and Reynolds<sup>22</sup> explains that the data processed into information make it has value added more than just add value from the data/facts before it treated. Information should be used by the users to find out what is happening today, supplementing with information about what has happened in the past. So that information can allow users to take the necessary action in the future<sup>7</sup>.

From the accounting aspect, the accounting function is to manage organization's financial information based on the format<sup>7</sup>. In carrying out these functions at least two main roles undertaken by the accounting that capture and record the financial impact of these transactions, the second role is to distribute transactions information to personnel in operational area so they can communicate a several tasks assigned.

Kieso, et al<sup>11</sup> explains that the accounting consists of three basic activities which are identify, record, and communicate the economic events of an organization to interested users. To be able to identify the economic events, an organization choose the relevant events to their business activities. Once an organization identify related economic events, the next step is recorded these events/transactions into a systematic and chronological recording format that enables users to manage. After all transactions are recorded systematically, management needs to communicate the information gathered as a form of responsibility to the users concerned.

Accounting information of an accounting process can be presented in the financial statements. In Indonesian government agencies, the financial statements need to be presented, mainly related to the accrual basis of recording that has begun obliged<sup>13</sup> consisting of: Budget Realization Report, Statement of Changes Over Budget Balance, Balance Sheet, Statement of Operations, Cash Flow Statement, Statement of Changes in Equity, Notes to Financial Statements. To measure the level of accounting information quality generated, dimensions used in this study are relevance, accurate, timely.

## METHODOLOGY

The method used in this research is descriptive, verificative, and explanatory, with quantitative analysis approach. The indicators used in this study using ordinal scale as measured by the scale of attitudes by using a Likert approach.

In this study, the population included that all local governments in the West Java region, which consists of one provincial government, 18 district governments, and 9 city governments. While the observation units used were SKPD (Local Working Unit) and PPKD (Financial Management Working Unit) in the local government as the accounting information processor, as well as the Regional Inspectorate on Local Government respectively.

Primary research data used in this study will be based on the survey using a questionnaire media, with secondary data obtained from books, news, and results of previous studies. Questionnaires were distributed directly by met the respondents. Each unit researched observations will be sent six research questionnaire.

For purposes of data analysis, patterns of relationships between variables in this study is described using structural equation modeling (SEM).

### Hypothesis

Based on the research problem and background described above, the hypothesis developed in this research consists of:

#### 1. Hypothesis 1:

H<sub>01</sub>: partially employees competence did not significantly affect the quality of accounting information.

H<sub>a1</sub>: partially employees competence significantly affect the quality of accounting information.

#### 2. Hypothesis 2:

Ho<sub>2</sub>: partially internal control system did not significantly affect the quality of accounting information.

Ha<sub>2</sub>: partially internal control system significantly affect the quality of accounting information.

3. Hypothesis 3:

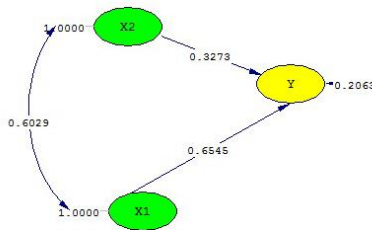
Ho<sub>3</sub>: simultaneously employees competence and internal control system did not significantly affect the quality of accounting information.

Ha<sub>3</sub>: simultaneously employees competence and internal control system significantly affect the quality of accounting information.

**RESULT AND DISCUSSION**

The results of the analysis conducted by using lisrel software 8.72 in the attachments based on the analysis of structural models, can be explained that the accounting information quality variable is affected by the employee competency with a path coefficient of 0.6545, and the internal control system with a path coefficient of 0.3273. Thus the proposed conceptual hypotheses have been tested and accepted. A complete structural model can be described as follows:

Picture 1  
 Statistical Test



Chi-Square=44.15, df=25, P-value=0.33995, RMSEA=0.053

Source: Research Data

Based on the calculation results obtained showed Accounting Information Quality affected by Employee Competency and internal control system either partially or simultaneously. Based on correlation and path coefficient values obtained, it can be seen the effect of Employee Competence and Internal Control System on the Financial Statement Quality as follows:

Table 1.  
 Statistical Test

Variable	Path coefficient	Direct effect	Indirect effect		Total effect
			Employees Competence	Internal Control System	
Employees Competence	0.6545	0.4284		0.1292	0.5575
Internal Control System	0.3273	0.1071	0.1292		0.2363
Total		0.5355	0.1292	0.1292	0.7938

Source: Research Data

Based on the above table it can be seen that the Employee Competence and Internal Control System affected Accounting Information Quality directly and indirectly. Employee Competency variable direct effect on accounting information quality is equal to 42.84%, while its indirect effect through Internal Control Systems is at 12.29%. Meanwhile the direct effect of the Internal Control System variable on accounting information quality is equal to 10.71%, while the indirect effect through Employee Competency amounted to 12.92%.

#### 1<sup>st</sup> Hypothesis Testing:

Based on tests carried out on a first hypothesis, it is found that the path coefficient of variable X1 to Y at 0.6545, while  $t_{\text{count}}$  obtained amounted to 2.4617 by taking  $\alpha$  significance level of 5%, then  $t_{\text{table}}$  value = 1.708. Due  $t_{\text{count}}$  greater than  $t_{\text{table}}$ , then  $H_0$  is rejected, meanwhile  $H_a$  is accepted. In other words Employee Competency had a significant effect on the accounting information quality of 0.6545. So any increase in one unit of employee competence will increase the accounting information quality by 0.6545 units.

#### 2<sup>nd</sup> Hypothesis Testing:

Based on tests performed on second hypothesis, it is known that the path coefficient of variable X2 to Y at 0.3273, while  $t_{\text{count}}$  obtained amounted to 1.2194 by taking  $\alpha$  significance level of 5%, then  $t_{\text{table}}$  value = 1.708. Due  $t_{\text{count}}$  smaller than  $t_{\text{table}}$ , then  $H_0$  is accepted or in other words the internal control system had no significant effect on the accounting information quality.

#### 3<sup>rd</sup> Hypothesis Testing:

Based on third hypothesis testing, the value of  $F_{\text{count}}$  is 466.2276, where the criteria for rejection of  $H_0$  if  $F_{\text{count}}$  larger than  $F_{\text{table}}$  or  $F_0 > F_{\text{table}}$ , with a degree of freedom of  $v_1=3$  and  $v_2=173-3-1$  and 95% of confidence level, then on the F distribution table obtained  $F_{\text{table}}$  value for 2.9912. Due 466.2276 greater than 2.9912, then  $H_0$  is rejected and  $H_a$  is accepted. It can be concluded that there is a linear relationship between Employee Competence and Internal Control System on the Accounting Information Quality. In other words, it can be interpreted that there is a simultaneous significant effect between Employee Competency and Internal Control System on the Accounting Information Quality.

To find out the questionnaire data then necessary to make construct test for each variable. Confirmatory factor analysis (CFA) testing was conducted to determine the model constructs that make up the overall measurement model. Related to Employee Competence testing, the result that the Value dimensions loading factor has a larger value than any other dimension. This shows that the Value is the main determining factors on Employee Competence variable, because the dimensions of the Value describes the real outcomes that directly impact on the Employee Competence compared with other dimensions used in measuring Employee Competence variables. On the other hand there is still a factor that is not optimal in a Employee Competence variable, with the smallest loading factor that is Knowledge. This occurs because of limitations of Knowledge simply be measured by employee knows or not on a phenomenon, which is not necessarily knowledge is implemented in a real action.

Meanwhile, related to the Internal Control System variable, it can be deduced that the Environmental Control dimension has the largest loading factor value compared to the other dimension. This indicated that the Environmental Control is the largest variable forming Internal Control Systems. Thus, it can be concluded that there is correspondence between the concept of Internal Control System with the implementation of the Internal Control System in this study, where the Control Environment is a critical success factor of internal control implementation and will affect the other components of the Internal Control System. Meanwhile Risk Assessment variable is the lowest loading factor. This indicates that the risk assessment is the lowest factor in shaping the Internal Control System variable.

Associated with the Accounting Information Quality testing, it can be concluded that Relevant dimension has the largest loading factor value. This shows that the Relevant variable is the largest factor forming Accounting Information Quality. Besides, the dimensions of Timeliness are a factor that has the lowest value

on the Accounting Information Quality variable. This indicates that the Timeliness has smallest impact on earnings accounting information quality.

## **CONCLUSION**

The results showed that the employee competence have a significant impact on the accounting information quality. The higher employee competence particularly related to knowledge, abilities, and values aspects owned that influence the greater on earnings accounting information quality.

Other findings from the statistically tests on the data collected is that the internal control system does not have a significant effect on the accounting information quality. It found that the main factor causing the internal control system did not significantly affect the accounting information quality is because of risk assessment dimension did not yet goes well. The test result is in keeping with the reality that occurs in the implementation process of the internal control system on the research object is being studied.

It was found that in general the Control Environment dimensions application is quite good, which are normative things such as organizational structure, legal basis, management directives, and other matters already bolted properly. However, thus elements has not been translated into Control Activities dimension that are operational control level. This occurs because the Risk Assessment implementation have not been going well, so that the translation process of Control Environment into Control Activities with is based on the implementation of the Risk Assessment was not working as it should. It is then that allegedly can answer the second hypothesis testing results where the Internal Control System variable did not significantly affect Accounting Information Quality, which is due to the implementation of the Risk Assessment has not run optimally.

The final conclusions obtained is that the Employee Competency and Internal Control System has a significant impact on the Accounting Information Quality. This happens because the employees competence supported by the implementation of a thorough control causes the entire system and data processing transactions into accounting information can be running properly. So that the level of accounting information quality resulting could be better.

From the result of this research, researchers suggest related parties as follow:

The local government must undertake sustained and systematic step to ensure employee competence level remains in line with its needs, particularly those related with generating process of accounting information.

The local government should carry out risk assessment procedures correctly to make aggregate internal control process can be run in accordance with the control concept, so it could support the process of generating a higher accounting information quality.

The inspectorate must continue to enhance its role as an internal auditor tasked with providing improvements input in earnings accounting information quality and as an implementer of the internal control system in controlling the potential that could lead to not qualified accounting information.

For the next researcher, the addition of variable, dimension, indicator, respondent, population, and the time span over diverse research can be done to further clarify the delineation of research results.

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