

PROCEEDING



ASIAN APPLIED ACCOUNTING AND BUSINESS CONFERENCE

1st

Asian Applied Accounting and Business Conference



Accountability For Sustainable Development : The Asian Perspectives



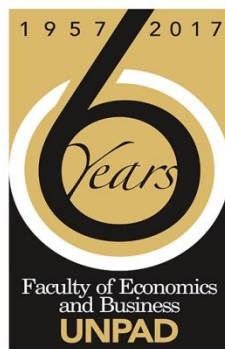
DEPARTMENT OF ACCOUNTING
FACULTY OF ECONOMICS AND BUSINESS
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FOREWORD

Assalamualaikum wr wb....

I am delighted to welcome you to the first **ASIAN APPLIED ACCOUNTING AND BUSINESS CONFERENCE (AAABC)** here in Bandung. AAABC is a scholarly event which consist of international seminar and conference for applied research expected to give contribution for the national development policy, especially in the ASEAN Community Era. This year conference is taking “**ACCOUNTABILITY FOR SUSTAINABLE DEVELOPMENT: THE ASIAN PERSPECTIVES**” as it's theme.

The Accounting Department and Master of Accounting program of Universitas Padjadjaran together with Ministry of Public Works and Housing organized this seminar and conferences, with the commitment of many individuals to create this event.

The papers presented at this conference and included in this proceeding are expected to give contribution to the development of applied accounting research in Indonesia and Asian countries. Finally, we would like to thank all presenters whose share their brilliant ideas and make this conference possible.

Wassalamualaikum wr wb

Chairman,

Dr. Dini Rosdini, SE.,M.Ak.,Ak.,CA

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IMPLEMENTATION OF THE ONLINE TAX APPLICATION AND THE IMPACT ON TAX COMPLIANCE (Empirical Study Tax Payer in KPP Madya Jakarta Timur)

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ABSTRACT

The purpose of this research is to know the implementation of the online application of taxation, especially e-filling and e-billing and its effect on tax compliance with Technology Acceptance Model (TAM) and Theory of Reasoned Action (TRA) approach. The fact that tax compliance is still low in Indonesia, and the quality of the internet is not good so that the implementation of the government online system has not been used maximally. The variables used for this study are based on some previous research such as Putra et al. (2015), Permataari (2015), Nuroctaviani and Agus (2012), Dyanrosi (2015), Fahluzi and Linda (2014), Mustikasari (2007) with minor modifications.

The sample of this study consists of one hundred and fifty tax professionals as taxpayer representatives in KPP Madya Jakarta Timur. Structural Equation Modeling (SEM) with Partial Square Software (PLS) is used for data analysis. The results showed that the application of online tax application has a positive effect on tax compliance.

Empirical results indicate that the easiness in e-billing makes taxpayers comply, especially on tax payments and time savings on the e-filling makes taxpayers comply, especially in tax reports. It can be information for the Directorate General of Taxes to better in the service of taxpayers especially online system for better tax compliance in the future.

Key Words: e-filling, e-billing, tax compliance

1. Introduction

The tax has an important role in the financing of the country, as evidenced by the continuous increase of revenue targets from the taxes listed in the APBN Indonesia. In the year 2016 tax revenue is targeted at Rp. 1,539.2 trillion, then in the year 2017 targeted at Rp. 1,498.9 trillion. The role of society in general and Taxpayers in particular in performing taxation obligations, especially payment and reporting has a role in achieving the target of state revenue from the tax. However, many factors affect the Taxpayer in carrying out its tax obligations, so that in the year 2016 not achieved the target revenue from taxes according to the state budget.

Apart from the awareness and knowledge of each Taxpayer, tax compliance is also influenced by the external parties of the Taxpayer itself. The government, in this case the Directorate General of Taxation has a very important role to "invite" Taxpayers in order to become compliant Taxpayers with various stages (Sri Mulyani, 2016). Various services have been improved both directly in the Tax Office and online through various services that have been launched with the aim that Taxpayers can perform their tax obligations easily without having to come to the Tax Office directly. E-filing and e-billing applications are some of the online tax application products that have been launched by the Directorate General of Taxes to be used by Taxpayers.

In modern era presently, online activities are more widely used by the general public for various reasons, one of which is simple and efficient. From start shopping, communicating to carry out the private obligations of the community. Following the development of the era, The e-filing application was launched in order to assist the Tax Payer in reporting or submitting the Notice. With the application, Taxpayer need not bother to spend energy and time to come to Office of Tax Service and do not need The transportation expense to go to Tax Office or pay courir of delivery document services. Taxpayers may submit Tax Report by Internet who available on their Computers or their Smartphones.

Technology Acceptance Model (TAM) developed by Davis (1985) has the purpose to know the acceptance of technology users on information systems in this case how the Taxpayers accept the application of online taxes, especially e-filing and e-billing provided by the Government in assisting Taxpayers to implement Tax obligations. And in Theory of Reasoned Action (TRA) developed by Ajzen (1980) explains that a person's perception of a thing will cause reaction so as to cause an action in this case how the Taxpayer's perception of the existing online tax application and whether the reaction that arises, especially in Fulfillment of its tax obligations.

With the launching of 2 (two) online tax application products by the Directorate General of Taxes, it is expected to assist Taxpayers in performing their tax obligations, especially in the delivery of tax returns and the payment of tax payable. However, as explained above, the unevenness of information technology in Indonesia, including information on the implementation of e-filing and e-billing applications become obstacles for Taxpayers in using them. On the basis of this study was conducted, to determine the taxpayer's perceptions of the implementation of e-filing and e-billing applications and the extent to which the application helps taxpayers in carrying out its tax obligations.

DKI Jakarta as the capital city of Republik Indonesia is a 74% contributor of tax revenue realization in 2013 (Fuad Rahmani; 2014) and East Jakarta Region is the lowest among other region. KPP Madya Jakarta Timur is a part of Tax Office in East Jakarta region and the tax compliance of reporting decreases since 2012.

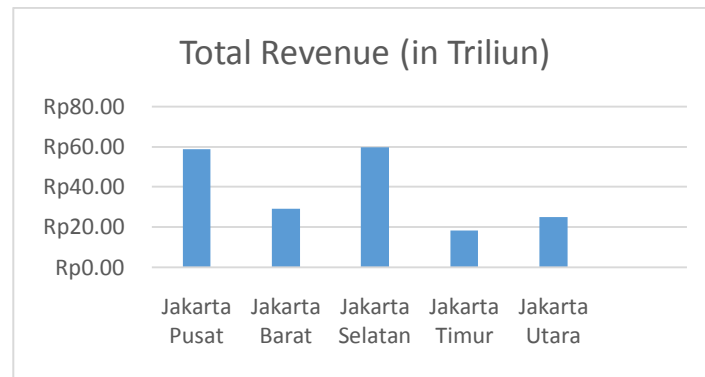


Figure 1. Tax Revenue in DKI Jakarta FY 2013 Exclude Jakarta Khusus Region (Source : Fuad Rahmani, 2013)

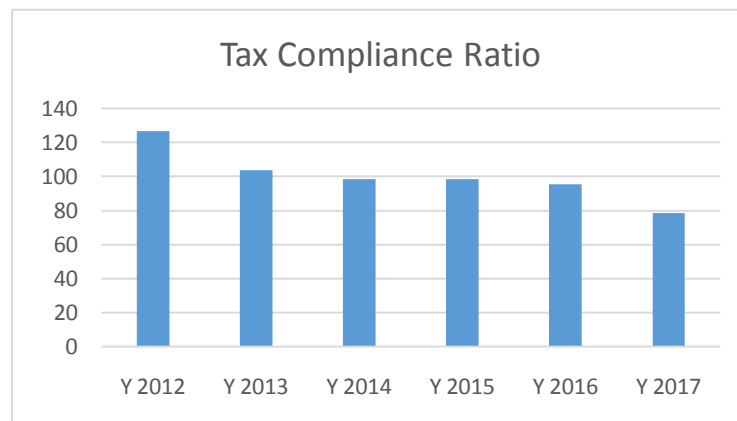


Figure 2. Tax Compliance Ratio of KPP Madya Jakarta Timur (Source: KPP Madya Jakarta Timur)

The using of Theory of Reasoned Action (TRA) in Technology Acceptance Model (TAM) with the unit of analysis that is Taxpayer registered in KPP Madya Jakarta Timur has the purpose to know whether the implementation of the online tax, especially e-filling and e-billing can affect tax compliance especially in tax payment and reporting. As we know at the above that tax compliance ratio in KPP Madya Jakarta Timur decreases although eFilling application can be used since 2008.

Based on the above background, formulated questions in research to develop the following problems: Does Online Tax Implementation affect tax compliance?

The results of this study are expected to provide: 1) Theoretical contributions, namely providing empirical evidence of online tax implementation and its effect on tax compliance; 2) Contribution of practice, which provides information on procedures and benefits of e-filling and e-billing for Taxpayers; And 3) Policy Contribution, which is expected to give input to the government especially the Directorate General of Taxation on Taxpayers' perception in the implementation of e-filling and e-billing application so that it will continue to be improved in performing services to Taxpayers.

2. Literature Review and Hypothesis Development

2.1. Theory of Tax Compliance

Tax Compliance Theory by Devos (2014) is divided into two approaches: 1) Economic deterrence approach and 2) Psychological approach. Where in economic deterrence approach done approach by considering factors such as system and taxation information, tax cuts by other parties, tax penalties, probability of tax examination, and the amount of tax rate. As for

the psychological approach, done by considering everything that affects the psychological taxpayer either be compliant or non-compliant.

2.2. *Technology Acceptance Model (TAM)*

In Theory of Reasoned Action (TRA) developed by Ajzen (1980) explains that a person will do something or react because there are intentions that precede it and the things that cause it. The theory connects between a person's beliefs about things to be done, attitudes toward things, intentions and behavior as well as one's subjective norm.

While Technology Acceptance Model (TAM) developed by Davis (1986) actually adopted Theory of Reasoned Action (TRA) before but more devoted to a technology or information system. So if TRA is used in general, TAM is more specific to how people's perceptions of receiving technology and how it affects their activities.

The use of the theory in this study to find out how the taxpayers perceptions of the online application of taxes, especially e-filing and e-billing and how the reactions that arise in its use and how its influence on tax compliance, especially in tax deposits and tax reporting.

2.3. *Tax Online Application*

Directorate General of Taxation provides various services to Taxpayers to assist Taxpayers in carrying out their tax obligations. Services provided either directly on the Tax Office with the provision of Account Representative who is ready to help various questions about Taxpayers taxation, provision of tax returns 1500200 ready to assist and answer questions about taxation or the launch of online applications that can facilitate the Taxpayer in performing obligations Taxation.

Since its launch in 2008, e-filing has helped Taxpayers who are already using it to save time, effort and cost in delivering the Notice. Pandiangan (2005: 38) in Putra (2014) said that e-filing is a way of delivering Notification Letter done through online and real time system.

The e-filing application has various benefits for Taxpayers who use it, among others: 1) Can be used to convey either Annual or Annual Tax Return (SPT) for Individual Taxpayer or corporate Taxpayer; 2). Can directly get the Evidence of Electronic Reception after the successful e-filing procedure so that it can save time, energy and cost because it can be done whenever and wherever there is internet access.

The purpose of the launch of e-filing application is actually not only provide services to taxpayers but also to the Officers Tax Office, namely: 1) Assisting Taxpayers in carrying out its tax obligations, especially the delivery of Notification Letter efficiently because it can be done anytime and anywhere, no need To the Tax Office which only receives the notification on the working day of 08.00 - 16.00 hours; 2) Assisting Fiskus or Tax Office officer in obtaining taxpayer tax data quickly and accurately and easily because Taxpayers themselves who send data to the data server in the Directorate General of Taxes; 3) Increase the number of Taxpayers who report the amount of taxes in a timely manner because it is easier in the implementation.

Putra et al. (2015) examines the effect of e-registration, e-spt and e-filing system administration on Taxpayer compliance level in Tax Office of Singosari. The result of this research is that e-registration, e-spt and e-filing administration system have a significant effect on taxpayer compliance level.

Dyanrosi (2015) once analyzed the behavior of individual taxpayers against behavioral interests using e-filing, the conclusion that experience using experience, complexity, age, perceived easy of use and attitude toward The user (attitude toward using) affects the taxpayer's interest in using e-filing as a means of reporting his tax.

Before the launch of the e-billing application, the taxpayer who will make the tax payable must fill in the Tax Payment Deposit and handed over to the teller at the Bank or Post Office for re-input and sent to the state treasury account. With the procedure, not a few input errors by teller officers at the Bank or Post Office for various reasons, resulting in taxpayers who have made a deposit must perform the Movement of Return (PBK) to move the wrong tax deposit to the tax deposit should be. The process of manually depositing the taxes takes up time, personnel and expenses as well as time, effort and additional expenses in the process of Move the Post when there is an error.

On the fact that, the Directorate General of Taxes launched another online tax application that is e-billing, this application offers ease of payment of tax through electronic payment method with all its advantages, that is fast, easy, convenient and more accurate because it can be done by the Taxpayers themselves whenever and wherever Thus minimizing deposit errors.

The e-billing application has various benefits for Taxpayers who use it, among others: 1) Can be used for tax payment owed both monthly and annual taxes for individual taxpayers and corporate taxpayers; 2) Can save time, effort and cost because it can be done whenever and wherever there is internet access; 3) Can minimize the mistake of depositing because done by own input by Taxpayers who know exactly about tax payable to be paid.

The purpose of the launch of e-billing application is actually not only provide services to taxpayers but also to the Fiskus or Officers Tax Office, namely: 1) Assisting Taxpayers in carrying out its tax obligations, especially tax payable in an efficient way because it can be done anytime and anywhere, no need To a Bank of Perception or Post Office receiving tax deposits only on certain business days and hours; 2) Assisting Fiskus or Tax Office officer in obtaining taxpayer tax data quickly and accurately and easily because Taxpayers themselves who send data to the data server in the Directorate General of Taxes; 3) Increase the number of taxpayers who deposit their taxes in a timely manner because it is easier in the implementation.

Research on e-billing was conducted by Nuroctaviani and Agus (2012) in his research on the effect of service quality on taxpayer compliance with a case study at Tax Office in Jakarta Kelapa Gading. The results of this study explain that efforts to improve the quality of service can be done by improving the quality and technical ability of employees in the field of taxation, the use of information systems and technology to be able to provide convenience to the Taxpayer in fulfilling his tax obligations.

Permatasari et al. (2015) have examined the effect of electronic tax system service quality consisting of e-registration, e-SPT, e-filling and e-billing to Taxpayer's satisfaction in Tax Office Pratama Malang Utara. The result of the research is that the quality of taxation electronic service has a significant effect on Taxpayer satisfaction.

Fahluzy and Linda (2014) in their research on factors affecting compliance to pay SME taxes in Kendal District resulted in the conclusion that a good perception on the effectiveness of the tax system, knowledge and understanding of tax regulations partially no effect on tax payment of compliance in Kendal.

This research will use Implementation of Online Tax Application as the independent variable (X). Where the dimensions of the indicator consist of Implementation of E-filling Application and Implementation of E-billing Application.

2.4. Tax Compliance

According to Zain (2003: 31) quoted by Putra et al. (2014) that taxpayer compliance is a compliance climate and awareness of tax obligations, reflected in situations in which the Taxpayer understands and seeks to understand all the provisions of the tax laws and

regulations, fills out the tax form completely and clearly, calculates the amount of tax payable by Correct and pay the tax due on time.

Taxpayer compliance in carrying out taxation obligations is driven by various things, both from within personal own and from outsiders such as government in general and the Directorate General of Taxation in particular. According to Hull Crider (1983) in the behavior of encouragement explains that a person's behavior occurs because there are certain drives.

In Article 1 of Regulation of the Minister of Finance No. 192 / PMK.03 / 2007 concerning the procedure of stipulation with certain criteria in order to refund the preliminary overpayment of taxes are explained certain criteria to be referred to as obedient Taxpayers. Some conditions are timely in submitting the Notice and have no tax arrears for all taxes, except for tax arrears that have been granted permission to install or postpone tax payment.

This research will use Taxpayer Compliance Behavior as a dependent variable (Y). Where the indicator consists of Compliance of Submission of Notice and Compliance of Tax Deposits.

2.5. Hypothesis Development

Online tax applications, especially e-filing applications and e-billing applications will greatly help the taxpayer when implemented in carrying out his tax obligations, in addition to simple and easy will also save time, effort and cost. However, given the limitations of Information Technology and even the Internet in Indonesia, resulting in uneven knowledge and implementation of the online tax applications by Taxpayers in remote areas. Therefore it is necessary to do research to know opinion or perception of Taxpayer itself upon launching of application of tax online by Directorate General of Taxes.

As explained before about the background research, subject matter, literature review and previous research about the benefits of online tax implementation on Taxpayer compliance, this research will formulate the following hypothesis:

H1: Implementation of tax online application effects to tax compliance.

3. Research Method

This study is a causal quantitative research where the implementation of the online tax application made an independent variable to know its influence on tax compliance as the dependent variable.

3.1. Population and Sample

Population in this research is Taxpayer registered at Office of East Jakarta Tax Service. The Sampling method used is sampling with convenience sampling technique with the amount of 150 Taxpayer. Respondents who used as the source of data in this study are tax experts (tax professionals) who work on the taxpayer as a representative Taxpayer. Tax professional made the respondent as a representative of the Taxpayer in carrying out his tax obligations both in the payment of tax payable and submission of SPT (Tax Monthly Report).

3.2. Variabel Measurement

Implementation of online tax application is the use of online tax application which has been launched Director General of Taxes for use by Taxpayers in helping to carry out its tax obligations. The dimensions of the implementation variables of the online tax application consist of (1) e-filing application implementation and (2) e-billing application implementation while the indicator is an adaptation of Technology Acceptance Model (TAM) found by Davis (1986) that a person will use the technology when he has good perception about benefit of use and easy of using the technology. So the indicator of the variable are (1)

e-billing saves power in tax deposits, (2) e-billing saves time in tax deposits, (4) e-filing saves power in tax reporting, (5) e-filing Saving time in tax reporting, (6) e-filing save costs in tax reporting, (7) e-billing easy to open over the internet (8) id-billing payment easy to do, (8) proof of tax payment through e-billing on time, (9) e-filing is easily opened via the internet, (10) proof of tax reporting through e-filing on time.

Tax Compliance is the behavior of the Taxpayer who is voluntarily and or is forced to perform its tax obligations. Indicators of tax compliance in this study are based on Regulation of the Minister of Finance No. 192 / PMK.03 / 2007 in particular (1) compliance with the submission of the Notice and (2) compliance with the payment of tax payable.

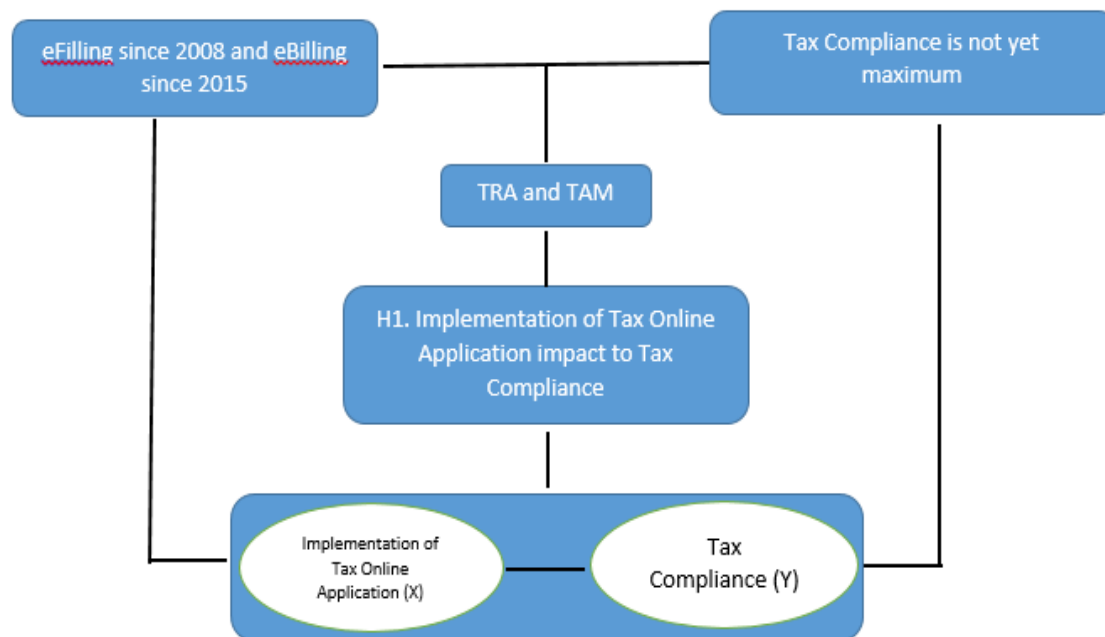


Figure 3. Research Conceptual

3.3. Analysis Method

After performing a tabulation of answer questionnaires from respondents, then tested the Validity and Reliability Test out first using SPSS 21.0 that to strengthen if the data questionnaire that is processed is valid and reliable.

Data processing and analysis will be done by using a Structural Equation Model (SEM) approach based on variance or called Component Based SEM using SmartPLS version 2.0 software with the following reasons: (1) In Component Based SEM does not need to meet various assumptions such as data that must be distributed Normal on a multivariate basis and indicator models should be reflexive (Ghozali, 2012). (2) In Component Based SEM also measurement scale can a nominal, ordinal and internal and ratio (Ghozali, 2012). (3) The number of samples researched in Component Based SEM also does not require large quantities, as it focuses more on the prediction model so strong theoretical support is not so important (Ghozali, 2012).

4. Result and Discussion

4.1. Profile Responden

Profile of respondents in the questionnaire includes 8 things, namely age, gender, formal education last, informal education that supports taxation skills, reporting on the

company or personal, position in the company, experience as tax professional, online tax information application source.

By age, respondents aged 30-40 years are the most that is by 44%. Based on gender, the amount of male respondents more than female respondents is 52% and 48%. Based on last education, S1 graduates are the most respondents that is equal to 73% and Training brevet is the most informal education followed by respondents that is equal to 44%. All respondents are representative of the company because all taxpayers registered in KPP Madya Jakarta Timur are Corporate or Taxpayer of the Agency, with the most position is as a staff that is equal to 61% and experienced more than 5 years that is equal to 58%.

It is very good for the research because the data is taken from the respondents who already know about the reporting and deposit of taxes and the change of procedure from before the application of tax online and after apply online tax application through socialization at Tax Office (44%) and from mass media (44 %).

4.2. Descriptive Analysis of Research Variables

Table 1. Descriptive Statistics of Research Variables

Variabel	Range	Mean	Median	Modus	Standar Deviasi
Implementation of Tax Online Application	42 s/d 77	68	71	77	9,09250
Tax Compliance	19 s/d 28	26	28	28	2,77125

Based on the above table of respondents' answers on each variable, looks to provide information as follows:

1. Variable Implementation of Online Tax Application is measured using 11 items statement according to an indicator. Based on table 1 it can be seen that the respondent's answer to the statement relating to the implementation of the online tax application shows the actual range of 42 to 77 of the theoretical possibilities 11 to 77. With a mean value of 68, median value 71, the value of mode 77 and standard deviation 9, 092505, means that the level of respondents' answers to the variable implementation of online tax applications is quite high because of the average answer above the theoretical value of 45. Thus it can be concluded that the respondents have a perception of the implementation of online tax is good enough.
2. Tax Compliance Variable is measured using 4 item statements according to an indicator. Based on table 1 it is found that respondents' answers to the statements relating to tax compliance indicate the actual range of 19 to 28 from the theoretical possibility of 4 to 28. With a mean value of 26, the median value 28, the value of mode 28 and the standard deviation of 2.771249, The level of respondents' answers to variable tax compliance is very high because the average answer is in the top range theoretically is 28. Thus it can be concluded that the respondents have perceptions about the tax compliance is very good.

4.3. Test the Validity and Reliability Questionnaire

The results of the Validity Test using SPSS 21.0 resulted in that the Pearson Correlation value for all statements based on the indicator variable is Valid because it has a value above r-table of 0.160.

Table 2 Test of Validity

		TotalSkor
IA1	Pearson Correlation	,742**
IA2	Pearson Correlation	,827**
IA3	Pearson Correlation	,710**
IA4	Pearson Correlation	,705**
IA5	Pearson Correlation	,843**
IA6	Pearson Correlation	,777**
IA7	Pearson Correlation	,875**
IA8	Pearson Correlation	,779**
IA9	Pearson Correlation	,692**
IA10	Pearson Correlation	,793**
IA11	Pearson Correlation	,770**
P1	Pearson Correlation	,586**
P2	Pearson Correlation	,630**
P3	Pearson Correlation	,693**
P4	Pearson Correlation	,649**
TotalSkor	Pearson Correlation	1

** . Correlation is significant at the 0.01 level (2-tailed).

The result of Reliability Test using SPSS 21.0 resulted that Cronbach's alpha value was 0.938 above r-table of 0.160 then the questionnaire was concluded reliable.

Table 3. Test of Reliability**Case Processing Summary**

		N	%
Cases	Valid	150	100,0
	Excluded ^a	0	,0
	Total	150	100,0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
,938	15

Item-Total Statistics

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
IA1	88,33	101,365	,678	,936
IA2	88,25	103,157	,791	,931
IA3	88,22	106,696	,659	,935
IA4	88,12	107,838	,657	,935
IA5	88,22	103,247	,812	,931
IA6	88,40	104,591	,734	,933
IA7	88,19	105,213	,854	,930
IA8	88,13	107,660	,745	,933
IA9	88,31	108,284	,644	,935
IA10	88,35	105,545	,756	,932
IA11	88,49	101,943	,716	,934
P1	87,91	111,851	,534	,938
P2	87,98	109,805	,576	,937
P3	87,84	112,189	,660	,936
P4	87,96	109,435	,596	,936

4.4. Goodness Model

Then for analysis model used Structural Equation Model (SEM) with smartPLS application. Model eligibility is shown from the large R² model, composite reliability, and average variance extracted (AVE) from the processed structural model. Model eligibility indicators are described below:

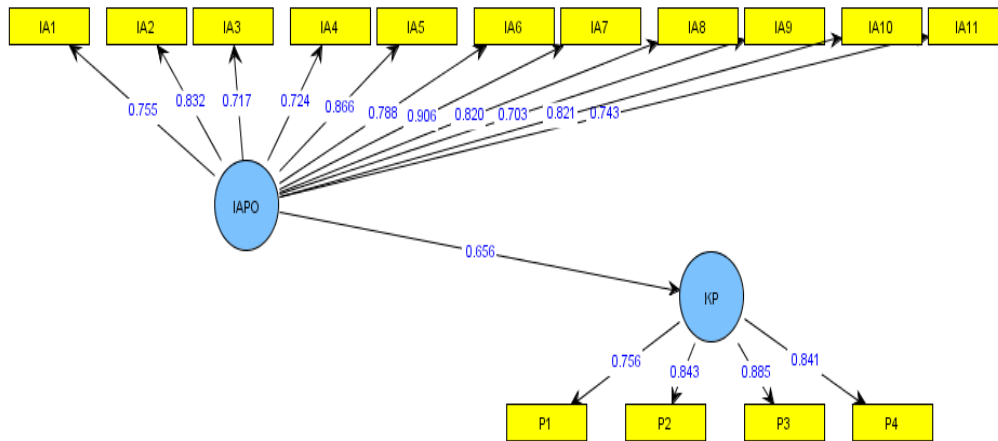
Tabel 4. Goodness Model

	R-Square	Compsite Reliability	AVE
Implementation of Tax Online Application	0.000	0.948	0.626
Tax Compliance	0.430	0.900	0.693

Model of the influence of Implementation of Online Tax Application to Tax Compliance gives R-Square value of 0.430 which can be interpreted that variable of tax compliance construct which can be explained by construct variable of implementation of online tax application equal to 43,0% while the rest equal to 57,0% explained by another variable Outside of the studied. Composite reliability of the constructs ranges from 0.900 - 0.948, while the average value of extracted variants ranges from 0.626 - 0.693.

4.5. Evaluation of Model Outer dan Inner

Inner and outer model (full model) variable implementation of online tax and tax compliance can be seen in the following figure:

**Figure 4. Full Structural Model**

4.5.1. Evaluation Outer Model

Table 5. Outer Loading Result

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
IAPO				
IA1	0.755	0.772	0.091	8.260
IA2	0.832	0.828	0.055	15.027
IA3	0.717	0.743	0.117	6.140
IA4	0.724	0.766	0.184	3.929
IA5	0.866	0.865	0.055	15.701
IA6	0.788	0.776	0.072	10.945
IA7	0.906	0.897	0.035	25.756
IA8	0.820	0.825	0.057	14.411
IA9	0.703	0.726	0.086	8.210
IA10	0.821	0.818	0.046	17.780
IA11	0.743	0.737	0.065	11.411
KP				
P1	0.756	0.779	0.064	11.862
P2	0.843	0.861	0.036	23.180
P3	0.885	0.911	0.043	20.808
P4	0.841	0.859	0.039	21.555

The measurement model contains the test results of each indicator relationship to the latent variables that exist in the structural model. The outer result of the model is used to test the validity where the value of an indicator is valid if it has a loading factor above 0.5 and the result of outer loading is all above 0.5 so that all indicators are declared valid.

4.5.2. Evaluation of Inner Model

Table 6. Inner Weights Result

	original sample estimate	mean of subsamples	Standard deviation	T-Statistic
IAPO -> KP	0.656	0.696	0.074	8.899

From the above table it can be seen that the research model is statistically significant, seen from the original estimate value of 0.656 and t-count $8.899 > t\text{-table } 1.655$.

4.6. Test of Hypothesis dan Discussion

Table 7. Hypothesis Test Result

	original sample estimate	T-Hitung	T-Tabel	Accepted / Rejected
Implementation of Tax Online Application -> Tax Compliance	0.656	8.899	1.655	Accepted

With original value estimate of 0.656 and t-count of 8,899 (greater than t-table 1,655) stated that the implementation of the online tax application has a significant positive effect on tax compliance, H1 is accepted. These results are in line with the research of Putra et al. (2015) that the implementation of the online tax application including e-filing has a significant effect on taxpayer compliance.

5. Conclusions and Limitations

According to the above results that the implementation of the online tax application has a 65% effect on tax compliance, it is explained that the hypothesis is accepted and in accordance with the research of Putra et al. (2015), Dyanrosi (2015) and Fahluzi (2014). It can be deduced that if the Taxpayer implements the online tax application for both e-billing taxes and tax reporting through e-filing will affect the tax compliance level.

This research is inseparable from the shortcomings due to the limitations of a thing but it can be an input for future research. The limitations of this study are:

1. A number of respondents in this study is only taxpayers in KPP Madya East Jakarta which is one part of the population of the Taxpayers throughout Indonesia while internet connection in Indonesia associated with online tax application uneven between the population part one with the other population.
2. Selection of respondents that have not been too precise because the tax compliance company, board of directors or the company's finance may have a significant effect on corporate tax compliance than tax professionals who work in the company.

The results of this study are expected to give input to the Directorate General of Taxation to provide better service especially in the service of taxation systems such as e-billing and e-filing so that tax compliance will be increased.

The results of this study along with the existing limitations can be an idea for further research development, it is advisable to select respondents from the population that more so as to represent the Indonesian Taxpayer.

In addition, it is expected that future research will be more appropriate to select respondents in the study, so the questionnaire is answered in accordance with the decision

taken in the respondent's position in the company. Thus the results of the research is expected to be developed as a reference Directorate General of Taxes in improving services to the Taxpayer so that the level of tax compliance increases and the state revenue on target.

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ANALYSIS OF RISK MANAGEMENT OF FIXED ASSET MANAGEMENT IN SPECIAL CAPITAL TERRITORY OF JAKARTA PROVINCIAL GOVERNMENT

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Abstract

The aim of this research is to analyze the risk, the probability of occurrence and its impact, also response and control plan in fixed asset management based on COSO 2004 about Enterprise Risk Management (ERM). This study took unit analysis in Local Government Asset Management Agency of Special Capital Territory of Jakarta Provincial Government. This study used a qualitative method with case study approach. Data collection is done through in depth interview and questionnaires to the risk owner in association with the planning, procurement, and administration function. The results showed that planning, procurement, and administration included in the medium risk category. The results identified that planning has 8 risks, procurement has 41 risks, while the administration has 11 risks. Selected responses to reduce the risk in planning are reducing the likelihood level and reducing the consequences level, in procurement is reducing the consequences level, while in the administration are reducing the consequences level and the combination of both responses.

Type of Paper: Case Study

Keywords: Risk management; fixed asset management; COSO 2004 ERM; risk control; Special Capital Territory of Jakarta provincial government.

1. Introduction

The problems of asset management occurred in Special Capital Territory of Jakarta Provincial Government which is one of the largest local government asset owners in Indonesia (Directorate General of Fiscal Balance, 2013). It has always been a recurring issue and one of the causes of getting a qualified opinion for three consecutive years. Based on the report of the audit of Local Government Financial Report Special Capital Territory of Jakarta Year 2013-2015, it is known that one of the reasons underlying the qualified opinion is control over the fixed assets management has not been effective. Control over fixed assets has not been effective due to the insufficient census of fixed assets, inadequate management information systems for fixed assets, not the fully amount of fixed asset data supported by goods inventory cards, no reconciliation of fixed asset data between Regional Work Unit with data according to the Local Government Asset Management Agency, and the existence of fixed assets are not found. The Audit Board of The Republic of Indonesia (Badan Pemeriksa Keuangan-BPK) stated in the audit report that the presentation and disclosure of fixed assets indicate the problem that Special Capital Territory of Jakarta Provincial Government has not administered its fixed assets adequately.

Besides administration, other issues that often occur in asset management are planning and procurement. In planning, the case of Sumber Waras Hospital in the BPK Audit Report on Compliance with Regulation of the year 2014 is known that the public procurement of land that should be held through the planning stages is not done well. It is known from the examination of BPK that obtained documents of the technical assessment of land provisioning plan which was determined after five months of the appointment of location and order/disposition of land purchase budgeting. This indicates that the results of the technical review made and signed by the authorized officials are indicated to be mere formalities. While in procurement, from Local Government Financial Report Special Capital Territory of Jakarta Year 2013-2015, found problems related to the procurement that procurement is not in accordance with the provisions and indicated has disadvantage to the government, over payment on the work package, delivery of goods is not according to specifications, penalty for late activities that have not been charged, the payment precedes the performance of the work, and overpriced marks.

The problems that have been described have potential to create risks. According to Vaughan and Elliot in Kertonegoro (1996: 1), risks are formulated in different definitions: risk is the possibility of loss, risk is uncertainty, risk is the dispersion of actual from expected result, and risk is the probability of any outcome different from the one expected. While according to Australian Standard AS/NZS 4360: 2004, risk is the chance of something that will have an impact on objectives. A risk is often specified regarding an event or circumstance and the consequences that may flow from it. Risk is measured regarding a combination of the consequences of an event and their likelihood.

In managing risk, an organization needs a mechanism called risk management. According to Smith (1990), risk management is defined as the process of identification, measurement, and control of a risk that threatens the organization. According to COSO 2004 about Enterprise Risk Management (ERM), enterprise risk management is a process, applied in strategy setting by an organization, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives. Another definition of risk management is identification, assessment, risk prioritization and continued with actions to minimize the probability and/or impact of negative events or maximize the realization of opportunities (International Council for Local Environmental Initiatives, 2016)

The understanding of risk management allows management to engage effectively in a deal with the uncertainty associated with risks and opportunities and enhance the organization's ability to provide added value. According to COSO 2004 ERM, the risk management process can be divided into eight interconnected components with the following details.

1. Internal environment. The internal environment creates organizational tone, affects risk appetite, attitudes toward risk management and ethical values.
2. Objective setting. Management must establish the objectives of the organization to identify, access, and manage risks. The goals should support the organization's mission and consistent with its risk appetite.
3. Event identification. Management identifies potentially internal or external events, and if they do occur will affect the entity and determine whether these events represent opportunities or threats that affect the achievement of the objectives. Possible events can be identified using several techniques including interviews, internet surveys, document reviews, performance target reviews, facilitated workshops, branched tree analysis, brainstorming, focus group discussions, experience, field practice, recent knowledge, and case investigation.
4. Risk assessment. Risk assessment allows an entity to consider the extent of potential events to have an effect on an objective achievement. In conducting risk assessment, there are important elements, risk analysis and priority risk.
5. Risk response. Furthermore, management determines appropriate measures to harmonize risk with risk tolerance and risk appetite. Models in responding to risk are avoiding, mitigating, sharing/transferring, controlling, and exploiting.
6. Control activities. Control activities are policies and procedures that can help ensure that risk responses by management are carried out. There are several types of control including preventive, detective, corrective, and directive.
7. Information and communication. Information should be sufficient in consistency with the entity's need to identify, assess, and respond to risk, while remaining in its risk tolerance.
8. Monitoring. The risk management process should be monitored, i.e. assessed for existence and function effectively for each component in it continuously. The model used for monitoring is through continuous monitoring of activities, separate assessments, or a combination of the two.

According to Bourn (2007), the government actually realizes that the success of organization's achievement involves risk management. Good risk management will reduce the impact of risks on achieving the objectives of government agencies. Therefore fixed assets management needs to be designed with a risk approach in order to create effective internal controls so the decisions taken become more optimal.

Until now, Special Capital Territory of Jakarta Local Government Asset Agency has not yet identified the risks that may arise in fixed assets management. Based on those problematical situations, this research has the following questions:

- a. What are the risks that may arise in fixed assets management?
- b. What are the probability and impact of risks in fixed assets management?
- c. What are the appropriate response to deal with risks in fixed assets management?
- d. What control activities can be undertaken to mitigate these risks?

In line with the research question, the purpose of this study is to analyze possible risks in fixed assets management, analyze the probability and impact of risks in fixed assets management, analyze appropriate responses to overcome those risks, and analyze control activities that can be done to reduce those risks. This paper's construction consists of four

chapters as follows: (1) introduction; (2) research methodology; (3) research findings and discussion; and (4) conclusion.

2. Research Methodology

2.1. Types of Research

This research uses explorative method. Explorative research method is one branch of qualitative method. Explorative method is chosen because this research are needs to find something that is not yet known. Arikunto (2006:7) states that explorative method aims to explore causes or things that affect the occurrence of something else. Furthermore, this research using case study approach. Case studies is chosen because this research needs a detail investigation of the phenomena and object of the study. The unit analysis is Local Government Asset Agency DKI Jakarta Provincial Government. This research uses case study of single case with single unit of analysis because Jakarta has problem about asset management that causes qualified opinion in audit report from BPK. Besides, Local Government Asset Agency is the coordinator of government asset management in Jakarta.

2.2. Data Collection Techniques and Sources

Research instruments are primary and secondary data. The primary data are gained from in-depth interview and questionnaire, while secondary data are gained from prior research and document analysis. Data collection stages in this research are done gradually. First, researcher collect data which associated with all risks in fixed asset planning, procurement, and administration. Those data are collected by in-depth interview with the related party in planning, procurement, and administration function, also by prior research and BPK audit report. Selection of interviewed respondent was conducted by considering the involved staff in the planning, procurement and administration functions. In the planning function, in-depth interviews are conducted with the Head of Planning, Admission, Determination of Use, and Price Benchmark (P5H), Head of General Sub-Section, and Asset Planning Staff. In the procurement function, the interview is conducted with the Head of General Subdivision, Committing Officer, and Procurement Officer. While in the administration function, the interview is done with Head of Inventory, Data, Information, and Asset Documentation and Head of Asset Inventory Sub Division. From interview, literature, and BPK audit reports, found 8 risks related to planning, 41 risks related to procurement, and 11 risks related to administration.

Second, researchers took data through questionnaires given to respondents to assess the level of probability of risk occurrence and impact of risk on fixed asset management. Questionnaire was given to each of the seven respondents related to the planning, procurement and administration functions. In the planning function, the questionnaire was given to the Head of Planning, Admission, Determination of Use, and Price Benchmark (P5H), Head of Asset Planning, Head of General Sub-Division, and Asset Planning Staff. In the procurement function, a questionnaire was given to the Head of General Subdivision, Committing Officer, Procurement Officer, and staff involved in procurement at the secretariat. While the administration function, the questionnaire was given to the Head of Inventory, Data, Information and Documentation Assets, Head of Asset Inventory Subdivision, and Inventory, Data, Information and Documentation Assets staff. For related staff, they only fill the level of probability and impact while the causes and impacts along the existing control conducted further interviews with Head of Division after receiving the level of likelihood and impact. The level of likelihood and impact is obtained from the average of questionnaires by respondents in each function.

Third, after the data obtained from the respondents, researcher then conduct an analysis to rank the risk. In carrying out the risk analysis and control plan, this research uses the measurements contained in Head of Development Finance Comptroller Regulation No. PER-1326/K/LB/2009 about Technical Guidelines for the Implementation of Government's Internal Control System and PER-688/K/D4/2012 about Guidelines for the Implementation of Risk Assessment in the Government Agencies. In determining the risk category, researcher uses those guidance as be seen below. After getting the results of data analysis, researcher selects the risk response and determine the control plan that still needed in Local Government Asset Agency DKI Jakarta Provincial Government.

3. Result and Analysis

3.1. Risk Identifications, Causes, and Impacts

3.1.1. Risk Identifications, Causes, and Impacts in the Planning Function

Based on the interview, the needs plan of Regional Owned Property has not been made. This is because until now the Ministry of Home Affairs has not socialized Minister of Home Affairs Decree No. 19 Year 2016 on each Regional Work Unit so that the form required by Minister of Home Affairs Decree No. 19 Year 2016 cannot be filled. The needs plan in 2016 is based on unit requirement plan which related to Governor Regulation (Pergub) No. 103 Year 2014. The scope of needs plan at Regional Work Unit level covers unit requirement planning and maintenance. For 2017, the needs plan cycle does not use the Regional Owned Property requirement plan or the unit requirement plan, but directly through the budgeting process. However, the Special Capital Territory of Jakarta Provincial Government uses standard facilities and infrastructure needs in budgeting needs. The standard of facilities and infrastructure describes the needs required by the Regional Work Unit based on the unit of activity.

Based on the explanation above, The Local Government Asset Management Agency needs to perform risk assessment on the needs plan so that the needs plan can be in accordance with organizational goals. The initial stage of risk assessment is the identification of risks containing information about risks, risk causes, and impacts. Risk identification is conducted through interviews with risk owners associated with the needs plan and prior research, while the causes and impacts are obtained from in-depth interview with Head of Section. The discussions generate the risks that may occur in the needs plan can be seen in detail in the below table.

Table 3.1 Planning Risks

No	Risk	Risk Code	Risk Source	Cause	Impact
1	Planning is not as needed	a.1	Interview	The human resources that make the planning are incompetent	Excess or lack of the needs
2	The needs plan do not consider to budget availability	a.2	Prior Research	The changing policies	Excess or lack of budget
3	Planning has not taken into account	a.3	Prior	- Lack of competent human resources	- There are activities that

No	Risk	Risk Code	Risk Source	Cause	Impact
	the life cycle cost of the asset		Research	- Other costs related to assets has not been considered	are not budgeted - Over or under maintenance
4	The needs plan has not been adequately reviewed	a.4	Prior Research	The authorities for review are inadequate	The needs for the current year are inefficient
5	The creation and determination of specifications are not accurate/as per the needs of the end user/recipient	a.5	Interview	- The specification is not arranged by authorized goods officer - Planning is top down	- Received goods are not in accordance with the needs - The execution of work delays.
6	Schedule is not realistic	a.6	Prior Research	- Lack of coordination - Schedule is not made by the concerned executor - Budget endorsement late	- Implementation of activities is not on schedule - Budget is not absorbing 100%
7	The needs plan are not in accordance with the regulation	a.7	Prior Research	- The planning party does not update the regulation - Lack of coordination	The planning breaks the regulation
8	The needs plan based on last year plan	a.8	Prior Research	- Lack of coordination - The absence of significant changes in Regional Work Unit needs	Excess or lack of budget

3.1.2. Risk Identifications, Causes, and Impacts in the Procurement Function

Based on the interview, the procurement is an internal acquisition. Procurement for large value of fixed assets is conducted centrally in Goods Procurement and Services Agency (BPPBJ) while procurement in the scope of Regional Unit Work is carried out for maintenance and fixed assets of less than Rp200,000,000.00 and not the category of goods/services e-catalog. For procurement through e-catalog, the value is not limited by the expenditure mechanism through e-purchasing. Procurement stages in the scope of Regional Work Unit are as follows.

1. The Commitment-Making Officer shall prepare a procurement plan document assisted by the secretariat. The procurement plan documents consist of Terms of Reference (TOR), owner estimate (HPS), technical specifications, and procurement budget.

2. After preparing the procurement plan document, the Commitment-Making Officer then submits the document to the Procurement Officer. The Procurement Officer then reviews the procurement plan documents made by Commitment-Making Officer.
3. After reviewing the procurement plan documents, the Procurement Officer then prepares a schedule and coordination meeting and prepares the procurement sheet and invitation to the supplier. Besides, the Procurement Officer also makes an announcement.
4. After making the announcement, the Procurement Officer shall provide an explanation to give the supplier a chance to inquire if there is any lack of clarity or there is a requirement that is not available on the market. The explanation is done one day after the announcement.
5. The supplier who wants to participate in the procurement process may enter the bidding document within 1 (one) calendar day after the explanation up to the deadline of entry. While the opening of bidding documents shall be made on the last day of submission of bidding documents.
6. Once the supplier has submitted the bidding document, the Procurement Officer shall evaluate the bidding document. The length of the bidding document evaluation period is not regulated but adapted to the type and complexity of the work. The open bidding document is evaluated by the Procurement Officer. Subsequently, the Procurement Officer proposes the winner to the Commitment-Making Officer.
7. In announcing the winner, the Commitment-Making Officer do it directly to the supplier. At the Regional Work Unit level, there is no online winner announcement because the mechanism to announce the winner via online is only in BPPBJ.
8. Upon the announcement of the winner, the Procurement Officer shall prepare an activity report relating to the procurement process and report it to the Commitment-Making Officer.

Based on the explanation of the main activities stages above, Local Government Asset Management Agency needs to conduct a risk assessment on the procurement process so that the procurement implementation can be in accordance with the applicable regulations. Risks that occur in the procurement are as follows.

Table 3.2 Procurement Risks

No	Risk	Risk Code	Risk Source	Cause	Impact
1	The procurement officer does not have competence	b.1	Prior Research	Lack of knowledge and experience	The speed and quality of the procurement process is disrupted
2	Procurement official decree had been canceled	b.2	Prior Research	- Lack of human resources - The procurement officer does not have certificate	Procurement implementation delay
3	Procurement official decree late	b.3	Prior Research	The procurement official decree has not signed by the head of work unit.	The procurement process is inhibited

No	Risk	Risk Code	Risk Source	Cause	Impact
4	The basic pricing is not standard in preparation of owner estimate	c.1	Prior Research	Difficult to collect market price information because the goods is rare	<ul style="list-style-type: none"> - Not getting the right supplier - Potentially lead to wastage of local government finances
5	Mark up in preparation of owner estimate	c.2	Prior Research	The Commitment-Making Officer or Procurement Officer neglects to perform his/her duties	<ul style="list-style-type: none"> - Increases inefficiency - Violate provisions of regulations
6	Technical specifications and owner estimate to specific products	c.3	Prior Research	Needs in the field that need certain specifications which only exist on certain brands	<ul style="list-style-type: none"> - Not getting the right supplier - The opportunities of irregularities
7	Standard pricing is too high	c.4	Prior Research	<ul style="list-style-type: none"> - Do not concern of the market conditions. - Desire for qualified suppliers 	The supplier failed/unable to meet the requirements
8	The procurement schedule and implementation is not appropriate	d.1	Prior Research	The schedule change suddenly	The implementation delay.
9	E-lelang cannot be done	d.2	Prior Research	The SPSE application is not ready yet	The procurement process delay
10	The procurement process is too short	d.3	Prior Research	The job implementation approach the year end	Interested suppliers are few
11	The procurement document is not clear enough	e.1	Prior Research	- There is a difference between owner estimate, technical specification, and quantity and price list.	The supplier failed to present the correct offer

No	Risk	Risk Code	Risk Source	Cause	Impact
				- Making documents in a hurry	
12	Requirement in procurement document is too excessive	e.2	Prior Research	- Additional requirements required. - The desire to get a quality supplier	The supplier is less interested
13	Supplier choosing method is not appropriate	e.3	Prior Research	Not discussed in the review meeting of the general procurement plan	The procurement process does not fit the regulation
14	There is no supplier registered	f.1	Prior Research	- The owner estimate is made too low - The requirements is made too high	The procurement process can be failed
15	Procurement process had been canceled	f.2	Prior Research	There is no supplier registered	The procurement process delay
16	Registration period is extended	f.3	Prior Research	There is no supplier registered	The procurement process delay
17	Technical requirements cannot be met	g.1	Prior Research	- Do not conduct market survey. - The specification is made too high.	The supplier failed to meet the requirements.
18	The annotation schedule is postponed	g.2	Prior Research	The Commitment-Making Officer and technical team are absence	The procurement process delay
19	The number of suppliers who entered the bidding slightly	h.1	Prior Research	The specification is made too high	Competition of procurement process is reduced
20	Bidding document cannot be opened	h.2	Prior Research	Data corruption or malformed format.	The procurement process delay
21	Duration of document submission is extended	h.3	Prior Research	There is no supplier registered	The procurement process delay

No	Risk	Risk Code	Risk Source	Cause	Impact
22	Supplier who passes the evaluation are not eligible	i.1	Prior Research	The specification is made too general	The supplier does not meet the required qualifications
23	Incorrect bidding document (fictitious)	i.2	Prior Research	The supplier does not have the capability and resources.	The procurement process delay
24	Collusion between suppliers	i.3	Prior Research	The required specification is complicated	The procurement process delay
25	Extended evaluation period	i.4	Prior Research	Awaiting confirmation from a third party	The procurement process delay
26	The process of clarification and negotiation is not appropriate	i.5	Prior Research	The Procurement Officer lacks of knowledge and experience	The procurement process delay
27	Direct appointment process is too long	i.6	Prior Research	Preparation of completeness documents is time-consuming	The procurement process delay
28	Procurement process had been canceled/repeated	i.7	Prior Research	There is no supplier who passed the evaluation (failed to meet the requirements)	The procurement process delay
29	Intervention from third parties	i.8	Prior Research	Implementation of urgent activities.	The opportunities of irregularities
30	Winner name does not appear	j.1	Prior Research	The Procurement Officer neglects to input	The procurement process delay
31	The winner announcement schedule is extended	j.2	Prior Research	The evaluation is time-consuming	The procurement process delay
32	Winner determination canceled	j.3	Prior Research	There is an evaluation error	The procurement process delay
33	The winner resign	j.4	Prior	- The supplier is not	The procurement

No	Risk	Risk Code	Risk Source	Cause	Impact
			Research	competent - The deadline for the offer is exhausted	process delay
34	The quantity/ volume of work/ goods delivered is not in accordance with the contract	k.1	Prior Research	- The supplier is not competent - The Procurement Result Examination Officer is not careful in examining the work result	- The provisions of regulation is violated - Procurement result cannot be used
35	The quality of work submitted does not conform to technical specifications	k.2	Prior Research	- The supplier is not competent - The Procurement Result Examination Officer is not careful in examining the work result	- The provisions of regulation is violated - Procurement result cannot be used
36	Delay in goods delivery	k.3	Prior Research	The supplier is not competent	Procurement results are not timely received
37	The Goods Inspection Committee does not inspect and calculate the execution of the work	k.4	Prior Research	The Goods Inspection Committee is not competent	- The provisions of regulation is violated - Procurement result cannot be used
38	Fines for late employment have not been fixed/ levied/deposited to regional treasury	k.5	Prior Research	- Regional Work Unit indecision - Negligence of Regional Work Unit	Lack of revenue that is the right of local government
39	Reporting does not comply with regulation	1.1	Prior Research	Lack of competent human resources	Cannot achieve adequate internal control system related to control activities
40	The reporting does not fit the actual	1.2	Prior	- Lack of coordination between The	The provisions of regulation is

No	Risk	Risk Code	Risk Source	Cause	Impact
	situation		Research	Procurement-Making Officer and supplier - Data/supporting document of reporting does not yet complete.	violated
41	The reporting does not complete	1.3	Prior Research	Data/supporting document of reporting does not yet complete.	The provisions of regulation is violated

3.1.3. Risk Identifications, Causes, and Impacts in the Administration Function

The administration is divided into three parts, they are bookkeeping, listing and recording, and reporting. Until now, Local Government Asset Management Agency does not yet have standard operating procedure (SOP) to administration. Based on the interview, the reference for the administration of Regional Owned Property is the Governor's Instruction (Ingub) Number 187 Year 2015. Ingub No. 187 Year 2015 issued to accelerate the listing of assets that are still running. The listing and recording of asset is the most important thing in government asset management. The purpose of an adequate listing and recording is to plan the efficiency of need, goods or service procurement more efficient, the use of Regional Owned Property can be in accordance with the needs, the utilization of Regional Owned Property becomes more optimal, and the elimination of Regional Owned Property becomes more organized. One of the things that concern in Ingub No. 187 Year 2015 is the development of asset management information system to support the administration of Regional Owned Property. Until now, the asset management information system is still in the process of integration so it cannot be used as a basis in preparing the financial statements.

Based on the explanation of the explanation above, Local Government Asset Management Agency needs to conduct a risk assessment of the administration so administration can be in accordance with organizational goals. Risks that occur in the administration are as follows.

Table 3.3 Administration Risks

No	Risk	Risk Code	Risk Source	Cause	Impact
1	The recording/bookkeeping has not been done accurately	m.1	Prior Research	- Human resources are less careful in inputting data - The asset management application system	The asset data is not completely recorded

No	Risk	Risk Code	Risk Source	Cause	Impact
				is not up to date	
2	The agency has not been supported by adequate human resources	m.2	Prior Research	Many human resources do not fit the required disciplines	The inaccurate, untimely, and unreliable accounting and reporting information in accordance with government accounting standards
3	Inventory results are not accurate	n.1	Prior Research	<ul style="list-style-type: none"> - Lack of adequate personnel - Data does not have a detailed attachment yet 	<ul style="list-style-type: none"> - Cannot achieve adequate internal control system related to control activities - Asset management cycle from planning to disposal is suboptimal
4	The data in the goods inventory card is inaccurate	n.2	Interview	Lack of adequate personnel	Presentation of asset value in financial statements cannot be reasonably believed according to government accounting standards
5	The asset data is listed double on different Regional Work Unit	n.3	Interview	Asset transfer of mutation is still done manually	Presentation of asset value in financial statements cannot be reasonably believed according to government accounting standards
6	The asset value record is not in	n.4	Interview	The absence of an adequate asset	- Cannot achieve adequate internal

No	Risk	Risk Code	Risk Source	Cause	Impact
	accordance with condition (not update)			management information system	control system related to control activities - Presentation of asset value in financial statements cannot be reasonably believed according to government accounting standards
7	The exist assets are not known	n.5	Interview	- The turnover of goods officer - The recording is not done adequately	- Cannot achieve adequate internal control system related to control activities - Presentation of asset value in financial statements cannot be reasonably believed according to government accounting standards
8	The capability of the goods officer is not same	n.6	Interview	The mistakes on human resource placement	The output is not adequate
9	The reporting process is not through adequate internal reconciliation and consolidation	o.1	Prior Research	Lack of coordination during reconciliation	The inaccurate data
10	The preparation process of the report has not been through the accounting cycle	o.2	BPK, 2016	Lack of adequate knowledge	The recording and reporting of fixed assets pose a misstatement risk

No	Risk	Risk Code	Risk Source	Cause	Impact
11	The preparation process of the report has not used accounting information system	o.3	BPK, 2016	The asset management information system is not up to date	The recording and reporting of fixed assets pose a misstatement risk

3.2. The Likelihood and Impact Level of Risk Analysis

The risk identification results above are further analyzed the level of probability of risk occurrence and its impact to know the effect or cause when the event that hinders the goals achievement occurs. Measurement of the probability of risk occurrence is done by qualitative approach. The determination of the possibility of risk occurrence being measured using a likert scale with a range between 1-5. The score indicates that the greater the nominal number means the greater the likelihood of occurrence. Measurements of the occurrence probability and criteria are used as in below.

Table 3.4 Risk Probability Criteria

Score	Definition/Criteria
1- Almost never happened	Events will only occur in exceptional circumstances
2- Rarely happen	Events are not expected to occur
3- Might happen	Events can sometimes happen
4- Often happen	Events are very likely to occur in some conditions
5- Almost certainly happened	Events always occur in almost every condition

Then all the risks are determined their level obtained from the multiplication of the average of possibility with the impact level to know the highest to the lowest risk. In addition, the risk level is also classified in categories and colors with descriptions like the below table.

Table 3.5 Risk Category

Description	Level	Risk Level
Extreme	5	>15
High	4	>10
Medium	3	>5
Low	2	>3
Very Low	1	>1

3.2.1. Likelihood and Impact Level of Risk Analysis in Planning Function

Based on the possibility criteria above and to determine the level of possibility of the risk occurrence, survey is done through questionnaire to seven people related to planning. Similarly, to measure the impact level of planning risk, a perception survey was conducted through a questionnaire to seven people related to planning. The average of likelihood and impact level of each planning risk can be seen in full in the below table.

Table 3.6 The Average of Likelihood and Impact Level of Planning Risks

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
1	Planning is not as needed	a.1	2.43	3.57	8.67	Medium
2	The needs plan do not consider to budget availability	a.2	2.86	3.71	10.61	High
3	Planning has not taken into account the life cycle cost of the asset	a.3	3.14	3.57	11.22	High
4	The needs plan has not been adequately reviewed	a.4	2.71	3.00	8.14	Medium
5	The creation and determination of specifications are not accurate/as per the needs of the end user/recipient	a.5	2.71	3.14	8.53	Medium
6	Timing is not realistic	a.6	2.14	2.57	5.51	Medium
7	The needs plan are not in accordance with the regulation	a.7	2.00	2.86	5.71	Medium
8	The needs plan based on last year plan	a.8	3.57	3.00	10.71	High

3.2.2. Level of Likelihood and Impact of Risk Analysis in Procurement Function

Based on the possibility criteria above and to determine the level of possibility of the risk occurrence, survey is done through questionnaire to seven people related to procurement.

Similarly, to measure the impact level of procurement risk, a perception survey was conducted through a questionnaire to seven people related to procurement. The average of likelihood and impact level of each procurement risk can be seen in full in the below table.

Table 3.7 The Average of Likelihood and Impact Level of Procurement Risks

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
1	The procurement officer does not have competence	b.1	2.00	3.86	7.71	Medium
2	Procurement official decree had been canceled	b.2	2.57	3.29	8.45	Medium
3	Procurement official decree late	b.3	2.43	3.43	8.33	Medium
4	The basic pricing is not standard in preparation of owner estimate	c.1	2.43	3.14	7.63	Medium
5	Mark up in preparation of owner estimate	c.2	2.29	4.00	9.14	Medium
6	Technical specifications and owner estimate to specific products	c.3	2.00	3.43	6.86	Medium
7	Standard pricing is too high	c.4	1.71	3.71	6.37	Medium
8	The procurement schedule and implementation is not appropriate	d.1	2.29	3.43	7.84	Medium
9	E-lelang cannot be done	d.2	2.71	3.29	8.92	Medium
10	The procurement process is too short	d.3	2.43	3.57	8.67	Medium
11	The procurement document is not clear enough	e.1	2.43	3.86	9.37	Medium
12	Requirement in procurement document	e.2	3.00	3.86	11.57	High

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
	is too excessive					
13	Supplier choosing method is not appropriate	e.3	2.43	3.86	9.37	Medium
14	There is no supplier registered	f.1	2.43	2.86	6.94	Medium
15	Procurement process had been canceled	f.2	2.71	3.71	10.08	High
16	Registration period is extended	f.3	2.71	3.14	8.53	Medium
17	Technical requirements cannot be met	g.1	2.71	3.43	9.31	Medium
18	The annotation schedule is postponed	g.2	2.71	3.43	9.31	Medium
19	The number of suppliers who entered the bidding slightly	h.1	2.14	3.14	6.73	Medium
20	Bidding document cannot be opened	h.2	1.57	3.43	5.39	Medium
21	Duration of document submission is extended	h.3	2.00	3.29	6.57	Medium
22	Supplier who passes the evaluation are not eligible	i.1	2.29	3.71	8.49	Medium
23	Incorrect bidding document (fictitious)	i.2	1.86	4.29	7.96	Medium
24	Collusion between suppliers	i.3	2.29	4.14	9.47	Medium
25	Extended evaluation period	i.4	2.43	3.57	8.67	Medium
26	The process of clarification and negotiation is not appropriate	i.5	1.71	3.86	6.61	Medium

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
27	Direct appointment process is too long	i.6	2.29	3.71	8.49	Medium
28	Procurement process had been canceled/repeated	i.7	1.71	4.14	7.10	Medium
29	Intervention from third parties	i.8	1.71	4.14	7.10	Medium
30	Winner name does not appear	j.1	1.71	3.57	6.12	Medium
31	The winner announcement schedule is extended	j.2	2.29	3.43	7.84	Medium
32	Winner determination canceled	j.3	2.14	3.86	8.27	Medium
33	The winner resign	j.4	2.43	3.14	7.63	Medium
34	The quantity/volume of work/goods delivered is not in accordance with the contract	k.1	2.71	4.14	11.24	High
35	The quality of work submitted does not conform to technical specifications	k.2	3.00	4.29	12.86	High
36	Delay in goods delivery	k.3	2.00	3.43	6.86	Medium
37	The Goods Inspection Committee does not inspect and calculate the execution of the work	k.4	2.29	4.00	9.14	Medium
38	Fines for late employment have not been fixed/levied/deposited to regional treasury	k.5	2.14	3.86	8.27	Medium
39	Reporting does not comply with regulation	l.1	2.14	3.43	7.35	Medium

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
40	The reporting does not fit the actual situation	1.2	2.00	3.43	6.86	Medium
41	The reporting does not complete	1.3	2.14	3.43	7.35	Medium

3.2.3. Likelihood and Impact Level of Risk Analysis in Administration Function

Based on the possibility criteria above and to determine the level of possibility of the risk occurrence, survey is done through questionnaire to seven people related to administration. Similarly, to measure the impact level of administration risk, a perception survey was conducted through a questionnaire to seven people related to administration. The average of likelihood and impact level of each administration risk can be seen in full in the below table.

Table 3.8 The Average of Likelihood and Impact Level of Administration Risks

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
1	The recording/ bookkeeping has not been done accurately	m.1	3.00	3.57	10.71	High
2	The agency has not been supported by adequate human resources	m.2	3.43	4.00	13.71	High
3	Inventory results are not accurate	n.1	2.86	3.71	10.61	High
4	The data in the goods inventory card is inaccurate	n.2	3.00	3.43	10.29	High
5	The asset data is listed double on different Regional Work Unit	n.3	2.86	3.14	8.98	Medium
6	The asset value record is not in accordance with condition (not update)	n.4	3.29	4.00	13.14	High

No	Risk	Risk Code	Average		Risk Level	Category
			Probability	Impact		
7	The exist assets are not known	n.5	2.86	4.29	12.24	High
8	The capability of the goods officer is not same	n.6	3.43	3.86	13.22	High
9	The reporting process is not through adequate internal reconciliation and consolidation	o.1	2.29	2.86	6.53	Medium
10	The preparation process of the report has not been through the accounting cycle	o.2	1.43	2.71	3.88	Low
11	The preparation process of the report has not used accounting information system	o.3	1.43	2.57	3.67	Low

3.3. Risk Response

Before determining the risk response, risk evaluation is first performed. Risk evaluation is a process for determining the priority of the risks to make decisions regarding the response and handling prioritization required. Based on the results of risk analysis, risk priorities in planning, procurement, and administration function lie in the high risks category. The selected risk response will help the agency to focus on carrying out the necessary control activities and ensuring the chosen risk response is performed appropriately. The selected risk response is also used as a first step in controlling activities or determining the control activities required in order to reduce the risk occurrence. In planning, procurement, and administration function, the risk responses chosen to reduce the risks that fall into the high category are reducing the likelihood level, reducing the consequences level, or a combination of the two responses.

Table 3.9 Risk Responses

No	Risk	Risk Code	Probability	Impact	Risk Level	Risk Response
Planning						
1	Planning has not taken into account the life cycle cost of the asset	a.3	3.14	3.57	11.22	Reduce the consequence

No	Risk	Risk Code	Probability	Impact	Risk Level	Risk Response
2	The needs plan based on last year plan	a.8	3.57	3.00	10.71	Reduce the likelihood
3	The needs plan do not consider to budget availability	a.2	2.86	3.71	10.61	Reduce the consequence
Procurement						
1	The quality of work submitted does not conform to technical specifications	k.2	3.00	4.29	12.86	Reduce the consequence
2	Requirement in procurement document is too excessive	e.2	3.00	3.86	11.57	Reduce the consequence
3	The quantity/volume of work/goods delivered is not in accordance with the contract	k.1	2.71	4.14	11.24	Reduce the consequence
4	Procurement process had been canceled	f.2	2.71	3.71	10.08	Reduce the consequence
Administration						
1	The agency has not been supported by adequate human resources	m.2	3.43	4.00	13.71	Reduce the consequence
2	The capability of the goods officer is not same	n.6	3.43	3.86	13.22	Reduce the consequence
3	The asset value record is not in accordance with condition (not update)	n.4	3.29	4.00	13.14	Reduce the consequence
4	The exist assets are not known	n.5	2.86	4.29	12.24	Reduce the consequence

No	Risk	Risk Code	Probability	Impact	Risk Level	Risk Response
5	The recording/ bookkeeping has not been done accurately	m.1	3.00	3.57	10.71	Reduce the consequence
6	Inventory results are not accurate	n.1	2.86	3.71	10.61	Reduce the consequence
7	The data in the goods inventory card is inaccurate	n.2	3.00	3.43	10.29	Reduce the likelihood and consequence

3.4. Control Activities

In order to reduce the impact and probability of risks and also to improve the effectiveness of risk management in planning, procurement, and administration function, it is necessary to add control activities because the existing control activities are considered to be ineffective. Control activities taken should consider the existing control activities, budgets, and support resources available at Local Government Asset Management Agency can be seen in the following.

Table 3.10 Control Activities Plan

No	Risk	Risk Code	Existing Control Activities	Control Activities Needed	Person in Charge
Planning					
1	Planning has not taken into account the life cycle cost of the asset	a.3	Mainly do corrective maintenance	<ul style="list-style-type: none"> - Mapping resource based on asset conditions - Creating service level standards for asset performance in order to determine, review, and manage asset portfolios 	Head of Regional Work Unit, Head of Secretariat, Head of Subsection related to Planning
2	The needs plan based on last year plan	a.8	Coordination meetings	<ul style="list-style-type: none"> - Identifying the current level of asset services - Creating asset portfolios in order to meet program services 	Head of Regional Work Unit, Head of Secretariat, Head of Subsection related to Planning
3	The needs plan do not consider to budget availability	a.2	<ul style="list-style-type: none"> - Coordination meetings - Revised Regional Government 	Creating service level standards for asset performance in order to determine, review, and manage asset portfolios	Head of Regional Work Unit, Head of Secretariat, Head of General Subsection, Head of Subsection

No	Risk	Risk Code	Existing Control Activities	Control Activities Needed	Person in Charge
			Budget		related to Planning
Procurement					
1	The quality of work submitted does not conform to technical specifications	k.2	<ul style="list-style-type: none"> - Instruct partners to resolve the work shortages according to technical specifications - Checking the work result 	<ul style="list-style-type: none"> - Coordinating with the supplier of goods/services in assessing the supplier's reputation - Making completeness of acceptance of work result check list 	Head of Regional Work Unit, The Commitment-Making Officer, Goods Officer
2	Requirement in procurement document is too excessive	e.2	Consultation with related party	<ul style="list-style-type: none"> - Improving market survey activities - Preparing procedures for procurement documents preparation 	The Commitment-Making Officer and Procurement Officer
3	The quantity/volume of work/goods delivered is not in accordance with the contract	k.1	<ul style="list-style-type: none"> - Instruct partners to settle the work shortages according to contract - Give sanctions to partners (if partners are not willing) 	<ul style="list-style-type: none"> - Coordinating with the supplier of goods/services in assessing the supplier's reputation - Making completeness of acceptance of work result check list 	Head of General Subsection, Procurement Result Examination Officer, and Goods Officer
4	Procurement process had been canceled	f.2	Consultation with related party	<ul style="list-style-type: none"> - Improving market survey activities - Reviewing of procurement problem periodically 	Procurement Officer
Administration					
1	The agency has not been supported by adequate human resources	m.2	Employee recruitment as needed	<ul style="list-style-type: none"> - Mapping of human resources needs - Placing employees in accordance with initial recruitment 	Head of Regional Work Unit, Head of Secretariat, Head of General Subsection
2	The capability of the goods officer is not	n.6	Employee recruitment as needed	<ul style="list-style-type: none"> - Mapping of human resources needs - Placing employees in accordance with initial recruitment 	Head of Regional Work Unit, Head of Secretariat, Head of

No	Risk	Risk Code	Existing Control Activities	Control Activities Needed	Person in Charge
	same				General Subsection
3	The asset value record is not in accordance with condition (not update)	n.4	Reconciliation per semester with all of Regional Work Unit	<ul style="list-style-type: none"> - Making asset management information systems that can be integrated with reporting - Making procedure of asset management per stage 	Head of Regional Work Unit, Head of Information Subdivision, Head of General Subsection, and Goods Officer
4	The exist assets are not known	n.5	Reconciliation per semester with all of Regional Work Unit	<ul style="list-style-type: none"> - Placing employees in accordance with initial recruitment - Reviewing Goods Officer work monthly - Making procedure of asset management per stage 	Head of Regional Work Unit, Head of Information Subdivision, Head of General Subsection, and Goods Officer
5	The recording/ bookkeeping has not been done accurately	m.1	Develop asset management information system which up to date	<ul style="list-style-type: none"> - Making asset management information systems that can be integrated with reporting - Making procedure of asset management per stage 	Head of Regional Work Unit, Head of Information Subdivision, Head of General Subsection, and Goods Officer
6	Inventory results are not accurate	n.1	Reconciliation per semester with all of Regional Work Unit	<ul style="list-style-type: none"> - Placing employees in accordance with initial recruitment - Reviewing Goods Officer work monthly 	Head of Regional Work Unit, Head of Information Subdivision, Head of General Subsection, and Goods Officer
7	The data in the goods inventory card is inaccurate	n.2	Reconciliation per semester with all of Regional Work Unit	<ul style="list-style-type: none"> - Placing employees in accordance with initial recruitment - Reviewing Goods Officer work monthly 	Head of Regional Work Unit, Head of Information Subdivision, Head of General Subsection, and Goods Officer

Other control activity plans that can be performed by related functions in order to reduce the occurrence of risks for the risks included in medium and low category, among others:

1. Finalize SOP for each stage of activities in planning, procurement, and administration function because until now asset management is still using Minister of Home Affairs Decree No. 19 Year 2016 and there is no technical guidance regarding the stages of asset management.
2. Improve the understanding of the regulations about asset management by the addition of evaluation activities and technical guidance by the Ministry of Home Affairs.
3. Increase the ability and professionalism of human resources by engaging in training related to asset management or by referring to best practice in other countries.

In addition, general control activities that should be taken in the process of asset management related to the risk assessment and risk evaluation process above, namely:

1. Development of human resources. The head of work unit is expected to make strategic planning and human resource development to support the achievement of organizational goals. Planning and development of human resources strategy can be in the form of employees placement related to competence of employees in accordance with their fields.
2. Control over the information systems management. Control over the information systems management can be the formulation of procedures or mechanisms of risk management, the implementation of periodic and comprehensive risk assessments, and implementation of monitoring and evaluation of risk control activities.

4. Conclusion

Based on the analysis and discussion, it can be concluded that risk identification of the planning function resulted in 8 risks, on the procurement function resulted in 41 risks, while in the administration function there are 11 risks. Planning risks that include into high category are the needs plan has not paid attention to budget availability, planning does not take into account the life-cycle costs of assets, and the needs plan is still based on last year's planning. Procurement risks that include into high category are requirement in procurement document is too excessive, procurement process had been canceled, quantity/volume of work/goods delivered not in accordance with the contract, and the quality of work submitted does not conform to technical specifications. Administration risks that include into high category are recording/bookkeeping has not been done accurately, the agency has not been supported by adequate human resources, inventory results are not accurate, the data in the goods inventory card is inaccurate, recording of asset value is not in accordance with condition (not update), the exist assets are not known, and the capability of the goods officer is not same.

The result of risk analysis about likelihood and impact level on asset management at Local Government Asset Management Agency Jakarta resulted that overall risk in planning, procurement, and administration function was included in medium risk category. The risk level itself based on multiplication between likelihood level and impact level.

In planning function, the risk response chose to reduce the risks that include into high category are reducing the likelihood level and reducing the consequences level. In procurement function, the risk response chose to reduce the risks that include into high category is reducing the consequences level. While in administration function, the risk responses chosen to reduce the risks that include into high category are reducing the consequences level and combination of reducing the likelihood level and reducing the consequences level.

In order to reduce the impact and probability of risks and also to improve the effectiveness of risk management in planning, procurement, and administration function, it is necessary to add control activities because the existing control activities are considered to be ineffective. For planning function, the control activities plans are mapping resource based on

asset conditions, creating service level standards for asset performance in order to determine, review, and manage asset portfolios, identifying the current level of asset services, and creating asset portfolios in order to meet program services. For procurement function, the activity control plans are coordinating with goods/services supplier in assessing the supplier's reputation, making completeness of acceptance of work result check list, improving market survey activities, preparing procedures for procurement documents preparation, and reviewing of procurement problem periodically. For administration function, the control activity plans are mapping of human resources needs, placing employees in accordance with initial recruitment, making asset management information systems that can be integrated with reporting, making procedure of asset management per stage, and reviewing asset administrator work monthly.

This research has some limitations. First, the risk identification questionnaire in this study was prepared on the basis of interviews and risk identification previously conducted in previous studies. Second, the risk impact level has not been made criteria so the estimated impact level is still based on the estimates of the interviewee. Third, the impact of risk has not been linked to the owner of the risk so it cannot be seen the relationship between risks.

Based on the analysis and recommendations, this research gives some suggestions. They are for: (1) Local Government Asset Management Agency: to implement control activities; and (2) the next research: to pre-tested first and provide a more detailed and clear explanation of the causes and impacts of the risks to be identified in questionnaire, use a larger number of respondents (it is better to make focus group discussion) and expand unit analysis, establish criteria for the risk impact and risk appetite on the level of risk identified, and expand all stages of the fixed assets management from planning to supervision and control.

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DO RELIGIOUS ENVIRONMENT AND INDIVIDUAL ATTRIBUTE CURBING ACCRUAL, REAL ACTIVITY AND TUNNELING MANIPULATION?

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ABSTRACT

The flexibility of accounting standards is one of the drivers of creative accounting. Creative accounting is an ethical dilemma. It seems that creative accounting does not explicitly violate the rules, but led misinterpretation and misdirection in user's decision-making. University learning environment is critical to the development of ethical values. The social norm theory implies that religious institutions will shape people's behaviors. Otherwise, the theory of the sacred canopy argues that religion no longer affects the aspects of life due to the increased level of modern society materialism. The purposes of this study are: first, to test the differences of ethical perceptions of undergraduate students in religious and public universities; second, to examine the effects of moral disengagement on ethical perceptions. The data collection method involved a questionnaire to a total of 225 respondents from two religious-based universities and one public university. Analysis of Variance (ANOVA) was used to test the hypothesis. The results show: (1) there is a significant difference in students' ethical perceptions between the public university and religious-based universities, (2) there is a significant difference in students' ethical perceptions students with high and low level moral disengagement. Educational implication and suggestion for future research are proposed.

Keywords: Ethical perception, creative accounting, accrual manipulation, real activity manipulation, tunneling, ethics education, religiosity, moral disengagement

Introduction

The accounting environment becomes more complex due to the change in accounting standards from US GAAP (Generally Accepted Accounting Principles) to IFRS (International Financial and Reporting Standards). Accounting rules become more flexible because IFRS-based accounting standards are based on principle-based. The flexibility of accounting standards is one of the drivers of creative accounting (Largay, 2002). Accountants take advantage of the flexibility of accounting standards in making discretionary accounting to move reported earnings toward desired goals. It seems that creative accounting does not explicitly violate or only slightly deviate from the rules. But from a user's perspective, this practice is unethical because everyone who uses earning information generated from creative accounting tends to misinterpret and misdirect in decision-making. Creative accounting is an ethical dilemma; then the assessment of students' ethical perceptions of the practice measures students' ability to recognize and understand ethical issues.

Not all accountants agree on creative accounting practices. Based on the survey, 56% of accountants stated that creative accounting is allowed and only 33% of respondents said that creative accounting is not allowed (Faragalla, 2015). The obvious question is: Why do some accountants agree with creative accounting and others do not? Therefore, the purpose of this study is twofold. Our first objective is to examine the effects of religiosity environments on ethical perceptions of creative accounting practices. Our second objective is to examine the effect of individual attributes of moral disengagement on ethical perceptions of creative accounting practices. Moral disengagement is internal mechanism that allow people to behave unethically without feeling distress (Moore et al., 2012).

Creative accounting is designed to prepare financial reports to achieve financial performance targets, resulting in a misrepresentation of corporate performances (Balaciu & Pop, 2008). There are several methods to do creative accounting, among others: First, accrual manipulation is earnings manipulation through the discretionary accrual manipulation. Discretionary accruals are accruals used to reduce or enlarge earnings reported by choosing accounting policies subjectively by management (Scott, 2009). Second, real activity manipulation is defined as a deviation from normal operating activities of the company which are motivated by management's desire to give a false understanding to stakeholders that certain financial reporting purposes have been achieved through the company's normal operating activities (Roychowdhury, 2006). Third, tunneling is defined as transferring of resources out of a company for the benefit of its controlling shareholders (Johnson et al.,

2000). Tunneling activities are often difficult to identify since the activities are made and hidden within the seemingly legitimate transactions. There were many ways for companies to do tunneling through related party transaction such as receivables, asset transactions, trading transactions, cash payments and equity transactions to related parties (Cheung et al., 2006; Cheung et al., 2009b and Jian & Wong, 2003).

Each type of creative accounting method have the costs and consequences. Accrual management has no direct effect on cash flow; therefore, less likely to destroy firm values (Badertscher, 2011). Because accrual management is done within Accounting standards, so the possibility to be detected by investors, regulators and auditors is low. Real activity manipulation and tunneling are more costly than accrual manipulation. Real activity manipulation and tunneling are impacts on cash flow, have negative impact on optimal business activity and destroy long the firm value (Badertscher, 2011; Bertrand et al., 2002; Cheung et al., 2006; Hosseinyan et al. 2016; Sari et al., 2016; Lo et al., 2010). The risk of detection of real activity manipulation is lower than accrual manipulation (Badertscher, 2011). For example, if management engages a real activity manipulation by cutting discretionary expenditures such as research and development costs (R & D), such activities will not be scrutinized by the auditor or regulator.

Therefore, we especially examine whether religious environment and moral disengagement influence ethical perceptions on methods of managing earnings. Differences from previous studies are: first, previous studies have extensively examined the influences of religions on personal behaviors (Lehrer, 2004; Rawwas *et al.*, 2006) but the extent to which religious environments have effects on ethical perceptions of creative accounting of students has limited attention. Second, most of the previous studies focused on the ethical judgments of the accruals and real activity manipulation methods (Bruns and Merchant, 1990; Elias, 2002; McGuire *et al.*, 2012) but ethical considerations regarding tunneling have limited consideration. Meanwhile, with the business group structure and low legal enforcement cause many cases of tunneling in Indonesia, they are difficult to detect (Sari *et al.*, 2013). Recognition of ethical issues in tunneling activities is important because it may cause harm to the company and non-controlling shareholders may even lead to the transfer of state resources to other countries.

Understanding the impacts religious environment and individual attribute on ethical perceptions of creative accounting is important because it makes us understand the mechanism to increase the ethical values of accountants. Examining the factors that influence the perceptions of ethical students will provide useful insights to educators and regulators.

The remainder of this paper proceeds as follows. In the next section, we provide a review of literature and hypothesis development. In section three, we describe the research method. Section four, we discuss the results. In the final section, conclusion, we present the implication of this study.

Review Literature and Hypothesis Development

Religiosity and Ethical Perception of Creative Accounting

There are two arguments about the influence of religion on creative accounting. First, the opinion that religion has an effect on creative accounting practice. According to this school of thought, religion influences the practice of creative accounting because: (1) several previous studies indicate that religion is the source of morality and ethical behavior (Vitell, 2009; Hardy et al., 2012); (2) social norm perspective of religion also suggesting a dampening creative accounting practice. Social norms influence behavior because individuals prefer to conform to their peer group (Kohlberg, 1984) and avoid punishment for opposing standards, values, and beliefs that are considered acceptable (Sunstein, 1996). Social norms have strong influence on human behaviors (Sunstein, 1996; Cialdini and Goldstein, 2004). Those who behave in accordance with religious norms will receive a higher level of social recognition, on the contrary, those who violate the norm will accept social sanctions. (3) Risk aversion is another explanation of why religion has an effect on creative accounting. Manager in countries with higher religiosity relative more risk averse (Hilary and Hui, 2009; Shu et al, 2012). Risk-averse managers are less likely to engage in opportunistic earnings management if only because of potential litigation cost.

Recent studies test whether religion matter for financial accounting outcomes. Conroy and Emerson (2004) examined the influence of religiosity on the use of “accounting tricks to conceal”. With an experimental design, they found that religiosity is associated with lower acceptance of accounting manipulation. McGuire et al., (2012) found that firms in religious areas are less likely to engage financial reporting irregularities. They argue that religiosity reduces acceptance of unethical business practices. Du (2014) found that religion mitigates tunneling. These findings are consistent with the view that religion has an important influence on corporate behavior and can be a set of social norms and/or alternative mechanisms for reducing unethical tunneling behavior.

Second, the theory of sacred canopy developed by Peter Berger (1967). The main

component of Berger's principles can be summarized that religious worldviews are constructions by which societies legitimate the social order and maintain their constellation of things, meanings, rituals, and institutions. Religious legitimize is constructed and maintained by human activities; yet when this aspect of their existence is forgotten, they also inherently carry with them the danger of alienation (Kline, 1981). Alienation is associated with the problems caused by rapid social changes, such as industrialization and urbanization (see Industrial Revolution), which have broken down traditional relationships among individuals and groups. The Sacred canopy theory argues that religions have lost their influences in many aspects of life due to the increasing materialism of our modern society (Berger, 1967; Gorski, 2000). People have become very pragmatic and putting aside religious values. For example, politicians who are legitimized religiously may at the same time do their activities in contrary to religious values such as corruption and so on (Berger, 1967).

Several studies support the theory of sacred canopy. For example, among others, Rawwas *et al.* (2006) examined ethical belief differences in academic dishonesty among students at religious and secular universities in Japan. They found that religion is not an impediment to academic dishonesty. Because of the high pressure of the capital market to meet the profit targets, McGuire *et al.*, (2012) found positive association between religiosity and real activity manipulation. Managers in religious areas remain to manipulate earnings.

Based on this discussion, we propose the following hypothesis 1 and More specifically, stated in H1a-H1c

- H1. There is a difference in the ethical perception of creative accounting methods between students at state universities and religious universities.
- H1a. There is a difference in the ethical perception of accrual manipulation between students at state universities and religious universities.
- H1b. There is a difference in the ethical perception of real activity manipulation between students at state universities and religious universities.
- H1c. There is a difference in the ethical perception of tunneling manipulation between students at state universities and religious universities.

Moral disengagement on Ethical Perception of Creative Accounting

In addition to external factors, individual attribute of moral disengagement may significantly affect the ethical perception of creative accounting. Moral disengagement describes a mechanism for people to behave ethically without feeling depressed (Moore et al., 2012). Social cognitive theory states that individuals use a three-step process to maintain moral behavior according to what the individual possesses socially acceptable. These measures include self-monitoring, assessment and reactions. Self-monitoring shows individuals controlling their behavior, according to their own moral standards. Furthermore, the individual assesses this behavior through self-assessment, to ensure appropriate action, given a moral standard. Eventually the process of individual self-reactions allows people to anticipate how they will fall given specific action.

However, this process may not always work well, and individuals may disengage the process. In this way, they can act in ways that are contrary to what they feel socially acceptable, but they will not suffer from cognitive impairment. Moore (2008) hypothesis that moral disengagement will result in increased initiation, facilitation and perception of corruption within an organization. Individual with high on moral disengagement will be easier to make an unethical decision (initiation), which result in a benefit for the organization (facilitation). If this practice is rewarded and prevalent within organization, it the organization could be perceived as corrupt (Moore, 2008). Research previously found that a tendency to morally disengage predicts some unethical outcomes, including self-reported unethical behavior, self-serving at work and a tendency to commit fraud (Moore et al., 2012).

Individuals with higher levels of moral disengagement will have a tendency to engage in unethical acts in a business setting that would agree on creative accounting practices even having a high tendency to undertake creative accounting. Following the formally stated hypothesis relating to moral disengagement.

- H2. There is difference in the ethical perception on creative accounting methods between students with high and low moral disengagement
- H3a. There is a difference in the ethical perception of accrual manipulation between students with high and low moral disengagement
- H3b. There is a difference in the ethical perception of real activity manipulation between students with high and low moral disengagement

- H3b. There is a difference in the ethical perception of tunneling manipulation between students with high and low moral disengagement

Research Method

Participants and Procedure

The survey offered to 225 undergraduate business students from two religious-based universities and one public university. The survey offered to 225 undergraduate business students from two religious-based universities and one public university. Sample selection using purposive sampling with criteria: first, the students come from university that accredited A. second, the student has taken the course of business ethics, intermediate accounting and auditing. Table 1 shows the sample characteristics.

Table 1: Participant Characteristics

	Public University		Religious-based university	
	Mean	SD	Mean	SD
Age	20.6	0.78	20.5	0.86
GPA	3.57	0.16	3.47	0.21
Percent in Each Category				
	Male	Female	Male	Female
Number of Samples Observed	35	64	46	80

There were 25 male and 64 female respondents in the public university. In the religious-based university, there were 46 male and 80 female students. The average age of the public university students is 20.6 and that of the religious-based universities is 20.5.

Variable Measurement

Ethical Perception of Creative Accounting. We used modified Burns and Merchant's (1989) questionnaire to measure ethical perception of creative accounting. The questionnaire contained accrual and real activity manipulation cases and we added a tunneling case. The respondents were required to rate each question on a five-point Likert scale ranging from 1 to 5 as follows: 1: ethical practice; 2: questionable practice; 3: minor practice; 4: serious infraction; 5; totally unethical.

Moral disengagement. We used self-assessment of the propensity to moral disengage which developed by Moore et al., (2012).

The type of university is measured by a dummy variable, 0 for public university and 1 for religious-based university. Gender is measured by variable dummy: 0 female, 1 male. Our model for testing the influence of ethics education, religiosity, and ethical orientation on ethical perception of creative accounting uses the following form:

Ethical Perception on Creative Accounting

$$= B_0 + \beta_1 \text{Type of University} + \beta_2 \text{Moral Disengagement} + \beta_3 \text{Gender} + e$$

The dependent variable, ethical perception, represents three measures of creative accounting for accrual-based, real earning management, and tunneling. The independent variables are type of university and moral disengagement. In addition to our variable interest, we also control for gender variable that prior research suggest are associated with ethical perception (Ritter, 2006).

Hypothesis testing

To test the hypotheses, Analysis of Variance (ANOVA). The assumptions for factorial ANOVA are that the observations are independent, the variances of the groups are equal (homogeneity of variances), and the dependent variable is normally distributed for each group. To test the assumption of homogeneity of variances, Levene statistic was used. The result of Levene test is insignificant. This indicates that the assumption of homogeneity of variances has been fulfilled. One-Sample Kolmogorov-Smirnov test was used to test the assumption of normality, and the normality assumption is also fulfilled.

The analysis result of hypothesis testing of H1a - H1b presented at table 2.

Table 2 The result of Analysis of Variance

Panel A: Result of testing hypothesis 1			
Dependent Variable	Type of University	Mean	F Test
Ethical Perception on Accrual Manipulation	Public University	2.92	7.16**
	Religious-based university	2.64	
Ethical Perception on Real Activity Manipulation	Public University	2.48	4.77**
	Religious-based university	2.35	
Ethical Perception on Tunneling Manipulation	Public University	3.29	10.12**
	Religious-based university	3.03	
Panel B: Result of testing hypothesis 2			
Dependent Variable	Level of Moral Disengagement	Mean	F Test
Ethical Perception on Accrual Manipulation	Low	2,92	19.89***

	High	2,64	
Ethical Perception on Real Activity	Low	2,55	7.24**
Manipulation	High	2,28	
Ethical Perception on Tunneling	Low	3,27	8.14**
Manipulation	High	3,05	

*** p<0.01; **p<0.05; *p<0.10

Hypothesis 1a predicts there is a difference in the ethical perception of accrual manipulation between students at state universities and religious universities. The result show that there is a significant difference in the average value of students' ethical perceptions on accrual manipulation between public and religious based university students ($p<0.05$). The mean response of accrual manipulation of public university students is higher than the mean response of religious-based university students. Results showed that students in public universities is considered that accrual manipulation are more unethical compared to the students in religious university. Therefore, the result support hypothesis 1a.

The result of hypothesis 1b testing show that there is a significant difference in the average value of students' ethical perceptions on real activity manipulation between public and religious based university students ($p<0.05$). The mean value of ethical perception of public university students (2.48) is higher than the mean value of religious-based university students (2.35). This suggests that students at religious-based universities view manipulation of real activity as a more acceptable practice compared to students in public universities.

Hypothesis 1c predicts that There is a difference in the ethical perception of real activity manipulation between students at state universities and religious universities. The mean value of ethical perception of public university students on tunneling manipulation is higher than the mean value of religious-based university students. This implies that students in a religious-based university view tunneling manipulation as a more acceptable act compared to students in public universities.

The results of hypothesis testing 2a, 2b and 2c (Table 2 panel B) indicate that there are significant differences of students' ethical perception with high and low disengagement moral level. Students with low moral disengagement assess that accrual, real activity and tunneling manipulation are more unethical than students with low moral disengagement.

Discussion and Conclusion

Although all the creative accounting methods have the same consequences of misinterpretation for the user and degrade the quality of information, the ethical judgment on creative accounting methods is different. Students in religious-based universities perceive

that accrual, real activity and tunneling manipulation are more ethically acceptable than the students in the public university. This phenomenon supports the sacred canopy theory which contends that religious values have faded due to the high materialism. The results of this study also support McGuire et al. (2012) that managers in religious areas also manipulate earnings using real activity manipulation due to high capital market pressure to achieve profit targets.

Results of the testing of hypotheses 2a, 2b and 2c indicate that as individual's propensity to disengage increase their acceptance in creative accounting practices. The result support previous research that moral disengagement will result in initiation, facilitation, and perception of fraud (Bandura et al., 2000). Another research show that a tendency to morally disengage predicts some unethical behavior (Moore et al. 2012). Students with low moral disengagement assess that earnings management are more unethical than students with high moral disengagement.

Overall, the results may be beneficial to academicians, practitioners, and accounting researchers. All interested parties can suggest possible remedies and solutions to mitigate creative accounting behaviors. Improvements should also be made on the education organizational infrastructure such as performance evaluation and reward not only oriented in the short term. This is because short term orientation can escalate competition and deprive organizational members of ethical perspectives (Park, 1998) and religious values (Rawwas, et al, 2006). Improvements are also required in the teaching of business ethics to instill ethical values in prospective practitioners. Effective ethics education will result in increased sensitivity ethical, moral reasoning, and even ethical behavior (Sims, 2002), thereby reducing the likelihood of moral disengagement.

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**ISLAMIC SOCIAL REPORTING COMPANIES LISTED IN
THE JAKARTA ISLAMIC INDEX
PERIOD 2013-2016**

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Abstract

The aim of this study is to examine the factors affecting Islamic Social Reporting on companies listed in Jakarta Islamic Index (JII) year 2013-2016. Factors tested were firm size, profitability, industry type, bank type, sharia securities, and leverage. Islamic Social Reporting is an index used to measure the degree of disclosure of corporate responsibility. The sample of this research is selected by purposive sampling. The sample numbered 140 data for four years of research (2013-2016). Based on multiple linear regression analysis, firm size factor, profitability, and leverage have no effect on Islamic Social Reporting disclosure. As for the type of industry, type of bank, and securities of sharia affect the disclosure of Islamic Social Reporting.

Keywords: Islamic Social Reporting, company size, profitability, industry type, bank type, sharia securities, leverage.

Background

In the early days of the history of Islamic development of the 7th century, Islam already has being economic system that functioned as a regulator of economic activity (Fathurrahman 2010: 179). However, it is development in the world lately more exciting, from academic aspects as well as aspects of practice. There have been many countries that are developing finance industry and sharia banking. Currently, there are about 300 syariah financial institutions in the world spread over 75 countries (Kholis, 2011). In Indonesia, the Islamic economy began to gain significant momentum since Bank Muamalat Indonesia (BMI) was founded, on April 22, 1992. Although the establishment of the BMI was said to be slower than Bank Islam Malaysia Berhard (BIMB) in 1983 and Al-Amanah Islamic Investment Bank Philippines, in 1990 (Suprihatin, 2011). The development of Islamic economy in Indonesia is relatively fast, since the issuance of regulations that regulate the Islamic banking. This fact provides good news to many, not only to most Muslims, but also to anyone who is oppressed by the "laissez faire" philosophy composed by the system of capitalism (Fathurrahman, 2010: 181). The rapid growth of Islamic economics, on the other hand, still keeps the problem and leaves a number of problems; therefore constructive criticism is still needed.

Indonesia ranks sixth countries with potential and conducive in the development of Islamic finance industry Global Islamic Financial Report 2016 (Alamsyah, 2012). Some aspects of the index are valued, such as the number of syariah banks, the number of non-bank Islamic financial institutions, and the size of the largest sharia financial assets, Indonesia is projected to be ranked first in the next few years. This optimism is in line with the institutional expansion and accelerated growth of sharia banking assets that are very high, coupled with the volume of issuance of Islamic securities such as the issuance of sukuk is increasing (Faricha, 2016). With the rapid development of sharia economy, corporate social responsibility is also required, where this phenomenon is also triggered by the increasingly global trend of disclosure practices in business practices. The idea of social responsibility emerged in the United States in the 1970s (Yusuf, 2010: 197). Utama (2007) discloses that the practice and disclosure of social responsibility in Indonesia has begun to evolve in line with the increasing concern of the global community towards the development of transnational or multinational companies operating in Indonesia such as deforestation, air pollution, water pollution, climate change, Widyawati and Raharja, 2012).

Various corporate ways of realizing social responsibility on the environment, among others: investing in the environmentally friendly sector, waste processing and increase social

expenses (social cost) which aims to maintain the balance of existence between the company and its social environment (Fatmawatie, 2015: 223). Measurement is certainly not free from elements of usury, gharar, and transactions forbidden by Islam. With the increasing of social responsibility in Sharia economy, the increasing also desire to make social reporting that is Sharia (Islamic Social Reporting) (Wahasusmiah, 2015: 765). According to (Haniffa, 2002) there are limitations in the conventional social reporting so that he proposes a conceptual framework of Islamic Social Reporting based on the provisions of Islamic sharia which not only to assist Muslim decision makers but also to assist companies, especially companies that comply with sharia provisions in order to fulfill obligations Against Allah SWT and the surrounding community. Thus, taking into account the material, moral and spiritual aspects

(Othman, Thani and Ghani, 2009) developed a disclosure index relevant to Islamic Social Reporting (ISR). They determined that firm size, profitability, and board size of the board of directors significantly affected the ISR disclosure rate, whereas industry type was not an important factor affecting the ISR significantly. Research conducted by Widiawati and Raharja (2012) determines that firm size, profitability, industry type and bank type significantly and positively affect the ISR disclosure rate. Other previous studies by Princess and Yuyetta (2014) determined that firm size; industry type and sharia securities have a positive effect on ISR, while profitability has no positive effect on ISR. This research continues research conducted by Putri and Yuyetta (2014), Widiawati and Raharja (2012) and (Othman, Thani and Ghani, 2009) using ISR as the index of social responsibility disclosure to companies listed on Jakarta Islamic Index accompanied With a change in the item of the independent variable adjusted to the conditions in Indonesia, ie removing the independent variable of the Board of Directors of the Muslim and replacing it with another variable namely Leverage. This is because the data to find out whether the Board of Directors is Muslim or not is not publicly publicized by companies in Indonesia because it is privacy for the Board of Directors and the company.

Theoretical Basis

The larger company usually gives more available disclosure information to investors in decision-making with respect to investment in the company (Siregar & Utama, 2005). Larger social disclosure is the reduction of political costs for the company (Hasibuan, 2001). The size of an enterprise can be seen from the amount of income, total assets, total employee and total capital. The greater the size of income, total asset of employee and total capital will reflect the company's stronger state (Basyaib, 2007 in Mutia et.al, 2011). According to the Ministry of Industry and Trade of the Republic of Indonesia, the size of the company is

divided into three categories, namely large companies, medium-sized companies, and small companies. The bigger a company it will become more familiar to the public, which means the easier to get information about the company (Hartono, 2003: 282). Company size is related to a measurement of the size or size of the organization or company formed by one or more persons in achieving its objectives (Mandaika and Salim, p139). Generally large companies will disclose more information than small firms, because big companies will face greater political risk (Miftah and Arifin, 2013: 3). Company size can be proxied from the value of market capitalization, total assets, and sale logs. In this study with Aggono and Handoko (2009), firm size uses total assets. Widiawati and Raharja (2012) have proven that firm size has a significant and positive influence on ISRs on companies listed on the List of Sharia Securities in 2009-2011. Larger companies (total assets) have a tendency to disclose ISR is wider than smaller companies. In contrast to Lestari study (2014) which has proven that the size of the company in its study has no effect on the ISR disclosure. Therefore this study formulates the hypothesis: The sizes of the company affect the Islamic Social Reporting (ISR)

Disclosure of corporate social responsibility reflects a company's approach to adaptation a dynamic and multidimensional environment. The relationship between disclosure of corporate social responsibility and corporate profitability has been believed to reflect the view that social reactions require managerial styles by management to make a company profit (Bowman and Haire, 1976 in Sembiring, 2003). Theoretically, according to Kokubu et al (in Sembiring, 2005: 386), states that there is a positive relationship between the economic performances of a company with the disclosure of social responsibility (Retno, 2012: 89). Social needs are increasing with the advancement of human civilization. Public expectation; image; creation of a favorable environment; and compensation for the resources that has exploited by the sacrificed given by the environment (Widaryanti, 2007:32). From an Islamic perspective, a company must be willing to give full disclosure regardless of whether the company is profiting or not (Haniffa, 2002). Janggu (2004) argues that firms with higher profitability are likely to disclose more information than firms with less profitability. Profitability can be measured using several ways, among others: ROA, ROE, ROCA, earnings per share, dividend in a period, profit margin, rate of return, and others (Raditya, 2012). Novrizal and Fitri (2016) have found that profitability has no significant effect on the disclosure of Corporate Social Responsibility by using the ISR index as a benchmark on companies listed in the Jakarta Islamic Index (JII). However, contrary to the study of Putri and Yuyetta (2014) proves that profitability has no effect on Islamic Social Reporting; it is

because the use of ROE in strategic decisions of the company is not possible if only in one time and cross industry. However, it is different from the study conducted by Widyawati and Raharja (2012), the study proves that companies in favorable positions will tend to disclose ISR more widely than companies that suffered losses, although not overall loss-making companies will disclose ISR smaller. Thus this study formulates into the hypothesis: Profitability affects Islamic Social Reporting (ISR)

Profiles according to Indonesian dictionary are defined as types, when associated with a company or industry means an industry type that consists of high-profile and low-profile industries (Roberts, 1992 in Hackston and Milne, 1996 in Indrawati, 2009 in Politon and Rustiyaningsih, 2013). In Novrizal and Fitri (2016), industry is to gain profit. The results of the industry are not only in the form of goods, but also in the form of services. The company profile has been identified as a potential factor affecting corporate social disclosure practices. Industry type is one of the factors affecting the level of corporate disclosure to the public. Cooke (in Gunawan, 2002) states that the extent of disclosure in the annual report may not be the same for all economic sectors. According to Verrecia (in Suripto, 2000) proprietary costs (politics and competitive disadvantage) differ across industries. In addition, according to Meek et al. (In Suripto, 2000) the relevance of certain disclosure items varies between industries. In Suripto (2000) study using industry variables grouped into bank and non-bank companies, but the results are not significant. According to Suwaidan (1997) in Omar and Simon (2011) in Widyawati and Raharja (2012), manufacturing companies produce more pollution than non-manufacturing companies so additional information should be disclosed in the company's annual report. Othman et.al, (2009), revealed that the type of industry has no influence on the level of IS. In Nasir, Kurnia and Hakri (2013) the theory of legitimacy provides a more comprehensive perspective on the disclosure of social responsibility. However, this is inversely proportional to the study of Widiawati and Raharja (2012) which has proved that the type of industry has a positive and significant effect on the ISR due to the different characteristics of operations owned by each manufacturing and non-manufacturing company. Thus this study formulates into the hypothesis: Industrial type affects Islamic Social Reporting (ISR).

Prohibition of usury practice in sharia banks is expected to improve corporate governance that includes corporate social responsibility, as a comparison among other financial institutions. The core of this Islamic-based bank is the risks that will be accepted equally by each customer or the bank itself, interest-free financial instruments and yield-sharing contracts. The presence of strong regulation and increased disclosure within Islamic

banks can enhance stakeholder trust. One significant difference between the conventional financial institution governance structure and the sharia financial institution is the existence of the Sharia Supervisory Board and the Shariah Review Unit (Graiss and Pellegrini, 2006). Islamic banks are perceived to have a greater purpose to the community than conventional banks that are perceived to be financially profitable to their customers. Sadieddine's (2000) study in Widyawati and Raharja (2012) which argues that adequate disclosure of corporate social responsibility practices to the public is essential to safeguard investor ownership and to reduce the ophthalmism of managers in Islamic financial institutions. Study of Widyawati and Raharja (2012) revealed that the type of bank has a positive and significant impact on the ISR. Thus, companies using the types of Islamic banks in the study have revealed a wider ISR compared with companies that do not use the type of syariah bank. There is a difference of ISR disclosure rates in companies that cooperate with sharia banks and conventional companies (Widyawati & Raharja, 2012). Thus this study formulates into the hypothesis: The type of bank affecting Islamic Social Reporting (ISR)

Based on Law Number 8 of 1995 concerning Capital Market (UUPM), Securities or also referred to as securities, namely debt certificates, commercial paper, stocks, bonds, debt tokens. Based on the decree, the sharia products in the form of securities should not conflict with sharia principles. Therefore, the effect is said to be Sharia Securities. Sharia Securities are the securities as referred to in the Capital Market Law and the regulations on the implementation of contracts, ways and business activities on which they are based are not incompatible with the principles of sharia. To date, the sharia securities issued in the Indonesian capital market include Sharia Shares, Sukuk, and Equity Participation from Sharia Mutual Funds. Study on the effect of securities issuance on corporate disclosure has been done by Putri and Yuyetta (2014), proving that the issuance of Islamic securities has a positive effect on Islamic Social Reporting. Thus this study formulates into the hypothesis: Islamic securities have an effect on Islamic Social Reporting (ISR)

One aspect used to assess company performance is Leverage or corporate debt. Leverage reflects the company's financial risk level (Sembiring, 2005 in Mahdiyah, 2008). Chariri and Yulianto (2003) in Mahdiyah (2008) stated that firms with larger debt proportions in their capital structure would have higher agency costs. Riyanto (2001) defines leverage as the use of assets or funds for which the company must cover fixed costs or pay a fixed expense. Leverage as a substitute for asset or source of funds, and as a result of the use of such funds the company must pay a fixed fee (Sutrisno, 2001). In principle, the concept of leverage is the result of the use of fixed costs of an asset or fund to enlarge the return of

company ownership (Gitman 2006: 538) or profitability (Van Horna and Wichowicz, 1995: 434) in Hadianto and Tjun (2009). The purpose of the company using leverage is so that the profits derived greater than the cost of assets and sources of funds. The use of this leverage may turn into a risk if the company turns out to have a lower profit than its fixed cost, thereby lowering shareholder profits. In study Rosiana et.al (2015), shows the results of study on the leverage that the variable has no effect between leverage measured by the ratio of liabilities to equity. Sharia banks with high or low leverage rates will continue to disclose as a form of meeting the information needs of customers (Masruki, 2009) in Rosiana et.al (2015). Thus this study formulates into the hypothesis: Leverage affects Islamic Social Reporting (ISR).

Study Methods

The populations in this study are companies listed on the Jakarta Islamic Index at the end of May and November in the period of 2013-2016. The further step is sampling using purposive sampling with sample criterion, among others: (1). Registered in the Jakarta Islamic Index within the period 2013-2016. (2). Using Rupiah as the unit of corporate reporting currency. (3). Have a positive profit before tax. So that study can be more compared to that only give positive profit. Based on the criteria, the annual report that became the sample of study observation is 140 annual reports from 35 companies listed in the Jakarta Islamic Index period 2013-2016 and has met the criteria of sample selection.

The dependent variable in this study is the score obtained from the analysis results of the disclosure level of Islamic Social Reporting (ISR). The measure used to assess the level of social responsibility disclosure is the index of Islamic Social Reporting (ISR) designed by (Othman, Thani and Ghani, 2009). The use of this ISR index because the author wants to know the disclosure of companies in accordance with Islamic principles. The ISR index is divided into 43 items categorized into six themes: Finance and Investment, Products or Services, Employees, Environment, and Corporate Governance. So the largest value (score) that can be obtained annually from the highest corporate disclosure report is 43 and the smallest is zero (0). The independent variables of the studies are company size, profitabilities, industry types, bank types, sharia securities and leverage which are measure as the following: (1) company size is measured by the total value of the company's assets; (2) the company's profitability value is measured by using ROE; (3) industrial types are dummy with a value of 1 for manufacturing and 0 for non-manufacturing; (4) bank types identifies as dummy variable with value 1 for type of syariah bank and 0 for conventional bank; (5) Sharia Securities identifies the existence of Islamic securities using an interval scale with a value of

1 for the ownership of one type of Islamic securities, value 2 for the existence of two types of Islamic securities, and value 3 is used for more types; and (6) The firm leverage in this study is measured by Debt to Equity Ratio (DER).

Data collected from Jakarta Islamic Index for six periods or during the period 2013-2016. The next step is taking the company's data in the form of annual report on the BEI website (www.idx.go.id). Data of the company is then used to fill the index of Islamic Social Reporting. Then the data will be tested with normality test then followed by hypothesis test using linear regression with SPSS 23 program.

Analysis and Discussion

Companies listed in the Jakarta Islamic Index in the period 2013-2016 as many as 43 companies. However, during the sample selection process, there are some companies that do not meet the criteria for study. There are 7 companies that do not meet the criterion number 2 in term of using rupiah as the reporting currencies, and there is 1 company that do not meets the criterion number 3 in term of positive profit before tax, so the total company that does not match the predefined criteria that is as many as 8 companies. The final results obtained that meet the requirements of the sample amounted to 35 companies which then became the sample in this study.

The results of the study for the firm size showed that no effect of firm size on Islamic Social Reporting. Eventough, the larger company could be giving more disclosure information (Siregar and Utama, 2005). Based on the data, the authors found only 3 out of 37 companies that revealed ISR at the level of more than 25 of the 43 ISR points measured. This indicates the low level of corporate awareness in reporting activities required in Islamic reporting. It is not accordance with the study of Widiawati and Raharja (2012), which proves that firm sizes has a significant and positive effect on ISRs on companies listed on the List of Sharia Securities in 2009-2011. The study proves that larger companies (total assets) have a tendency to disclose a wider ISR than smaller companies. In contrast to Lestari study (2014) which has proven that the size of the company in its study has no effect on the ISR disclosure, because in the ISR disclosure company is not based on firm size, because the total assets of the company is not the only source in ISR disclosure. Because, in assessing good bad company not only seen from total asset furthermore can be seen from company income statement (Lestari, 2014).

The second result that profitability does not affect the Islamic Social. Greater the company's profit does not affect its willingness to disclose by encouraged the managers to

provides more detail disclosure (Retno, 2012: 89) . This is not aligned in the study conducted by Widyawati and Raharja (2012), in his study stated that profitability has a positive and significant effect on ISR, the study proves that companies that are in a favorable position will tend to reveal ISR broader than companies that experienced losses. Although not overall loss-making companies will reveal smaller ISRs. However, different in the study revealed by Putri and Yuyetta (2014) proves that profitability has no effect on Islamic Social Reporting, it is because the use of ROE in strategic decisions of the company turned out not to be if only in one time and cross industry. However, the results of Novrizal and Fitri's study (2016), in line with the results of this study have proved that profitability has no significant effect on the disclosure of Corporate Social Responsibility by using the ISR index as a benchmark on companies listed in the Jakarta Islamic Index (JII).

The industry type has an influence on Islamic Social Reporting on companies listed in the Jakarta Islamic Index period 2013-2016. The several differences may exist and varies between industrial types (Meek at. al in Suropto, 2000). This is in accordance with the study of Widiawati and Raharja (2012) which has proved that the type of industry has a positive and significant effect on ISR. It is due to the different characteristics of operations owned by each manufacturing and non-manufacturing companies. But it is inversely proportional in study (Othman, Thani and Ghani, 2009), reveals that the type of industry has no influence on the level of ISR. This is in accordance with the theory of legitimacy. In Nasir et.al, (2013) the theory of legitimacy provides a more comprehensive perspective on the disclosure of social responsibility. This theory explicitly acknowledges that business is limited by social contracts that the company agrees to show the company's various social activities in order to be accepted by the public for the company's goals that will ultimately ensure the survival of the company. (Nasir et al., 2013)

The type of bank has an influence on Islamic Social Reporting. The use of sharia bank as a medium of deposit of funds of the company becomes a guarantee for investors to believe the suitability of the investee in managing the funds in accordance with the principles of sharia (Sadieddine's in Widyawati and Raharja, 2012). This is also in line with study Widyawati and Raharja (2012) revealed that the type of bank has a positive and significant impact on the ISR. Thus, companies using the types of Islamic banks in the study have revealed a wider ISR compared with companies that do not use the type of syariah bank. The study of Widyawati and Raharja (2012) found that there is a difference of ISR disclosure rates in companies that cooperate with sharia banks and conventional companies. So it is

assumed to be exposed to differences in ISR disclosure rates in companies that choose Islamic banks and conventional banks. (Widyawati and Raharja, 2012)

The sharia securities have an influence on Islamic Social. Sharia investment instruments become very closely related to sharia disclosure as a proof of corporate commitment in managing funds. This is pararel with study on the effect of securities issuance on corporate disclosure ever done by Putri and Yuyetta (2014), proving that the issuance of Islamic securities has a positive effect on Islamic Social Reporting. Companies that have more types of securities reveal more Islamic Social Reporting information (Princess and Yuyetta, 2014).

The result of leverage is no effect on Islamic Social Reporting of the companies. Supposedly, companies with high debt portions should provide more disclosure (Chariri and Yuliarto 2003 in Mahdiyah, 2008). This is in line with Rosiana et.al (2015) study, showing the results of study on the leverage that the variable has no effect between leverage measured by the ratio of liabilities to equity. Sharia banks with high or low leverage rates will continue to disclose as a form of meeting the information needs of customers (Masruki, 2009) in Rosiana et.al (2015). This is not in line with agency theory which suggests that firms with higher leverage ratios will reduce the disclosure of information, as it will become the highlight of debtholders. Meek et al. (1995) in Dewi (2012), argues that firms with high leverage levels have extensive and open disclosures so that lenders can be more confident in the company. It can be concluded that companies are favorable by looking at corporate laverage rates as the lower ratio. This is the higher level of corporate funding provided by shareholders and the greater protection for creditors.

Conclusion and Contribution

This study aims to analyze the effect of firm size, profitability, industry type, bank type, sharia securities, and leverage against Islamic Social Reporting (ISR). The study was conducted using secondary data sourced from Indonesia Stock Exchange (IDX) by looking at index listed in Jakarta Islamic Index period 2013-2016. The sample was chosen using purposive sampling method, taking 35 companies registered in Jakarta Islamic Index for 4 years (2013-2016). The stages of this study are descriptive statistic analysis, normality test, and hypothesis test (linear linear analysis) with SPSS 23. From the test results that have been done to companies listed in Jakarta Islamic Index (JII) period 2013-2016.

The ISR disclosure rate of companies registered in JII for the period 2014 and 2015 increases compared to the ISR disclosure of companies registered in JII for the period of 2013, as some of the new companies listed in JII for the period 2014 and 2015 were not

included into the JII list for the period of 2013, while for the period 2016 decreased on the ISR disclosure. Based on the disclosure that has been done, there are still a few companies listed in JII expressing things in accordance with sharia principles such as zakat, wakaf, halal, and shari'ah compliance are still very little disclosed by companies listed in JII period 2013-2016. The disclosure is still a little disclosed company, because the company does not fully declare themselves as a sharia company, but as a company whose operational activities do not violate sharia, so companies that are in accordance with sharia is still rarely found in the disclosure. Here are companies that have disclosed ISR more than 25 items: ICBP, INDF and UNVR during the period 2013-2016.

The results of data analysis can be concluded that the industry type, type of bank and sharia instrument has a significant influence on Islamic Social Reporting. Profitability, firm size and leverage are rejected. The findings in this study contribute to the preparation of disclosure policies as criteria that must be met by the company. Especially by firms with profitability level, size and and certain level of debt. This is cause it is important to guarantee the certainty of sharia compliance that is disclosed to the investors.

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THE IMPACT OF IFRS ADOPTION ON EARNINGS MANAGEMENT: EVIDENCE FROM INDONESIA

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ABSTRACT

This study is aimed to investigate the impact IFRS adoption on accrual earnings management and real earnings management. The IFRS adoption in Indonesia, has begun since 2012, is to enhance the quality of financial statements Indonesia. In this research, the quality of financial statements is represented by accrual earnings management and real earnings management. Basically, accrual earnings management is conducted by the manager at the end of period (year), while real earnings management is conducted in the whole period.

This research uses the quantitative descriptive method. The samples used in this study are manufacturing companies listed on the Indonesia Stock Exchange (BEI) in the period 2013-2015. Using purposive sampling, selected companies data amounted to 75. Furthermore, the observation is examined by panel data approach for four years consist of two years before (2010 – 2011) and two years after IFRS adoption (2013-2014). To obtain more reliable results, the study also involves several control variables: company size, leverage, sales to total assets turnover, and cash flow from operation.

Based on random effect model there are two important results. First, IFRS adoption influences the accrual earnings management significantly. The negative coefficient parameter shows that IFRS adoption can reduce accrual earnings management practice in Indonesia. Second, different with accrual earnings management result. It shows that IFRS adoption does not influence real earnings management. Based on the descriptive statistics, it indicates that manager tends to apply accrual earnings management instead of real earnings management.

Keywords: IFRS Adoption, accrual earnings management, real earnings management

INTRODUCTION

International Financial Reporting Standards (IFRS) is financial reporting standard that acts as a solution for accounting standards differences in various countries. IFRS was fully applied by European countries. Other countries also follow to adopt this standard like Australia, Brasil, Canada, Singapore, and Indonesia. The objective of International Accounting Standard Board (IASB) in establishing an international standard is to enhance the quality of accounting so that it can reflect the real economic conditions and company's performances. Based on that condition, accounting quality is mostly influenced by low earnings management, timeliness in loss recognition, and own high relevant value. (Barth et al., 2008).

In the IFRS context, Principle-based is applied to obtain a better quality of accounting information. The quality may be improved if there is a limitation of opportunity policy for managers, such as earnings (Barth et al., 2008). Barth et al., (2008) suggests that earnings management after IFRS adoption is lower than the previous periods

Most listed companies in Indonesia Stock Exchange are obliged to prepare financial reports based on IFRS which was started from 2012. The background of this implementation is to facilitate capital flows, and to enhance the financial report comparability among enterprises. (Brochet et al., 2013). Previous research proved the existence of accounting quality improvement throughout IFRS adoption. However, this result is based on assumption that certainty exists. Also, it supported by no incentives in adopting IFRS (Barth et al., 2008; Chen et al., 2010; Zeghal et al., 2012). Even though earnings quality is not always related to earnings management (Lo, 2008), earnings management does not reflect the quality of financial accounting information. The previous research in Europe proved that after IFRS period, there is a tendency for European enterprises to shift from accrual earnings management to real earnings management (Ipino dan Parbonetti, 2011). The main assumption why accrual earnings management is applied in Europe because of the flexibility of IFRS other than local accounting standards. Consequently, managers are difficult to make discretion including accrual manipulation. However, Doukakis (2014) finding is different from Ipino and Parbonetti's (2011) findings. Doukakis found that there is no shifting in earnings management from accrual to real in companies all over European- Union.

The rest of research, in general, indicates enhancement of accounting quality for companies which apply IFRS (Barth et al., 2008; Chen et al. 2010). In contrast, it shows the different result for countries that apply high law enforcement (Ahmed et al., 2013). Other research concludes that contextual environment creation can be a boundary for companies to act in a different manner. (Cohen et al., 2008; Zang, 2012). Capkun et al. (2008) dan Zeghal et al. (2012) test the impact of IFRS adoption on earnings management that captured by discretionary accrual. However, earnings management can be done by managers through a real transaction. This strategy is known as real earnings management. This phenomenon reflects that manager distorts optimal planning action to influence time or real transaction structure (Ever & Wagenhofer, 2005). Empirical study shows that manager can manage profit throughout sales, production, research and development expenditures and assets sales (Bartov, 1993 & Roychowdhury, 2006). Some other previous studies focus on transition period (before and after IFRS adoption) while examining mandatory IFRS adoption based on management.

The scope of this study focuses on accrual earnings management and real earnings management implementation both before and after IFRS adoption. Theoretically, a country will get benefit from the implementation of IFRS since enterprises will provide a better quality of accounting information. This quality is indicated by low earnings management. A study conducted in Greece, a country that applies earnings management, concluded that prior to IFRS adoption earnings management practice decreased. The main reason for the action is to pay less tax (Karampinis and Hevas, 2013). On the other hand, IFRS' revenue calculation differs between accounting reporting and tax reporting. It causes less motivation to apply earnings management in order to avoid tax. This shifting affects earnings management application both accrual earnings management and real earnings management.

LITERATURE REVIEW

Positive Accounting Theory

Positive accounting theory is clearly described by Watts and Zimmerman (1986). This theory tries to explore why accounting policy become an issue not only for management but also other stakeholders to predict appropriate accounting policy for certain situation. The theory is supported by an assumption that company is a "nexus of contracts". It means company acts as an estuary for all relevant contracts. For instance, employees' contract (including managers), supplier, and stockholders. As a compilation of contracts, the companies tend to do cost-minimization like negotiation, performance-monitoring contract, business-failure possibility, and so on. Several contracts often involve accounting variables. Positive accounting theory argues that a company will benefit accounting policy to minimize contracting cost. This condition is strengthened by flexibility offerings from Standard-Board to Managers to choose the appropriate policy system.

Earnings Management Motivation

Scott (2015) divides earnings management understanding into two perspectives. First, earnings management as a manager's behavior to maximize his utilization in tackling compensation contract, debt contract and political costs (opportunistic earnings management). Second, treating earnings management from the efficient contracting point of view (efficient earnings management). In this case, earnings management enables managers a flexibility to protect themselves and company upon unexpected events. Hence, managers may influence stock market price throughout earnings management. For instance, establishing income smoothing and profit growth for all period. Similar earnings management is also disclosed by Schipper (1989). He argues that earnings management is an intervention action to achieve a certain goal in financial reporting process for external needs. This action is conducted to obtain several private benefits.

Real Earnings Management

Roychowdhury (2006) introduces earnings management techniques known as real-activity manipulation. It can be defined as a difference operating practices compare to normal practices. This approach is motivated by management eagerness to deliver wrong understanding to stakeholders regarding financial reporting. In fact, the approach does not give any added value to the company. However, real-activity manipulation may support management in achieving its goal. Real-activity manipulation can be implemented as price-discount policy, and discretionary expenditure reduction which to some extent is effective for the company. But, if it's done more expansive than its normal activity to achieve certain profit target, this activity can be categorized as real-activity manipulation.

Consistent with Roychowdhury (2006), Graham et al. (2005) describe several valuable findings: (a) finance executive pay more attention to profit target like zero earnings, previous period profit; (b) finance executive will do the real-activity manipulation to achieve this target even though it will risk company value. The current action will give negative impact to the future cash flow.

Overproduction generates over-supply for the available goods in the future. Also it will increase the cost of inventories maintenance. Gunny (2009) and Lio (2011) elaborate that earnings management can be done by generating profit and loss from fixed assets sales, and current period investment. Those activities can be classified as a distortion compare to normal business.

Previous Literatures

Various definition about earnings management has been proposed in previous studies. Watt and Zimmerman (1990) state that earnings management occurs when management executes its discretion (to choose estimation method, reporting and disclosure). Unfortunately, the discretion is taken to achieve different goals. The result is merely disclosed profit that management wants. Healy and Wahlen (1989) also describes that managers may mislead stakeholders about the financial performance by making a judgment in financial reporting and transaction structure to achieve their goals.

Earnings management can also be done by choosing a suitable method and financial accounting policy that may lead to disparity of period dimension in cash flow and revenue recognition (Ronen and Yaari, 2008). In other words, earnings management may be based on accrual approach and also based on a real operational decision which was known as real profit-based earnings management. Heali and Wahlen (1999), Fudenberg and Tirole (1995), and Dechow and Snikcker (2000) refer to sales acceleration, shipment-schedule alteration, research & development cost postponement, and maintenance expense as real earnings management method. Meanwhile, Roychowdhury (2006) found several consistent pieces of evidence showing company's strategy to strengthen sales by offering sales discount. The strategy can also improve production to lower cost of good sold, and reduce discretion cost to increase company's margin.

Real-activity manipulation can be defined as a management's action to achieve minimum earnings by conducting unappropriate business practice (Roychowdhury, 2006). This issue indicates that real earnings management reflect wrong practice to mislead stakeholders in order to convince them that accounting reporting has been achieved. However, this deviation may lead to minimum firm value. It is significantly different between accrual earnings management and real earnings management. Real earnings management endow negative impact to company value if the company conduct the transaction solely to improve current profit (decreasing expected cash flow) (Roychowdhury, 2006)

Real earnings management is more difficult to be traced by external parties compare to accrual earnings management. It happens because real earnings management is hidden in company's daily operation (Cohen & Zarowin, 2010). Besides, a survey done by Bruns and Merchant (1990) and Graham et al. (2005) shows that finance executives tend to manipulate profit throughout real earnings management instead of accrual earnings management. Daily activities modification is expensive. But, it benefits managers because it hard to be traced by outsiders. (Roychowdhury, 2006; Zang, 2012). Managers may be burdened with personal cost related to earnings management if their behaviors are detected by auditors, regulators and standard making bodies who protect investors.

Hypothesis Development

On January 1st 2012, all listed companies at Indonesia Stock Exchange (IDX) report their financial statement based on IFRS. IFRS adoption makes a significant change in accounting policy and methods. Several local accounting policy and method are prohibited by IFRS. The scope of International Accounting Standards Committee (IASC) is a standard arrangement that is based on principle. It also requires a reliable measurement that reflect better company performance and economic position. Regarding this issue, current research indicates that IFRS adoption obligation is succeeded in enhancing information efficiency and contributing to European market stability (Lambertides and Mazous, 2013). However, a question arises. How to measure the efficiency consider the difference of local regulation, compliance, culture, and institution background (Ball, 2006; Nobes,

2006; Larson & Street, 2004; Zeff, 2007; Tsalavoutas et al. 2009). The objective of IFRS adoption is to induce a high quality of reporting, and own a high-value relevant for external parties.

Previous research has proven that there is substitution issue between accrual earnings management versus real earnings management. The issue is mostly related to cost-benefit consideration (Cohen et al. 2008; Zang, 2012). Zang (2012) shows that that two kinds of earnings management have a negative impact on companies whose make a specific profit. On the other hand, they have a positive impact on earnings management incentives, monitoring by external parties, and litigation risk. Consequently, most companies alter their strategy into real earnings management. Cohen et al. (2008) investigate the impact of Sarbanes Oxley Act of earnings management practice. Cohen found that there were a huge number of earnings management practice before SOX is legalized. In contrast, it showed a lower number of earnings management after SOX. Surprisingly, It also showed the increase of real earnings management practice. These findings proved the existence of shifting management behavior, from accrual earnings management to real accrual earnings management. Tight regulation can also urge companies to be more careful in applying earnings management throughout accounting policy (in this case, accrual earnings management) (Ewert and Wagenhofer, 2005). The existence of tight accounting standard has influenced managers to alter their policy from accrual earnings management into real earnings management. Benefit owned by real earnings management is a similarity with other business transaction (Doukakis, 2014). Consequently, since tight accounting standard improves accounting quality through value relevant from reported profit, the marginal benefit of earnings management will increase and management will improve real earnings management. Hence, it will simultaneously increase cost and decrease firm value. This phenomenon is known as an argument of marginal benefit improvement for real earnings management (Doukakis, 2014).

Doukakis (2014) investigated 22 European enterprises. He found that accrual earnings management stayed at the same level since mandatory IFRS adoption era. Meanwhile, IFRS acknowledgment does not give any impact to real earnings management. Van Tendeloo and Vantraelen (2005) found an indifference behavior between IFRS adoption period among Germany enterprises both companies that apply IFRS and companies apply local accounting standard. In contrast, Ipino and Parbonetti (2011) did a research to 37 countries. They found that IFRS contributed to earnings management substitution from accrual to real. The situation is only occurred at countries that obliged IFRS application and have tight regulation. Cohen et al. (2008) and Zang (2012) observed the existence of policy alternatives and accounting choice (e.g. litigation risk, strict regulation and others). Those observations have influenced earnings management practice shifting from accrual to real. At the same period, other study showed better accounting quality if financial statement reported based on IFRS (Barth et al., 2008; Chen et al., 2010).

This research mostly refers to study conducted by Sellami and Fakhfakh (2014). They tested direct impact of IFRS adoption on real earnings management. The background research of Sellami and Fakhfakh (2014) based on impact of earnings management on audit quality (Chi et al., 2011), existence of strict regulation and litigation (Cohen et al., 2008; Zang, 2012), and lack of accounting flexibility (Ewert and Wogenhofer, 2005). Based on those studies, the expected result is a limitation of accrual earnings management by applying IFRS and strict regulation. But, those standards cannot limit management to apply real earnings management because it benefits enterprises to choose policies.

This study tries to examine the existence of accrual earnings management and real earnings management, and the shifting possibility between them after IFRS adoption period. The hypothesis of this research are:

- H1: IFRS adoption is negatively significant on accrual earnings management
- H2: IFRS adoption is positively significant on real earnings management

METHODOLOGY

This study applies panel data regression method. The test conducted on hypotheses both partially and simultaneously. To have the best result, the regression model should pass classical assumption test. The reason for the step is to obtain an appropriate and efficient model. Next, the interpretation of the results is deployed on independent variables that statistically has a significant impact on the dependent variable. The operational definition in a research is related to the variables used in this study. Moreover, this study involves several variables, they are:

Dependent variable

a. accrual earnings management

calculated by discretionary accrual using Modified Jones model done by Cohen et al. (2008), Ipinio & Parbonetti (2011) and, Zang (2012) as follows:

$$\frac{\text{Accrual}}{\text{TAt} - 1} = a_0 \left(\frac{1}{\text{TAt} - 1} \right) + a_2 \frac{(\Delta\text{REV} - \Delta\text{REC})}{\text{TAt} - 1} + a_2 \frac{\text{PPEt}}{\text{TAt} - 1} + \epsilon_t$$

- Accruals = income before extraordinary deducted by operating cash flow and extraordinary items at year t.
- ΔREV = delta of revenue from previous period
- ΔREC = delta of receivables from previous period
- PPE = gross amount of Plant, Property, dan Equipment.
- $\text{TAt}-1$ = company's total asset for year t-1.
- E = regression residual act as an discretionary accrual estimation

This study uses absolute value of discretionary accrual to measure accounting profit management.

b. real earnings management

based on studies of Roychowdhury (2006), Cohen et al., (2008) dan Cohen & Zarowin (2010), there are three types of individual measurement for real earnings management:

1. Sales manipulation by fasten sales period throughout sales discount and weaken credit requirement. This situation will lead abnormal operating cash decrease To estimate operating cash flow, the cross-section regression as follows:

$$\frac{\text{CFOt}}{\text{At}-1} = \alpha_0 + \alpha_1 \left(\frac{1}{\text{At}-1} \right) + \beta_1 \left(\frac{\text{St}}{\text{At}-1} \right) + \beta_2 \left(\frac{\Delta\text{St}}{\text{At}-1} \right) + \epsilon_t$$

- $\text{CFOt}/\text{At}-1$: Operating cash flow at year t. It is scaled by total assets at year t-1
- $\alpha_1(1/\text{At}-1)$: Intercept scaled by total assets at year t-1. The objective is to disclose the positive value of operating cash flow and sales lag is at 0.
- $\text{St}/\text{At}-1$: Sales at year t. It is scaled by total assets at year t-1
- $\Delta\text{St}/\text{At}-1$: Sales at year t deducted by sales at t-1. It is scaled by total assets at year t-1
- α_0 : Constant
- ϵ_t : error term/residual at year t.

If the residual is negative, it indicates that company conducts real earnings management through sales manipulation. Zang (2007), Cohen & Zarowin (2010) and, Zang (2012) argued that residual times by -1 to show that a company manipulates its sales.

2. Overproduction by reporting lower CoGS through a high number of production.

Production cost used in this study compared to normal operation is high. The consequence is low CoGS. This is crucial because it can lower CoGS to manipulate profit throughout real activity manipulation. Cost production can be obtained by adding CoGS and delta in inventory for a current year, or delta of actual inventory of previous year. The author employ estimation model for normal production cost as Roychowdhury (2006) showed:

$$\frac{PROD_t}{A_{t-1}} = \alpha_0 + \left(\frac{1}{A_{t-1}}\right) + \beta_1 \left(\frac{S_t}{A_{t-1}}\right) + \beta_2 \left(\frac{\Delta S_t}{A_{t-1}}\right) + \beta_3 \left(\frac{\Delta S_{t-1}}{A_{t-1}}\right) + \epsilon_t$$

- $PROD_t/A_{t-1}$: Cost production at year t. It scaled by total assets at year t-1 where $PROD_t = COGS_t + \Delta INV_t$
- $\alpha_1(1/A_{t-1})$: Intercept scaled by total asset at year t-1. It aims to make production cost not zero when sales and sales lag is zero.
- S_t/A_{t-1} : Sales at year t which scaled by total asset at t-1
- $\Delta S_t/A_{t-1}$: Sales at year t deducted by sales at year t-1 which scaled by total asset at year t-1.
- $\Delta S_{t-1}/A_{t-1}$: Delta of sales at t-1 which scaled by total asset at year t-1.
- α_0 : Constant
- ϵ_t : error term/ residual at year t.

If residual has positive value then indicates that a company applies real earnings management through production cost manipulation.

3. Discretionary cost decrease to reduce reported profit. Such profit decrease will improve current year profit. To calculate the level of discretionary normal cost, authors use following regression model that developed by Roychowdhury (2006):

$$\frac{DISEXP_t}{A_{t-1}} = \alpha_0 + \alpha_1 \left(\frac{1}{A_{t-1}}\right) + \beta \left(\frac{\Delta S_{t-1}}{A_{t-1}}\right) + \epsilon_t$$

- $DISEXP_t/A_{t-1}$: The discretionary cost in this study defined as the accumulation of commercial expense, research & development expense, sales expense, and general & administration expense t. They are scaled by total assets at year t-1.
- $\alpha_1(1/A_{t-1})$: Intercept is scaled by total assets at year t-1. It can lead to non-zero scores for discretionary cost if sales and sales lag are zero.
- $\text{year}\Delta S_{t-1}/A_{t-1}$: Delta of sales at year t-1 which scaled by total assets at t-1.
- α_0 : Constant
- ϵ_t : error term at year t.

If residual has negative value, it indicates that company conducts real earnings management through discretion cost manipulation. It is achieved by cost cutting to provide an overstated profit. In this study, residual times with -1 (minus 1).

In this study, Real Earnings Management are measured by Cohen et al. proxy (2008):

$$- \text{RM_PROXY} = \text{AB_CFO} + \text{AB_PROD} + \text{AB_DISEXP}.$$

Independent Variable

IFRS, 1 (one) for observation after IFRS adoption period (2013-2014) dan 0 (zero) for observation before IFRS adoption period (2010-2011). We omit observation for 2012 since IFRS effectively run in 2012.

This research uses control variables, as follows :

1. SIZE is measured by natural log of total assets
2. LEV is measured by ratio of total debt to total equity
3. TURN is measured by the ratio of sales to total assets.
4. CFO is measured by the ratio of cash flow from operations to year-end total assets.

Hypothesis Model

$$\text{AEM}_{it} = \beta_0 + \beta_1 \text{IFRS}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{CFO}_{it} + \beta_4 \text{TURN}_{it} + \beta_5 \text{LEV}_{it} + \varepsilon \dots (1)$$

$$\text{REM}_{it} = \beta_0 + \beta_1 \text{IFRS}_{it} + \beta_2 \text{SIZE}_{it} + \beta_3 \text{CFO}_{it} + \beta_4 \text{TURN}_{it} + \beta_5 \text{LEV}_{it} + \varepsilon \dots (2)$$

Description :

AEM: Accrual Earnings Management

REM: Real Earnings Management

IFRS: IFRS adoption

SIZE: company size

LEV: Leverage

CFO: Cash Flow from Operation

TURN: Turnover

RESULTS AND DISCUSSION

Data Description

Data used in this study are mostly taken from financial information of manufacturing companies listed in Indonesia Stock Exchange (IDX). Procedures to choose sample as follows:

Table 1
Research Sample

Criteria	Issuers
Manufacturing companies listed by February 1 st 2017	145
Manufacturing companies listed after January 1 st 2010	(31)
Manufacturing companies listed by January 1 st 2009	118
Incomplete financial statement, different reporting period 2010-2014	(43)
Sample used	75
Total sample for 4 (four) period (2010 to 2014)	300

This study provides descriptive statistical analysis to give more detail data which consists of mean, maximum, minimum and standard deviation. Table 2 shows the descriptive statistical results.

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
AEM	300	-.41	.39	-.0036	.10636
REM	300	-5.88	1.12	-.0180	.50990
IFRS	300	.00	1.00	.5000	.50084
Size	300	25.08	33.09	27.9867	1.60122
CFO	300	-.29	.66	.0802	.12820
TURN	300	.01	5.31	1.2068	.66496
LEV	300	-10.34	9.47	1.0518	1.54360

Table 2 shows the average of accrual earnings management for 2010 to 2014 is -0036. It can be interpreted that accrual earnings management is conducted by reducing the real earnings (understated earnings). Moreover, the table also provides significant information about accrual earnings management that has two possibilities to be done, they are decreasing or increasing profit. In fact, this action is not massively conducted by most companies. Managers tend to apply prudent choice in accounting policies to convince stakeholders. Meanwhile, Real Earnings management practice is rarely conducted in Indonesia. This argument is supported by an average of real earnings management that show the negative score. The table shows that real earnings management is already applied although in a small number. It demonstrates that managers tend to conduct accrual earnings management compare to real earnings management. Consequently, there is no shifting pattern related to earnings management just like occurs in most developed countries (Rhoycowdhury, 2016). As long as accrual earnings management action does not suffer management, there is no strong reason to implement real earnings management.

This study uses 2 periods before and after IFRS adoption. The objective of this step is to retrieve more objective data by comparing the two periods. Besides, for Indonesia cases, manufacturing company size is not significantly different. Furthermore, cash flow generated by companies is mostly positive. The implication is managers succeeded to generate operating cash flow. Other operating activities is usually connected to sales activity done by manufacturing companies in Indonesia. In Average, Indonesian manufacturing companies have a good achievement. This argument is supported by sales ratio to total assets which bigger than 1 (1.2).

Another issue discussed in this study is related to the capital structure in Indonesian manufacturing companies. Leverage ratio 1.0518 shows that in average Indonesian manufacturing companies have balanced capital structure in debt and equity component usage. However, several companies apply inappropriate formula. This debate is supported by negative leverage ratio where a company that owns the huge debt, also has negative equity. It supposedly caused by loss accumulation from previous years. Positive leverage ratio shows that capital structure of a company is supported by debt.

Hypothesis Test

To estimate a regression model with panel data, a research can employ Ordinary Least Square (OLS), Fixed Effect Model (FEM), or Random Effect Model (REM). To choose the appropriate model, this study refers to econometrics expert and statistical test. The regression model is chosen by considering Nachrowi and Usman (2006) and Gujarati (2012) formula. Meanwhile, suitable model through the statistical test by contemplating Chow test, Breusch & Pagan Lagrange Multiplier test, and Hausmann test. Equation 1 examines the impact of IFRS adoption on accrual earnings management. Based on the test, it decides to use the most appropriate model is random effect model.

Determinant Coefficient Test

Determinat coefficient test is shown as follows :

Table 3
Determinant coefficient analysis result

R-squared	0,424825	Mean dependent var	-0.002354
Adjusted R-squared	0.415043	S.D. dependent var	0.097414

Based on Table 3 above, adjusted R^2 is 41.5043%. Therefore, a variation of accrual earnings management is able to be explained by independent variables at 41.5043%. Meanwhile, other variables contribute to accrual earnings management at 58.4957%.

Simultaneously Significant Test (F-Test)

The result of F test shows by the following table.

Table 4
F-Test

F-statistic	43,42975	Durbin-Watson stat	1,640856
Prob(F-statistic)	0.000000		

Table 4 displays Prob (F-statistic) score is 0,000. It is smaller that α score (0.05). Therefore, it can be stated that independent variables simultaneously affect to the dependent

variable (accrual earnings management) significantly.

Partial Significant Test (t-Test)

Panel data regression results display random effect model. It is showed by Table 5 as follows:

Table 5
Panel Data Regression Test Result

Variable	Coefficient	t-Statistic	Prob.	remarks
AEM	-0.014517	1.844497	0.0331	significant
SIZE	0.016770	4.428242	0.0000	significant
CFO	-0.669286	16.45656	0.0000	significant
TURN	0.037267	4.343571	0.0000	significant
LEV	-0.010315	3.544935	0.0003	significant

Based on Table 5 above, the hypothesis can be determined as:

H_1 : IFRS Adoption is positively significant on accrual earnings management

By significant score 5%, equation model test result indicates that IFRS adoption variable affects on accrual earnings management. Its parameter coefficient is negative (-0.014517) and probability score is 0.0331 or lower than 0,05. It suggests that IFRS adoption is suitable to reduce accrual earnings management practice. The result is also rejecting H_0 dan accepting H_1 .

Equation 2 aims to investigate the impact of IFRS adoption on real earnings management, Based on a test conducted, it concludes that the most appropriate model for panel data regression is random effect model.

Determinant Coefficient Test

The result of the determinant coefficient test is displayed by the following table.

Table 6
Determinant coefficient analysis result

R-squared	0.273696	Mean dependent var	-0.012066
Adjusted R-squared	0.261344	S.D. dependent var	0.424009

Based on Table 6 above, adjusted R^2 is 26.344%. It can be interpreted that variation of real earnings management is able to be explained by independent variables at 26.1344%. Meanwhile, other variables contribute to accrual earnings management at 73.8656%.

Simultaneously Significant Test (F-Test)

The result of F test shows by the following table.

Table 7
F-Test Result

F-statistic	22.15783	Durbin-Watson stat	1.450261
Prob(F-statistic)	0.000000		

Table 7 shows that Prob (F-statistic) score is 0,000. It is smaller than α score (0.05). Therefore, it can be stated that independent variables simultaneously affect to the dependent variable (real earnings management) significantly.

Partial Significant Test (t-Test)

Panel data regression results display random effect model. It is shown by Table 8 as follows:

Table 8
Panel Data Regression Test Result

Variable	Coefficient	t-Statistic	Prob.	Remarks
REM	0.047153	1.094261	0.2747	not significant
SIZE	-0.025385	-1.266077	0.2065	not significant
CFO	-2.101560	-9.587096	0.0000	significant
TURN	0.043645	0.954983	0.3404	not significant
LEV	0.021233	1.341412	0.1808	not significant

Based on Table 8 above, the test result can be determined.

H₂ : IFRS adoption is positively significant on real earnings management

Result test of the Model equation, with significant score 5%, shows that IFRS adoption variable does not influence real earnings management. Moreover, parameter coefficient is positive at 0.047153, and probability score is at 0.13753 or higher than 0.05. It indicates IFRS adoption does not influence real earnings management practice. Consequently, the result rejects H₂.

Discussion

IFRS Adoption Negatively influences accrual earnings management

The result of hypothesis-test shows that IFRS adoption is able to reduce accrual earnings management action conducted by managers. Although IFRS is based on principle-base, IFRS regulations offer less choice for manager to act opportunistic in preparing financial statements. IFRS adoption for Indonesian Financial Reporting Standard (PSAK) that apply since 2012 has proven the effectiveness procedures to reduce accrual earnings management in Indonesia. This finding is not relevant with Doukakis (2014) and supports Ipino dan Parbonetti (2011). IFRS adoption in Indonesia is able to enhance the quality of accounting information.

IFRS Adoption does not negatively influence real earnings management

Based on hypothesis test, it is found that IFRS adoption does not influence real earnings management done by managers. Moreover, descriptive statistical data shows a small number of real earnings management practice in Indonesia. Managers tend to conduct earnings management. Besides, Indonesian financial accounting standard (PSAK) that actually adopt IFRS since 2012 has not effectively detected real earnings management so that it is not quite popular to be conducted in Indonesia. This finding is relevant with Doukakis (2014) that IFRS adoption has no impact on real earnings management. However, it is different from Ipino dan Parbonetti (2011) that there is no shifting from accrual earnings management to real earnings management due to IFRS adoption in Indonesia.

CONCLUSION

The hypothesis examination results above suggest that IFRS adoption can effectively reduce accrual earnings management. **On the contrary, it has not succeeded to prevent managers to** IFRS-based Financial Accounting Standard is still imperfect and might show the possibility for managers to conduct earning managers. However, based on empirical evidence managers does not prefer to do accrual earnings management or to conduct earnings management massively. On the other hand, real earnings management has been applied in Indonesia, although in a small number. Another point can be caught is that IFRS adoption still has homework to identify real earnings management action.

The result of this study can be used as a reference for a future study to examine accrual earnings management and real earnings management, and to compare them. Despite the results obtained, this study used the only financial statement of manufacturing companies listed in IDX for four periods. To get a better result, it is recommended that the future research use larger observation and longer periods. Furthermore, the future research is able to examine both accrual earnings management and real earnings management within IFRS adoption era. Besides, it also possible to add moderation variable such as good governance to support its role during IFRS enactment in Indonesia.

Related to the result of this study, IFRS adoption should be treated more than just a regulation in financial statement standard. It should be also an improvement of financial statement quality. Consequently, Indonesian accounting standard board (IAI) and Indonesia financial services Authority (OJK) should play their role in increasing the quality of financial statement in order to minimize asymmetric information between managers and stockholders. Finally, institutional stockholders, independent commissioner, and audit committee should realize and maximize their role to monitor managers' behavior in arranging companies' financial statement.

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TIME DRIVEN-ACTIVITY BASED COSTING (TD-ABC) TO AVOID LOWER COST NET REALIZABLE VALUE (LCNRV) ADJUSTMENT, CAUSED BY LACK OF ACCURACY THE FACTORY OVERHEAD COST ALLOCATION

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ABSTRACT

Adjustment of Lower Cost Net Realizable Value (LCNRV) or called by LOCOM, is an adjustment inventory that causes the market value is lower than the firm's cost. Many causes of this LCNRV adjustment, but whatever the cause, is problem for the firm, because if the sale of inventory is realized then the company will get lose. the most common causes is the error in cost product calculations, especially on allocations of factory overhead costs. The appropriate methods used in manufacturing firms are Time Driven-Activity Based Costing (TD-ABC), because all production activities are always related to "time". The firm's data is taken by observation in the production field and interviews with employees from operator level to top management. And by referring to literature books relating to this study it is ensured to change the way overhead cost allocation from the conventional way to the TD-ABC method. By using "time" as its "Driver" then all the common costs are allocated to each product based on the cycle time and setup time. And the result is the unit cost for some items that have been lost to profit. And some items that have been very large profits become small profit, So LCNRV Adjustment is no need to do.

Keywords: Allocation; Factory Overhead; LCNRV; Product Cost; TD-ABC

1. Introduction

Lower Cost Net Realizable Value (LCNRV) Adjustment or usually called Lower Cost Market (LOCOM), is an adjustment of the inventory that caused by the selling price is lower than the product cost per unit. It is indeed required in Pernyataan Standard Akuntansi Keuangan (PSAK) 14. Whatever the cause, if the selling price is lower than the product cost per unit, it should find out the cause. It also very unfortunate if it happens due to inaccuracies company's costing calculation, where usually the most complicated is the allocation of overhead costs.

Company's data of LCNRV adjustment for each quarter from March 2015 until March 2016 as follows:

Table 1. LCNRV Adjustment

No.	Date	Total Item	Amount Adj.
1	31-Mar-15	27	727,990,180
2	30-Jun-15	35	568,070,593
3	30-Sep-15	19	151,877,607
4	31-Dec-15	21	434,116,141
5	31-Mar-16	42	810,840,164

Source: PT. MAI (2015 & 2016), has been reprocessed

To determine whether the LCNRV adjustment is caused by the inaccuracy of the allocation of overhead costs, it will use the newest overhead allocation method which is Time Driven Activity Based Costing (TD-ABC). TD-ABC is the improvement of the conventional ABC that considered to have several deficiencies.

This study aims to ensure that by using TD-ABC method, LCNRV adjustment of the company is free from errors in the allocation of overhead cost. Proving the effectiveness of the TD-ABC model as a tool to reduce inaccuracies of the allocation of overhead costs that affects on decreasing number of LCNRV adjustment.

2. Theoretical Review

Lower Cost or Net Realizable Value (LCNRV)

Lower Cost or Net Realizable Value (LCNRV) or usually called Lower Cost Market (LOCOM) or Cost or Market Whichever is Lower (COMWIL) is reassessing inventory by comparing its net realizable value with value based on its cost. The net realizable value is the value if the inventory is sold to the market reduced with any other costs incurred until the inventory reach the customer hands. (Martini, 2012)

Cost Accounting Conventional

Basically, cost accounting is classified into 3 elements of production costs, they are: Direct material costs, direct labor costs and overhead costs. From this three elements, the most complicated to allocate to the product is the overhead cost. While the allocation of direct material and direct labor cost is simpler because it is relatively easier to trace each of unit product. (Mulyadi, 2012).

Conventionally, there are several kinds on how to to allocate overhead cost to each product unit, which are:

- a. Allocated by Product unit, where the overhead costs are evenly distributed based on the results of the units produced..
- b. Allocated based on direct material costs, because the costs incurred in connection with the raw material. For example the cost of renting a warehouse for raw materials or also the cost of insurance supplies of raw materials and so forth.
- c. Allocated on the basis of direct labor costs, this is done because for example taxes on employee income borne by the company, insurance BPJS employees, employee pension insurance and so on.
- d. Allocated by direct labor hours, this can be done if the overhead cost is directly related to the time employed by the worker to make a product.
- e. Allocated by machine hours, if overhead costs are related to the use of machine work hours, such as the use of electrical energy or the use of fuel oil and so on.

(Mulyadi, 2012)

Activity-Based Costing (ABC) Original

Activity-Based Costing (ABC) is also a way to allocating overhead costs which its allocation is based on activity in each object cost transaction occurred. Since the introduction of this ABC system in the 1980s several companies have been interested in implementing it. And this ABC system can enhance the deficiencies that occur in Cost Accounting Conventional. Because overhead costs can be allocated to each product according to the number of activities that related with the product. So, if the cost can be allocated to each product correctly, how much profit or loss of a product sold to each customer can be calculated. (Kaplan, Steven 2007)

In the implementation of Activity-Based Costing there are 2 (two) initial steps that must be passed to facilitate the allocation, which are: Determining the Acitivity Cost Pool and Determining the Cost Driver. (Hilton &Platt, 2011)

In the first step, each activity that raises costs are grouped. And then, narrowed it again into 4 levels:

1. **Unit Level.** This activity should always be associated with the result unit produced.
2. **Batch Level.** This activity should always be related to production not per unit but per lot or per production group.
3. **Production Level.** This is related to engineering process for new model or improvement in line production.
4. **Facility Level.** This is related to engine insurance, machine maintenance, depreciation and etc.

The four levels above are commonly called Cost Hierarchy. (Hilton &Platt, 2011). But the practice of the original ABC also still has many shortcomings. This system has the advantage of previous conventional costing but some difficulties are still found in the implementation. For example, it took a lot of time to interview or survey every activity in the company. The data that is obtained so subjective and difficult to validate the truth because it only use the memory of the employees. The are so many data and varied, so it needs expensive software to store and process the data. And there are different application in each department. Also, it's not flexible in change of activity or type of transaction. It can't detect how idle is the capacity in the company. (Kaplan & Anderson, 2007)

Time Driven – Activity Based Costing (TD-ABC)

To overcome the weaknesses in the ABC original model, is found a new solution by using Time Driven-Activity Based Costing or TD-ABC. With TD-ABC, the calculation process is not as complex as the original ABC. Simply by using the unit of time to calculate the product cost per unit.

To distinguish between ABC original with TD-ABC, ABC original used how many times a job or activity was done as its drivers, or what percentage of a person did a job A and what percentage did work B. But TD-ABC is measured by the unit of time, how long a job or activity is done. So it is easier to identify an activity and in every line in the organization is possible to calculate the duration of a job.

The application of Time Driven – Activity Based Costing (TD-ABC)

To apply TD-ABC there are 3 steps that must be done those are:

1. Calculating the hourly Cost Rate of each Resource Capacity.
2. Calculates the time spent to generate each product unit.
3. Calculates the Cost of Product.

(Antony and Kaplan 2012)

Step One is determined the cost that occurs in every resource, such as calculating the cost of indirect labor, machine costs, packing costs and so on. Usually this data is easily obtained from general ledger or trial balance of accounting records in the company. After the cost of each resource has been collected, then calculate the capacity in each resource. That is by calculating the time consumed for each activity in each resource. (Antony and Kaplan, 2012)

Step Two is calculated the time spent to produce each unit of product. First, calculated the working hours needed for indirect labor for each unit of product (Indirect Labor Time Usage). Then calculated time consumption used for the activity that cause overhead costs for the production process (Factory Overhead Time Usage). (Antony and Kaplan, 2012)

Step Three is calculated the cost of product. Once we get the cost rate per hour of each resource and time used to produce each unit of the product, it can be a calculation formula for a particular product, which is:

Cost rate per hour per resource X Time per unit of product X Quantity of product

(Antony and Kaplan, 2012)

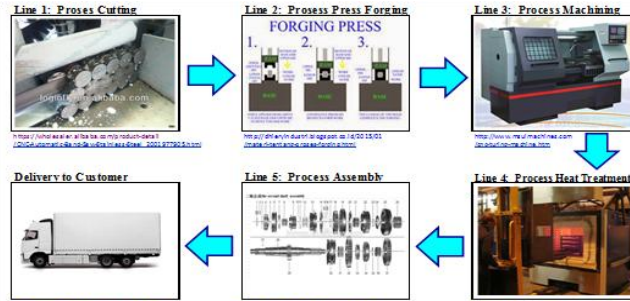
3. Research Methodology

This research is a case study at PT. MAI which is a joint venture company between 80% Japanese company and 20% Indonesia company, which manufactures transimission and engine parts for motorcycles and cars. The company was established in March 1996 and located in Cikarang Industrial Estate and Karawang Industrial Estate. The total area of the company is 114,978m², and has 2,349 employees (as of December 2016).

Starting from the LCNRV adjustment quaterly data by the company, as shown in table 1 the calculation of LCNRV at the beginning, conducted a further research about the cause of selling price of some products are lower than the product cost per unit. The study was conducted by finding secondary and primary data. Secondary data obtained from literature study, such as textbooks, journals, and accounting report of the company. And the primary data obtained from direct observations to the company and interviewed the employees and top management.

The are 5 production process in the company, which are: cutting process or cutting the material, press forging process or heating and forming process, the machining process or lathing, heat treatment to strengthen the structure, and assembly or the ending product assemble. After it done, it sent to the customer, as shown in Figure 1.

Figure 1. Production Line Flow Process



source: Website address

To find out more about the cause of selling price of some products are lower than the product cost per unit, showed 10 items of spare part in table 2 "worst ten" which have the biggest gap

Table 2. Worst Ten (March 2016)

No	Class	Part number	Parts name	Costumer	Price	Cost	Loss/Pcs	Sales Qty	Loss	
1	2W-Cam	14100-	SH		81,869	96,655	(14,786)	40,800	(603,279,038)	
2	2W-Cam	14100-	SH		81,884	96,793	(14,909)	28,530	(425,342,922)	
3	2W-TM	23411-	SH		40,196	51,546	(11,350)	40,600	(460,823,459)	
4	PT-Cam	13501-	C		170,614	182,463	(11,849)	18,144	(214,987,929)	
5	PT-Others	23541-	PI SPARE PART X	N	X	14,077	16,805	(2,729)	111,932	(305,421,186)
6	2W-TM	23020-	SH	R		96,132	120,345	(24,211)	13,100	(317,167,072)
7	2W-TM	23421-	SH		24,287	28,387	(4,100)	66,398	(272,223,052)	
8	PT-Cam	13502-	C		165,550	185,004	(19,454)	9,888	(192,365,138)	
9	PT-Cam	13502-	C		165,550	185,011	(19,461)	8,928	(173,747,776)	
10	2W-Other	13423-	GH SPARE PART A	R		30,050	48,776	(18,726)	15,151	(283,719,865)
TOTAL								353,471	(3,249,077,436)	

Source: PT. MAI (Mar 2016), has been reprocessed

Spare Part X are used as the sample material for this further research, because Spare Part X and other products have same allocation problems. This company has two ways in allocating their costs, the first one is direct allocation in which used for direct material by using Bill of Material (BOM) on each product. And as for direct labor and factory overhead, if they can be directly allocated, then direct allocation can be used, but if not, indirect allocation should be used. If indirect allocation is the one that used, so the allocation method needed is TD-ABC.

4. Finding and Discussion

Problem

From the obtained data, there are three problems of the cost calculation for Spare Part X:

1. The percentage of overhead allocation for common costs is not precise:

$$\% Allocation = \frac{Direct Labor \times Cycle Time Machine \times Quantity Production}{Machine \times Quantity Total (Direct labor \times Cycle Time Production)}$$

2. Allocation of cost to each product in each line only based on quantity of product.

$$\text{Unit Cost} = \frac{\text{Total Cost in Line Code}}{\text{Quantity Production}}$$

- Product with short cycle time have bigger allocation of overhead costs than product with long cycle time, because the quantity of the product produced is fewer. In this case the Process 3 Machining / shaving line for the X spare part which has a 13 seconds cycle time average joining the Z spare part which has a time cycle average of 35 "seconds.

New Costing with Time Driven-Activity Based Costing

The miscalculation on the allocation formula causing time difference to complete a product becomes mixed, lead to inaccuracy of the cost allocation between the short and long cycle time. The appropriate approach to solve this problem is to use overhead cost allocation with Time Driven - Activity Based Costing model. TD-ABC is using time as driven. Thus some issues are solved by:

- Replacing the percentage formula of common overhead cost allocations to :

$$\% \text{ Alokasi} = \frac{\text{Time Change Over} + (\text{Cycle Time Product} \times \text{Quantity Produksi})}{\text{Total Company Time Change Over} + \text{Total Company Cycle Time}}$$

- Time change over = Time spent on changing batches or changing models.
 - Cycle time product = Time spent for finalization of 1 item product.
 - Quantity produksi = Total quantity produced in line process for 1 month.
- After the cost is allocated to each production line, then in the production line the entire factory overhead cost is divided into each unit:

$$\text{Ratio \% Alokasi} = \frac{\text{Qty Produced} \times \text{Cycle Time Product}}{\text{Total Cycle Time in Line Process}}$$

- Qty Produced = Total quantity produced in line process for 1 month.
 - Cycle time product = Time spent for finalization of 1 item product.
 - Total Cycle Time in line = Total Cycle Time that spend for 1 month.
- Separate or create a new line code in the software costing for products that have longer cycle time separated by line code that has a short cycle time.

By using this new formula and new costing calculation. Using samples of 10 product with the worst cost and 10 products with the best cost form the company data in December 2016, the calculations are performed. The total costs in December 2016 for indirect allocation are Rp 43,410,832,273 with total cycle time of product and total change over time used in a month amount isf 850,890,145 second. For a detailed calculation with Spare Part X as the example from the start of the initial process line to the end as follows:.

Table 3. Allocation FOH Common Cost “Part X” by TD-ABC Calculation

Process	Line Code	Line Change Over (Second)	Line Cycle Time (Second)	Total Line CT (Second)	Total Co'y CT 850,890,145" % Allocation	Total Co'y FOH common Rp43.410.832.273
4	1241530200	111,360	2,677,296	2,788,656	0.33%	143,255,747
3	1241422000	497,400	6,646,909	7,144,309	0.84%	364,650,991
2	1241530100	397,140	4,614,454	5,011,594	0.59%	256,123,910
1	1241411000	16,800	2,282,024	2,298,824	0.27%	117,209,247

Source: PT. MAI (Dec 2016), has been reprocessed

In the line process 1 with total time to set up is 16,800 minutes and total cycle time of product in line is 2,282,024 minutes, so the total time spent is 2,298,824 minutes. If the total line CT divided by the total CT of the company, then ratio of line 1 is 0.27%. And after multiplied by the total common overhead, then the overhead allocation of line 1 is Rp117,209,247. The allocation for line 2 is Rp256,123,910, for line 3 is Rp364,650,991 and for line 4 is Rp143,255,747.. And another product item use of the same formula as above.

After the allocation of common overhead cost has been done, continue to the calculation of the total cost for spare part X.

Table 4. Unit Cost Calculation for Spare Part X

Process	Line Code	FOH Direct Allocation	TD-ABC FOH Allocation	Total FOH	Part X Qty	Part X Cycle Time (Second)	Total CT (Second)	% Allocation Part X	Total Cost Part X	Unit Cost
4	1241530200	180,974,559	143,255,747	324,230,306	334,662	8.00	2,677,296	100%	324,230,306	969
3	1241422000	704,777,988	364,650,991	1,069,428,979	364,276	1.70	619,269	9%	99,634,947	274
2	1241530100	638,560,140	256,123,910	894,684,050	354,958	13.00	4,614,454	100%	894,684,050	2,521
1	1241411000	281,726,301	117,209,247	398,935,548	399,213	3.00	1,197,639	52%	209,367,110	524
-	Direct Material/pce									1,066
TOTAL UNIT COST										5,353

Source: PT. MAI (Dec 2016), has been reprocessed

The total cost for line 1 is Rp398,935,548. The production quantity for spare part X is 399.213 per unit in a month, with the cycle time product is 3 seconds for each unit. So the total CT for spare part X is 1,197,639 seconds in a month. And if divided by to total CT product in line, it shows 2,282,024 seconds (in table 3), so the ratio of Spare Part X is 52%. And if multiplied by total cost in line 1, the total FOH is Rp398,935,548, so the total cost to produce Spare Part X in line 1 is Rp209,367,110. By divided the total cost with the total quantity of product which is 399.213 products, so the product cost is Rp 524 per unit. Other process line also have the same calculation method and the total production cost for Spare Part X from process line 1 until 4 is **Rp 5.353** per unit..

The same calculation also done for another the worst item. And the result of new calculation with TD-ABC as follow:

Table 5. New Calculation “the Worst Ten” Item (Dec 2016)

No	Class	Part number	Parts name	Customer	Selling Price	Old Cost Mar-16	New Cost Dec-16	Increase/ (Decrease)	Mar-16 Sales Qty	Cost (Decrease)/ Increase	Profit/ (Loss)
1	2W-Cam	14100	B000-C1	SH	81,869	96,655	77,448	(19,207)	40,800	(783,653,326)	180,374,288
2	2W-Cam	14100	A100-C1	SH	81,884	96,793	77,292	(19,500)	28,530	(556,344,103)	131,001,181
3	2W-TM	23411	-6010	SH	40,196	51,546	54,276	2,730	40,600	110,824,541	(571,648,000)
4	PT-Cam	13501	40-00	CA	170,614	182,463	111,258	(71,205)	18,144	(1,291,937,738)	1,076,949,809
5	PT-Others	23541	3001	PT	14,077	16,805	5,353	(11,452)	111,932	(1,281,875,783)	976,454,597
6	2W-TM	23020	N000	SH	96,132	120,343	93,731	(26,613)	13,100	(348,626,131)	31,459,059
7	2W-TM	23421	A-6000	SH	24,287	28,387	28,293	(94)	66,398	(6,222,329)	(266,000,723)
8	PT-Cam	13502	10-00	CA	165,550	185,004	136,525	(48,479)	9,888	(479,362,932)	286,997,794
9	PT-Cam	13502	10-00-77	CA	165,550	185,011	136,525	(48,486)	8,928	(432,881,706)	259,133,930
10	2W-Other	13423	-8600	GE	30,050	48,776	19,480	(29,297)	15,151	(443,871,310)	160,151,445
TOTAL									353,471	(5,513,950,816)	2,264,873,380

Source: PT. MAI (Mar & Dec 2016), has been reprocessed

Graph 1. Worst Ten Trend



Source: PT. MAI (Mar & Dec 2016), has been reprocessed

From the table above, it showed that production cost per unit is decreasing below the selling price except for product number 3 and 7, because the price of raw material of this two products is too expensive:

Table 6. New Calculation “the Best Ten” Item (Dec 2016)

No	Class	Part number	Parts name	Costumer	Selling Price	Old Cost Mar-16	New Cost Dec-16	Increase/ (Decrease)	Mar-16 Sales Qty	Old Costing Profit/(Loss)	New Costing Profit/(Loss)	Increase/(Decrease) Profit/(Loss)
1	PT-Pl	23520-0002	GE		195,687	77,191	68,179	(9,012)	54,560	6,465,116,876	6,956,828,374	491,711,498
2	PT-Diff	41100-9010-MI	DII		270,976	174,708	197,524	22,816	54,550	5,251,454,265	4,006,827,157	(1,244,627,108)
3	PT-Others	23511-0002	G SPARE PART Z		65,966	30,926	35,720	4,794	118,451	4,150,512,986	3,582,626,550	(567,886,436)
4	2W-TM	23430-V000	GE		73,279	46,746	49,078	2,332	156,556	4,152,706,952	3,787,620,292	(365,086,660)
5	2W-Other	23111-N000-HI	GE	N	153,456	40,653	43,461	2,808	21,300	2,402,714,240	2,342,900,090	(59,814,149)
6	PT-Diff	41100-0030	DII		277,701	166,725	215,880	49,155	13,110	1,454,899,407	810,476,727	(644,422,680)
7	2W-TM	23422-9302	GE		23,811	15,329	12,572	(2,757)	156,904	1,330,813,121	1,763,463,935	432,650,814
8	2W-TM	23430-A100	GE		79,724	63,575	69,819	6,244	113,131	1,827,000,262	1,120,598,488	(706,401,773)
9	2W-TM	23421-6000-CI	SH		22,968	16,444	16,168	(276)	170,530	1,112,531,962	1,159,611,363	47,079,401
10	PT-Cam	14110-Z003	CA		95,845	48,951	52,629	3,678	18,810	882,067,021	812,891,488	(69,175,533)
TOTAL									877,882	29,029,817,071	26,343,844,465	(2,685,972,606)

Source: PT. MAI (Mar & Dec 2016), has been reprocessed

Graph 2. Best Ten Trend



Source: PT. MAI (Mar & Dec 2016), has been reprocessed

From the table above, it showed that most of the profit of the product is decreasing, but there are three products that its profits increased too. There is no need to adjust the LCNRV, because it is still profitable.

4. Conclusion

Allocating overhead costs using the TD-ABC method, can lead to a better production cost per unit. With conventional method that not calculated the cycle time of the product and setup time of the machine make the allocation of the overhead cost not precise. Because mostly the production activities in manufacturing companies directly related to the time consumed to complete a product and machine setup on the production of the products.

Better production cost means there is no need to adjust LNCRV because the selling price is above the production cost per unit. But sometimes there are some products with higher cost than the sale price, and it caused by the expensive raw material price, not due to miscalculation of production cost per unit.

The weakness of this study is that the company's software can not correctly record the calculation of machine setup time, and it only can be done manually. And when the cost allocation reach the ending line process, the software can calculate based on quantity only and can't use the cycle time product. So, there are still some drawbacks due to limitations of the cost accounting software capabillites, but with TD-ABC, there is no need to significantly change the company's software.

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THE EFFECTS OF POLITICALLY CONNECTED AUDIT COMMITTEES ON AUDIT PROCESS: EVIDENCE IN MALAYSIA

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Abstract

This study aims to contribute to an understanding of politically connected audit committees on the audit process in an emerging market, using the case of Malaysia. In particular, the study seeks to examine whether politically connected audit committees have an impact on the audit process. The study draws upon agency and resource dependence theories, which suggest that politically connected audit committees serve two important functions: monitoring on behalf of the shareholders, and providing resources to the companies.

An in-depth analysis of the interviews from the external auditor, audit partners and audit committees further reveal that political connections do affect the audit process. It appears that the existence of political connections leads to an increase in audit work such in a variety of ways, such as auditor-client negotiations, private meetings with audit committees and re-engineering the scope and planning of the actual audit work. One of the issues that emerges from these findings is that companies highly value political connections to obtain external resources given the uncertainties in the business environment. Also, the findings highlight the need for stronger corporate governance to mitigate the higher inherent audit risks in politically connected companies. The interview evidence provides rich support for the new details on the complexity of the relationship between political connections, audit committee/board and auditors.

1.0 INTRODUCTION

A recent strand of the auditing and accounting literature has investigated a number of studies which investigate how political connections of the client companies affect their performance, the audit pricing, the quality of accounting information and the director's remuneration. Various studies examine corporate political connections within a country, Fisman (2001) for the case of Indonesia, Johnson and Mitton (2003) for the case of Malaysia, Ferguson and Voth (2008) and Niessen and Ruenzi (2010) for the case of Germany, and Agrawal and Knoeber (2000) for a sample of outside directors in the United States. Their investigations are shaped by the institutional structure of the country including the country's legal/judicial system, social and political economy.

Furthermore, a review of the literature reveals that a number of prior studies that have examined the relationship between political connections and their impact on the development of a companies' performance have extended to examination of the quality of accounting information (Ball et al. 2003; Chaney et al. 2011), of corporate bailouts for politically-connected firms (Faccio et al. 2006a), of the performance of connected firms (Johnson and Mitton 2003; Leuz and Oberholzergee 2006), of political favouritism in relation to access to finance (Faccio et al. 2006a; Mian and Khwaja 2004) and of the value of such connections (Fisman 2001). Some studies examine the impact on corporate and financial disclosure (Bushman et al. 2004), capital structure (Fraser et al. 2006) and director remuneration (Wahab et al. 2009). However, these studies, with some exceptions, have been criticised for using a wide sample, such as cross-country level data, and for including a small sample size (Miller 2004).

With regards to the above, this paper focuses on Malaysia and considers the impact of political connections of client companies on their audit process. More specifically, this study examines the response of auditors in terms of audit process of politically connected firms using politically connected individual on audit committees. This is due to the polemical debates about the rationale behind the appointments of connected individuals in the existing literature, especially in emerging economies, as there is much evidence which has been extensively documented with regards to the appointment of well-connected individuals to directorships (Faccio et al. 2006a; Gomez and Jomo 1997) have been subject to controversy.

Political Connections Defined

The present paper extends the operational definition of political connections in studies by Abdul Wahab et al. (2009), Johnson and Mitton (2003), Faccio et al. (2006a) and Gul

(2006) through looking at individuals who are on the audit committees. It deals mainly with the proportion of the audit committees who are politicians (ACPOL) and senior government officers (ACSGO) to reflect the political connections in public listed companies. Previous studies, meanwhile, use a different measure of political connections, such as government ownership and golden shares giving special rights to the government (Salleh 2012; Gul 2006; Faccio et al. 2006a). Moreover, prior studies (Faccio et al. 2006a; Gomez and Jomo 1997; Fisman 2001; Johnson and Mitton 2003) are based on the list of companies with political connections released by Gomez and Jomo (1997) in recognising politically connected firms. Specifically, Johnson and Mitton (2003) rely on the analysis of Gomez and Jomo (1997) in coding political connections by identifying major shareholders in the firms who have close relationships with key government officials, primarily Tun Dr Mahathir Mohammad, Tun Daim Zainuddin and Anwar Ibrahim at that particular time. However, the limitation of this measurement is that the connections could have disappeared prior to the crisis and might not be relevant in the current situation. For the current study, it is decided that the best measurement to adopt for the investigation by using political influence at audit committee level. This is because Salleh (2012) influence by the government mostly occurs at a policy level and not at the operational level.

The audit process

The audit process can be defined as the activities of auditors who typically assess the risk of material misstatement in the client's financial statements during audit engagement planning. Based on this understanding, the study tries to gain an insight into the influence of political connections on auditor planning and the factors that have been the focal variables for a stream of research, predominantly experimental in nature, investigating their effect on auditors' decisions to assess their clients.

In particular, the current paper focuses on auditors' experiences with the current governance structure which is in line with an effective monitoring approach, as highlighted by Neal et al. (2009) and Cohen et al. (2010). Moreover, the present paper incorporates elements of political connections to capture auditors' experiences with respect to the audit process and corporate governance in the Malaysian setting. Prior studies provide strong evidence on audit committee effectiveness, with improved financial reporting quality (Abbott et al. 2004; Klein 2002; Bedard and Johnstone 2004). The present paper, however, extends the prior research on these important issues in two ways. First, the review of the literature on audit committees notes that audit committee independence enhances their effectiveness and is

associated with improved reporting (Norziaton et al. 2015;Johl et al. 2012;Abbott et al. 2004;Collier and Gregory 1996). However, the audit committee or board of directors are not fully independent if they are politically connected, as viewed from the experiences of the auditor, which is the focus of the present study. Further, there is a lack of evidence on other significant dimensions, such as the audit process and auditor's integrity in conducting audits with these types of connections. The impact of politically connected audit committees /boards on the audit process is a potentially fruitful area to investigate. This is because, if the auditors only focus on the monitoring function and neglect the influence of political connections on the board, then they may be compromising their effectiveness, as there are risks associated with the role of political connections. Auditors' experiences in this kind of political setting potentially provide a conceptual link to the impact corporate governance has on the audit process, as there is limited evidence in documenting this link.

2.0 Institutional Setting: Malaysia

There is unambiguous evidence that political connections bring in benefits and costs to firms. However, a major problem with influence through political connections, as highlighted by Johnson and Mitton (2003), is that politically connected firms are perceived by the market to be inefficient which causes a lack of support for this type of firm from government. Following from this issue, Malaysia introduced a Code of Corporate Governance (MCCG) in 2000, revised in 2007 and 2012. The impacts of these efforts on audit committee effectiveness and political connections have not been examined in prior studies, as these studies on politically connected individuals are still very scarce in the literature. The research to date has tended to focus solely on audit committee effectiveness (Abbott et al. 2004;Haniffa et al. 2006c;Vafeas 2005) and has neglected the impact of political influence in the unique economic setting of Malaysia, since political connections play a very important role in the corporate sector. There is increasing concern about politically connected firms being perceived to exhibit poor corporate governance, greater agency problems and higher business risk (Wahab et al. 2009;Gul 2006). The key problem that needs to be highlighted is that Malaysia itself is a country that is based on a relationship based economy which businessman tend to develop ties with political individual (Bliss and Gul 2012b;Fraser et al. 2006).

According to Gomez and Sundaram (1999), these types of firms create personal business relationships with government personnel and have the ability to access major government contracts. Interestingly, not many countries have this type of business

environment in their listed companies. Other than that, many listed companies in Malaysia are family owned or controlled by the government which, as mentioned by Claessens et al. (2000), portray different cultures and traditions in the setting. In fact, other than achieving economic objectives, these companies were initially set up to achieve social objectives, and thus the issue is becoming more politically sensitive (Mohd Ghazali 2007). This is evidenced by Jusoh and Parnell (2008), who show that Malaysian companies are strongly influenced by government incentives, support and subsidies. Due to this, the MCCG has been introduced to enhance governance of listed companies, including a requirement to form an audit committee comprising at least three independent directors, in order to strengthen the capital market, restore investor confidence and increase the accountability of the financial statements produced by the listed companies. However, prior studies tend to neglect other external factors such as political connections that have potentially influenced or impaired audit committee independence.

Meanwhile, several studies have found that companies that have business connections with government tend to include on their boards outside directors with a politics background, or who are government representatives (Goldman et al. 2008; Fan et al. 2007; Agrawal and Knoeber 2000). This kind of corporate culture is significantly distinctive as compared to that in other countries, and has become important as the nation's tradition is instilled in its people. In essence, by examining the influence of political connections, the effectiveness of audit committees can be further evaluated and improved by the regulators. The examination of individual, politically connected audit committees in the Malaysian setting contributes to existing knowledge about different levels of political connections and about audit committee effectiveness.

3.0 Purposes of the Study

The study enhances our understanding of the obscure side of the work of auditors – the leeway they have in performing their duties. This aspect remains almost unexplored by researchers, because it is difficult to have access to both external auditors and internal auditors, and because their work remains confidential for strategic reasons (Neu et al. 2013). The study enhances the prior studies by exploring in depth the practice and perceptions of the external auditor on their experiences and their way of coping with the political connections issue. This is necessary because role conflicts are at the core of their practices in planning the scope and plan of an audit (Vinten and Van Peurse 2005; Norman et al. 2010) and may have an impact on the roles that they ultimately play within the organisation (Roussy 2013). The

study tries to further explore to what extent political connections may influence the audit process and what they are confronted with in their practice throughout the process. Nor do we know how they manage themselves when such conflicts happen. Accordingly, this study contributes to the specific literature on the relationship of political connections with audit committees and the audited managers, because conflicts arise between all of these organisational actors. This study illustrates whether political connections may influence an auditor's coping behaviour and may affect their ability to perform their governance duty. Hence, the research question is as follows:

RQ: Do politically connected audit committees have an impact on the audit process?

4.0 LITERATURE REVIEW

4.1 Politically Connected Audit Committees and the Audit Process

Prior studies have looked at the factors that users and preparers of accounts use to attribute quality to the way the audit is processed. There is research from users of accounts, like audit committee chairmen and investment managers, which indicates various attributes seem to contribute to the way audits are conducted. Schroeder et al. (1986) highlighted the involvement of audit partners and managers were also seen as important to the quality of the audit. In addition to that, there are two factors that may affect audit quality. Firstly, the auditors may fail to detect a material error or misstatement and therefore carryout a substandard audit; thus the auditors are incompetent. The second factor is that auditors may identify a material error and fail to report it and persuade the directors to do things right, thus implying that the auditors lack independence. The vital problem is that the audit process itself is unobservable and only the participants during the process of the audit, such as the external auditors and the company management, know how decisions are reached.

There has been a lack of academic research on how politically connected companies may affect audit quality or the audit process. The political connections of firms may potentially lead to an increase in complexity of the audit process. There are many factors that auditors must consider, such as personnel policies and procedures, the board's profile and background, and corporate governance information of the firm (Messier Jr and Austen 2000). Prior research by Agrawal and Knoeber (2012) has shown that larger political donations are associated with poorer corporate governance and that donations are indicative of agency problems within a firm. The study specifically found that firms with larger boards, and CEOs

who also chair the board, are associated with larger donations. Thus, these political donations may potentially increase the audit process.

Auditors are required to make independent judgements about financial statements from an ethical perspective. Given the complexities of human nature and the involvement of political connections, it can be ethically difficult for the auditor to conduct the audit process. A review of the audit literature has revealed that there are not many studies that have examined how auditors conduct their audit process when political connections are involved. The audit process may potentially involve the audit plan, audit scope and procedures, ethical action or aspects of behaviour in how the auditor responds to ethical situations. For instance, Falk et al. (2000), using an experimental approach, found that when auditors were faced with the prospect of losing a client, they were more likely to compromise their independent judgement. Similarly, Ponemon and Gabhart (1990) found that auditors with low moral development appeared to be more willing to underreport time. These studies therefore show that contextual factors (client pressure) may influence auditors' ethical actions. There are also studies on the factors that may influence auditors in conducting the audit process for such instances (Shafer et al. 2001; DeZoort and Lord 1997; Thorne and Hartwick 2001; Trompeter 1994). The factors that are mentioned in these studies are individual characteristics, internal factors in firms, client company factors and regulatory factors. The present study thus tries to establish if political connections can be among the contextual factors that may influence the audit process.

Auditors and their politically connected clients often encounter situations in which professional standards allow for different judgements related to accounting matters. For instance, it may be argued that both parties generally benefit from a strong, long term relationship with the other, in which auditors might gain valuable client specific knowledge that may aid them to conduct their audit effectively, and clients avoid the costs associated with switching auditors. Therefore, it is in both parties' interests to resolve, through discussion and negotiation, whenever possible, when they have a dispute. According to Johnstone and Muzatko (2002), it is very important for both the auditor and the client's management to have negotiations in order to present a representationally faithful view of the client's financial status. Due to political power and pressure, it can be assumed that in the process of expressing an opinion on the client's financial statements, a certain amount of conflict between the auditor and the client's management could possibly arise. According to

Gibbins et al. (2000), during the resolution process, the client's management is likely to attempt to persuade the auditor to accept its own position.

The book, *Behind Closed Doors: What Company Audit is Really About* (Beattie et al. 2001), used a detailed case study covering audit interactions between finance directors and audit engagement partners (AEP). The study aimed to develop a grounded theory to explain what key factors influence the decision making process when an auditor is confronted with difficult and contentious accounting issues. The case studies were identified from a previous questionnaire conducted by Beattie et al. (2001), in which respondents were asked whether they were willing to be interviewed. The basis of the present study can be viewed as similar to Beattie et al. (2001), where the difference is that it takes more pronounced look at the influence of political connections in the relationship based market system in Malaysia, compared to the UK which has a less litigious environment, and thus makes research of this nature still possible.

The influence of political connections may have an effect on the audit process, as it builds upon the basis of the client's sources of power. Thus, Murnighan and Bazerman (1990) point out when negotiating with the client, the auditor is faced with incentives to cooperate and incentives to compete. Strong corporate governance is needed in a company's structure in order to assist the auditor to resist the political power that can pressure them in planning their audit. A corporate governance structure is an institutional mechanism applied at the level of every company to provide assurance to third parties that an auditor's integrity and independence are being preserved. This includes board of directors and audit committee involvement in establishing and maintaining the auditor client relationship in overseeing the conduct of an audit. Appropriately, a stronger governance mechanism should provide a neutral and a well-informed buffer to the auditor and management, even though political connections exist. The interactions investigated in the present study show how political connections have become a contextual factor affecting the audit process through audit disputes, audit negotiations, the ability of the auditor to withstand political pressure and the strategy of re-engineer the audit scope and plan.

Political connections may derive, such as the ability to negotiate the auditor or client contract in a market or the ability to drive companies' directions, and this may cause disputes between the auditor and the client's management. According to Goldman and Barlev (1974), auditors are in a relatively weak position in disputes with their clients because they usually operate in a very competitive market and produce a product (audit opinion) that is perceived

as being basically homogenous. Thus, the existence of competing audit firms who are ready to replace them provides a major source of the client's power (threat), supported by the ability to replace auditors with a competitor if a disagreement occurs over a professional matter (Goldman and Barlev 1974; Gul 1991; Knapp 1985).

Despite the vast amount of research (Awadallah 2006; Knapp 1985; Lindsay 1990; Shockley 1981) that is concerned with the theoretical identification and empirical testing of variables affecting auditors' ability to withstand pressure from client management, few studies (Beattie et al. 2004; Gibbins et al. 2000) have focused on the negotiation process that takes place between the auditor and the client's management in order to reach an outcome. These negotiation processes use a variety of methods and have investigated interactions between staff at different levels. The review of previous relevant literature has revealed a lack of studies addressing the effect of political connections on the audit process. Most of the previous studies were concerned with how political connections may have effects on audit fees and financial reporting quality, so there is much room for the notion that more research needs to be carried out on how the audit process may be potentially adversely affected by such connections. Thus, additional evidence can be provided on this issue in order to reduce the frequency of conflicts in the audit context as well as to manage the phenomenon in a constructive manner which, in turn, could benefit all parties with a stake in ensuring effective corporate governance.

5.0 RESEARCH DESIGN

5.1 Sample

According to Corbin and Strauss (2008), data collection using theoretical sampling can help the researcher to identify concepts and themes pertinent to the research problem. In this study, theoretical sampling was used to select the interviewees using two sequential phases. In the first phase, targeted groups of interviewees were identified (practitioners). The interviews targeted: (i) external auditors (ii) audit committee members. These targeted people are beneficial to the study as the objective is currently to understand how political connections may potentially affect the audit process. The insights gained from the interviews with a sample of auditors from Big four firms are used to further examine the impact of political connections on the auditing of financial statements. Auditors were selected because they play a very important role in assessing a company's financial statement and they act as a mechanism for limiting agents' opportunistic behaviour (Haniffa and Cooke 2005). For this

study, among other interviewees, were the selected audit partner or audit managers of Big Four firms in Malaysia. These individuals were chosen because they are considered to be responsible for monitoring audits of financial statements, and have been directly involved in auditing processes based on their assigned auditors.

It is, however, acknowledged that a methodological shortcoming of this empirical phase is that, the interview participants may be tempted to favourably position themselves by providing 'the right answer'. The interviewee's responses may not therefore necessarily reflect the actual situation on the ground, but merely position that the participants wish to advance. Conceding this methodological shortcoming, the analysis and the description of the interviewees' responses in this paper phase maintains the anonymity of interview participants to reduce the impact of possible participant bias. In this regard, the interview participants were not identified in which organisation they are currently attached with. The manner in which the data have been recorded and analysed is not intended to definitely quantify political connections influences in the corporate sector.

In the second phase, after the targeted groups were identified, the researcher communicated with the targeted candidates to check their availability. The researcher used telephone and email to communicate with them, and provided an offer letter explaining: (i) the objective of the study, (ii) the purpose of the interview; (iii) information about the researcher and the university; (iv) the time required for the interview and (v) how confidentiality would be ensured. Furthermore, a copy of the interview questions was provided. These procedures aimed to increase credibility and encourage willingness from the practitioners to participate in the study (Bailey and Peck 2013).

5.2 Data collection and Analyses

Face to face semi-structured interviews were employed in the current study, following (Horton et al. 2004) in order to allow the interviewees to explain their thoughts and to highlight any areas of particular interest they might have, as well as to enable certain responses to be explored in greater depth. A semi-structured interview is preferred as it gives the researcher more control over the timing, content and sequencing of questions. In addition, having the researcher as the interviewer allowed the improvisation of suitable follow up questions and the interviewees a degree of freedom to explain their views.

5.2.1 Data analyses

The analysis of interview data involves a description of the interviewees and the firms, to which they are attached, follow by an analysis of the interviewees' views on relevant themes. The steps involved in the analysis of the interview data are divided into few processes such as transcription, coding and interpretation process.

In the transcription process, the interview records were transcribed word for word. The description process involved a detailed rendering of information about the backgrounds of the interviewees, such as their age, education background, current position, number of years in the position and the company, and their past experience.

In the coding process, initial themes or categories were first generated, based on the conceptual framework from the earlier part of the thesis, the interview schedule, and on initial reading of the interview transcripts. Data from the interview transcripts was then classified and coded according to the initial themes and categories. This is to allow the researcher to become familiar with the data to gather a general idea of the interviewees' perceptions of political connections. The initial themes or categories are related to the key issues that were investigated in relation to the political connections of firms. Any statements that the researcher considered as indicating the existence of political connections in a company's management and operations are classified into one of the initial themes or categories and coded accordingly.

After the manual coding was complete, all of the transcripts were uploaded into Nvivo (a computer software package for qualitative data analysis) and codes were applied electronically to the transcripts. The use of the qualitative software package provides advantages to the research as it reduces researcher and reporting bias (Abernethy et al. 2005) and adds validity to the research (Westermann et al. 2014). This is due to the package's ability to ensure that all data are coded and are easily retrievable, which reduces the amount of time spent and potential omissions. In addition, it also provides ease of data comparison and movement between different levels of analysis (Abernethy et al. 2005; Miles and Huberman 1994). However, the programme was not used to automatically generate the analyses.

In the interpretation stage, data under each key theme is re-read carefully to extract meaningful summaries of issues. In the integration process, results from the interpretation of themes are compared with the quantitative findings to identify new insights and extensions.

5.3 Background Information of the Interviewees

A summary of interviewees' backgrounds, including age, education, current and previous positions, and years of employment in their companies is shown in Table 2 for external auditors and Table 3 for audit committee members. From these tables, it can be seen that the majority of the interviewees are aged 33 years old and above, from which it can be inferred that they are relatively experienced individuals. Nearly all have a degree at bachelor's level or higher, with a few of them having professional qualifications. For this group, based on information about their previous positions, their professional experience implies their personal values, knowledge and skill base have been completely shaped by their educational background. About one third of the interviewees have been in their positions for five years or more and the majority of them have worked for the same company for more than five years. Positions held by the interviewees prior to joining their respective companies, along with the other background information just discussed, indicate that the interviewees have a significant amount of knowledge of and experience with the issues examined in this study.

The companies the interviewees were working for or had worked for are public listed companies and the auditors are from the Big Four firms. The majority of the companies have politicians or senior government officials or have government ownership of shares. The following sections present the results of the interviews.

Table 2: Summary of the Final Sample of Semi-structured Interviews (Audit Partners and External Auditors)

	Name	Interviewee Designations	Age	Working Experience	Academic Qualifications
1	AP 1	Audit Partner	39 years old	16 years	ACCA ¹ ,MIA ²
2	AP 2	Audit Partner	43 years old	19 years	ACCA,CPA ³
3	AP 3	Audit Partner	38 years old	16 years	ACCA,MIA
4	AP 4	Audit Partner	47 years old	18 years	ACCA,MIA
5	EA 1	Audit Supervisor	30 years old	7 years	ACCA,MIA
6	EA 2	Senior	28 years old	6 years	ACCA

¹ ACCA is the Association of Chartered Certified Accountants and the global professional accounting body offering the Chartered Certified Accountant qualification.

²Malaysian Institute of Accountants (MIA) is the umbrella body for the accountancy profession in Malaysia. It was established under the Accountants Act, 1967, to regulate and develop the accountancy profession in this country.

³Certified Public Accountant (CPA) is the title of qualified accountants in numerous countries in the English-speaking world.

		Manager Auditor			
7	EA 3	Manager	28 years old	6 years	ACCA

Notes: AP = Audit Partner; EA = External Auditor.

Table 3: Summary of the Final Sample of Semi-structured Interviews (Audit Committee Members from Listed Companies)

No	Interviewee Designations	Age	Working Experience	Academic Qualifications
1	AC 1	58	30 years' experience in banking, financial management and accounting.	Bachelor of Finance, ICAEW
2	AC 2	45	18 years' experience in a Big Four firm.	Bachelor of Commerce, ICAEW
3	AC 3	59	Director in a few public listed companies and several other private limited companies.	ACCA, MICPA ⁴
4	AC 4	48	15 years' experience in the oil and gas industry.	Bachelor of Science degree in Management (majoring in Finance and Economics), alumnus of Stanford Executive Program, alumnus of Corporate Finance Evening Program.

Note: AC= Audit Committee

6 FINDINGS AND DISCUSSIONS

The findings from the interviews confirmed the presence of political connections through the appointment of politicians and senior government officials to the boards of companies and through companies in which the government owns the shares. In addition, it was found from the interviews that political connections exist in numerous ways. For instance, government projects are among the helping hands allowing companies to survive in

⁴The Malaysian Institute of Certified Public Accountants (MICPA) has been developing the accounting profession in Malaysia by providing accounting graduates with an avenue to become Certified Public Accountants, better known as CPA, since 1958.

the corporate sector. This is evidenced by prior studies (Faccio et al. 2006b; Fraser et al. 2006; Gomez and Jomo 1997) that there is a close link between business and politics in Malaysia. In various cases, political connections with the government normally occur at the policy level and rarely involve the operational level. The findings from the interviews demonstrate that management freedom at the operational level is diminished when there are politicians present on the board of directors. It is encouraging to note that the findings also show that political connections potentially affect accounting and reporting decisions, due to reputational capital, which significantly impacts the audit process. Therefore, political connections could be a contributing factor to an increase in audit fees due to the interferences from the influential individual during the audit process. In the next section, the findings from the interviews are further discussed according to the sections and themes that have been recognised during the data analysis.

6.2 Board Participation in Auditing the Financial Report

The focus was to obtain the interviewees' experiences on political connections in companies and on the extent to which these may influence the audit plan. Thus, the first question asked with regards to this was about the participation of board members in terms of the audit of the financial report. This question was asked because the measurement used in the study to indicate political connections is related to the presence of politicians on company boards. It is important to note that the audit committee or board of directors play a significant oversight and monitoring role; hence, it is important for them to have meetings with and to communicate with the external auditor (Klein 2000). An examination of senior management backgrounds (such as CEOs, audit committee and board of directors) shows that the majority of companies have politicians on their boards of directors. This will contribute to such problems and play a vital role in this study, especially when a company is exposed to political connections.

6.2.1 Active Participation by the Board of Directors

The interview results revealed that boards of directors actively participate in ensuring the financial statement is fairly presented at all levels. According to AP2⁵, the boards were involved in terms of many aspects, such as ensuring the appointment of auditors, hiring the auditor and monitoring the corporate governance activities within companies. Similar to this view, EA2⁶ points out that it is very important for auditors to gather sufficient evidence to

⁵Interview with Audit Partner (AP2), 18th February 2017.

⁶Interview with External Auditor (EA2), 10th March 2017.

support audit findings. In this respect, the ability of auditors to obtain auditee participation and access to information is important. Without sufficient information and evidence, auditors would be unable to express objective opinions on the companies that they audit. As to the issue of cooperation from management for access to information, which is important for a successful audit, the auditors were of the opinion that they have reasonable access to information. The findings corroborate the results of Hoitash and Hoitash (2009) that, following the enactment of SOX, the roles of the audit committee and oversight over the external auditor have been expanded, which could lead to a stronger association with the quality of audit.

In order to perform their work efficiently and effectively, the auditors need to have unfettered access to the necessary information, people and records across the organisation. EA5⁷ agrees that the auditor should have direct access to every manager, including the executive director, the senior directors and the audit committee. McHugh and Raghunandan (1994) have suggested that internal auditors would be effective if they had unrestricted access to all aspects of activity in the organisation. Therefore, another important factor in this study that may impact on the desired level of independence is the ease of unrestricted access to documentation and people, and unfettered powers of enquiry. The findings show, the boards of directors involved have given full cooperation.

As one audit partner (AP1)⁸ from one of the Big four firms has said:

They are involved very much at all levels. The board of directors play an important role. They have the responsibility to prepare and ensure the financial statement being presented is a true and fair view for the shareholders. This includes involvement in the preparation of the financial statements, appropriate control being implemented to ensure the financial statements are free from misstatements, as well as to ensure the independence of the auditors in terms of fees, appointment and retirement of auditors. (AP1)

An external auditor (EA3)⁹ shared this view:

Normally we easily get access to all information and cooperate with the team. We communicate with the audit committee as they will develop a good understanding of the business, but they will focus on the matters that are brought to their attention, as opposed to maybe searching out other issues. Audit committees will support us to give permission for us to get access to the company's documents and properties by all means, if needed to collect evidence or to conduct any audit procedures. (EA3)

⁷ Interview with External Auditor (EA5), 18th March 2017.

⁸ Interview with Audit Partner (AP1), 9th February 2017.

⁹ Interview with External Auditor (EA3), 12th February 2017.

6.2.2 Strong Relationship between Auditors and Clients

Organisational support is high because the interviewees see the whole process of maintaining a strong relationship as vital for a high quality of audit. Strong working relationships develop trust, respect and confidence in the audit process, which are viewed as crucial in order to extract information from auditees, to understand the business and audit area, and to provide the best result for the business. Without board participation, great difficulty can be perceived for the auditor to conduct a high quality audit, as there will be a lack support from management or the auditee, and it will be difficult to align with management on audit objectives. Taken together, these results support the idea of Krishnamoorthy et al. (2002) that it is important to foster frank and open communication between the external auditor and the audit committee in promoting the effective role of management.

The study also provides evidence about audit committees' views on how they communicate with the auditor and management. One member of an audit committee (AC1)¹⁰ stated:

I asked the auditor what was the major risk within the organisation that he thought the board should be on top of. We had frequent meetings to discuss the issues, during some of which there was candid engagement, so it can be challenging at some points to reach a tolerable agreement. This is how we actually communicate and work within the organisation. (AC1)

Another audit committee member (AC2)¹¹ supported this view:

We asked the external auditor about what their view was on our internal audit; are they supporting the external audit team? And we talked to the head of the business unit. The CEO and the head of internal audit normally give us frequent reports on their current progress and year plan. This is how we keep up with the whole audit process. (AC2)

6.2.3 Tone and Culture of the Senior Management in Perceiving a High Quality of Audit

In addition, the tone and culture in the organisation should also be taken into consideration as, when the senior management perceives that a high quality of audit is significant for companies, this will indirectly affect the audit process through participation from the board. The majority of audit partners and external auditors agreed that the tone from the top plays a significant role in terms of how companies perceive a high quality of audit.

¹⁰ Interview with Audit Committee member (AC1), 25th March 2017.

¹¹ Interview with Audit Committee member (AC2), 31st March 2017.

Previous research by Cohen et al. (2002) highlighted that the senior management could function as the ‘tone at the top’ as the CEO helps to set the ‘ethical spines’ that promote the value of a high quality of audit and other corporate governance mechanisms.

As one of the audit partners (AP4)¹² mentioned:

Based on my experiences, it always sounds clichéd that way. The tone has to be set from the top. If the AC really holds the audit at a higher level they know it is very important to share information with the auditor. If they have a strong culture of corporate governance we don't have any problem with that. Because they know that in doing business this is very important, as it may have an impact on the bottom line, and ensures sustainability of the company itself by good CG, strong directors and AC, a good relationship with the auditor to carry on the engagement and good communication with the AC in highlighting the outcome of the audit. They carry out their responsibility by having a professional engagement with the auditors. (AP4)

6.3 Auditor Experiences in Politically Connected Companies

Following the question related to board participation, the interviewees were asked, based on their experiences, if they have ever audited politically connected companies. The current study uses the presence of any politicians or senior government officers with positions on a company's audit committee or board, as an indicator that the company is considered as politically connected. The interviewees were asked how they potentially recognise the existence of political connections in the companies that they have audited, based on their experiences.

As one respondent (EA1)¹³ said:

I think yes. I mean, when I went through the whole auditing process, finally I realised, yes, I can say they are kind of politically connected companies. I can give you a few examples of how I probably recognised that. This one is obvious; as sometimes I can see that the relationship among them in the companies is based on their personal connections. They choose their own men, a supporters, to be part of their team in these companies. For example, when someone influential is appointed to the company (politicians), we can confirm their appointment as CEO or BOD, and we can see or check from the date of appointment with the Malaysian Registrar of Business. After this date, there are a number of people who have close connections with the person being appointed soon after the date of appointment of the politician at the company. This means when there is someone influential in the company, they have power. (EA1)

As auditors, they need to preserve the integrity of their profession. However, it appears to fuel the satisfaction of management who hired them, to just follow what they are being asked for. The auditors were willing to just agree in order to uphold the integrity of the

¹² Interview with Audit Partner (AP4), 5th March 2017.

¹³ Interview with External Auditor (EA1), 7th March 2017.

profession and of the audit firm, and to maintain their independence. This may support Kant and Paton's (1964) deontological view that there are issues that are inherently right or wrong, since one has a duty to do what is right. Thus, the strong power connection may cause unwillingness on the part of these respondents to report questionable acts within such companies. What happens is that they might feel insecure, which was particularly more noticeable among junior staff and less experienced managers and practitioners.

One of the audit partners (AP4)¹⁴ explained:

In different cases, there are subsidiaries which were not creating a profit. After further investigation, the companies were forced to continue the operations by the state government through its representative in their companies, as they said people need jobs, so that is why the company needs to retain it. (AP4)

6.3.1 The Auditor Client Negotiation Process

Some audit partners reveal a variety of auditor client negotiation positions when it comes to political connections and dealing with influential individuals during the audit engagement. In a much stronger position, political connections may have an influence upon negotiations and may take the lead in deciding what to expose, which audit scope to embark on and also become involved in risk management decisions. Gibbins et al. (2000) discusses the auditor client negotiation as an important part of the process of producing the client's accounting information for the use of third parties.

As one audit partner (AP3)¹⁵ mentioned:

I got involved with this one particular government entity which, during that time, was highly problematic, as we had to have some extra negotiations among the partners and the board. As the company was also funded by the government, we thus had to deal with many people. We need to look at our testing procedure, control process or a similar percentage within the strategy. So we have to look at everything, like their customers, clients, and suppliers. So the negotiations process involving someone or companies that are influential in the government reflects public sector practices and these negotiations somehow give complexity to the team but this does not affect our credibility as an auditor. (AP3)

In the presence of political connections, the board or AC are likely to be candid with the engagement of auditors, and with sharing and discussing significant matters related to the audit and the financial statement. Thus, the auditor client negotiation process provides an open door in which Rennie et al. (2010) find that the openness of communication by the

¹⁴ Interview with Audit Partner (AP4), 5th March 2017.

¹⁵ Interview with Audit Partner (AP3), 13th February 2017.

client's management representative is essential for the efficient and effective conduct of an audit. In a similar vein, the auditor's trust in the audit committee members, who are socially connected with them, would enable the auditor to obtain the audit committee's insight and information about important transactions and managers' incentives, leading to a higher audit quality.

The above findings revealed reluctance to report anything, due to practitioners' years of experience and sound understanding of company culture. This reluctance to report seems to be influenced by the impact of the report, the individual and the reputation that they have. Sometimes they assumed that there was nothing wrong as there was nothing significant enough to warrant a report or investigation. The interview findings suggest that political pressure can be resolved through forthright communication, political astuteness and sensitivity to the organisation's culture. However, since political pressure is part of the challenge that needs to be faced by the auditor, in some situations there are no easy solutions. The auditor is faced with judgement calls and when the pressure is on, it can be easy to rationalise through independence. Moreover, from the interview findings, it is suggested that the outcome of political connections is to make auditors choose to compromise as a solution. Consistent with prior research in the US, it appears that auditors are willing to compromise when any conflict arises within the organisation (Nelson et al. 2002).

6.3.2 Culture and Mentality that Set the Tone of Corporate Governance

Previous research finds that contextual factors outside the control of the auditor, such as firm culture (Krishnamoorthy and Maletta 2012;Lampe and Sutton 1994;Margheim and Label 1990), affect the audit process and subsequent external auditor reliance on the internal audit function. Management's attitude sets the tone for governance (Cohen et al. 2002) and the findings of this study indicate that the tone at the top, if it is the culture of a politically connected individual, will filter down through the layers of the organisation. The interviewees identified a few elements originating within organisations and from the external business environment that reflect the existence of political connections. From the interviews, evidence shows that the two most commonly discussed elements are culture and mentality in this kind of environment. The mentality associated with political connections includes respect from the board, audit committee and senior management, which filters down and affects the mentality relating to the audit process shown by the management and auditees, the status of the audit within the organisation, the importance and value of the audit as part of an

organisation's corporate governance and the organisation's culture in embracing improvement and change.

The mentality aspect of an organisation is seen by the interviewees to be driven by the tone at the top with respect to the audit process. The following supports this:

I have audited one government-linked entity, and the CFO, he basically understands the whole audit plan that I have presented to them. During the first year, he joined the meetings and he seemed ambitious to change the world and mentioned that I could do it differently. But now, they don't seem to care. I think, because of the mentality in this environment, cost accounting has become like the cost centre, so you don't need an extra budget to invest in computerising the system. And you can see the senior management does not see the significance of that and the accounting function is not important in their agenda. So, since the government has always allocated an amount of budget or funds to them, they have not been concerned about any other material issue that may arise from their current practices. Probably, the government sector does have different goals compared to the private sector, so there is less effort for them to cut costs. (AP4)

One external auditor expressed a similar view, indicating that the 'human' mind-set, in fulfilling the individual's interests and priorities, is being diverted due to the mentality and culture embedded within the organisation. Thus, auditing politically connected companies should establish any potential conflict of interest that may threaten the independence of auditors, as follows:

I definitely have experience of audit committees not necessarily taking all these issues responsibly. I think the boards of directors aren't active and their independence, in practice, isn't applied efficiently. The reason behind that is a majority of shareholder companies are managed by families. Although these companies are pioneers in their industry and their performance is successful, the problematic issue is that the board's first priority is to fulfil the family's interests in terms of profitability and increasing their wealth (EA3)¹⁶

Another external auditor (EA4)¹⁷ stated:

I did a piece of work on an audit committee a few months ago. I tried to review how effective they are. I reviewed all the documents, all the publicly available information; all seemed to be very sensible. I sat in meetings with two audit committee members and an audit committee chairman. Whereas the audit committee chairman had a good dialogue with the auditors and management, the two AC members did not say a word. Then I realised that the audit committee chairman is one of the most powerful politicians in the country. Fundamentally, that just seems wrong to me. And you can't measure or regulate for people not seemingly being alert, not asking the right questions and pushing the right buttons. (EA4)

¹⁶ Interview with External Auditor (EA3), 12th February 2017.

¹⁷ Interview with External Auditor (EA4), 21st March 2017.

From cultural point of view, auditors also must acknowledge that Malaysian political culture is a 'soft' culture, where someone will hardly have a different view from those who are respected and have influential personalities (bosses and senior management). This is supported by Barr (1999), who states that Malaysia's mainly consisting of Malays, was compounded by the continuing socio economic problems, reflected by their cultural defects, as they had grown up in a 'soft culture' which did not encourage enterprise and hard work, only the following of leaders without saying 'no'. This culture is embedded in both public and corporate culture; therefore, auditors must acknowledge it, despite being independent. The ability of one individual to influence the power relationship between the board, AC members and the external auditor is a function of the standing, quality and experience of that particular individual. Thus, it is becoming crucial, suggesting that the political connections element in companies is a critical factor influencing governance outcomes.

Under the influence of political connections, the organisational senior management and auditors would rather stay passive and compliant to the will of 'politicians' in order to be assured of their on-going appointment. The above findings clearly show that the presence of a politician on a company's board of directors contributes to the elements where strong corporate governance is needed to ensure less difficulty with managers 'economic decision making. On the other hand, political connections, where an act is perceived as being material, serious, or morally wrong and has the potential to harm others, may be potentially trapped by the culture and practices that are embedded in organisations.

6.4 Do Political Connections Potentially Affect the Audit Process?

In relation to the audit process, the interviewees were asked if the existence of political connections might affect the audit process. They were asked if there are any obstacles or issues regarding political connections that may impair their effectiveness in during the audit engagement. The auditors were asked to provide information on their experiences and perceptions regarding those parties that have greatest influence on the audit process. This question was asked because Cohen et al. (2010) give evidence showing that during the planning and testing phases, 97% and 50% of auditors have changed the process over the last five years with respect to the corporate governance information received by them. It is important to note how auditors respond to the risk of political connections and incorporates them into their audit planning. In addition, during this part of the interview questions, the researcher kept reminding the interviewees that the measurement used to

define political connections is through politically connected audit committee in guiding them to answer objectively.

One of the audit partners (AP1)¹⁸ replied:

Anyhow, I can see there are some obstacles that we are facing in terms of getting further information. I still remember when I audited one GLC; it is like the information given depends on how the BOD perceive its implications. I mean, they tend not to disclose more information if it is not necessary because, I think, they think once they say more, they will be facing political implications from it. Most companies are making efforts to manage any political risk, but most are not doing it as well as they think they should. Moreover, political risk is often perceived to be outside of management's control, thus making it difficult for us to define, and align the objectives. (AP1)

However, another audit partner (AP2)¹⁹ had a different view and gave a different reason:

Regarding the serious issue related to political connections, we hardly go to that level. By the time you meet the AC it shows serious issues are going on. Any issues, you have to address to four parties, the CFO, AC, board, as well as shareholders. Usually the first level we need to manage is the CFOs, until you exert or exercise your means and the person is aware of the limitations, the person maybe asks you to present to the board; before the meeting you can have a pre-discussion with the AC to meet their expectations. This is the thing you need to manage. Under rare circumstances, you deal with limited scope, modified opinions; normally we have a few meetings beforehand to discuss the issues. (AP2)

6.4.1 Compromise as a Solution to Conflict

The question of whether politically connected audit committee may affect the audit process was posed to the interviewed partners. Most of the partners suggested that compromise was a way to deal with politically connected individual in the companies. Some of the interviewed partners suggested that compromise with the client's management was a reasonable way to resolve any political issues or audit conflict. The definition of compromise in this situation is explained further as involving a variety of negotiation processes, with the partners preferring to view the situation on a case by case basis. However, McNair (1991) found that audit quality and integrity declined. The researcher found that ethical ambivalence existed in audit firms where auditors learnt to compromise truthful reporting and integrity, thus trading off audit quality for business considerations. Although the interviews revealed serious abuse of auditors due to political connections, auditors 'careers rely on their ability to maintain their clients.

¹⁸ Interview with Audit Partner (AP1), 9th February 2017.

¹⁹ Interview with Audit Partner (AP2), 18th February 2017.

An audit partner (AP3)²⁰ claimed:

Anyhow, when companies appoint a politician as CEO or to the board of directors, however such appointments work twofold: they may increase the reputation of companies for less governance and may decrease the board's independence. We used to receive letters from politicians and government officers instructing us what to do with the audit report. Usually this happens. They ask us not to disclose such information. It all depends on our senior management. Usually we did not disclose to the public reports like that. (AP3)

6.4.2 Non-routine Audit (Private Meetings)

Private or personal meetings are held between audit partners and external auditors and the audit committee, usually by the latter's initiative, which help to encourage more compromise and provide a comfortable environment to raise any concerns. Similarly, Gendron et al. (2004) provide insights into practices that audit committee carry out in meetings, including parts of meetings in which members meet privately with the auditor. Their results highlighted that audit committees are generally perceived as effective by the individual who attends meetings, since during the meetings they discuss crucial issues, such as accuracy of financial statements, effectiveness of internal control, and quality of work performed by the auditors. In practice, it seems that during private meetings the external auditors only really tackle issues they plan to raise during the official meetings. The external auditors are simply giving their message in advance in such situations, although more directly; the messages are more easily understandable. These meetings are thus a means for them to prepare their questions for the following official meetings. It is also interesting to underline that, even when the external auditors do not choose to play a discrepant role, the simple fact is that politically connected individuals may influence the discussions. This suggests that the auditors have to involve non-routine audit when it comes to political connections, as the private meeting and auditor client negotiations process becomes a tool for compromise.

An audit partner (AP4)²¹ stressed that:

And one thing is having a discussion in the privacy of the audit committee. But once you start putting that in the public domain, then people can challenge it and that makes AC members a lot more conscious about what they are saying. After all, we need to be careful about what we are doing and exposing to the public. (AP4)

Similarly, one audit committee member (AC1)²² was asked if there is any issue with

²⁰ Interview with Audit Partner (AP3), 13th February 2017.

²¹ Interview with Audit Partner (AP4), 5th March 2017.

regards to sentiments about the auditing of companies with political connections and, as the result, he claimed that:

It is not a major issue though, but more about what the auditor reports to us. Anyhow, I found there is a limited view on audit scope or process. Some 'people' may come in as a tool to compromise things, and this process is not really mentioned any in the report. (AC1)

The audit committee member (AC1) claimed that the individual politician may become a tool to compromise things, as he added:

It can be, yes; and it may not, but after all, we work for the companies in satisfying the shareholder, so doing our job right and ensuring that everything is done accordingly. It is very subjective to say it, because people come with many attributes, being someone influential, outstanding, but the company itself has the control to govern this issue.(AC1)

6.4.3 Auditors' Voices on Highly Independent and Professional Judgment

When auditors conduct the audit process, the formation of a highly professional judgment requires internal cognitive processes that are affected by external factors, such as client characteristics; for example, the effect of the item on the client's earnings (Johnson et al. 1989). In this study, political connections may be one potential external factor that can affect professional judgment. Thus, one external auditor (EA1)²³ warned that:

Companies work to a tight reporting timetable and they announce the dates when the financial reporting statements are going to be published. What happens in practice is, management prepares financial statements and the effectiveness of audit committee members depends a lot on what stage in the process they are brought in. If it's too late in the process, then there is a lot of pressure on boards, but particularly on ACs to just 'pass' and not necessarily challenge this deeply. So, when the board puts on the pressure, it may involve lots of hands in the process. There is a series of attributes we are looking for; obviously, things like being technically competent in your particular area of support, that's one. Getting on well with clients, being able to sell work, getting work is critical, ability to win proposals, give presentations, get on well with people. (EA1)

This is supported by another external auditor (EA2)²⁴:

There is a little difference between us when dealing with this kind of issue, for example, from audit scope. We are more detailed and advanced and we need to carefully consider many things from the company's background, board profile, their influences, their reputations, all activities in and out, so that what is there in the companies is publicly reported. We need to highly maintain our independence at the

²² Interview with Audit Committee (AC1), 25TH March 2017

²³ Interview with External Auditor (EA1), 7th March 2017.

²⁴ Interview with External Auditor (EA2), 10th March 2017.

highest level to meet a client's need, as well as our reputation as a high quality auditor. (EA2)

These interviews gave a voice to the auditors about political disclosure in their situation of maintaining independent judgment when dealing with a powerful client's management. In dealing with highly politically connected companies, most of the interviewees agreed highly independent individuals need to have strong integrity and personality, regardless of where they work. This view is consistent with the factors reported by Flint (1988), who mentioned that independence depends on the auditor's qualities, which include integrity, objectivity and strength of character.

Auditors are human. I think one of the criticisms of auditors is that they have been too accepting of their representation of management, whereby just a little probing would have demonstrated that people didn't deserve our trust. And when we need to assess someone in a company, it takes lots of judgmental issues, but somehow, still we work within the guidelines; besides, we have a team to work together, to obtain support and professional advice in assessing companies. (EA4)²⁵

The high degree of independence of an auditor is agreed in the interview of one of the audit committee members (AC1)²⁶:

So it is a common issue for auditors and internal auditors. So, in other words, if you move towards management, it hurts because the board or the audit committee gives you a hard time due to political interests if any; if it goes the other way, management doesn't like you. It is not that wrong to have politicians in companies, so how this political influence may at a certain point become an obstacle to the auditor, it comes down to the independence of the individual and/or the firm. (AC1)

Based on the interview findings, the results show that auditing companies with greater interference from the influential individuals namely politically connected board or audit committee raises some differences, including auditor independence. Even though auditors apply the same audit rules and standards to all clients and there are no 'special' treatments for certain clients, a background of political connections within the companies does actually affect the scope of audit work and gives voice to auditors concerning the high degree of independence needed during the auditing process. This is because, if auditors tended to be steered by influential individuals in companies, such as in a politically connected board or audit committee, their independence would be impaired. This is supported by Beattie et al. (1999) related that the weak financial condition of a client was perceived by public accountants and financial directors as a factor that could enhance auditor independence.

²⁵ Interview with External Auditor (EA4), 21st March 2017.

²⁶ Interview with Audit Committee member (AC1), 25th March 2017.

The findings from the interviews provide evidence on whether politically connected board or audit committees may potentially affect the audit process. In summary, the interviewees claimed that political risks are present in these companies and it is beyond management's control. Thus, in dealing with the issue of political connections, auditors seem to face a few challenges, such as having to be involved with non-routine audit, for instance personal meetings or private meetings. Audit partners have to step forward to solve issues, as there are varieties of auditor client negotiations taking place and one convenient way forward for both parties is through compromise. Normally, politically connected individuals become mediators in companies and the auditors also need to maintain a high degree of independent judgement in solving any issues. Realising that the audit risk seems higher in relation to politically connected companies, auditors need to put in greater effort in conducting the audit process, for instance checking a company's background, an individual board's profile, or connections a company potentially has with an industry player, in order to strategically plan the audit scope and process. On the other hand, from the perspective of a politically connected individual, they are willing to become mediators in companies because they can directly make demands of the auditor, and when they are actively involved in the process this somehow portrays a positive image for their political reputation.

6.5 Auditors' Perceptions on the Benefits and Costs of Political Connections

In addition to examining auditors' perceptions on political connections, the interviews were also carried out to investigate how such connections may bring costs and benefits to the firms, as well as how they affect corporate governance. Political connections occur in corporate governance and the findings from the interviews show that having very close connections may potentially be the main driver for companies. And almost all interviewees whose companies have politicians on their board agreed that a dominant figure does influence the company's decision making.

6.5.1 Political Connections as External Resources for Companies

The evidence shows that in the Malaysian setting, the government frequently turns to non-financial channels which are politically connected to add value to companies and obtain information to raise capital and financing, and make listing decisions. This is supported by Du (2011), who documents the importance of political connections for firms to gain access to public debt markets. One head of internal audit (Head IA2)²⁷ mentioned:

When I have been asked whether political connections are good or not, it depends. It can be a yes or no situation. But in general, the people do add value to the board composition, but still there are a minority who just keep quiet during meetings. You have to understand the function of the AC; they don't deal with operations, they provide the check and balance even if they wanted to do that, but they have to do that as part of the board role, rather than the AC role. The AC and board have different agendas, so it depends on what they are focusing on, with the AC being normally related to the approval of something (governance). (Head IA2)

This view is shared by an external auditor (EA4)²⁸:

Most of the time, for public listed or GLCs you don't choose outside people. They need this to portray to the shareholders and also the other point is that if you make millions, but the auditee is somebody not known by the shareholder, they have doubts. You want your investors to have some level of confidence. The shareholder will question all actions taken by the board, but perceptions and image are among the important things that need to be considered. (EA4)

The evidence extends prior studies by Chidambaran et al. (2011) and Dey and Liu (2010), which addressed the extent to which professional connections influence board decision making. In this study, evidence shows that having politically connected individuals or influence may compromise the direction of companies. Thus, having such connections may offer potential benefits, since management and audit committee members may develop business relationships, leading to trust, confidence and a good working rapport (Bruynseels and Cardinaels 2013; Hoitash 2011). Politically connected individuals may have been chosen because they can also promote work related information sharing that can benefit the operating and strategic performance of the firm (Bruynseels and Cardinaels 2013). In addition, Bruynseels and Cardinaels (2013) found no negative association between ties through an 'advice network' and measures of financial reporting quality. Thus, boards or audit committees which have political connections may be perceived by investors as being appointed because of their professionalism and may be able objectively and effectively to continue to serve the board.

6.5.2 Political Connections Coexist with Good Corporate Governance

Almost all interviewees mentioned that having someone influential in companies may create a dominant figure himself or herself, which affects the audit process indirectly. Despite having political connections maybe adding value to companies, a few interviewees argued

²⁸ Interview with External Auditor (EA4), 21st March 2017.

that the connection might potentially affect the auditor and client engagement. As one audit partner (AP4)²⁹ mentioned:

In addition, overall it goes back to the leadership at the top for each firm. At the working level respective engagement partner, all of us need to be aware we do not take an engagement basically more than a certain percentage of the firm's revenue, because the reason being the clients may threaten us. We do not want to be in that position. Before we accept an engagement we need to be aware of the level of fee even though the fee is quite handsome. The partner will go and accommodate the initial engagement. On a long-term basis you will meet the same client all over again. If you can see at the recent election the competition is very close, as I can say it is a balanced vote, as half of the party won and half of the voters did not win. Within our firm we have our own risk management committee, we have meetings to discuss the issues, and basically table this proposition and come out together with the conclusion as a firm. If anything happens, be prepared to stand for our own decision as a firm. You do not need to shoulder whatever judgement alone, and you always have someone to share thoughts and deliberate with as a whole. (AP4)

One of the audit partners (AP2)³⁰ stressed that:

And as a professional, we do have standards that we must abide by. I am not sure, as right now the mantra when you go for audit is you need to achieve audit quality, as you need to follow the standard up to professional standard, it does not really matter if the company is politically connected or not. There are certain things that you need to achieve. At the end of the day, when you sign off the financial statement during the audit, you can issue an unqualified opinion or report as you fulfil the requirement. So by having someone politically connected in the client, to me it does not change the way we plan the audit, because as a professional, we do have standards that we need to follow, and on top of that to ensure all these things are done, you have an accounting oversight board and you will not be able to escape them. (AP2)

Other than the external auditors, the interview also asked the audit committee members about their views on companies that have political elements in them. One audit committee member (AC1)³¹ responded:

There has to be acceptance from the top. This is a really important function and not just a blessing. I think it needs the sort of enthusiastic support of the people at the top and that includes both the board and management. So, when the top accept it from the very beginning they have to be very responsible to reduce any component of risk which we are talking about as political risk. The internal control must be there, the support from the CEO, the governance is put into place. (AC1)

Moreover, another audit committee member (AC2)³² claimed:

²⁹ Interview with Audit Partner (AP4), 5th March 2017.

³⁰ Interview with Audit Partner (AP2), 18th February 2017.

³¹ Interview with Audit Committee member (AC1), 25th March 2017.

³² Interview with Audit Committee member (AC2), 31st March 2017.

As long as the CEO, the CRO [Chief Risk Officer], they have got to be leading; they have to do a good job of communicating to their team, management and board. I would say no matter what political connections are there or not, the risk is always there. That is why most auditors use a risk based approach in detecting risk. (AC2)

It may never ever be fully known to what extent political connections may influence or affect the audit process, since gathering data is problematic. Politicians' interventions in the reporting decisions of companies which have politicians on the board may potentially indicate severe agency conflicts or problems between the principal and the agents, as discussed in the theoretical framework of agency theory. The government, through politicians as their representatives on the board, controls managerial decisions (such as what to disclose or not disclose to the auditors), so that the decision is in line with its political agendas. This is consistent with Mahadeo and Soobaroyen (2012), who find that firms with a high degree of government ownership and which are politically connected in emerging economies, must make greater efforts in improving voluntary governance disclosure. The findings explain that good corporate governance practices appear to co-exist with a higher level of political connections in a complementary manner. This also accords with the earlier hypotheses by Shen et al. (2015) that firms are usually willing to strengthen corporate governance to increase their value and that building strong political connections may be one of the considerations to ensure smooth business operations for their companies.

7 CONCLUSION

These interviews provide a rich source of support and new details on the complexity of the relationship between politically connected board or audit committees and auditors. First, the study reveals the views of external auditors and audit committee with regards to political connections. Political connections appear to have a strong influence in Malaysian companies. Second, the evidence from the interviews also revealed that, especially in companies which have politicians on their board, they are involved with a variety of auditor client negotiation processes, difference cultures and mentalities (combining ethics and business) and that the pressure on audit scope and audit process could well come directly from political connections. In addition to that, it is an alarming signal for audit firms as the client's political background may potentially affect the audit process, demand differing audit requirements, and endanger auditor independence, while the findings constitute an indicator for auditors to strategically plan their audit scope before accepting any audit engagements.

The main finding from the interviews shows whether politically connected board or audit committees may potentially affect the audit process. Political connections become competing forces of audit risk, as they are much involved with variety of auditor client negotiation processes, client bargaining power and limited revelation of information due to political implications potentially increasing an auditor's assessment of inherent risk and control risk. The interviews provide in depth evidence from a qualitative point of view on whether politically connected board or audit committees could affect the audit process and contribute to a higher audit fees. The findings have affirmed the purpose of the interviews to reinforce and confirm findings from the quantitative data analyses. In addition to that, the interviews also provided extra, valuable information that complements and strengthens the findings obtained quantitatively.

Furthermore, the interviews suggest that politically connected individual may have an influence in the corporate sector when the management and shareholders perceive that such connections bring value to the company. There is a climate encouraging this connection and this need to be monitored by functional units within companies, especially the internal audit and audit committee. The findings from the interviews revealed extra information and provided useful insight into the relationship between politically connected companies and the components of corporate governance. Political connections are found not to be riskier if companies have strong components of corporate governance. On the basis of the interview findings, there is evidence that governance effects complement and create value as a result of political connections. The board acknowledges the benefits of better corporate governance and thus the shareholder perceives political connections as tools to stabilise the company's growth and maintain their reputation. This evidence suggests that political connections and good corporate governance can and do co-exist and they tend to be complementary.

Hence, auditors are the most important resources in auditing politically connected companies. Whether an audit institution can finish its task with a high quality is largely dependent on the number, professional competence and independence of the auditors (Shuguang 2007; Li et al. 2013). Other things being equal, an audit institution with more independence and more experienced auditors tends to be more capable of detecting misbehaviour, making correct decisions and providing rectification suggestions.

On the other hand, there appears to be a set of local institutional factors that shape the ownership, cultural and business environment of Malaysia's listed companies through the

existence of political connections. The cultural factors at play in Malaysia, through government investment and representation on boards of directors, help to 'keep the company honest' by providing a disinterested voice in corporate deliberations. Thus, it is important to realise that political connections may actually 'raise the tone' of corporate culture in emerging economies such as Malaysia

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PERFORMANCE MANAGEMENT IN NON-PROFIT SETTINGS: THE CASE OF TWO LOCAL AUTHORITIES

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ABSTRACT

Following the public sector reform more than three decades ago, many local authorities in many countries have started to introduce performance management systems. Such introduction was prompted by demands for efficient use of public funds and improved delivery of public services. Influenced by these demands, the Malaysian government infused the concept of KPIs throughout the public sector organisations in the country. This concept, which forms part of the broader performance management in the public sector, is mainly concerned with enhancing public accountability and has thus been intensely studied. In this study, we draw some insights provided by Otley (1999) and Kaplan (2001) to explain the performance management practices in two selected local authorities. We analyse how these local authorities have managed their performance and whether operational performance has preceded the strategic performance. A comparative case study approach is adopted for this study given its ability to enhance an understanding of the performance management practices in the non-profit settings in Malaysia. The process of analysing the data of this study followed qualitative research procedures, with emerging insights identified based on the data collected through semi-structured interviews and documentary review. We found that although the two local authorities have adopted particular performance management practices to facilitate their public service activities, the ways in which they conceive performance management are different. This relates to different performance management practices of the local authorities selected for this study, which concern either the operational or strategic objectives that underpin their public service delivery.

Keywords: *Performance management, KPIs, NPM, local authorities, Malaysia.*

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Introduction

There has been an increasing demand from the public for an effective performance management in the public sector organisations to improve public service delivery. Governments throughout the world are under intense pressures following immense criticisms from the public for being excessively bureaucratic and inefficient. Such criticisms have given rise to the need for the public sector organisations to improve their services, as well as to control their operational costs through sound performance management practices. The development of performance management in the public sector is mainly concerned with enhancing public accountability (Van Dooren & Van de Walle, 2016). This is crucial as the public is demanding the local authorities to be accountable in terms of performance and results.

Ahrens & Ferry (2015) argue that performance management has been useful in enhancing public accountability. They further assert that the use of performance management systems (PMS) appears to be intensified as local authorities have become increasingly concerned in demonstrating what they have accomplished. In this regard, measuring their performance and results appears to be crucial as PMS is deemed to be 'communication tool' in meeting public expectations (Aguinis, 2011; Speklé & Verbeeten, 2014). In the context of public sector, public expectations are often associated with the quality of public services which are perceived to be an important indicator for the public service delivery given that public sector organisations are expected to deliver quality public services as part of their efforts to enhance accountability and transparency (Parasuraman et al., 1985; James, 2003; Overman, 2016). As Overman (2016) assert, enhancing accountability and transparency in the public sector requires public sector organisations to appropriately manage and measure performance.

In view of the above, this study will examine the ways in which two local authorities in Malaysia manage their performance and the measures used to indicate their achievements in delivering public services and thus enhancing accountability and transparency. Apart from uncovering the sorts of key performance indicators (KPIs) used by these local authorities to achieve their objectives, this study will also identify how their performance management is linked to the objectives, strategies and plan, target, reward, and feedback from the public.

Literature Review

Managing public sector organisations is a complex and challenging task especially when the public are becoming more anxious about how public funds are utilised and public services are delivered (Winston, 1999; Hood, 1991; 1995; Feiock & Andrew, 2006; Ahrens & Ferry, 2015). These concerns are deemed universal and thus Malaysia is not exceptional. The concept of performance management was broadly introduced by the Malaysian government for more than 20 years to accomplish the public sector objectives, such as developing infrastructures and providing public facilities that could ultimately enhance accountability and transparency of those public sector organisations. Enhancing such accountability and transparency was deemed crucial as it would ultimately enable them to meet public expectations. This gave rise to the need for public sector organisations to enhance their effectiveness and efficiency by developing sound performance management practices. This development can be traced back to the introduction of the New Public Management (NPM) in the 1980s in association with the doctrines of public accountability and organisational best

practices (Alam Siddiquee, 2006). Influenced by the development of NPM at the international level, the Malaysian government had brought the concept into the country. NPM was introduced to public sector organisations in the education sectors, health services, and the legal and professional settings at the federal, state local government levels.

The introduction of NPM in the public sector emerged due to increasing demands from the public that public sector organisations (including local authorities) should achieve greater accountability, which exerts much influence for them to manage their performance more systematically. The concept of NPM explains about how a public organisation should be designed, organised, and managed (Laxmikanth, 2006). Public sector organisations 'must' change to fit the ever-changing business environment. This has given rise to the need for strategic objective and organisational structure and the process to be accompanied by certain forms of PMS in managing their performance. It seems to be a great purpose behind presenting NPM-related performance management practices into public sector organisations. This is because capturing, measuring, monitoring and evaluating essential elements of public sector performance, both at the organisational and individual levels may enable them to achieve positive outcomes, such as effective use of public funds, and improved quality of public service delivery.

In broad terms, performance management has been increasingly adopted as a mechanism to effectively manage public sector organisations (Alam Siddiquee, 2006; Ahrens & Ferry, 2015). Aguinis (2011) defines performance management as an ongoing process of identifying, measuring and developing performance targets in the organisation by linking organisational objectives to performance. While performance management is aimed at achieving specific organisational objectives, the ways in which organisations monitor business performance is entirely based on their individual preferences and focus areas. While there are various definitions associated with the terms "performance management", Otley (1999, p. 380) stated that "performance management provides an important integrating framework, both academically and practically. It goes beyond the traditional boundaries of management accounting, and will require the skills of management accountants to be developed in at least three areas". First, there is a need to understand the operational activities. Second, there is a need to control systems with the issue of strategy. Third, there is a need to focus on the external context of an external organisational context. Thus, performance management can be regarded as a system that organisations use to manage their day-to-day activities according to corporate functional strategies and objectives. Indeed, performance management serves as a means that shapes and informs organisations through the role played by PMS.

According to Umit (1997), PMS is a formal system which aims at providing a proactively closed loop control system, where the corporate and functional strategies are deployed to all business processes, activities, tasks, and people, and feedback is obtained through the PMS. Radnor and Barnes (2007) describe PMS as an action that contributes to an improvement in behaviour, motivation, and process, and promotes innovation based on performance measure and reporting. Interestingly, Ferreira & Otley (2009), who extended Otley's (1999) study view PMS evolving formal and informal mechanisms, processes, systems, and networks used by organisations. This process is important to deliver organisational objectives, mainly for assisting the strategic process through their analysis, planning, measurements, control, rewarding, and managing the organisational performance. In the context of public sector,

PMS concerns supporting an organisation's drive to achieve particular public sector goals through performance measurement. The main purpose of measuring performance is to improve the performance of the public sector organisation. Indeed, performance measurement has been placed as one of the important tools to make the public organisation become more accountable, responsive and effective (Ahrens & Ferry, 2015). Meanwhile, Palmer (1993) concluded that research on performance management of local authorities concentrate mainly on measuring what is easily measurable though this might be viewed as bias towards measuring performance in terms of economic and efficiency attributes, rather than those that relate to effectiveness.

Nevertheless, the extant literature has suggested that the main objectives of performance management concern identifying problems, monitoring core organisational activities and taking remedial actions, which ultimately lead to achieving organisational goals. Generally, organisational goals can be categorised into two—operational and strategic. While the former is referred to as PMS, the latter is referred to as SPMS (i.e., strategic performance management system). The underlying difference between these two categories lies in the focus of performance management. Such a difference can be explained by referring to PMS and SPMS, which are crucial in assessing the ways in which local authorities deliver services to the public. There are studies that have drawn the distinctions between the two. In this study, we will consider the conceptualisations of performance management developed by Otley (1999) and Kaplan (2001) as they used different terminologies to denote the management control issues that relate to performance management.

While Otley (1999) conceptualises the performance management at the operational level by focusing on public services (i.e., operations), Kaplan (2001) conceptualises it at the strategic level by focusing on organisational strategic outcomes—which this study identifies as PMS and SPMS respectively. Otley (1999) advocates the idea that performance measurement practices need to be evaluated from such perspectives as economic, social, behavioural, and managerial. Meanwhile, Kaplan emphasised the value of inter-communication between organisational units and individuals by aligning them to the strategy and encouraging them to find innovative ways to achieve strategic outcomes in rendering their organisational activities. Otley (1999) has given much emphasis on the performance management at the operational level rather than looking at the aspect of performance measurement. He focuses on sectional interest rather than an organisation as a whole. Otley proposes a framework to analyse performance management. The framework has been tested against three major systems of organisational control which is budgeting, economic value added and the balanced scorecard. He highlighted five sets of issues that need to be addressed in developing the framework for managing organisational performance. These issues include objectives, strategies and plans, targets, reward and feedback.

Another study by Ferreira & Otley (2009), which extends Otley's (1999) framework, provides a broad view of the key aspects of PMS. It elaborates the five issues of Otley's performance management framework into 12 questions. As outlined by Ferreira and Otley (2009), the PMS framework's 12 questions revolve around the following concerns: (1) What is the vision and mission of the organisation, the ways in which brought to the attention of managers and employees? What mechanisms, processes, and networks are used to convey the organization's overarching purposes and objectives to its members? (2) What are the key

factors that are believed to be central to the organization's overall future success and how are they brought to the attention of managers and employees? (3) What is the organization structure and what impact does it have on the design and use of PMS? How does it influence and how is it influenced by the strategic management process? (4) What strategies and plans has the organization adopted and what are the processes and activities that it has decided will be required for it to ensure its success? How are strategies and plans adapted, generated and communicated to managers and employees? (5) What are the organization's key performance measures deriving from its objectives, key success factors, and strategies and plans? How are these specified and communicated and what role do they play in performance evaluation? Are there significant omissions? (6) What level of performance does the organization need to achieve for each of its key performance measures (identified in the above question), how does it go about setting appropriate performance targets for them, and how challenging are those performance targets? (7) What processes, if any, does the organization follow for evaluating individual, group, and organizational performance? Are performance evaluations primarily objective, subjective or mixed and how important are formal and informal information and controls in these processes? (8) What rewards—financial and/or non-financial—will managers and other employees gain by achieving performance targets or other assessed aspects of performance (or, conversely, what penalties will they suffer by failing to achieve them)? (9) What specific information flows—feedback and feedforward—, systems and networks has the organization in place to support the operation of its PMS? (10) What type of use is made of information and of the various control mechanisms in place? Can these uses be characterised in terms of various typologies in the literature? How do controls and their uses differ at different hierarchical levels? (11) How have the PMS altered in the light of the change dynamics of the organization and its environment? Have the changes in PMS design or use been made in a proactive or reactive manner? (12) How strong and coherent are the links between the components of PMS and the ways in which they are used (as denoted by the above 11 questions)? Figure 1 below summarised the 12 questions.

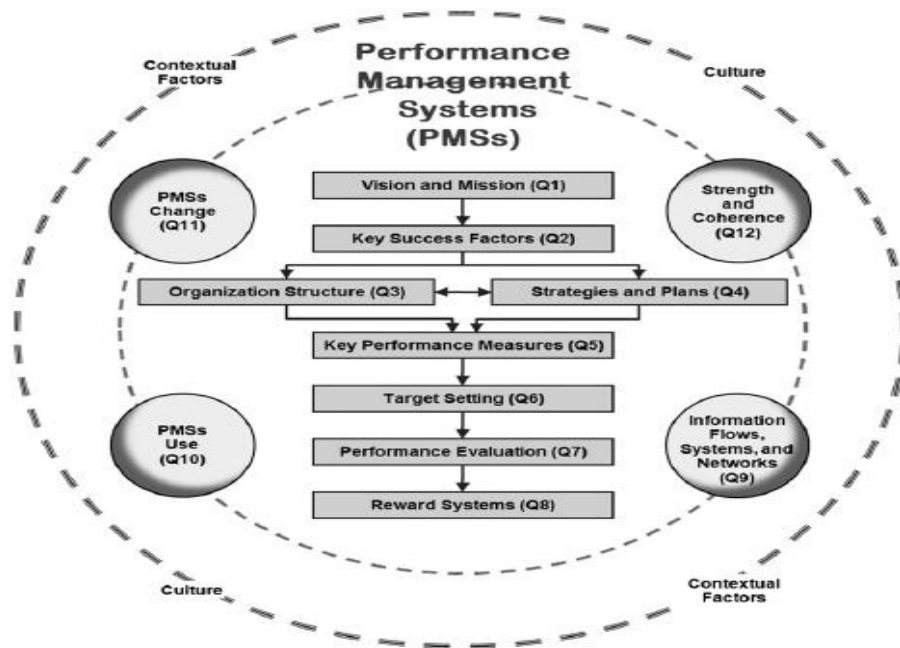


Figure 1: PMS Framework (Source: Ferreira & Otley (2009, p. 268))

The above questions serve as bases for such organisations as those in the public sector to design their PMS to better respond to various organisational pressures. There are studies claiming that public sector organisations tend to face pressures to develop and use outcome indicators especially when those indicators do not match with their internal practices (e.g., Modell & Granlund, 2007, Modell et al., 2007). Such pressures may lead to variation in the use of KPIs among public sector organisations. For example, Modell & Granlund's (2007) study analysed the pressures faced by a Swedish public sector organisation in developing and using customer satisfaction as one of KPIs. In National Agency of Student and National Bureau, such indicators are used in defence against criticism for lacking responsiveness to user needs. Swedish Railroad and Road administration used customer satisfaction indicators as symbolic value as those indicators did not provide adequate information and faced difficulties to translate the indicators into operating level actions. Swedish tax agency accepted the externally legitimated outcome indicators but it was adjusted to their performance management practices by modifying the indicators according to their own internal practices.

Meanwhile, Kaplan (2001) focuses on output and outcome. According to Kaplan (2001, p. 357), "strategy and performance measurement should focus on what output and outcome the organisation intends to achieve, not what program and initiatives are being implemented". Nevertheless, Kaplan (2001) acknowledged that it is difficult for the non-profit organisations to clearly define organisational strategies. He further stated when they have vision and mission, organisations are most likely to list all programmes and initiatives rather than stating the outcome that they attempt to achieve. Instead, they only measure the progress of the related programmes. This is backwards, according to Kaplan (2001, p.358) "initiatives should exist to help the organisation achieve its strategic objective". This is because of initiatives is considered as a means, not an end of the programme. Kaplan (2001) also emphasises the value of communicating to all unit and individuals, aligning them to the strategy, and encouraging them to find innovative way to achieve strategic outcomes in in their day-to-day operations. By quantifying and measuring the strategy of a particular organisation, the confusion about the organisational objectives can be minimised or even eliminated. This, in return, may enable organisations to achieve desired organisational objectives.

Another study by Marr (2006) assert that SPMS encompasses methodology frameworks and indicators that help organisations to formulate strategies and enable employees to gain strategic insights which allow them to challenge strategic assumptions, refine strategic thinking and inform strategic decision-making and learning. De Waal (2007, p. 5) defines SPMS as "the process where steering of the organization takes place through the systematic definition of mission, strategy and objectives of the organization, making these measurable through critical success factors and KPIs, to be able to take corrective actions to keep the organization on track". Thus, it can be concluded that the main differences between PMS and SPMS are that while PMS emphasises that strategic planning is not necessarily linked to the other elements since it concentrates on business operations, SPMS emphasises on the strategic planning that is linked to the budgeting, reward, target and feedback.

Research Method

In this study, we adopted a qualitative research method to address the research objectives. Our intent to examine the performance management practices followed a qualitative research design described by Locke et al. (2014). Using a comparative case study approach, we analysed two local authorities in Malaysia, disguised as Aster and Hibiscus. Aster is fully responsible for the control of business activity, licensing, planning, providing infrastructure

facilities and to ensure the town development and well-being of residents in areas that it serves. Another local authority, Hibiscus, is responsible for administering designated areas through the control of business and industrial activities besides establishing a conducive environment to attract more investments, as well as to plan and execute public services within its territorial jurisdictions to preserve the environment, as well as establishing a balanced and harmonious urban society. These municipal councils were chosen mainly due to the consent access and they appeared to have implemented either PMS or SPMS which aligned with this study's objectives. In this study, a total of eight respondents of different positions at both local authorities were interviewed and their documents were extensively reviewed.

Analysis of Findings in Aster

The early history of the first local authority analysed in this study began in the 1950's, when the Local Council Ordinance 1952 was approved and adopted. Later, in 1953, the local town board responsible for town administration was established. Following the enforcement of certain law provisions, a local government district council was established to govern some areas including the area Aster is responsible for. This district council is responsible to administer the entire designated areas in terms of the planning, building control, health, project and licensing progress aspects. Meanwhile, Aster is fully responsible on the development control, licensing, planning, providing infrastructure facilities, and many more to ensure of the town development and wellbeing of the people in the designated areas.

An interview conducted with Aster's chief administrator suggested that this local authority has adopted a very operational-based performance management practice. This is based on its focus on the operational matters that relates to its role in delivering core public services to the public. Overall, the performance management practice in Aster is deemed to have helped this local authority in managing its operations. Apparently, these issues have been given serious consideration by the president in that he emphasises the establishment of operational performance measures. Since Aster considers performance management to be important as it is capable of ensuring operational performance targets are achieved satisfactorily to ensure that plans are being implemented, that they are having the desired development impact, and that resources are being used efficiently. Interestingly, the performance management is implemented by introducing KPIs that clarify employees' duties and the ways targets are achieved. Indeed, this is consistent with its president seriousness in enforcing the concept of KPIs in Aster. The enforcement of this concept in Aster involves highlighting two main indicators, or as explained by its key personnel:

In here, the evaluation and measurement of performance are done by using two main performance management approaches. The first one is the rating system known as SSR-PBT and the second one is accountability index.

The SSR-PBT rating system was introduced by the Ministry of Urban Wellbeing, Housing and Local Development (KPKT) for evaluating the level of achievement of service delivery for all local authority through a uniformed grading system. The criteria and weightage of the evaluation are presented in Table 1 below:

No.	Criteria	Weightage
1.	Management	30%
2.	Core Services	35%
3.	Customer Management	15%
4.	Community Participation	10%
5.	People's View/Perception	10%

Table 1: Criteria and Weightage for Evaluating Local Authority

Table 1 above shows the criteria and the weightage used to evaluate Aster. These criteria are evaluated by considering such perspectives as economic, social, behavioural, and managerial objectives. The scorecard is added up to give an overall score for Aster, which subsequently involves assigning a grade to reflect its performance. In 2008, Aster scored 61.30% and was given a three-star rating. In 2011, its performance had improved by 11.24% in which it managed to gain a score of 72.54% though it was still under a three-star category.

The second measurement indicator used by Aster to review the financial aspects in terms of revenue and controls (such as expenditure controls, financial management controls, investment controls and other controls) is the accountability index. This index is a performance measurement tool that is aimed at focusing mainly on financial management and other management-based aspects. This index is assessed by the Auditor-General office every three years. Aster was assessed thrice, in the years 2009, 2012 and 2015, and is claimed to have managed to improve its star performance, or as reckoned by a respondent:

After our hard work and systematic review of the ways we measure our performance using some indicators drawn from accountability index, in 2015, we achieved a five-star rating.

Based on the scorecard, the accountability index has nine criteria to evaluate the accountability of local authorities in which Aster is subject to. The list of the criteria is presented in Table 2 below.

No.	Criteria
1.	Management Controls
2.	Budget Controls
3.	Revenue Controls
4.	Expenditure Controls
5.	Trust Accounts/Funds and Deposits Management
6.	Assets and Store Management
7.	Investments Management
8.	Loans Management
9.	Financial Statements Management

Table 2: Nine Major Criteria of Accountability Index

The criteria listed above are further divided into sub-criteria called “indicators”. These indicators, which are further divided into sub-indicators, are assigned with scores, depending on the weightage given. Based on its documents presented to us, it can be understood that Aster has managed to get high scores on all of the stated criteria as the weightage score of sub-indicators are high. For example, for Criteria 1 (i.e., management controls), Aster gained a high score in all indicators, with the highest score registered for Indicator 3 (i.e., committees and internal audit unit). Such an impressive performance was due to Aster’s utmost emphasis in maintaining the integrity of its financial management. The reason behind the great achievement of getting a five-star rating for its accountability index is explained by a respondent as follows:

The Treasury Department here keeps proper documents and follows the necessary procedures to meet the requirements set by the Auditor General... I mean the requirements as per the accountability index.

Aster appears to apply good governance in which all procedures are followed closely based on the documentations pertaining to the accountability index that a local government is assessed upon. Even though this has apparently led to improvements in its financial management, there is a lack of evidence that Aster emphasises the importance of building the linkages between its strategic planning and broader performance management wholly. As reckoned by its Administrative Division's chief:

Yes, our financial management is somehow sound. But I need to mention here that our strategic planning is only linked to the vision and mission statements. It is not clear that we have really linked it to our objectives, targets, reward, and feedback from the public.

To this end, it can be concluded Aster's performance management practice is very much influenced by MAMPU's strategic planning and it develops KPIs by making references to externally established performance management approaches known as rating system and accountability index. Nevertheless, the ways in which its performance management is structured very much follows the operational performance framework developed by Otley (1999).

Analysis of Findings in Hibiscus

Hibiscus is a local authority that was upgraded from a district council to a town council following an agreement set forth by the state and local governments' officials in 2001 in accordance with requirements outlined by the Home Ministry. Consequently, Hibiscus was required to come up with an organisational structure and total additional number of employees required to start its operations.

An interview conducted with one of its administrators suggested that Hibiscus has adopted a very strategic-based performance management practice. She claimed that:

We started to develop strategic planning in the year 2010 for our five-year planning. That was for the previous round of planning... from 2011 to 2015.

MAMPU's instruction appears to have influenced such a practice. A respondent (Hibiscus' chief administrator) commented the following:

We follow MAMPU's strategic planning. It informs everyone about what to achieve and how to be more responsible. So, we set some measures for our municipality according to the strategic planning outlined by MAMPU. As long as we do that, top management would be happy.

She went on to say:

During the development stage, our previous YDP [i.e., "Yang DiPertua" or President] was fully involved in creating strategic planning and to minimise our operational costs. He trained all employees on how to develop the strategic planning and he himself conducted the workshop and provided all training materials required for the training.

Such workshops, which were intended to prepare the organisational strategic planning for Hibiscus and to enhance the knowledge of employees at all levels, followed some important

processes. Table 3 below highlights the processes involved in developing the strategic planning which incorporates the transformation model and programmes in Hibiscus.

No.	Process
1.	Meeting preparation of a strategic plan
2.	Strategic planning workshop
3.	The determination of the key areas
4.	The establishment of a technical working group
5.	Workshops and policy formulation
6.	Strategic dialogue with stakeholders and customers
7.	Data collection
8.	Preparation of a strategic plan format
9.	Preparation of a draft strategic plan workshop
10.	Text writing strategic plans
11.	Presentations to councils
12.	The implementation of a strategic plan workshop

Table 3: The Process of Preparing the Strategic Planning in Hibiscus

Table 3 above indicates the 12 processes pursued by Hibiscus in preparing the 2011-2015 strategic plan. The first process is convening a meeting on the strategic planning. This is followed by a strategic planning workshop which is held for a week before determining the key areas that it intends to emphasise the planning for the next five years and establishing a technical working group. A series of workshops are then organised to formulate policies concerning its interest and responsibility to deliver public services to the local community. In developing its strategic planning, Hibiscus organises dialogue sessions with the stakeholders (comprise of the president, government experts, representative from the Ministry of Housing and Local Authorities, and councillors). The next processes involved are data collection, preparation of strategic plan format according to acceptable standards, and organisation of workshops on drafting strategic plans. Text writing strategic plans is to be performed before presentations are made to councils. The final process involves implementing the strategic plan. Interestingly, Hibiscus claims that it follows these processes as closely as possible. The climax of the strategic planning in Hibiscus can be seen in the practice of performance management in that its emphasis has been placed on all-encompassing elements of the public service delivery.

The above highlights suggest that Hibiscus has adopted a performance management practice that focuses on its strategic direction, or as explained by a respondent:

To enhance the quality of service to the public, we have adopted a [performance management] system that concerns our strategic direction. Everything is linked to our objectives, plan, etc.

The practice of performance management in Hibiscus concerns upholding accountability in delivering public services. Its respondent expressed the following:

[...] having a proper and integrated planning, budgeting and performance management. This reflects our accountability in discharging public services to the society.

It is claimed that performance management has enabled Hibiscus to focus on priorities particularly in facilitating resource allocation and developing sound output systems. Apparently, this focus involves linking the strategic planning to the performance management

elements. Figure 2 shows the linkages of all elements (i.e., objective, programme, indicator, target, timeframe, reward, and feedback) with Hibiscus's strategic planning.

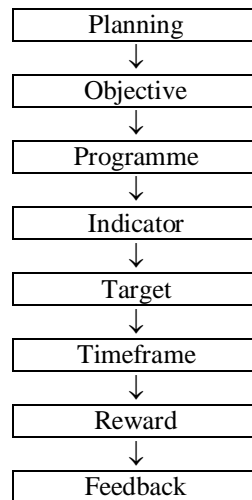


Figure 2: Developing Integrated Strategic Planning Programme of Hibiscus

The linkages shown in Figure 2 above suggest the integrated strategic planning programme developed by Hibiscus that serves as a framework for managing its performance in delivering quality public services to various stakeholders. The motivation for implementing performance management in Hibiscus is driven by the increasing formalisation of KPIs imposed by MAMPU. The introduction of KPIs appears to have helped Hibiscus in formulating relevant strategies in line with its mission and vision statements, as well as its organisational objectives. In implementing those formulated strategies, its top management initially instructed all units to develop their own KPIs, which subsequently led to the development of such indicators as the frequency of training programmes developed for employees, the level of customer satisfaction, and no of issues resolved. Due to sound management practices and clear performance measurement design, it appears that Hibiscus has been able to translate its performance indicators into a set of tangible organisational outcomes. Such a situation is made possible as problems associated with the performance management are resolved as and when they occur. As a respondent pointed out:

In here, we resolve things at the very early stage. We need to ensure that everyone is clear with our way of doing things because this determines our results. Obviously, we need to also ensure that our strategic direction is clear as it influences our planning and controlling in terms of how best we can achieve our objectives.

This is a crucial stage to ensure there is clarity on strategic planning and appropriate KPIs are developed and used. There are five objectives that Hibiscus intends to achieve. Each objective is supported by several strategies which highlight the means on how to accomplish that objective. Table 4 shows an example of Hibiscus' public sector objective that concerns improving organisational ability and capacity in providing public services. Amongst the strategies formulated to achieve this objective include strengthening the management and development of human resources and finance functions, enhancing the application of ICT in management, and corporate rebranding. Targets are simply goals or milestones which Hibiscus regard as indicators to measure at various timeframes. Performance targets are the level of performance that a local authority sets for itself for each indicator identified. Targets in Hibiscus are usually expressed in terms of quantity or time. An example presented in Table

4 indicates that Hibiscus adopts a strategy to strengthen the management and development of human resources.

Objective	Strategy
Improve the ability and capacity of the council	<ul style="list-style-type: none"> ▪ Strengthening the management and development of human resources ▪ Strengthening finance functions ▪ Enhancing the application of ICT in management ▪ Corporate rebranding

Table 4: Mapping of Organisational Objective and Strategy

The programmes developed to support this strategy include organising and conducting management training, evaluating performance of management members individually, recognising and appreciating high performing members, and establishing “culture of excellence”. These programmes have the designated indicators which help organisational members at different levels to get to know what are expected of them in executing the desired strategies. This prompted Hibiscus to develop indicators and set targets for each programme implemented within certain period of time. Table 5 presents the overall design of the strategic implementation.

Strategy	Programme	Indicator	Target	Implementation Year
Strengthen the management and development of human resources	Management effectiveness training	The number of members attending training	7 days per calendar year	2011-2015
	Performance management member	Percentage of member satisfaction	95%	2011-2015
	Recognition and appreciation member	Percentage of member satisfaction	98%	2011-2015
	Establishing “culture of excellence”	Percentage of misconduct member	1%	2011-2015

Table 5: Strategic Implementation Design in Hibiscus

The target setting in Hibiscus involves reflecting the previous targets and revising the measures used. This is particularly useful in recognising problems associated with the previous round of target setting so that subsequent targets appear to be realistic and measureable. Indeed, such a practice has been recently called for by its president who was recently appointed to hold the post in 2016. A respondent commented:

Each objective has its own strategies. So, “how these strategies were executed” and “what outcomes were achieved” form part of the things that our newly appointed YDP [i.e., president] would like to know as he regards them as important to move forward.

Basically, each strategy is executed through several programmes designed to achieve a desired objective. While an indicator for each programme serves as yardstick on whether a strategy is well executed or not, targets, which are expressed in terms of quantity and time, is used to measure the effectiveness of the programme given that it is largely accepted by Hibiscus’s top management that defined strategies can lead to better outcomes. Nevertheless, it is important to emphasise that in terms of rewarding organisational members, Hibiscus has never formalised its reward systems using financial measures other than the ways the state

government has decided for rewarding its employees. In other words, there is a lack of formal reward systems at the organisational level that can be used to (additionally) compensate employees. Instead, if employees achieve certain targets, they will receive non-monetary rewards. One of its respondents at the management level gave an example:

There is nothing like everything is rewarded using money here, really. What happen is that some high performing staff are sent abroad if they are considered "outstanding". Some travelled to Vietnam and we sponsored them in full. But I must tell you that sometimes we give this kind of reward and sometimes we don't.

Meanwhile, in reviewing organisational performance, Hibiscus relies on the feedback it receives from the public. As a respondent in Hibiscus commented:

We have some dedicated mechanisms for submitting feedback such as telephone, e-complaints, feedback boxes to hear from our people about complaints and feedback they may have. We do those as part of our practice to review performance from time to time.

Hibiscus deems the practice of reviewing its past performance as useful since it can design appropriate plans based on such reviews in that remedial and proactive measures are developed and acted upon. Interestingly, such a review does not only highlight what happened in the past, but also highlight the implications for the future planning. The review approach seems to be consistent with the best value review framework which prompted the need for Hibiscus to challenge the current level of performance by comparing its performance with others, welcoming feedback from clients, and constructing ways to compete with others in ways that can enhance its public service delivery.

Discussion

The above findings have suggested that the two local authorities have given different priorities to the ways they manage their performance. In the first case, we have observed that Aster has implemented PMS. This is consistent with Otley's (1999) study which emphasises the operational performance management. Aster's case is clearly related to the operational performance management rather than looking at the measurement performance of particular organisations. The development of strategic planning in Aster has been in line with MAMPU's guidelines for strategic planning and objectives for local authorities. In this study, we observe that Aster has not been so independent in developing its own strategic planning and objective. Instead, it merely follows MAMPU's guidelines on strategic planning and objectives and only a handful number of employee were really involved in formulating the PMS in its setting. As claimed by Maina (2015) performance management is a process that requires integration, mobilisation, and harmonisation of various resources. Robbins (2007) asserts that a performance management cycle should begin with an internal discussion which allows superiors to understand the story from the perspective of subordinates. Such a discussion should allow employees to voice out their concerns and to get themselves involved in organisational performance management practices, which should result in achieving the desired performance objectives. While one might expect that an organisation should link ... to achieve such objectives, our findings suggest that the strategic planning developed by Aster is only linked to vision and mission, but not to objectives, plans, targets, rewards, and feedbacks from the public. This contradicts to the research by Otley (1999) that proposed five issues that need to be addressed in managing organisational performance. As indicated earlier, they are objectives, strategies and plans, targets, rewards, and feedbacks. A good and

functional PMS should be able to integrate between organisational, functional, and individual evaluation systems. Ideally, performance management in Aster concerns measuring and evaluating performance targets by using two measurement systems. The first one is using Rating System (SSR-PBT) which concerns evaluating the achievement level of delivering public services using a uniformed grading system. The second measurement indicator is Accountability Index. This index is a performance measurement which focuses mainly on financial management and other management-based aspects. The indicator used by Aster is contradict to the finding by (Modell and Granlund, 2007) the research on Swedish public sector accepted the externally legitimated outcome indicators but it was adjusted to their performance management practices by modifying the indicator to their own internal practices.

Meanwhile, in the second case, we found that Hibiscus has implemented SPMS mainly because they focus on strategy. According to Kaplan (2001, p. 357), “strategy and performance measurement should focus on what output and outcome the organization intends to achieve, not what program and initiatives are being implemented”. Based on the internal document evaluated and interviews conducted, it appears that Hibiscus has given much focus on the outcomes. For example, its five-year (2011-2015) strategic planning has set some indicators to measure the outcomes of the programmes developed by this local authority. This clearly suggests that Hibiscus has adopted SPMS to enhance the quality of service to the public. Performance management in this respect desires formative effect that advocates effective utilisation of assets. In that capacity, SPMS set out a procedure for building up a common comprehension about what is to be accomplished and how it is to be executed. We recognise that Hibiscus has placed a greater emphasis on the importance of a proper and integrated planning, budgeting and performance management through the development of an integrated performance management. This clearly shown Hibiscus’s seriousness in achieving its public sector objectives by aligning its strategies with the vision and mission statements.

Thus, it can be argued that although the two local authorities have implemented performance management to meet their desired public service goals, the ways in which they conceive and practice performance management are different. This relates to the different focus of performance management which concerns mainly on either operational or strategic objectives that underpin their public service delivery.

Conclusion

This study has investigated how the selected local authorities in Malaysia (Aster and Hibiscus) have managed their performance in delivering public services within their designated areas of responsibility. This involves analysing and interpreting their performance management practices based on responses. This paper concludes that while Aster’s performance management practices are mainly based on the operational orientation, Hibiscus’s performance management practices are mainly based on the strategic orientation. Although the performance management practices in both local authorities are mainly influenced by the guidelines issued by MAMPU through Circular 2/2005, they clearly have different approaches in managing their performance. Such a difference relates to the implementation of PMS and SPMS. The underlying difference between them is that while PMS focuses on the operations of overall control system, which is consistent with Otley’s (1999) study, SPMS focuses on technical operations in which outcomes are its main concern, which is consistent with Kaplan (2001). More generally, local authorities implement PMS and SPMS to govern the ways in which their organisational activities are carried out. Nevertheless, a closer look at the performance management practices of the two local

authorities suggests otherwise. Aster strategic planning is linked to vision and mission but do not linked to objectives, plans, targets, rewards, and feedbacks from public compared to Hibiscus that have integrated strategic planning to its objectives, strategies and plans, targets, reward, feedbacks, and budget. In conclusion, performance management holds a crucial role to contribute to the improvement of service delivery to the public. Therefore, for performance management to be effective and relevant, every local authority should improve their performance management practices in the manners that they can achieve intended objectives.

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AUDIT COMMITTEE, SUSTAINABILITY REPORTING, AND CORPORATE FINANCIAL PERFORMANCE: EVIDENCE AT INDONESIAN MINING PUBLIC COMPANIES IN 2013-2016.

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ABSTRACT

This paper investigates the influence of the Audit Committee on Sustainability Reporting and its impact to the Financial Performance on Mining Companies listed in Indonesia Stock Exchange 2013-2016. This research is a causal study with quantitative descriptive method. Pursuant to purposive sampling, the object of research is 20 companies with observation year 2013-2016, so the total pool of observed data is 80 samples. This study used path analysis as an analytical technique and calculated using SPSS version 20 software. From the result of the research, it could be concluded that Audit Committee had significant effect on Sustainability Reporting, Audit Committee had significant influence on Financial Performance, and Sustainability Reporting had insignificant influence on Financial Performance. Based on the results of the research, the researcher suggested that the researcher next research on different aspects of the research variables with the longer period of time and the object of wider research in order to find comprehensive results.

Keywords: Audit Committee, Sustainability Reporting, Financial Performance, Mining

1. Introduction

The company, according to Friedman (1970) as cite in Zimmerli *et al* (2007: 173), was established to maximize profit because management is responsible for the interests of shareholders. However, the problem is in maximizing profits, management is often known to neglect ethics on other aspects, such as on environmental and social aspects. The behavior of ethical neglect on environmental and social aspects is reflected in the many local community speeches that will negatively impact the company's business activities, particularly on mining sector companies, such as demonstrations by the people of South Aceh³⁴, Batu Raja³⁵ and Papua³⁶ to companies engaged in mining activities in the area. There is also a lawsuit by the Indonesian government against PTT EP Australia for an explosion incident in oil and gas fields that resulted oil pollution in the waters of the Timor Sea in NTT³⁷. This is the cause of the company began to be demanded to care about social and environmental, which is generally called the social responsibility. In addition to society, another pressure for companies to implement Social Responsibility is due to the enactment of Undang-undang No. 40 year 2007 about Perseroan Terbatas. Not only that, Undang-undang No. 40 year 2007 also requires companies to be transparent in informing their business activities that have social and environmental impacts.

Despite the necessity of reporting social and environment responsibility to company, the level of reporting on the sustainability of the mining sector in Indonesia is still low. Based on GRI data base, in 2014, there are only 15 mining company that reporting their sustainability in Indonesia. Then in 2015, the mining sector companies issuing sustainability reporting only added 1 company from the previous year to 16 companies. This shows that there is still a low level of corporate awareness for transparency and accountability in running the company's sustainability.

One way to improve sustainability reporting is through the implementation of Good Corporate Governance. Good Corporate Governance consists of principles such as transparency, accountability, responsibility, independence and fair (Solihin, 2009: 128), which can further encourage companies to not only be ethical in the economic aspects but also on social and environmental aspects, as evidenced by the existence of Sustainability Reporting. Said *et al* (2009) explains that Corporate Governance is one of the best ways to ensure that the interests of stakeholders are protected through disclosure of the company's economic, social and environmental performance addressed to stakeholders. Similarly, Khaihatu (2006) said that the application of Good Corporate Governance concept supported by Good Corporate Governance (GCG) mechanism can play a role in supervising and controlling the company's way so as to support the creation of added value for shareholders and improve the company's financial performance. One such corporate governance mechanism is the audit committee. Therefore, this study aims to examine the effect of audit

³⁴ Harian Rakyat Aceh, 31 Mei 2017, "Ini tuntutan Gatot terhadap Perusahaan tambang di Menggamat"

³⁵ AntaraSumsel, 4 Januari 2016, "Perusahaan tambang tak sanggup penuhi tuntutan warga"

³⁶ BBC, 27 April 2017, "Tuntutan masyarakat papua dalam negosiasi Freeport"

³⁷ Tempo, 18 Maret 2017, "Kasus Montara, Pemerintah Gugat Ganti Rugi Bulan April".

committees on sustainability reporting and its impact on financial performance on public companies in the mining sector in Indonesia.

2. Literature Review and Hypothesis

2.1. Agency Theory, Audit Committee and Sustainability Reporting

In order to fulfill the duties of check and balance, the company's supervisory board may establish committees, among them an audit committee. The existence of the audit committee is a mechanism aimed at preventing the occurrence of information asymmetry between the company and external parties of the company, because the responsibilities of the audit committee regarding the process of reporting and disclosure of the company. Therefore, based on the agency theory then the control mechanism that can minimize the agency problem is through the role of the audit committee.

The more the audit committee do the meetings, the better audit committee's coordination so that supervision over management is more effective and is expected to provide a tendency towards transparency of the publication of social and environmental information carried out by the company (Nasir *et al*, 2014). This will certainly contribute to the quality of the reporting process. Therefore, it can be said that the existence of the audit committee can improve the sustainability reporting (Said, 2009, Khan, 2012, Jizi *et al*, 2013, and Kend, 2015).

H1: Audit Committee has an effect on Sustainability reporting

2.2. Agency Theory, Audit Committee and Financial Performance

Based on the agency theory that agency issues are triggered by the presence of information asymmetry between agents and principals. The impact of this information asymmetry is that agents, as those who know more information about the company, can deceive the principal and take advantage of the situation to commit fraud. The act of this agent will certainly lead to not optimal the company's financial performance. Therefore, to overcome this information asymmetry problem, it is necessary to have mechanisms that control agent behavior, that is audit committee.

There is significant literature that links the independence, size and other characteristics of the audit committee to improve company performance and firm value (Klein, 1998). Erickson in Al-Matari *et al* (2012) said that an independent audit committee may reduce agency issues. With reduced agency problems can lead the company to perform better. The study also says that when the audit committee consists of financial experts and financial literacy, this will change the structure and focus of discussion at audit committee meetings (McDaniel *et al* 2002). Thus the existence of the audit committee can play a role in financial risk management practices. The results of research by Carter *et al* (2010), Stephen *et al* (2014), Kallamu *et al* (2015) and Kipkoech and Rono (2016) say that audit committees have a positive and significant influence on ROA.

H2: Audit Committee has an effect on to Company's Financial Performance

2.3. Stakeholder Theory, Signaling Theory, Sustainability Reporting and Financial Performance

Performance is how the company is able to meet the interests of its stakeholders. Because based on the theory stakeholder, the company can run well if the company is able to maintain relationships with stakeholders and have attention to their rights and interests. One way for corporate relations with stakeholders to run well is through sustainability activities. Sustainability activities are activities undertaken by companies to meet the interests of stakeholders today without ignoring the needs of stakeholders in the future (White, 2009).

Corporate sustainability activities will be more effective if coupled with good communication. Therefore, based on signaling theory, companies need to provide a signal, in this case a sustainability information to stakeholders so that the company get the desired feedback from stakeholders for that signal. According to Abbot and Mosen (1979) the companies that conduct sustainability reporting are basically aimed at their key stakeholders, namely shareholders and employees of the company, and also for other stakeholders, customers, creditor, government and society (Dilling, 2010).

Companies that are known to be sustainable through an ecoefficiency program, then the company will get appreciation both from outside and from within the company (Angelia and Suryaningsih, 2015). When employees know the company's sustainability program, the employee as the party that operates the company's assets will try to support the strategy through reducing the operational and administrative costs that do not add value and are relevant to the company's sustainability program so as to increase the company's profit. Masruki *et al*'s statement quoted by Yussof (2013) suggests that positive employment information contained in the sustainability report will attract potential employees, such as increasing the motivation of existing employees so that it will contribute to higher productivity and consequently produce financial results which is profitable.

Corporate sustainability reporting is the way companies communicate how the company has managed its business risks so that future business risks can be mitigated. Companies with smaller business risks will be more trusted by lenders and investors, thereby reducing capital costs and increasing corporate profits. McGuire *et al* (1988) has proven that corporate social responsibility activities reflected in sustainability disclosures can prove to enhance the reputation of relationships with banks, investors, and government agencies as indicated by increasing return on assets. Therefore it can be concluded that the existence of sustainability reporting can improve the company's financial performance as judged from the Return on Assets of the company (Roberts, 1992; Watts and Zimmerman, 1978; Abbott and Mosen, 1979; Ullmann, 1985; Yussof *et al*, 2013 ; Giannarakis, 2015; Nugroho dan Arjowo, 2014; Kasbun *et al.*, 2016).

H3: Sustainability Reporting affects the Company's financial performance

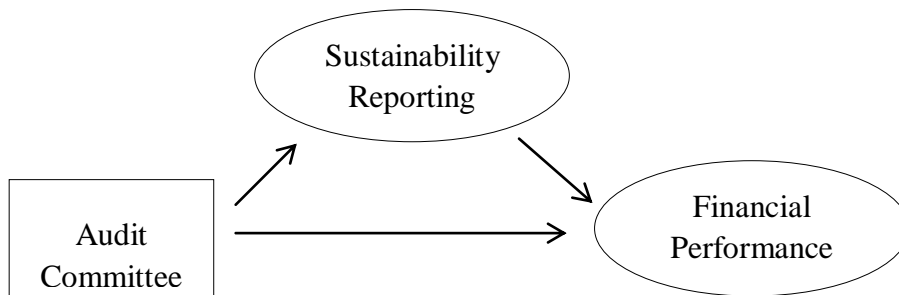
3. Research Methodology

This study focuses on mining sector companies that publish annual report on Indonesia Stock Exchange as of May 2017. Data obtained from 2013-2016 year book of 20 companies annual report which is comply with sample criteria that show on below.

- Company listed in BEI = 41
- Company issued annual report 2016 (per Mei 2017) = 29
- Companies that do not have information independent commissioners, audit committees, reporting sustainability, ROA, ROE, and Tobin's Q during 2012-2016 = 21
- Number of companies being targeted = 20
- Number of research samples (20 x 4 years) = 80

Sustainability reporting and Corporate financial performance are endogenous variables in this study. Sustainability reporting reflects the company's transparency of its sustainability activities. Content analysis is used as a technique for assessing sustainability reporting rates based on Sustainability Accounting Standard (SASB, 2014). The company's financial performance reflects the monetary benefits the company gains as a result of its sustainability reporting practices. Therefore this research is causality research so the test use path analysis to see the effect of exogenous variable to endogenous variable, the model can be seen in Figure 1. Measurement and formula related to research variables listed in Table 1.

**Figure 1
Research model**



**Table 1
Measurement of Research Variables**

VARIABLE	CONCEPT	INDICATOR	SCALE
Financial Performance (Z)	The financial ability of the company, or the extent to which the company is able to achieve its economic target (Venkantraman and Ramanujam, 1986)	Financial Performance, which is proxied with ROA. $ROA = \frac{Net\ Income}{Total\ Assets}$	Ratio

4. Analysis and Results
4.1. Descriptive statistics

Table 2 shows the results of descriptive statistics of research variables. This

test shows less satisfactory results. The sustainability reporting rate shows an average of 32.21, meaning that sustainability reporting is still at a low level. While the audit committee showed a good average of 18.325 with a standard deviation of 10.57. The company's financial performance showed a very unsatisfactory value that is an average of 0.20% with a standard deviation of 283.53.

Sustainability Reporting (Y)	Reporting that is not only based on the single bottom line, the company's financial condition but based on the triple bottom line, in addition to financial information also provides social and environmental information (Elkington, 2004).	This variable is measured using the content analysis method with the calculation of Sustainability Report Disclosure Index (SRDI) (Gupta, 1995). $SRDI = \frac{n}{k}$	Ratio
Audit Committee (X)	Sub committee of the board of commissioners responsible for the financial reporting and disclosure process (Messier <i>et al</i> , 2006: 43).	Indicators of the audit committee, namely: KA = Number of member + number of independent board + number of financial expert + number of meetings (Makhdalena, 2012)	Ratio

Table 2 Descriptive Statistics

	N	Mean	Std. Deviasi
Audit Committee	80	18,325	10,5707681
Sustainability Reporting	80	32,21591	17,5105329
ROA	80	0,200697	283,536756

Source: SPSS output

4.2. Hypotheses Testing

Hypothesis testing research using regression analysis technique to obtain path coefficient between audit committee variable, sustainability reporting, and financial performance. The regression model used is as follows.

$$SR = P_{yx}COM_AU + P_y \epsilon_1 \dots\dots\dots (i)$$

$$CFP = P_{zx}COM_AU + P_{zy}SR + P_y \epsilon_2 \dots\dots\dots (ii)$$

Where:

- SR = Sustainability Reporting;
- CFP = Corporate Financial Performance;
- COM_AU = Audit Committee;
- ϵ_1 = Error of Substructure 1
- ϵ_2 = Error of Substructure 2

Tabel 4 Statistical Test Result

Exogenous Variable	Endogenous Variable	Beta Standard Coef.	Sig.	R²
Audit Committee	Sustainability Reporting	0,471	0,000*	0,221
Audit Committee	CFP	0,25	0,050*	0,054
Sustainability Reporting	CFP	-0,189	0,137	

Note = * Significant at 5% level.

Source: SPSS Output

The result of hypothesis testing shows the coefficient of path value of 0.47 with sig count 0.000 smaller than sig 0.05. With a high enough path coefficient value and supported by a very small significance of 0.05 indicates that the audit committee has a significant influence on sustainability reporting on mining sector companies listed on the Indonesia Stock Exchange during 2013-2016, which means that the first hypothesis is accepted. The test results are in line with Suryono (2011), Said (2009), Khan (2012), Jizi *et al* (2014), and Kend (2015). However, the results of this test contradict some of the previous studies, such as Nasir *et al* (2014) that examined LQ45 companies listed on the Indonesia Stock Exchange during 2008-2011 and Habbash (2016) examining companies listed on the Saudi Stock Exchange during 2007 -2011.

The result of hypothesis testing shows the coefficient value of 0.254 with sig count 0.047 smaller than sig 0.05. With a significant coefficient value of the track and supported by a significance smaller than 0.05 indicates that the audit committee has a significant influence on ROA on mining sector companies listed on the Indonesia Stock Exchange during 2013-2016, so the second hypothesis is accepted. The results of this test are in line with the results of research by Carter *et al* (2010), Stephen *et al* (2014), Kallamu and Saat (2015), and Kipkoech and Rono (2016). This test also proved to reject the results of research Rouf (2012) who studied 93 companies Dhaka Stock Exchange.

The result of hypothesis testing shows the coefficient value of -0.199 with sig 0.119 bigger than sig 0.05. With a very low path coefficient, even minus, and supported by significance far greater than 0.05 indicates that sustainability reporting has insignificant effect on ROA on mining sector companies listed on Indonesia Stock Exchange during 2013-2016, so the third hypothesis is rejected. The results of this test are in line with the results of Burhan and Rahmanti (2012) and Nor *et al* (2016). This test is also proven to reject the results of research Saleh *et al* (2011) who examines companies listed in Bursa Malaysia.

5. Discussion and Conclusions

The results of this study indicate that the audit committee as a GCG mechanism has proven to contribute in improving transparency and minimizing information asymmetry between the company and external parties, so it is clear that the responsibility of the audit

committee is closely related to the reporting and disclosure process of the company. In addition, the audit committee was also able to contribute well to ROA. This condition has been in accordance with the concept that the main task of the audit committee is to ensure the effectiveness of internal controls such that the assets are managed effectively and efficiently. Therefore the success of this audit committee's task can be seen from the return on the company's assets.

Sustainability reporting has no significant effect on ROA due to the low level of sustainability reporting in public companies in the mining sector in Indonesia so that sustainability reporting has not been successful in touching all aspects of the company, resulting the company not being able to attract positive feedback from stakeholders that can support the company's financial performance. Therefore, this study suggests that companies need to express comprehensively and in depth all the activities pertaining to corporate sustainability. In addition, companies also need to consider the quality of sustainability reporting, including neutrality, comparability, reliability, clarity, and accuracy. Because through comprehensive and qualified reporting it can show that the company is fully committed to achieving sustainability. That way the company will gain appreciation and support from stakeholders that will have a positive impact on the company's financial performance.

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Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,471 ^a	,221	,211	15,5497030

a. Predictors: (Constant), KOM_AU

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17,933	3,496		5,130	,000
	KOM_AU	,779	,166	,471	4,710	,000

a. Dependent Variable: SR

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,232 ^a	,054	,029	279,3850277

a. Predictors: (Constant), SR, KOM_AU

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-24,254	72,636		-,334	,739
	KOM_AU	6,702	3,370	,250	1,989	,050
	SR	-3,053	2,034	-,189	-1,501	,137

a. Dependent Variable: CFP



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ANALYSIS OF GOVERNMENT ASSETS PLANNING IMPLEMENTATION USING TOTAL ASSET MANAGEMENT FRAMEWORK: A CASE STUDY IN THE FINANCE EDUCATION AND TRAINING AGENCY

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ABSTRACT

This research aims to analyze the implementation of government assets planning in the Finance Education and Training Agency (FETA) using Total Asset Management approach which support the accomplishments of organization's goals. This study uses qualitative case study methodology. The analysis is conducted by comparing the existing government assets planning with Total Asset Management framework. The result of this study shows the implemented government assets planning in FETA is not yet fulfilled the components in Total Asset Management framework entirely, thus has not shown direct correlation between asset planning with organization's strategic goals.

Keywords: *Government asset management; strategic planning; total asset management.*

Introduction

The Finance Education and Training Agency (FETA) as one of the echelon I units within the Ministry of Finance that has a strategic role in developing the capacity of human resources managers of state finance, is required to be the center of excellence in the management of state finance (Finance Education and Training Agency, 2016b). In carrying out this role, FETA is supported by considerable economic resources (assets).

The largest portion of the assets held by FETA is property and equipment (Finance Education and Training Agency, 2012-2016). In addition to the potential benefits, this large asset ownership also keeps the challenges and risks for each work unit within the FETA in managing them. Therefore, good asset management must be done to avoid the risks that can arise from asset management, as well as to ensure that assets controlled and managed by the government can actually support the achievement of the objectives of the government program, either directly or indirectly (Australian National Audit Office, 2010).

Government asset management reform in Indonesia has been started since the birth of Law Number 1 of 2004 regarding State Treasury, whose technical and administrative guideline refers to

Government Regulation Number 6 of 2006 which has been replaced by Government Regulation Number 27 of 2014 on Management of State/Regional Assets. The scope of the management of state/regional assets in accordance with Government Regulation Number 27 of 2014 covers the entire life cycle of the goods of the state/region, starting from planning needs and budgeting to the assets disposal.

The planning stage of assets needs is one of the crucial stages in the assets management. Assets needs planning is an activity to formulate the details of assets' need to connect the past procurement of assets with the ongoing condition as the basis for taking action to come. The document containing the assets requirement plan is called the Government Asset Needs Plan (GANP) which prepared through at least three stages of research/review, involving ministries/institutions as asset users, ministries/institutions internal supervisory apparatus, and Minister of Finance as the government asset manager.

The drafting of GANP by ministries/institutions is implemented gradually, and FETA is one of the pilot project institutions that has drafted GANP since 2015 which will be used as the basis for the preparation of the 2017 budget (Ministry of Finance of the Republic of Indonesia, 2015). Although FETA has become one of the pilot projects for the drafting of GANP, it still faces several issues related to the management of property and equipment that can hinder the achievement of organizational goals, including:

1. Excessive amounts of assets or idle assets, but on the other hand there are assets that are less functioning or even not available to provide services to stakeholders (Finance Education and Training Agency, 2016c).
2. Increase in the amount of severely damaged assets and no longer used in operational activities from year to year (Finance Education and Training Agency, 2012-2016).
3. Findings in the audit reports of FETA Financial Statements during 2011 to 2014 from the Audit Board of the Republic Indonesia, are dominated by those related to the asset management, especially in procurement, administration, and security of government assets (Audit Board of The Republic of Indonesia, 2012-2015).

Based on the aforementioned matters, this research seeks to analyze the government asset planning in FETA with Total Asset Management approach. The Total Asset Management approach is chosen because it is comprehensive and is part of strategic management that is able to link between asset planning and the strategy of achieving organizational goals, so that the planned assets will be able to support organizational performance more effectively and efficiently (New South Wales Government Asset Management Committee, 2003). The research questions of this study are:

1. How is the identification of components of Total Asset Management in the planning of property and equipment requirements in FETA?

2. How to design the implementation procedure of Total Asset Management in property and equipment planning at FETA in order to support the achievement of organizational goals effectively, economically and efficiently?

The objectives of this study are as follows:

1. Identify the component of Total Asset Management in property and equipment requirement planning at FETA.
2. Drawing up the implementation procedures of Total Asset Management in the planning of property and equipment in FETA in order to support the achievement of organizational goals effectively, economically and efficiently.

Literature Review

Olga and James (1996) defined asset management as the process of decision-making and implementation related to the acquisition, use and disposition of fixed assets. Nicholas (2010) stated that physical asset management includes initial business appraisal, identification of fixed asset needs, financial evaluation, logistic support analysis, life cycle costing, maintenance strategy, outsourcing, cost-benefit analysis, disposal, and renewal of assets.

Goals of public real property asset management is to supply the right amount of property for the public goods and services at the least cost between all the feasible alternative arrangements and to support local economic development and to obtain government revenues from alternative sources (Olga and Ritu, 2000). Yaotai (2011) argued that the goal of asset management in the public sector, especially the government is to find ways on how government assets are used effectively, efficiently and economically to support government function.

Government asset management according to Australian National Audit Office (2010) are as follows:

- a. decisions related to the acquisition, deletion, and asset management throughout its life cycle must be integrated into the organization's strategic planning;
- b. decisions about asset planning should be based on the evaluation of alternatives, assessing risks and benefits, and applying the value for money principle throughout the life cycle of the asset;
- c. the establishment of an effective asset management control structure;
- d. accountability for the conditions, finances, and performance of assets; and
- e. decisions regarding the removal of assets should be based on analytical methods that yield the best benefits.

One of the approaches used in asset management to be effective in achieving organizational goals is the Total Asset Management approach. This approach requires managers to assess what assets are needed to support the success of service delivery to stakeholders based on the organization's

strategic plan. Furthermore, managers must also develop detailed plans for procurement, maintenance, and asset removal (New South Wales Government Asset Management Committee, 2003).

Total Asset Management is a strategic management of physical assets to provide the best support in service delivery of government agencies. Some of the benefits of implementing Total Asset Management in government agencies are:

1. directly link investment in government assets and their use with the outcomes of required service delivery;
2. improve the effectiveness and efficiency of government asset management;
3. improve asset performance and reduce service disruptions and other losses due to asset failures;
4. allow determination of capital budgeting and asset maintenance expenditure adequately; and
5. provide feedback to improve asset management in the future (New South Wales Government Asset Management Committee, 2003).
6. There are five strategies in Total Asset Management that must be built for assets to provide the best support for the agency, i.e. asset strategy, office accommodation strategy, capital investment strategic plan, asset maintenance strategic plan, and asset disposal strategic plan (New South Wales Government Asset Management Committee, 2003).

1. Asset strategy

Total Asset Management planning requires agencies to align their asset planning and management with service delivery priorities and strategies, so that all assets support services in the most appropriate, effective and efficient way. An asset strategy is needed to determine what assets need to be acquired, upgraded, maintained, or eliminated (New South Wales Treasury, 2006a). An effective asset strategy is largely determined by a comprehensive and well defined service delivery strategy. The service delivery strategy should be able to demonstrate the services to be delivered using limited assets and must be sufficiently detailed to identify potential asset options for each service component (New South Wales Government Asset Management Committee, 2003).

2. Office accommodation strategy

The office accommodation strategy is an asset strategy that is limited only to assets that play a role in office accommodation. The purpose of the office accommodation strategy is to create:

- a. better alignment between accommodation needs and service delivery objectives;
- b. improvement of service provision;
- c. higher quality work environment for employees;
- d. equal space redistribution by function; and
- e. satisfaction and increased employee productivity in a better working environment (New South Wales Treasury, 2006b).

3. Capital investment strategic plan

The strategic plan of capital investment explains how new assets will be acquired or existing assets will be upgraded. Capital investment planning is structured when asset strategies indicate the

need for new asset procurement or an increase in the value of existing fixed assets. In the capital investment planning, a review of various investment options to meet required service requirements, whether through purchase, lease, private sector involvement, and non-asset solutions. Each investment option is analyzed and compared using various methods to then select the most effective and efficient option to meet the required service requirement (New South Wales Government Asset Management Committee, 2003).

4. Asset maintenance strategic plan

The asset maintenance strategic plan aims to provide an overview of a structured process for planning maintenance of existing assets in order to:

- a. assets can work optimally, reduce service disruption and loss due to asset failure;
- b. risks to the organization can be identified and improved;
- c. asset maintenance costs can be quantified and budgeted convincingly;
- d. asset performance can be reviewed to meet service delivery needs;
- e. maintenance planning provides the basis for continuous process improvement;
- f. planning provides feedback to improve future implementation of the maintenance process; and
- g. reduce environmental impact through controlling the use of resources (New South Wales Treasury, 2006c).

There are several maintenance programs that can be done, including:

- a. reactive maintenance, i.e. maintenance measures performed only in the event of a problem with the asset; and
- b. preventive maintenance, which is a schedule-based maintenance action to detect, prevent, or reduce the degradation of components or systems for the purpose of maintaining or extending the useful life through degradation control to an acceptable level (Gregory et al., 2010).

5. Asset disposal strategic plan

The strategic plan for asset deletion aims to identify assets that exceed the required requirements (surplus), and how the disposal process will be managed. New South Wales Treasury (2006d) states that strategic planning of asset deletion is done to exclude excess assets that, if not excluded, will result in reduced efficiency and effectiveness of the organization's services. Asset removal planning involves two things, namely the identification of surplus assets followed by an analysis of physical asset disposal (New South Wales Treasury, 2006d).

Government asset planning in Indonesia was only initiated in 2015 with the issuance of Regulation of the Minister of Finance of the Republic of Indonesia Number 150/PMK.06/2014. Government asset needs planning is an activity to formulate details of government asset needs to connect past government asset procurement under current conditions as a basis for action in the future (Government of the Republic of Indonesia, 2014).

The scope of government asset planning includes only government asset procurement and maintenance planning, not the overall life cycle of the government assets. The object of government

assets planning is still limited to government assets in the form of land and/or building, vehicle, and government assets other than land/building/vehicle which the minimum acquisition value per unit is Rp100,000,000 (Ministry of Finance of the Republic of Indonesia, 2014).

The document containing the government asset requirement plan is called the Government Asset Needs Plan (GANP). GANP is a document containing government asset planning for one fiscal year period, prepared by each ministries/institutions after conducting research on the suitability of its programs and existing government assets conditions by referring to its strategic plan, standard of goods, and standard of requirement. The GANP is then used as one of the foundations for the ministries/institutions in proposing the provision of budgets for new initiatives and baseline as well as the preparation of work plans and budgets (Ministry of Finance of the Republic of Indonesia, 2014).

The topic of asset management, both in the private sector and in the public sector is one of the interesting issues to be studied. Therefore, various research on asset management has been done by many previous researchers. Some research related to asset management include:

1. Research on strategic asset planning in urban areas in Ottawa, Canada conducted by Pierre W. Jolicoeur and James T. Barret (2005). The results conclude that the Facility Management Department should enhance its role in strategic asset management in an effort to ensure that the deployment of property assets meets the efficient, effective, and economical aspects of service delivery.
2. Research on asset life cycle management to improve physical asset performance in industrial processes conducted by Charles A. Schuman and Alan C. Brent (2005). This study aims to introduce life cycle management asset models in industrial processes that integrate common project management and systems engineering concepts with operational reliability to address cost inefficiency issues.
3. Research on efficient public sector asset management in Croatia conducted by Michaela Grubisic, Mustafa Nusinovic, and Gorana Roje (2008). The results of the research are a model of public asset management that can be applied in Croatia to improve public asset management and especially public sector efficiency.
4. Research on asset management in state governments in the United States conducted by Yaotai Lu (2011). The result of this research is the establishment of a public asset management system framework consisting of legal and regulatory requirements, organizational structure, management processes throughout the asset life cycle, human resource strategy, information and technology resources, and monitoring, integrity and transparency.
5. Research on the implementation of public asset management in local government in Indonesia conducted by Muhammad Hasbi Hanis, Bambang Trigunaryah, Connie Susilawati (2011). The research finds that the challenges faced by local governments in Indonesia are the lack of legal

and institutional frameworks that support the implementation of asset management, the nonprofit principles of public asset assets, the number of jurisdictions involved in public asset management processes, the complexity of local government objectives, the unavailability of data To manage public property, and limited human resources.

6. Research on public sector asset management in Poland conducted by Malgorzata Rymarzak and Dariusz Trojanowski (2012). The results show that property management is owned by the public is difficult and complex because it involves a variety of different interests.
7. Research on the effectiveness of public sector asset management in Malaysia conducted by Yusdira Yusof (2013). The results showed that the Total Asset Management Manual has not been implemented effectively by some managers and operators.

Research Method

The research method used is qualitative research method with case study approach at FETA. Creswell (2014) argues that qualitative research is an approach to explore and understand the meaning that comes from social or humanitarian issues. As for case studies, according to Yin (2009) it is suitable to do if the research question relates to "how" and "why." The case studies in this study were conducted to obtain an overview of fixed asset management practices, in particular the government asset needs planning in FETA.

FETA was chosen as an object of research considering its role as government finance education and training institution which is expected to be a center of excellence in the field of state financial management, including asset management of government agencies. In addition, by conducting a case study on FETA which is also a workplace institution, it is expected that the results can contribute significantly to improving the quality of management, especially asset planning at FETA.

Data to be used in this research are primary data and secondary data. Primary data was obtained by conducting interviews to the relevant parties to obtain an in-depth overview of the organization's strategy and asset management support that is consistent with the organization's strategy.

Secondary data is obtained through data and documents related to fixed asset management within FETA, such as FETA Strategic Plan 2015-2019, FETA Annual Report 2015, FETA Work Plan and Budget 2016-2017, FETA GANP 2017-2018, FETA Asset Report 2015-2016, data on capital expenditure realization and assets maintenance expenditure 2011-2015, FETA standard operating procedures on asset management, and other related documents.

Furthermore, primary and secondary data were analyzed to determine the gap between asset needs planning practices and asset planning concepts in Total Asset Management. After the gap has been identified, the recommended procedure of the Total Asset Management application in FETA

asset needs planning will be drawn to support the achievement of organizational objectives effectively, economically, and efficiently. In addition to the formulation of recommended procedures for applying Total Asset Management in FETA asset needs planning, this study will also present examples of FETA asset planning using Total Asset Management approach to obtain a more concrete picture of governmental Total Asset Management planning.

Discussions

Based on the analysis of data that has been collected, then carried out the discussion so as to answer the research objectives. The analysis was conducted to identify the components of Total Asset Management that have been or have not been accommodated in the implementation of asset needs planning in the FETA environment. From the results of the identification, the next analysis will be conducted to prepare the recommendation of the implementation procedure of Total Asset Management in order to improve the quality of FETA asset planning to be more in line with the strategy of achieving organizational goals as stated in the document of strategic plan.

1. Identification of Total Asset Management Components in FETA Asset Needs Planning

a. Asset strategy

Even though the Regulation of the Minister of Finance of the Republic of Indonesia Number 150/PMK.06/2014 has mandated that asset needs planning should be guided by the ministries/institutions strategic plan, but there is no further explanation of the extent to which strategic plans are used in considering the asset needs planning. From the interviews, it was found that the use of strategic plan documents in FETA asset needs planning is not currently intended to describe the service strategy as the basis for the preparation of asset strategy, but rather as a source of information on the need for additional assets related to the plan of FETA task and function's addition.

The current asset needs planning process in FETA is more dominated by consideration of the need of assets in the quantity aspect based on existing conditions and future asset needs plans. Therefore, the government asset planning process has not been based on asset strategy formulation in accordance with the strategy of FETA services.

b. Office accommodation strategy

New South Wales Government Asset Management Committee (2003) states that the office accommodation strategy referred to in the Total Asset Management is related to the planning of the room space and office completeness facilities required by the employees to carry out the service to the stakeholders. Standards of office accommodation applicable to central government agencies have been specified in the Regulation of the Minister of Finance of the Republic of Indonesia Number 248/PMK.06/2011. The regulation is set about the standard office

space for each employee based on the level of job grading. However, the completeness of anything that needs to be in the office room has not been set there is a standard.

From the interview results, the description of the office accommodation condition is expected to be applied in FETA is the standardization of office space in accordance with the green building concept that is environmentally friendly with the goal of creating energy savings, reducing the burden of city infrastructure, and conservation of resources. In addition, the layout of the room should also be designed in such a way as to support the implementation of the work of the employees to be more efficient.

The FETA leadership policy relating to the above-mentioned office accommodation has been set forth in the Decree of the Head of FETA Number KEP-152/PP/2016 concerning the FETA Standard of Facilities and Infrastructure that must be guided by all work units in FETA. Thus, the component of office accommodation strategy in Total Asset Management as one of the reference in asset planning has been formulated by FETA.

c. Capital investment strategic plan

Analysis to determine the scheme of fulfilling government asset procurement needs, whether through purchase, lease, temporary use, or optimization of BMN idle has not been done. According to one of the source of interview from Secretary General of Ministry of Finance, FETA and other echelon I units within the Ministry of Finance soon have to do analysis in determining the scheme of fulfilling government asset procurement needs. The draft of the regulation was in progress at the time of interview.

d. Asset maintenance strategic plan

In the concept of Total Asset Management, the asset maintenance planning needs to be developed in order to obtain an overview of the maintenance of the existing assets in a structured way. The current maintenance planning undertaken by FETA for the preparation of the new GANP is limited to planning the quantity of assets in the form of land, buildings, motor vehicles, and other than land/buildings/vehicles with the acquisition value per unit of at least Rp100.000.000 which need to be maintained.

Determination of maintenance expenditure is done by multiplying the component of the quantity of assets that need to be maintained with the unit of maintenance cost contained in the Regulation of the Minister of Finance of the Republic of Indonesia on cost standard. It is a simple method, but this method does not take into account the condition of the assets being maintained, whether the asset is a new asset or is nearing its useful life and whether the asset is in good condition or lightly damaged.

Therefore, in order to plan asset maintenance needs in accordance with the concept of Total Asset Management which requires that asset planning in line with organizational strategy and asset management to be done efficiently, it is necessary to add in the aspect of asset

maintenance needs planning in the form of strategy and technical maintenance for all groups of assets owned and a more reliable method of calculating asset maintenance costs.

e. Asset disposal strategic plan

According to the New South Wales Government Asset Management Committee (2006), asset disposal strategic planning is done to exclude excess assets that, if not excluded, will result in reduced efficiency and effectiveness of service delivery. FETA disposal asset planning currently does not include a plan for the disposal of assets which is no longer required in the provision of services (surplus assets), or assets that can not be used anymore (assets whose condition is severely damaged or obsolete).

From the description of the analysis on the implementation of asset needs planning in FETA based on the components of Total Asset Management above, information about the gap between the existing conditions with conditions in accordance with the concept of Total Asset Management as can be seen in Table 1.

Table 1. Actual and Ideal Conditions Gap in FETA Asset Planning

Num.	Total Asset Management Components	Actual Conditions	Actual Conditions
1.	Asset Strategy	There is no service strategy yet, so there is no asset strategy based on service strategy.	There is an asset strategy developed based on the organization's service strategy.
2.	Office Accomodation Strategy	Has a written policy on office facilities and infrastructure.	There is a policy on office accommodation assets.
3.	Capital Investment Strategic Plan	<ul style="list-style-type: none"> ▪ Procurement needs plan does not cover all types of assets. ▪ Not yet covered the scheme of fulfillment analysis. 	Asset planning involves the analysis of various needs fulfillments.
4.	Asset Maintenance Strategic Plan	<ul style="list-style-type: none"> ▪ The maintenance plan does not cover all types of assets. ▪ Do not have a technical standard of asset maintenance and have not done a reliable analysis of the need for maintenance costs. 	Including strategic and technical asset maintenance and reliable maintenance cost planning.
5.	Asset Disposal Strategic Plan	<ul style="list-style-type: none"> ▪ Asset disposal is not included in the GANP document. ▪ Have not planned the abolition of surplus assets. 	Including plans for the removal of surplus assets in addition to damaged/obsolete

			assets based on the results of multi-aspect analysis
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2. Recommendations on Procedural Design of Total Asset Management in FETA Asset Planning

Based on the result of identification of Total Asset Management components in FETA government asset planning, the proposed procedure of Total Asset Management implementation in FETA government asset planning to be more economical, effective and efficient in supporting strategy achievement of organizational goal are as follows:

- a. Determination of FETA service strategy in detail up to the level of echelon units of IV according to their respective tasks that are harmonized by the FETA Organization and System Development Division. Flow chart of FETA operational service delivery proposed procedure as seen on Figure 1.

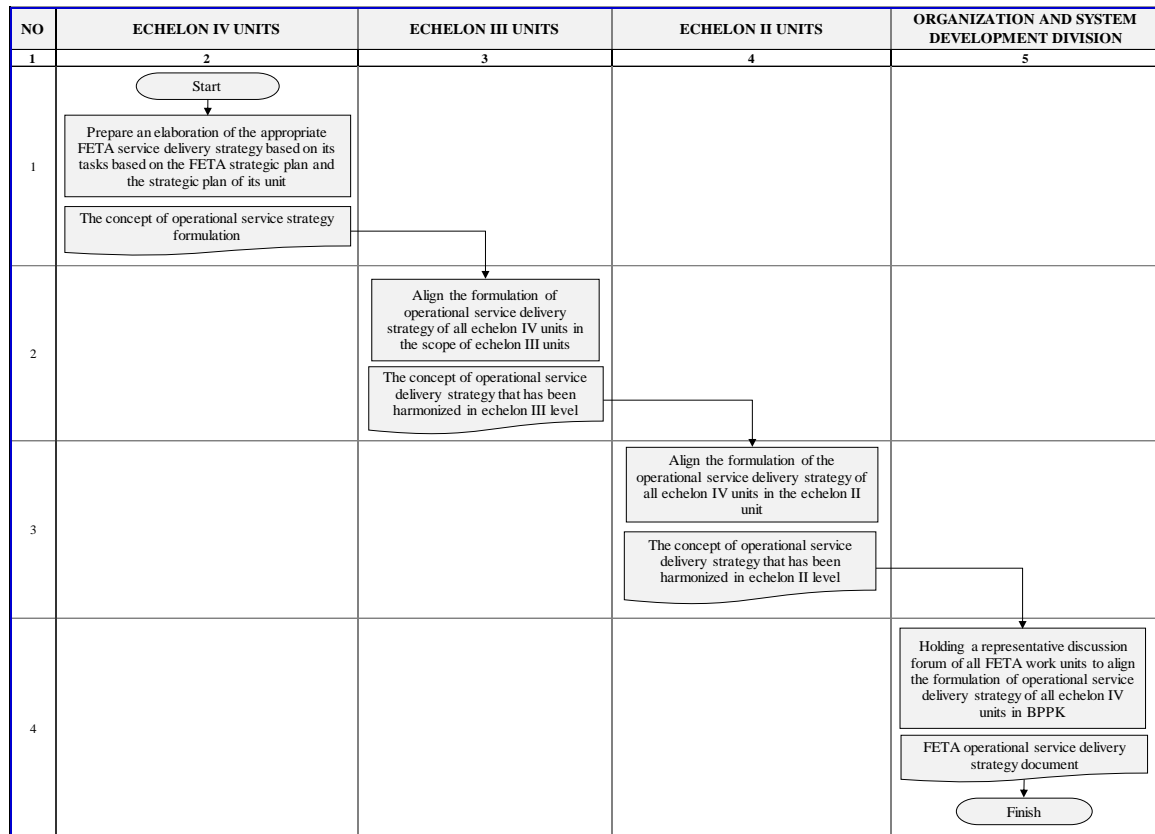


Figure 1. Flow Chart of FETA Operational Service Delivery Proposed Procedure

- b. The formulation of asset strategies in accordance with the FETA service strategy specified up to the level of the echelon IV units so as to obtain information on the list of assets to be held, maintained and eliminated so that service delivery to stakeholders can be implemented effectively and efficiently.
- c. Evaluate the implementation of the office accommodation strategy specified in the FETA Head Decree Number KEP-152/PP/2016 on the FETA Facility and Infrastructure Standards.

- d. Prepare a strategic plan for capital investment to determine the most feasible asset-fulfillment scheme. Flow chart of FETA capital investment plan proposed procedure as seen on Figure 2.

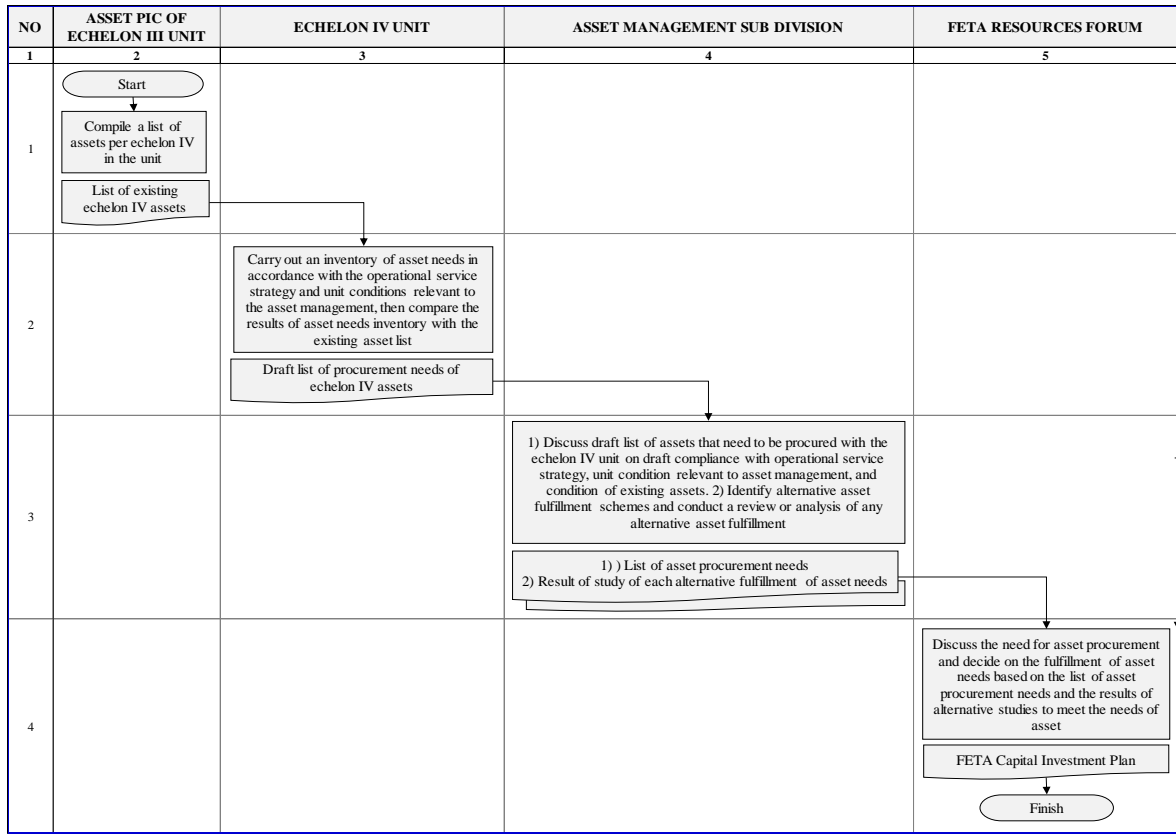


Figure 2. Flow Chart of FETA Capital Investment Plan Proposed Procedure

- e. Preparation of an asset maintenance strategic plan that begins with the preparation of asset group maintenance standards and analytical methods to determine the most appropriate maintenance cost for each asset group. Flow chart of FETA asset maintenance plan proposed procedure as seen on Figure 3.

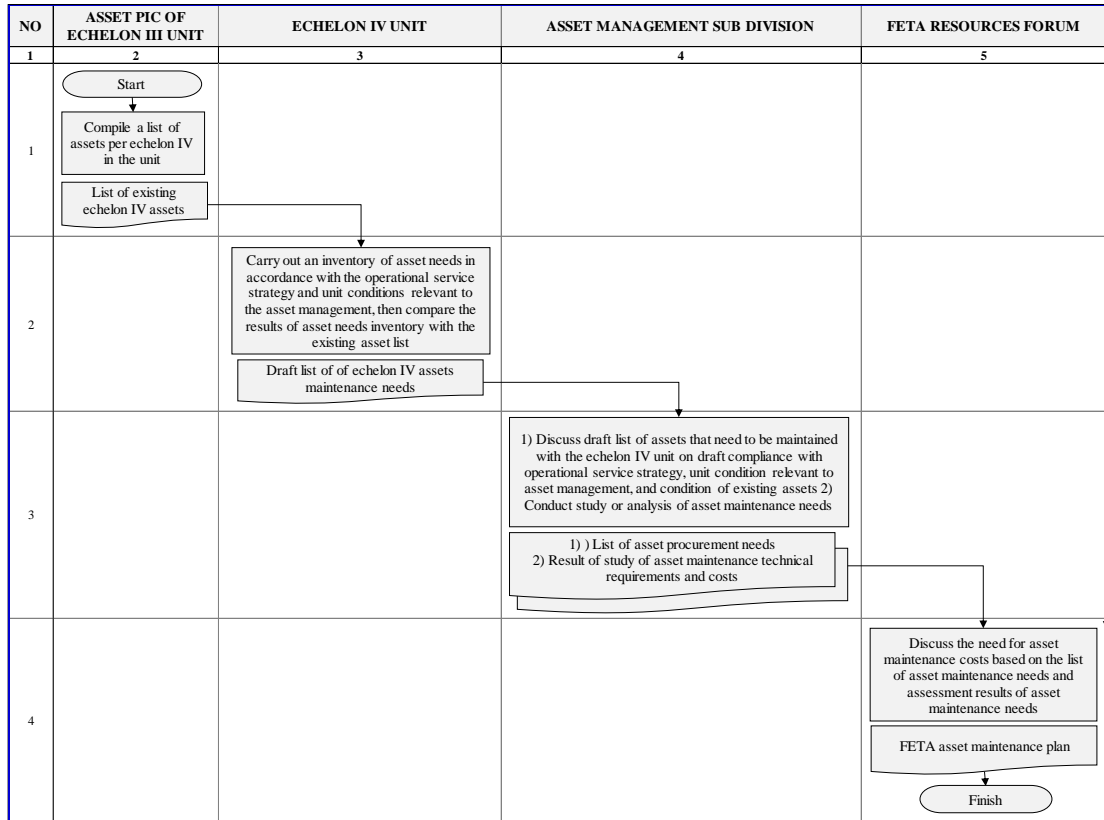


Figure 3. Flow Chart of FETA Asset Maintenance Plan Proposed Procedure

- f. Preparation of a strategic plan for the disposal of assets that not only consider the removal of heavily damaged or obsolete assets, but also take into account the assets for the elimination of surplus assets in order to be used or utilized by other units or parties to promote the efficiency and effectiveness of asset management in achieving organizational objectives. Flow chart of FETA asset disposal plan proposed procedure as seen on Figure 4.

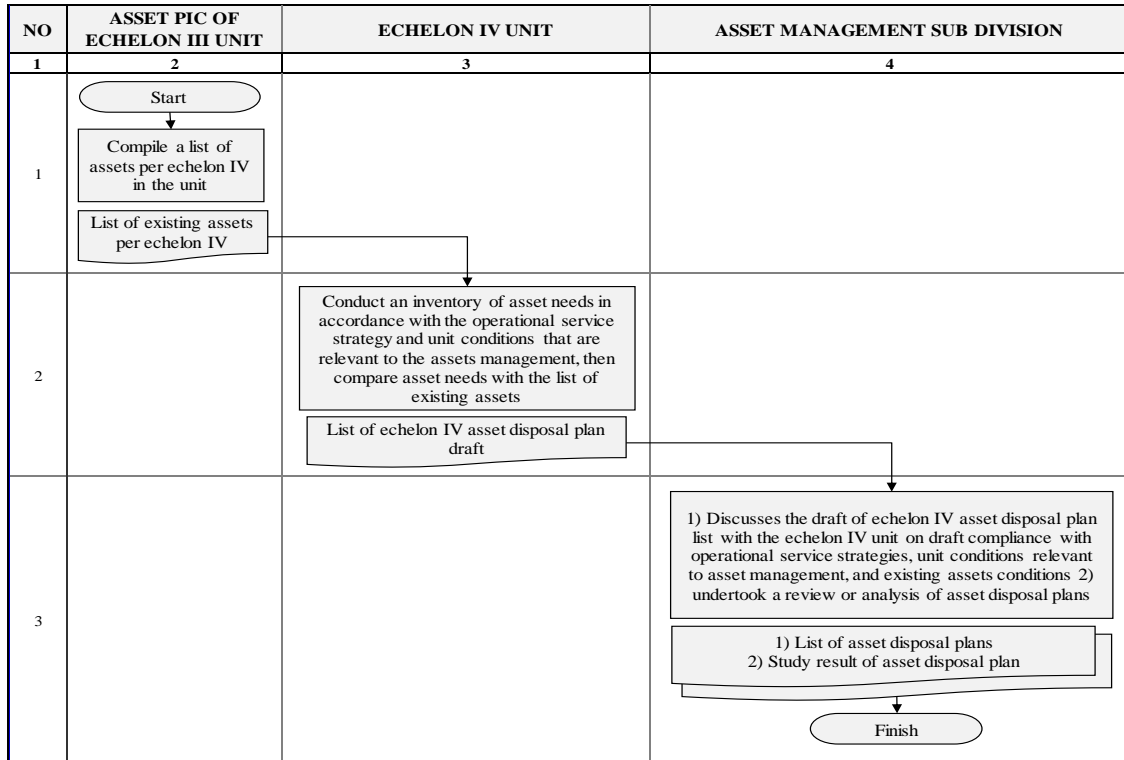


Figure 4. Flow Chart of FETA Asset Disposal Plan Proposed Procedure

Conclusion

From the result of analysis and discussion, it can be concluded that the planning of property and equipment requirement in BPPK has not accommodate all component of asset planning that exist in Total Asset Management concept. Some components of Total Asset Management that have not been met in FETA property and equipment needs planning include asset strategy, capital investment strategic plan, asset maintenance strategic plan, and asset disposal strategic plan.

Based on the result of Total Asset Management components identification in FETA property and equipment requirement planning, the proposed procedure of implementation of Total Asset Management in planning of FETA property and equipment to be more economical, effective and efficient in supporting strategy achievement of organizational goal includes determination of FETA service strategy from echelon IV level, formulation of asset strategy based on the service strategy, evaluation of the FETA office accommodation strategy implementation, preparation of capital investment strategic plan, preparation of strategic plans for asset maintenance, and preparation of strategic plan for asset disposal.

This research still has some limitations, such as, it has not implemented the analysis to determine which decision is taken from several alternatives of the fulfilment of BMN procurement in the stage of capital investment plan. Additionally, in the stage of formulation of strategic asset’s upkeep, analysis of government assets maintenance needs has not yet been done, technically, as well as, cost wise.

Based on the results from analysis and discussion, it is recommended for FETA, as center of excellence, to harmonize its government asset planning and strategies implementation to achieve organizational goals. The approach of Total Asset Management can be integrated with the process of government asset needs planning, since Total Asset Management approach can give overview about correlation between asset planning and organization strategic services to achieve its goals.

It is also recommended that in its government asset planning, FETA should:

1. Formulate a comprehensive asset strategy based on policy directions and strategies set to achieve organizational goals for more targeted asset planning and organizational strategic alignment.
2. Conducting analysis of the determination of the scheme of fulfilling government asset needs by using reliable method so that the government asset needs planning is done according to economic, efficiency, and effectiveness principles.
3. Develop guidelines on asset maintenance standards and analytical methods to determine maintenance costs that best suit the real needs of asset maintenance in order to create the effectiveness and efficiency of asset maintenance.
4. Preparing the asset disposal plan, so that the assets managed by FETA are really only assets that support the implementation of FETA duties and functions.

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**THE IMPACT OF INTELLECTUAL CAPITAL DISCLOSURE IN COMPANY
ANNUAL REPORT TOWARDS MARKET PERFORMANCE AND SALES
(RESEARCH ON MANUFACTURE SECTOR INDUSTRY LISTED IN BEI)**

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ABSTRACT

Knowledge begins to have such a big and important role in terms of creating competitive advantage for business. This is the reason why intellectual capital becoming the most vital company's asset. Furthermore, prior researches found that traditional financial reports failed to provide all of the information needed by stakeholder, asymmetry of information is inevitable. There is a lot of information only knew by management because of the lack of presentation and disclosure of some precious information, including the lack of the information of intellectual capital disclosure. But now the quality of information in company's report is upgrading. The main purpose of this research is to find out whether the level of intellectual capital disclosure has the positive impact to company's sales and market performance, which are measured by share price and trading volume.

This research is a quantitative research using secondary data obtained from each sample company's annual report published in 2012 until 2016. There are 23 manufacturing companies which produce producing goods as samples. The level of intellectual capital disclosure is analyzed using content analysis method. Data testing was done by SPSS, using non parametric method through Correlation testing tools.

The hypothesis testing shows that partially the intellectual capital disclosure level in the company's annual report has a positive impact on share price and company's sales in the next year. In other words, the higher the level of intellectual capital disclosure in the company's annual report, the higher the share price and the company's sales.

Keywords: intellectual capital, disclosure, share price, share trading volume, sales, content analysis

INTRODUCTION

Background

In the last decade, business was becoming more competitive and forcing companies to change their strategy. Previously, business strategy was labor-based, and now is starting to shift into knowledge-based. Knowledge-based business itself is business which use knowledge to generate competitive advantage. In this kind of business strategy, intellectual capital is the most vital asset for company (Amiri et al., 2010, Shaari et al., 2010; Hoznavi and Ramezan, 2011). Intellectual capital is idea ownership, experience, technology, consumer/customer relationship, professional skills which generate competitive advantage for business competition (Envinsson and Malon., 2000). Traditional (physical) resources such as land, labor and another traditional capital do not suddenly lose their position as important assets, they just do not be the main one.

Lev and Zarowin (1999) found the fact that current accounting model was failed on capturing the key factor of company's long term value, which is intangible resources, and increase the information asymmetry among management and annual report users.

Accounting failure on fully acknowledging intangible asset, including intellectual capital, confirms the claim that traditional financial report already lost its relevance as an instrument of decision making (Oliveira et al., 2008). If there was intangible asset recognized, measured and

reported in financial report, they were measured by historical cost instead of the potential on upgrading company future value (Stewart, 1997). Not surprisingly, some researchers revealed a big gap between market value and the real value that company actually has because of the existence of hidden value (Mouritsen et al., 2004).

Proper disclosure of useful information on annual report will bridge that gap, and decrease the market value underestimate by shareholder and prospective shareholder, thus company will be easier to sell more share.

Company which open its hidden value is expected to get more attention by shareholder and prospective shareholder because it is considered as company that will give future added value. For example, training to add employee skill, new technology in production process, having trusted brand name along with consumer loyalty, will assure how profitable the investment is.

Another benefit from intellectual capital disclosure on annual report is the increase of company's sales. The justification of that hypothesis is, by providing information about intellectual capital, customer will be more confident about company's product quality.

Thus, the main purpose of this research is to test whether the high intellectual capital disclosure level on company's annual report will give positive impact towards company's market performance, with share trading volume and share price as parameter, and company's sales. This research uses companies in manufacture industry sector as its population. We only choose one industry because each industry sector has different business strategy and business process, the information content they need to disclose will slightly different as well, then it is not comparable. Manufacture industry does its business by producing something to be sold to another company, or what we call business to business. The company which acts as a buyer can be manufacture company, that needs the product as its raw material, or retailer, that will sell the product to the end consumer. That is why, that kind of company needs to ensure the product they buy is well produced and/or will continuously available. For instance, company which produce snacks won't produce the packaging by itself. It will make an agreement with another company which produce plastic, can, or paper bag to supply the packaging with size, design and quantity they needs.

Another reason why we choose manufacture industry sector is because it has the most complete business process, started from RnD, procurement, production, marketing and sales. So it is possible to identify all kind of intellectual capital disclosure that company has.

Hypothesis Development

Stakeholder theory affirms the obligation of management to take actions that defend the interests of its stakeholders. As is known, one component of stakeholder is shareholder. Shareholder invests in the company and gives confidence to management to manage the capital in order to create added value for the company, which is expected to give positive return to the shareholders in the future.

As a form of transparency provided by management for its activities, management needs to disclose it. From the disclosure in the annual report, shareholder and prospective shareholder can draw conclusions about the company's management performance and projection in the future. The more transparent management, the trust of shareholders and prospective shareholders will increase. Transparency is also closely linked to management accountability.

Not much different from stakeholder theory, agency theory also says that management is the agent of shareholders. This theory says that management is a trustworthy party that will apply in accordance with the interests of shareholders, not for self-interest. This should be proven by the management by providing transparency to the shareholders regarding its performance.

The signaling theory asserts that a well-performing company will make the information a good signal that is sent to the market. In other words, information about good performance is a good signal, which is expected to have a positive impact on the company's performance. Good signals that the company sends in the form of information in the annual report are expected to invite potential investors to invest and potential customers to buy the company's products.

Management will tend to do something if they believe that the benefits gained are greater than their sacrifices, according to what the cost and benefit principle says. Management that discloses its intellectual capital voluntarily in the annual report, undoubtedly wishes for a benefit, that is a good response from potential investors and / or potential customers.

The results of previous studies also found that there is a positive relationship between the disclosure of intellectual capital with market performance and sales company. So, based on the

theories that have been written at the beginning of this chapter and the results of previous research, the hypothesis is formulated as follows:

H1: The higher level of intellectual capital disclosure in the company's annual report resulted in higher share price of the company in the following year.

H2: The higher level of intellectual capital disclosure in the company's annual report resulted in a higher volume of share trading of the company in the following year.

H3: The higher the level of intellectual capital disclosure in the company's annual report, the higher the total sales of the company in the next year.

LITERATURE RESEARCH

Stakeholder Theory

Stakeholder Theory is the theory of organizational management and business ethics that addresses morals and values in managing an organization (Freeman, 1999). Based on this theory, in running business operational, company (management) is responsible to the stakeholder (consumer, creditor, government, society and shareholder). Company has responsibility to do activities that are expected as important for its stakeholder, and be transparency for the process and also the result. This theory states that all the shareholder has the right to be provided with important information, although in the end they choose to not use it or they do not directly have a constructive role in company's going concern (Deegan, 2004). Stakeholder theory emphasizes organizational accountability more than financial and economic performance.

Each stakeholder has different interests towards company's information and disclosure. If government needs information that will be used for tax calculation, investor needs information that will help them to estimate company future projection and risk.

To understand the relationship between Stakeholder Theory and intellectual capital disclosure, we must look at it from both the ethical and managerial sides. From the ethical side, the company (management) has an obligation towards the stakeholder to take responsibility for the policies taken. Companies are required to defend stakeholder interests, thus the policies taken should be consistent to it. Sufficient disclosure might be the evidence that management has transparency

and accountability for the decision that have been taken. While from the managerial side, stakeholders have the power to give pressure to the company to provide information that can bring benefits. Adequate disclosure can reduce information asymmetry between the company and potential investors so that it will provide benefits to the company.

Agency Theory

According to agency theory, management is an agent of shareholders, where management must defend the interests of shareholders by taking a decision that will benefit shareholders, rather than profiting management in private. This theory also believes that management is a reliable party, management will not use the resources acquired from shareholders to take self-serving actions. To support that theory, of course shareholders need the transparency of management about useful information, which includes intellectual capital.

Signaling Theory

In his research, Spence (1973) revealed that the cost of bad news signals is higher than good news. This theory states that a well-performing company will use financial information to send a signal to the market (Spence, 1973). The market here means the market in a broad sense of the word, it can be the labor market, the capital market, the market of goods and services, etc. Therefore, managers will be more motivated to disclose intellectual capital voluntarily. Managers expect that providing a good signal of company performance to the market will reduce information asymmetry (Oliveira et al., 2008).

Legitimacy Theory

According to Guthrie et al. (2004) in Oliveira et al. (2008), legitimacy theory is closely related to intellectual capital disclosure. Companies are more likely to report their intangible assets, if they have a specific needs to do so. In this era, companies can not be any longer legitimize their status only through a recognition of 'hard' asset as a symbol of the company's traditional success. They have to prove that they already completed by another asset that will help it sustainability and going concern.

Cost and Benefit Principle

Managers have an incentive to voluntarily disclose information if the benefits received will exceed the costs incurred. Mandatory or voluntary disclosure, including intellectual capital disclosure will reduce the information asymmetry between stakeholders and management, and this will help to improve some miss-evaluation of the company, help reduce cost of capital, increase share trading, and reduce bid-ask spreads (Oliveira et al., 2008). Some of these advantages can be considered by management to disclose important information as much as needed.

Intellectual Capital

There are many different definitions of intellectual capital. Intellectual capital is information and knowledge applied in work to create value (Williams in Purnomosidhi, 2006). Intellectual capital can be viewed as knowledge in the formation of intellectual wealth and experience that can be used to create wealth (Stewart et al., 2010). Intellectual capital includes all employees' knowledge, organization and their ability to create added value and lead to sustainable competitive advantage. Intellectual capital has been identified as an intangible set of (resources of ability and competence) that drive organizational performance and value creation (Bontis, 2000).

The Society of Management Accountant Canada (SMAC) defines intellectual capital as an item of knowledge possessed by humans who then enters into a company that will generate profits in the future for the company, while Stewart (1997) defines intellectual capital as follows:

1. Intellectual capital is all that is known and provided by everyone within the company, which gives it a competitive advantage.
2. Intellectual capital is intellectual material (knowledge, information, intellectual property, experience) that can be used to create wealth.

Based on these definitions, we can conclude that intellectual capital is all information and knowledge possessed by employees to further applied to his work and provide added value for the company.

Intellectual capital can be a potential asset if it can benefit the company. Knowledge is created on individual initiatives and interactions that occur in crystallized groups through dialogue, discussion, experience sharing, and observation. In this case experience can also be considered as an element of intellectual capital in the company, but personal, difficult to formulate and

communicate, experience is categorized as tacit knowledge. If experience can be poured in a written form or a communicated statement then the experience may turn into explicit knowledge. There are no definite provisions concerning the components of intellectual capital. But some early-stage researchers of intellectual capital including Stewart (1997), Brooking (1997), Edvinsson (1997), Roos et al., (1997), and Bontis (1998) agree that there are generally three elements of intellectual capital; Human capital, customer capital and structural capital.

a. Human capital is defined as the knowledge, skills, and capabilities of the workforce. Human capital is closely linked to individual competence. Human capital is an important component of the company because it is the work that creates knowledge, new ideas, new products, and those who have relationships and maintain relationships with customers.

b. Structural capital consists of patents, concepts, models and computer systems and administration (including organizational strategy, internal network, system, database, file, legal rights to technology, process, invention, trademark and other intellectual property rights). Structural capital is created by workers but will eventually become the property of the company, but can also be obtained from other places. Structural capital also includes routines and organizational structures that can support the achievement of an optimum intellectual capital, which will ultimately support business performance.

c. Customer capital is also called relational capital and external capital. Customer capital refers to the relationship or organization network and the level of customer satisfaction and loyalty with the company. Customer capital also includes knowledge of markets, relationships with suppliers and customers, and industry associations. Customer capital is gained from understanding and delivering customer needs consistently.

Intellectual Capital Disclosure

Failure of financial statements in providing adequate information about the value of the company, followed the reasons for the gap between the market value and the book value of the company. Useful information should still be added so that financial statements can be more reliable for stakeholder decision making. Intellectual capital disclosure can be an approach that can be used to illustrate the added value of knowledge-based activities undertaken by a company. The purpose of intellectual capital disclosure is to provide stakeholders with more precise

information about the true value of the company and from which it is derived. There is no standard governing intellectual capital disclosure yet. However, Bontis, et al (1999) states that: "Adding a flow perspective to be share perspective is akin to adding a profit and loss statement to a balance sheet in accounting. The two perspectives combined (or the two reporting tools, in the case accounting) provide much more information than any single one alone. At the same time, intellectual capital flow reporting presents some additional challenges in terms of complexity. "

The above statement shows the importance of additional reports that describe the company's intellectual capital. In general, the disclosure of the company's intellectual capital is called the "statement of intellectual capital". Statement of intellectual capital is a disclosure document that accompanies the company's annual report.

The results of Guthrie and Petty's (2000) research indicate the lack of a systematic framework used in intellectual capital disclosure in annual reports, and companies generally disclose a qualitative assessment of intellectual capital.

From the results of existing studies, it can be concluded that intellectual capital statement is a form of report that combines numbers, narration, and knowledge of the company and visualization (can be a sketch) that illustrates the work of intellectual capital.

The intellectual capital statement is made up of three dimensions:

1. Intellectual capital statements have some form of knowledge narrative, which is a scenario that tells the ability of the company and how the company is able to perform activities well.
2. The intellectual capital statement identifies a set of knowledge management challenges in the form of management efforts for the development and knowledge conditions of the company.
3. The existence of disclosures that combine numbers, visualizations, and narratives in the design of compositions to show the development of the company's knowledge resources (Mauritsen et al., 2004).

Not all components of intellectual capital can be well quantified, thus affecting the process of measurement and disclosure. Thus, an alternative that can be done by management in order to disclose is to make intellectual capital disclosure as a supplement to financial statements. The disclosure of intellectual capital in the company's annual report is not all included as an element in the balance sheet although intellectual capital can be identified with intangible assets. This is because some components of intellectual capital are difficult to quantify.

Previous Studies

Abdolmohammadi (2005) with his research; *Intellectual Capital Disclosure and Market Capitalization*, revealed that there is a significant impact of intellectual capital disclosure towards market capitalization.

Mangena, Pike, Li (2010) with their research; *Intellectual Capital Disclosure and Effects on the Cost of Equity Capital: UK Evidence*, revealed the indication that firms that reveal high levels of intellectual capital benefit from lower cost of equity capital, compared to firms that disclose low-level intellectual capital.

Zéghal, Maaloul (2010) with their research; *Analysing Value Added as an Indicator of Intellectual Capital and Its Consequences on Company Performance*, revealed that there is positive correlation between intellectual capital and financial performance. Meanwhile, intellectual capital only give positive impact to high-tech company.

Clarke, Seng, Whiting (2010) with their research; *Intellectual Capital and Firm Performance in Australia*, revealed that there is positive correlation between intellectual capital and company performance.

Mousavi, Takhtaei (2012) with their research; *The Impact of Intellectual Capital Disclosure on Capital Markets*, revealed that there is positive correlation between intellectual capital disclosure and share trading volume, share price and capital market efficiency. Meanwhile, the disclosure of intellectual capital also has a negative relationship with information asymmetry, share price volatility, cost of capital and information risk.

Boujelbene, Affes (2013) with their research *The Impact of Intellectual Capital Disclosure on Cost of Equity Capital: A Case of French Firms*, revealed that there is decrease on cost of equity on French SPF 120 company, which disclose intellectual capital.

In previous studies, many discussions about the relationship of intellectual capital disclosure with aspects of the capital market, such as share prices and cost of equity, have founded. However, the discussion on the intellectual capital disclosure relationship with the company's operating performance with the total sales proxy still can not be found, especially in Indonesia.

This research examines the relationship between intellectual capital disclosure to the company's market performance, as measured by the proxy of the volume of share trading in the share market and the company's share price. As with the principle of demand and supply, an increase

in share trading will directly affect the company's share price. While share trading volume will increase along with increasing cost of equity capital. Another variable that is examined whether affected by intellectual capital disclosure is total company sales.

What distinguishes this research from the above research is, the sample used in this research is company from manufacturing industry sector, which produce production goods, that has been listing in BEI.

RESEARCH METHOD

Intellectual Capital Disclosure Measurement

Intellectual capital disclosure level will be measured by how many intellectual capital element disclosed on company's annual report. The measurement of the element will be done using content analysis method, a method which is taken from Bukh research (2004). This method measures 47 elements divided into six sub-groups; Labor, customer, information technology, research and development, process, and strategy.

<i>Item</i>
<i>Sub-group Labor; 13 items</i>
1. Staff are differentiated by age
2. Nationality
3. Education
4. Recruitment program
5. Remuneration system
6. Spending for labor
7. Training

8. Experts team
9. Insurance
10. Key employee
11. Pension
12. Safety and health of workers
13. Staff are differentiated by department
<i>Sub-group Customers; 6 items</i>
1. Customer satisfaction
2. Customer relationship
3. Customer quantity
4. Customer name
5. Annual sales
6. Market share
<i>Sub-group Strategy; 14 items</i>
1. Company brand name
2. Company social responsibility
3. <i>Supplier</i>
4. Business acquisition
5. Company organizational structure
6. Company culture
7. New technology
8. Company performance

9. Competence upgradation program
10. Environment participation
11. Raw material used
12. Distribution system
13. Company partnership strategy
14. Purpose and reason of the partnership
<i>Sub-group Research and Development; 4 items</i>
1. Statement of RnD policy and strategy
2. R&D spending
3. RnD long term plan
4. Company license
<i>Sub-group Process; 6 items</i>
1. Internal communication system
2. Working environment
3. Social program plan
4. Environment program plan
5. Business risk
6. Communication between department
<i>Sub-group Information and Technology; 4 items</i>
1. IT investment description
2. IT system description

3. Software asset used
4. IT facility description

Bozzolan et al., (2003) introduced the scoring scheme for intellectual capital disclosure using content analysis, by giving 1 for qualitative information and 2 for quantitative information. The total measurement will be:

$$\sum di$$

where **di** is 0 / 1 / 2 score.

$\sum di$ represents intellectual capital disclosure level, which is the only one independent variable in this research.

Market Performance

Market performance in this research will be tested using two proxy, share trading volume and share price. Share price is measured with formula below:

$$P = \frac{\text{Closing price} - \text{Opening price}}{\text{Opening price}}$$

If there is positive impact between intellectual capital disclosure and share price, the higher the intellectual capital disclosure level on annual report, the higher also the share price in the next year. As well as the share trading volume. Share price and share trading volume are two first dependent variables in this research.

Sales

Sales will be measured using total net sales in one accounting period. This research will test if there is positive impact between intellectual capital disclosure on annual report and next year company's total sales.

There is no previous research which was already proved hypothesis above, but with better presentation of intellectual capital on annual report, buyer company might be more confident with seller company product thus the transaction volume will be increased. Sales is the last dependent variable in this research.

Control Variables

Based on previous researches, some variables have already proven will give impact to this research dependent variables. Those variables are earning per share, market risk, company size, and return on assets.

Deitiana (2011) found that profitability influences company share price. Sasongko and Wulandari (2006) found that (only) earning per share, among profitability ratio which influences share price. Below is how earning per share is determined:

$$EPS = \frac{\text{Net Earning}}{\text{Outstanding Share}}$$

Risk Preference theory said that risk and return level of an investment will influence investor decision. In the other word, risk and return level will influence share trading volume.

Here is the explanation of above statement. Risk is measured using beta. Beta is the tools to calculate return volatility towards market return. Basically, market's beta is 1.0. If company's share price beta is above 1.0, it means the share's volatility level is above the market, or more risky as an investment.

That is why, we can conclude that company with lower beta has lower cost of equity capital, and will be more appealing for investor since it is considered as safe place for investment. Below is the formula to find beta:

$$\text{BETA} = \frac{\text{Covariance (Share Return, Market Return)}}{\text{Variance (Share Return)}}$$

Company size is the representation of how big the company is. Big company is better known compared to the smaller one. Changing in quality and quantity of information on big company will be realized faster by investor, thus market reaction will be happened faster. Ease in getting information is increase investor trust to the company and decrease uncertainty factor (Mangena, 2010). This research uses market capitalization in determining company size.

Market capitalization

$$= \text{Share price} \times \text{outstanding share}$$

The last control variable for this research is return on assets (RoA). RoA calculates how much company can generate income by using its asset. The higher the RoA, with certain number of asset, the higher income company can generate. RoA measures business efficiency in utilizing asset to get as much income as possible. This formula is used to calculates RoA:

$$\text{RoA} = \frac{\text{Net Income}}{\text{Average Total Assets}}$$

Population and Sample

Population for this research will be companies which fulfill the all the criteria below:

1. Disclose its annual share price during 2012-2016
2. Disclose its annual share trading volume during 2012-2016
3. Disclose its annual sales during 2012-2016
4. Disclose components to calculate EPS, RoA, Market Capitalization and Market Risk during 2012-2016

There are 23 companies which fulfil the requirements to be the object investigated in this research and all of them are chosen to be the samples. List of companies are in the table below:

Company Name	Product
PT. Sucaco Tbk	Cable and Wire
PT. Kabelindo Murni Tbk	
PT. KMI Wire and Cable Tbk	
PT. Indo Acidatama Tbk	Chemical Goods
PT. Intanwijaya Internasional Tbk	
PT. Duta Pertiwi Nusantara	
PT. Budi Starch & Sweetener Tbk	
PT. Chandra Asri Petrochemical Tbk	
PT. Barito Pacific Tbk	
PT. Suparma Tbk	Paper

PT. Indah Kiat Pulp dan Paper Tbk	
PT. Toba Pulp Lestari Tbk	
PT. Malindo Feedmill Tbk	Animal Feed
PT. Pelangi Indah Canindo Tbk	
PT. Lionmesh Prima Tbk	
PT. Indal Alumunium Industry Tbk	Metal
PT. Alumindo	
PT. Citra Tubindo Tbk	
PT. Sumalindo Lestari Jaya	Plastic
PT. Indopoly Swakarsa Industry Tbk	
PT. Pan Brothers Tbk	Textile and Garment
PT. Eratex Djaja Tbk	
PT. Sat Nusa Persada Tbk	Electronic

Data Collecting Procedure

The data used in this research is secondary data. According to Zikmund, Babin, Carr and Griffin in the book Business Research Method, secondary data is data previously collected and recorded by a person for his project. In this research, the annual report used to obtain data, taken from the website of sample company and the BEI website. After that the annual report is analyzed by using content analysis.

Data Analysis Method

Data in this research will be analyzed using correlation model with SPSS software.

Correlation method is one of analysis technique that often used to see the correlation between two variables quantitatively. Two variables can be said as correlated if change in one variable will affect another systematically with the same direction, positive or negative. Two variables that will be compared will be differentiated as independent variable and dependent variable. In this research, independent variable is intellectual capital disclosure. Meanwhile, the dependents are market performance, using share price (H1) and share trading volume (H2) proxy, and total annual sales (H3).

After analyzing the data, direction of relationship and how much influence caused by independent variable (level of intellectual capital disclosure) to dependent variables (market performance and sales) can be seen. The result of data analysis is shown in table and graph form. If the direction of the independent variable relation to the dependent variable is positive, and the performance of the market and the company's sales with higher intellectual capital disclosure level is better than that of the lower-level express company, H1, H2 and H3 are proven true.

RESULT

Data Analysis Result

Here is the result of hypothesis test by using Spearman Correlation test. There are three hypotheses from the three basic hypotheses tested:

H1: The higher level of intellectual capital disclosure in the company's annual report, the higher the share price in the next year.

H2: The higher level of intellectual capital disclosure in the company's annual report, the higher the volume of share trading in the next year.

H3: The higher the level of intellectual capital disclosure in the company's annual

Correlations

		Intelctual Disc	Market Risk	Market Capt_In	ROA	EPS	Share Return	Volume Trad_In	NetSales_1 n
IntelctualDisc	Pearson Correlation	1	.065	.363**	-.009	-.242*	.092	-.212*	.245**
	Sig. (1-tailed)		.270	.000	.468	.010	.191	.021	.009
	N	92	92	92	92	92	92	92	92
marketRisk	Pearson Correlation	.065	1	.202*	.402**	-.003	.912**	.218*	.229*
	Sig. (1-tailed)	.270		.027	.000	.488	.000	.018	.014
	N	92	92	92	92	92	92	92	92
MarketCapt_In	Pearson Correlation	.363**	.202*	1	.068	.194*	.239*	.078	.551**
	Sig. (1-tailed)	.000	.027		.261	.032	.011	.231	.000
	N	92	92	92	92	92	92	92	92
ROA	Pearson Correlation	-.009	.402**	.068	1	.099	.439**	.046	-.063

** . Correlation is significant at the 0.01 level (1-tailed).

* . Correlation is significant at the 0.05 level (1-tailed).

report, the higher the company's total sales in the next year.

Equation 1:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where:

Y = SharePrice; X_1 = Intellectual Capital; X_2 = Market Risk; X_3 = Market Capitalization;
 X_4 = Return on Asset; X_5 = Earnings per Share

Equation 2:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where:

Y = Trading Volume; X_1 = Intellectual Capital; X_2 = Market Risk; X_3 = Market
 Capitalization; X_4 = Return on Asset; X_5 = Earnings per Share

Equation 3:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e_i$$

Where:

Y = Sales; X_1 = Intellectual capital; X_2 = Market Risk; X_3 = Market Capitalization; X_4 =
 Return on Asset; X_5 = Earnings per Share

Result Discussion

Based on the test used with Correlation method, it was found that only two hypotheses, which are hypothesis one and three that proved true, and only sales (hypothesis three) which are proven significantly correlated with intellectual capital disclosure. While hypothesis two can not be

proven because the correlation result shows negative relationship between intellectual capital disclosure and volume trading. Furthermore, a more detailed discussion of each hypothesis is below.

A. Hypothesis One

H1: The higher level of intellectual capital disclosure in the company's annual report results in higher share prices in the next year.

The above hypothesis can be proved true with a positive correlation of 9.2%, but with 0.191 significance level, which are bigger than 0.05 (the error rate received for this research). This means, intellectual capital disclosure is positively correlated with share price, but not significant. Above statement explains that this research is in line with Mousavi & Takhtaei's research in 2012 entitled *The Impact of Intellectual Capital Disclosure on Capital Market*, but not in line with Zéghal and Maaloul research, in 2010 entitled *Analysing Value Added as an Indicator of Intellectual Capital And Its Consequences on Company Performance*. In Zéghal and Maaloul research, it is mentioned that capital disclosure only positively influences the share price of high-tech firms, whereas this research proves that companies that do not use high technology still get a positive influence from capital disclosure in its annual report. This can be caused by the development of science that has occurred almost equally for various industries, so that intellectual capital is recognized as one of the most important components for the development of the company in the future.

The reason why the impact is not really significant, can be because the shareholder concern with the science development in manufacture company is not as big as shareholder in high-tech company. In high-tech company, innovation and technology are the most important keys to survive. Meanwhile, in manufacture company, those kind of things can be only the supporting system to run the business.

B. Hypothesis Two

H2: The higher level of intellectual capital disclosure in the company's annual report leads to higher share trading volume in the next year.

The above hypothesis can not be proved true because the data analysis shows that intellectual capital disclosure has negative correlation at the level of -21.2% and 0.021 significance level, which are smaller than 0.05 (the error rate received for this research). This means, intellectual capital disclosure is significantly has negative correlation with

share trading volume. The result above explains that this research is not in line with Mangena's, Pike, Li research in 2010 under the title Intellectual Capital Disclosure and Effects on the Cost of Equity Capital: UK Evidence, Boujelbene and Affes research in 2013 with research entitled The Impact of Intellectual Capital Disclosure on Cost of Equity Capital: A Case and Mousavi & Takhtaei research in 2012 entitled The Impact of Intellectual Capital Disclosure on Capital Market.

This can be happened because, there is a positive correlation between intellectual capital disclosure and share price. When share price is increase, there is a tendency, that investors do not want to buy share, because they will wait until the share price goes down. Thus, when in the future the share price goes higher, investor will get the benefit of share returns.

Another estimation why hypothesis two can not be proved true is, the shares might be owned only by certain parties and owned without any intention to be sold. This often happens in family company. This thought can be an advice for the next research, to test whether there is different reaction in share trading volume variable if most share are hold by public and if most share are hold only by some parties, such as parent company.

C. Hypothesis three

H3: The higher level of intellectual capital disclosure in the company's annual report, the higher the total sales of the company in the next year.

The hypothesis above can be proved true with the direction of positive relationship of 24.5% with significance level of 0.009 which is less than 0.05 (the error rate received for this research). This means, intellectual capital disclosure is significantly has positive correlation with next year company's total sales. The above explains that this research is in line with Clarke, Seng, Whiting research in 2010 with a research entitled Intellectual Capital and Firm Performance in Australia. The research uses sales as one of its dependent variables.

As described in the previous chapters, sales made by Business to Business is not as easy as the sales that companies do directly to the end user. Business to Business sales typically occur after contracts, transactions cover large amounts of money and goods, and also for long term of period. Buyer company depends its product quality and availability on the seller company's performance. That is why, buyer expects that there is no problem on production nor any delay on the product distribution they buy, because that circumstances will affect their performance a lot.

This nature of business results in buyer's purchase consideration more complex and requires a lot of supporting information, one of the information needed is intellectual capital disclosure in the annual report. The higher level of disclosure, the higher buyer's confidence to start and/or maintain the business cooperation with company.

CONCLUSION

Based on the analysis conducted by using Correlation method, it is found that partially the intellectual capital disclosure level in the company's annual report has positive impact on share price and company's sales in the next year. In other words, the higher the level of intellectual capital disclosure in the company's annual report, the higher the share price and the company's sales.

However, this research has several limitation. The population selected for this research is not extensive. This is due to differences in characteristics between sub-sectors of the company. If continued using populations from different subsectors, it is feared that the test results will not be relevant for each sub-sector. So, the population used is only company from manufacturing industry.

Second, data used for the test is not normally distributed so that multiple linear regression tests can not be performed. Data that is not normally distributed does not meet the classical assumption test. The last limitation is, there is a difference in test results in one of the hypotheses; The higher level of intellectual capital disclosure in the company's annual report resulted in a higher share trading volume in the following year, with prior research.

Based on those limitations, the writer of this paper has a suggestion for further research that is to expand the sample area of the research so that the results of the research can be generalized better, and data can be normally distributed as well.

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FROM CASH BASIS TO ACCRUAL ACCOUNTING: HOW INDONESIAN GOVERNMENT OVERCOMES EXTERNAL INSTITUTIONAL PRESSURES AND INTERNAL OBSTACLES IN ITS TRANSFORMATION

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Abstract

This case study explicates dynamics of the transformation process in emerging field of government accounting standardization in Indonesia from 1997 to 2015. The main focus of this paper is to provide deeper investigation about: drivers of isomorphic pressures translating the transformation process from cash basis into accrual accounting practice, how they come to affect, and how the government strategies overcome those pressures. This paper is based on semi-structured interviews with key actors including standard setters and government high rank officials involved in the process. This paper unveils that despite of strong institutional pressures from international bodies and academics, they have failed to convince the government in implementing full accrual accounting during 1997-2004. This paper introduces the internal obstacle as the inhibiting factors to those pressures. They are also the main driver of full accrual accounting implementation delay in the field and coerce the government to implement cash towards accrual standards instead of full accrual standards.

Keywords: *Government Accounting, Cash Towards Accrual, Indonesia, Institutional Isomorphism.*

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Introduction

This paper examines dynamics of isomorphic pressures translating institutional process in the field of Indonesian government accounting standardization into a homogenized international best practice of accrual accounting from 1997 to 2015. Many of institutional theorists have invoked a rationalized myth that organization encapsulates anticipated propensities to align with isomorphic pressures in order to gain legitimacy (Andrews, 2009; Baker & Rennie, 2006; DiMaggio & Powell, 1983; Gong & Xiao, 2016; Lapsley & Pallot, 2000; Meyer & Rowan, 1977). The renowned isomorphic pressures are pressures to instigate change in practice experienced by organization through extrusions from international donor, academician, professional, or other organization practices within organizational field (Ashworth, Boyne, & Delbridge, 2007; Hassan, 2015; Wahyuni, 2016; Yang, Fang, & Huang, 2007). Those pressures arguably stimulate conformity among organizations inside organizational field by diffusing new practice so that they could prevail resources and legitimacy (Beckert, 2010; Boxenbaum & Jonsson, 2008; Dacin, Goodstein, & Scott, 2002; Frumkin & Galaskiewicz, 2004). Failing to comply with those pressures, an organization will be exposed to punitive measures (Dhalla & Oliver, 2013; Meyer & Rowan, 1977). DiMaggio and Powell (1983) entitle such conformity in a given organizational field as *institutional isomorphism*.

The central idea of institutional isomorphism is conjunction between institutionalized practice, external pressures, and homogeneity in organizational field (Beckert, 2010). The homogeneity resulted from external pressures is inevitable and pivotal to organization's success as of evaluations by external constituents will jeopardize organization's identity and legitimacy (Dambrin, Lambert, & Sponem, 2007; Meyer & Rowan, 1977; Modell, 2001; Siti-Nabiha & Scapens, 2005). Consequently, most of institutional studies have been performed on organization's adherence to the isomorphic pressures as an organizational response to external constituents (Dhalla & Oliver, 2013), both in developed countries, such as: United Kingdom (Lapsley & Pallot, 2000), Italy (Lippi, 2000), and Japan (Yamamoto & Noguchi, 2013); and in developing countries, such as: Indonesia (Harun & Kamase, 2012), Malaysia (Nor-Aziah & Scapens, 2007), and China (Gong & Xiao, 2016). Therefore this central stream of studies indicates that organizations pose a responsive action towards the external pressures they experienced, but what if organizations opt a non-responsive one? Concerns given by researchers to explicate non-responsive behaviour of organizations in relevance with isomorphic pressures are rudimentary (Dhalla & Oliver, 2013; Modell, 2001).

Drawing on the case of government accounting standardization field in Indonesia, this paper aims to investigate the sources of isomorphic pressures, the way by which they affect decision-making process to adopt accrual accounting best practices, and the conundrum in which the government executes a non-responsive action by placating conflicting pressures of external isomorphic pressures and internal obstacle pressures. These issues are highly salient to the Indonesian government accounting standardization field as the government was under substantial coercive, normative, and mimetic pressure from external constituents such as World Bank/International Monetary Fund (IMF), academician, and International Public Sector Accounting Standards (IPSAS). Yet the major finding of this paper unveils that the government was dismissive of internal obstacle pressures for altering its approach to conform to external isomorphic pressures.

This paper is structured into sections as follows: theoretical framework, methodology, findings, discussion, and conclusion. The theoretical framework section proposes a brief elucidation of neo-institutionalism theory depicting the institutional isomorphism as theoretical lens. The methodology section explains about the methods of data collection and analysis. The findings section delineates the transformation process of government accounting standardization field from 1997 to 2015. The

discussion section provides a tight interpretation of dynamics between the external isomorphic pressures affecting decision-making process of IPSAS based accrual accounting adoption and the internal obstacle pressures delaying the accrual implementation. The conclusion summarizes all sections of the paper.

Theoretical Framework

Neo-Institutionalism Theory

The initial development of neo-institutionalism theory was based on Meyer and Rowan study in 1977 (Greenwood, Oliver, Sahlin, & Suddaby, 2008). Their study postulated the concepts of institutional isomorphism and decoupling in a given organizational field (Beckert, 2010). Institutional isomorphism occurs when organizations conform their structures to institutional rules of the organizational field in order to gain legitimacy (Meyer & Rowan, 1977). Adoption of some best practices in the field functions as institutional rules which organizations have to incorporate to enhance survival prospects and stability. Organizations whose structures become homogenized with the rules of the organizational field lessen technical evaluation and control in order to maintain legitimacy. Technical structures are then decoupled from other structures within organizations and from ongoing activities (Meyer & Rowan, 1977).

Consequently, Boxenbaum and Jonsson (2008) underline that Meyer and Rowan concepts have answered a significant issue arising among institutional researchers about what makes organization becoming similar to other organizations in a given organizational field. Their concepts of institutional isomorphism offer an appropriate explanation to tackle that issue. Organization with the same external environment tends to conform with its external environment rules as a form of legitimacy-seeking (Boxenbaum & Jonsson, 2008; Frumkin & Galaskiewicz, 2004). Moreover, theorists have used the term of neo-institutional to seize the developments of Meyer and Rowan concepts that have taken place over decades (DiMaggio & Powell, 1991). The focus of neo-institutionalism theory emphasizes on legitimacy, institutional arrangements, and supremacy of organizational field (DiMaggio & Powell, 1983; Greenwood & Hinings, 1996). Neo-institutionalism theory is not presumed as the theory of organizational change, but, when exercised, it would yield a model of change linking organizational context and interorganizational dynamics (Greenwood & Hinings, 1996).

Institutional Isomorphism

DiMaggio dan Powell (1983) delineate more specifically about institutional isomorphism. They argue that the institutional isomorphism concept is a beneficial framework for comprehending the politics and ceremony that covers modern organizational behaviour by defining the intent of organizations in transforming their structures; Not only is the intent to obtain resources and customers, but also to gain political power and institutional legitimacy as well as social-economic fitness (1983). They also propose factors constructing institutional isomorphism: “(1) *coercive isomorphism, that stems from political influence and the problem of legitimacy*; (2) *mimetic isomorphism, resulting from standard responses to uncertainty*; and (3) *normative isomorphism, associated with professionalization*” (1983, p. 150).

Coercive isomorphism. DiMaggio dan Powell (1983) describe that coercive pressure is driven by external stakeholders. The pressure is perceived by the organization as a compulsive action or

persuasion for collaborating with other organizations in a given organizational field. At a certain condition, the organizational change acts as a direct response to conform to specific institutional arrangements that force the organization to adopt newly different procedure (Oliver, 1991). The nature of conformism differs depending on how the organization quests for legitimacy from the others (Suchman, 1995). Demands of the state or other large actors, and dependence of resources provided by other organizations trigger coercive pressure (Boxenbaum & Jonsson, 2008; Edelman, 1992; Sutton, Dobbin, Meyer, & Scott, 1994).

Mimetic isomorphism. DiMaggio dan Powell (1983) posit a proposition that uncertainties faced by the organization will cause a strong pressures for change. In that circumstance, the organization tends to imitate other organization structures in the same organizational field in order to reduce cost of uncertainties (Haveman, 1993). Imprecise organization objectives, complicated information system, and external environment uncertainty encourage the organization to find an applicable model of management from other organizations (Burns & Wholey, 1993; DiMaggio & Powell, 1983; Haveman, 1993).

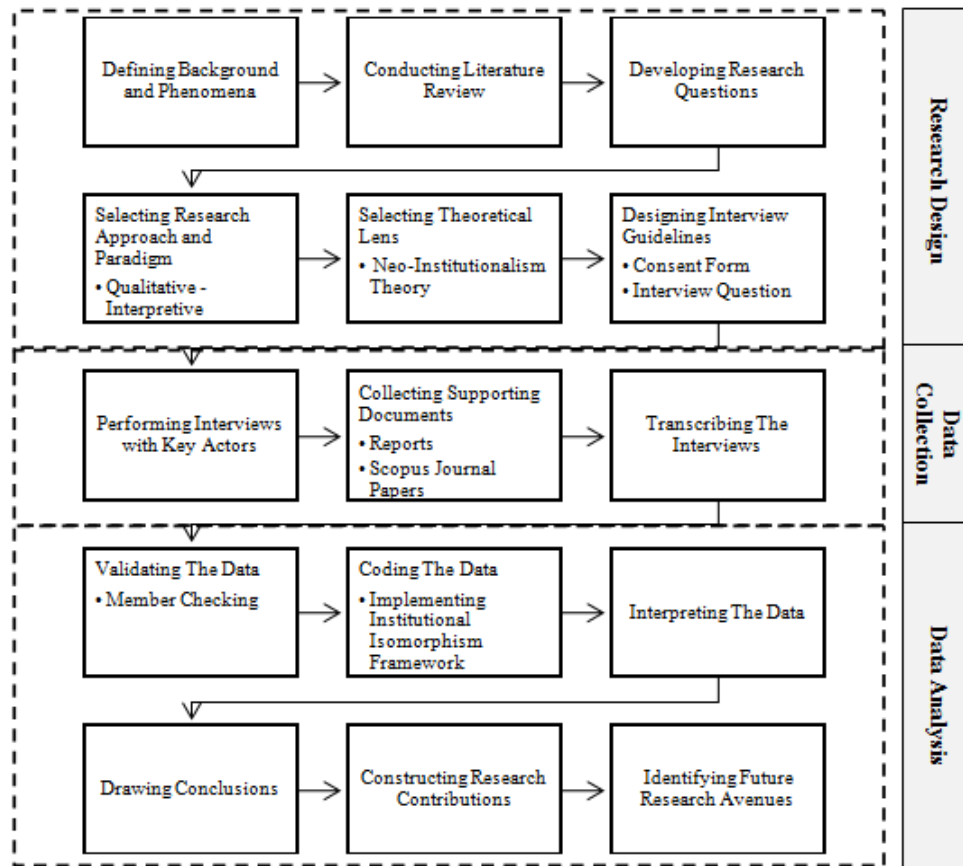
Normative isomorphism. DiMaggio dan Powell (1983) explain that professionalization boosting the isomorphism stems from a collective struggle of members of an occupation to define the conditions and methods of their work, to control the production of producers. Professionalization consists of 2 aspects: (1) academician, and (2) profession network. The academician instils a similar professional values of what is proper via education and training, then those values are carried into organizations with professionals who then tend to favour the adoption of similar practices and structures (Boxenbaum & Jonsson, 2008). Another context of normative pressure is demand to adopt institutionalized best practices that are applied to organizational field (Suchman, 1995).

Previous Studies

In the field of government accounting reform study, many researchers have used neo-institutionalism theory to portray the reasons of organizational transformation leading to homogeneity in forms and practices (Frumkin & Galaskiewicz, 2004). Institutional isomorphism framework has been widely used to frame government accounting reform in Scotland and New Zealand (Lapsley & Pallot, 2000), Canada (Baker & Rennie, 2006), Japan (Yamamoto & Noguchi, 2013), South Africa (Collier, 2004), Tanzania (Goddard, Assad, Issa, Malagila, & Mkasiwa, 2016), and China (Gong & Xiao, 2016). Most of researchers have argued that coercive pressure is the most effective force to deploy a certain practice within an organization in a given organizational field. The pressure mostly derives from international donors –World Bank and IMF– to developing countries and from central government to local government.

Research Methodology

The detailed research methodology adapted from Creswell (2007, 2014) and Wahid and Sein (2013) is displayed in Figure 1 as follows.

Figure 1. Research Methodology

Research Design

This paper applies interpretive worldview as research paradigm and is a qualitative case study incorporating longitudinal analysis. Interpretive worldview means that researchers position themselves as subjectivists and outside observers with low level of involvement (Kakkuri-Knuuttila, Lukka, & Kuorikoski, 2008), and rightness of the research depends on understanding of meanings and causality of the key actors involvement in a certain phenomena which is going to be investigated (Kamayanti, 2016). Qualitative case study is necessary since the issues that are going to be researched are involving a set of phenomenas, over which the researchers have no control (Yin, 2009), and a practical based, in which experiences and actions of the key actors are crucial (Wahid & Sein, 2013).

Data Collection Methods

The empirical data for this study was gathered in four months, from May to August 2017. Researchers performed data collection in two ways: documents review and interviews. By reviewing documents, researchers constructed the chronology of events (Maguire, Hardy, & Lawrence, 2004) based on World Bank agreements and reports, IMF Letters of Intent from Indonesia and reports, Asian Development Bank (ADB) reports, Indonesian Government

Accounting Standards Board (IGASB) documents and reports as well as government laws and regulations, several papers from scopus indexed journals, and other related documents.

The main data collection for this study was interviews. In the early stage of data collection process, researchers developed interview guidelines consisting of consent form and specific interview questions based on experiences of informants and institutional isomorphism framework. Employing snowball method, researchers conducted semi-structured interviews to 10 key actors involved in the decision making process of IPSAS based accrual accounting implementation in the field of Indonesian government accounting standardization. The informants were the chief of IGASB, three members of IGASB working committee, an ex-member of IGASB working committee, three members of IGASB technical group, an accounting professor from University of The Philippines as central government accounting system consultant for Ministry of Finance, and an accounting professor from Padjadjaran University as local government accounting system consultant for Ministry of Home Affairs.

The purposes of interviews were: (1) to confirm the chronology of events related to the transformation process of government accounting from 1997 to 2015, (2) to discuss about the context of isomorphic pressures happened during the decision making process of IPSAS based accrual implementation, and (3) to elaborate government behaviours toward those pressures. The procedures to exercise the interviews were: (1) preliminary interviews, was performed to gather information from actors not involved directly in the decision making process of adopting accrual based IPSAS. They were members of IGASB technical group; (2) further interviews, was performed to collect information from key actors involved directly in the decision making process. They were members of IGASB working committee, consultant for Ministry of Finance, and consultant for Ministry of Home Affairs; (3) the duration of interviews was around 30 – 120 minutes. The interviews were recorded and transcribed properly.

Data Analysis Methods

In analysing data collected, researchers employed two methods: (1) thematic analysis, by identifying the general context of transformation process in Indonesian government accounting standardization field pictured by institutional isomorphism framework, and (2) data source triangulation, by combining multiple source of data to refine research findings. The procedures to interpret the data consisted of two phases: (1) phase to construct the chronology of events (Maguire et al., 2004; Wahid & Sein, 2013; Wahyuni, 2016). Researchers traced the evolution of the field from 1997 to 2015 by implementing data source triangulation toward related documents and interview transcripts; (2) phase to solve research questions (Maguire et al., 2004). Researchers performed thematic analysis and data source triangulation based on institutional isomorphism concept to identify general themes, code them into accurate categories, compare categorized themes, and draw their patterns. In order to assure the validity of data interpretation, researchers carried out member checking

procedure (Creswell, 2014) through informal discussion with one member of IGASB working committee and two members of IGASB technical group.

Findings: The Transformation of Indonesian Government Accounting Standardization Field

The summarized research findings is shown in Table 1 which outlines the chronology of stages and major events during the transformation process in the field of Indonesian government accounting standardization for the period of 1997 to 2015. The stages are classified into four stages: Cash Based Transition Period (1997 – 2004), Cash Towards Accrual (CTA) Based (2005 – 2009), Mixed Based: CTA or Accrual (2010 – 2014), and Full Accrual Based (2015 up till now).

Table 1. Chronology of Events in The Field

Stage	Year	Major Events
Cash Based Transition Period	1997	The government sent Letter of Intent to IMF to borrow economic package fund amount SDR 7.3 billion (International Monetary Fund, 1997).
	2001	The government formed State Financial Management Committee with Financial Minister Decree Number: 196/KMK.01/2001 to modernize government accounting standards and system. The government sent Letter of Intent to IMF to clarify the commitment in adopting Government Financial Statistics (GFS) Integrated Framework (International Monetary Fund, 2001a).
	2002	IGASB was established with Financial Minister Decree Number: 308/KMK.12/2002 to improve Indonesian Government Accounting Standards (Harun, 2007). The influential member of IGASB were Binsar H. Simanjuntak, Jan Hoesada, and Indra Bastian. IGASB ratified the delay of IPSAS based accrual accounting implementation until 2008 (Asian Development Bank, 2003).
	2003	The government published Law Number: 17/2003 that ordered the government to implement full accrual accounting in 2008.
	2004	The government published Law Number: 1/2004 that ordered the government to implement full accrual accounting in 2008. The government strengthened the existence of IGASB by enacting Presidential Decree Number: 84/2004. Based on that decree, IGASB must follow the due process of Indonesian government accounting standards setting in developing the standards.
CTA Based	2005	IGASB published, for the first time ever, the CTA based Indonesian government accounting standards that were postulated in Government Regulation Number: 24/2005.
	2006	Central and local government started publishing CTA based financial statements that consisted of Balance Sheet, Budget Realization Report, Cash Flow Statement, and Notes to Financial Statement.
	2009	IPSAS Board visited IGASB to study the adolescences of CTA based standards.
Mixed Based: CTA/ Accrual	2010	IGASB published the mixed based Indonesian government accounting standards that were established in Government Regulation Number: 71/2010. Under that regulation, the government had an option to implement CTA accounting or

Stage	Year	Major Events
Full Accrual Based	2015	<p>full accrual accounting during the period of 2010 to 2014. Every government agency which was capable of implementing accrual standards was emphasized to do accrual practice as soon as possible.</p> <p>Both of central and local government have to implement full accrual accounting in order to issue financial statements that consist of Operational Statement, Statement of Change in Budget Balance Surplus, Statement of Change in Equity, Balance Sheet, Budget Realization Report, Cash Flow Statement, and Notes to Financial Statement.</p>

Discussions: Dynamics Interplay between External Isomorphic Pressures, Internal Obstacle Pressures, Accrual Accounting Practices, and Government Behaviours

Researchers have identified various forms of institutional pressures leading to isomorphism of accrual practices in the field and internal obstacle pressures prohibiting the isomorphism. Those conflicting pressures took place in different stages of transformation process as summarized in Table 2. Our discussion is structured around this table.

Table 2. External and Internal Pressures in The Field

	Coercive	Normative	Mimetic	Internal Obstacle
Cash Based (1997 - 2004)	World Bank/IMF pressured the government to adopt GFS Integrated Framework that required the use of accrual accounting.	Indra Bastian exerted IGASB to immediately implement accrual practice based on IPSAS.	Accounting practice in India boosted the development of CTA standards.	IGASB faced a serious problem about lack of skillful accounting staffs in government agencies
CTA Based (2005 - 2009)	Law 17/2003 and Law 1/2004 ordered the government to implement full accrual basis	-	-	-
Mixed Based (2010 - 2014)	GR 71/2010 was enacted and ordered the government to implement accrual basis if it was possible	-	Accounting practice in ASEAN countries encouraged the government to implement the mixed based standards.	-

	Coercive	Normative	Mimetic	Internal Obstacle
Accrual Based (Since 2015)	GR 71/2010 has ordered every government agency to implement full accrual accounting	-	-	-

Coercive Isomorphic Pressures: Pressures from World Bank/IMF and Government Accounting Regulations

Researchers identified several evidences of coercive isomorphic pressures in the period of 1997 to 2015. There were two types of coercive pressures that together compelled the government of Indonesia to apply accrual accounting practices: (1) pressure from World Bank/IMF, and (2) pressure from government accounting regulations in Indonesia (Law 17/2003, Law 1/2004, and Government Regulation 71/2010). *The first coercive pressure* was the pressure from World Bank/IMF. It took place in 2001 and was addressed to the adoption of GFS Integrated Framework of 2001 by Indonesian government in order to satisfy the IMF's bailout loans of 1997/1998 for restoring Indonesian economy. The pressure was mentioned by the government in World Bank's evaluation report over Indonesia Second Accountancy Development Project.

"The adoption of the GFS framework in budget preparation was required by the IMF" (The World Bank, 2001, p. 36). *"The decision to adopt double entry is more urgent now with pressure from the IMF and the WB for the government to adopt the new GFS (which calls for the use of double entry)"* (The World Bank, 2001, p. 31).

The pressure from World Bank/IMF was also affirmed by Amdi Very Dharma, a member of IGASB working committee, who has involved in the government accounting standards setting since 2001. He expressed that IMF had pushed the government to transform its accounting practices from cash based into accrual based by lending the bailout loans to the government in 1997 so that the government required implementing accrual accounting practice.

At the time of Indonesian reform in 1997, all of these changes began. We requested bailout loans from IMF at that time. So basically, all of these changes were caused by IMF. "I will give you the bailouts but you will have to restructure all of your existing systems." Well, that's what i mean. That is the time when New Public Management doctrine come to emerge. The accrual accounting system is just one part of New Public Management tools. – Interview with Amdi Very Dharma on Wednesday, June 7, 2017.

The pressure then affected government's decision in adopting GFS framework. In August 2001, the government of Indonesia sent a Letter of Intent (LOI) to Managing Director of IMF informing him about the commitment of the government to compose GFS report as soon as possible by the end of the year 2001 (International Monetary Fund, 2001a). As a consequence of that commitment, the government had to fulfill some requirements before the government started producing GFS report. Those requirements are: the use of balance sheet, the use of statement of government operations, the

use of government cash operations, and the use of statement of other economic flows (International Monetary Fund, 2001b).

Based on the requisite requirements, the government of Indonesia had to modify several major aspects of its accounting system (The World Bank, 2001). First, the government had to remodel the chart of accounts used to produce budget realization report. Second, the government had to develop the new format of balance sheet so as to conform to balance sheet format required by GFS framework. Third, the government had to find the way so that the government could start producing statement of government operations, statement of government cash operations, and statement of other economic flows.

Furthermore, IMF explained about the main agenda of GFS framework adoption was to supply statistical data for economists and decision makers to study the development of government operations, financial position, and liquidity situation in a systematic format (International Monetary Fund, 2001b). To execute that agenda, IMF also stressed the use of international standards of accounting so that IMF could perform cross-country analysis of government financial conditions.

“The establishment of internationally recognized standards permits government finance statistics to be used in cross-country analysis of government operations, such as comparisons of ratios of taxes or expense to gross domestic product” (International Monetary Fund, 2001b, p. 9).

The meaning of “*internationally recognized standards*” was IPSAS. Substantively, the development of IPSAS was cofunded by World Bank and other multilateral banks to increase the quality of government financial reporting.

The World Bank has supported the development of IPSAS by actively engaging in the technical agenda and by providing significant funding to the program. As part of this support, together with the Development Assistance Committee of the OECD and several multilateral development banks, the Bank is cosponsoring a project to develop an IPSAS on Accounting for Development Assistance. The Bank’s involvement reflects its interest in improving the quality of financial reporting by governments and their constituent agencies. (The World Bank, 2004, p. 1).

In order to implement GFS framework of 2001, the government needed to undertake accrual accounting practices that referred to IPSAS. IMF stated that the GFS framework of 2001 was based on accrual accounting concept (International Monetary Fund, 2009). IMF had its own reasons about why accrual accounting concept become crucial. One major reason that was explained by IMF namely the use of accrual basis would facilitate IMF to ensure the government capability of settling its debts at maturity date.

Thus the introduction of accrual accounting, particularly when accompanied by related reform initiatives to improve public sector performance, can promote a general improvement in the management of assets, as well as a heightened awareness of the cost of holding and deploying assets. In a similar fashion, the requirement to identify, measure, and report government liabilities, and the resulting enhanced transparency, can foster better financial planning to

ensure that the government is able to meet its liabilities as they fall due (International Monetary Fund, 2009, p. 5).

Therefore, the pressure from World Bank/IMF had influenced the Indonesian government (IGASB) decision's to implement IPSAS based accrual accounting by exerting the government to adopt GFS Integrated Framework of 2001. Basically, the coercive pressures are not only coming from World Bank/IMF but also deriving from government accounting regulations in Indonesia. *The second coercive pressures* were stemmed from Law 17/2003 on State Finance, Law 1/2004 on State Treasury, and Government Regulation 71/2010 on Government Accounting Standards. The pressures from those regulations were the most effective way to coerce the Indonesian government and its agencies in implementing accrual accounting (Harun, Karen Van, Eggleton, Van Peurseem, & Eggleton, 2012).

Law 17/2003 and Law 1/2004 have made the accrual accounting practices compulsory to the government of Indonesia and its agencies since 2008. Both of them stipulated that the recognitions of government revenue and expenditure should be implemented on accrual basis not later than the fiscal year 2008. As long as the accrual based recognitions have not been implemented, they should be performed on cash basis. Consequently, IGASB was demanded to enact government accrual accounting standards as to reconcile those laws.

In October 2010, the government ratified Government Regulation Number: 71/2010 to accommodate the implementation of government accrual accounting standards. Contrast with Law 17/2003 and Law 1/2004 which required the use of accrual accounting in government financial reporting by the year 2008, Government Regulation Number: 71/2010 permitted every government agency that was not capable of implementing accrual accounting to use modified cash accounting, namely cash towards accrual basis, not later than the year 2014. Furthermore, all government agencies in Indonesia have started implementing accrual practice since 2015. Therefore, the pressure from government accounting regulations in Indonesia have influenced the Indonesian government decision's to perform accrual accounting by providing legal basis to its implementation.

Normative Isomorphic Pressure: Pressure from Academician

Researchers documented certain evidences of normative isomorphic pressure for the period of 1997 to 2004. There were no strong evidences of normative pressures for rest of the period of 2005 to 2015. Most of our informants believed that the normative isomorphic pressure influencing the adoption of accrual accounting based on IPSAS derived from Gadjah Mada University academician who was involved in the initial government accounting standards setting in 2002. It was Professor Indra Bastian, a member of initial IGASB of 2002/2003. He was the most prominent member of IGASB of 2002 who insisted the government of Indonesia on using accrual IPSAS for its financial reporting system. His insistence was perceived by Chalimah Pujihastuti, a member of IGASB working committee who attended IGASB meetings with the professor in 2002, as well as Amdi Very Dharma.

The one of academician members of the first IGASB of 2002 was Indra Bastian. He translated IPSAS from English into Bahasa. So IGASB members were not only from Ministry of Finance but also from universities, public accountant firms, and the others...Eventhough Indra Bastian was influential and brought a different color to the board by providing several references from

other accounting standards, he definitely went against us, most of the board members. He insisted us on using his translated IPSAS directly in 2002. It was his project after all. No wonder he did that. – Interview with Chalimah Pujihastuti on Friday, June 2, 2017.

There were opposite parties inside the first IGASB of 2002 who urged the use of full accrual accounting in government sector, extremely full accrual. The most dominant of the opposites was Indra Bastian...He was the one who proposed the use of accrual accounting for government financial reporting from the very beginning in 2002. – Interview with Amdi very Dharma on Wednesday, June 7, 2017.

Most members of IGASB of 2002, basically, agreed to use accrual accounting for government financial reporting system but implementing the accrual directly in 2002 would only bring disastrous consequences. They decided to implement the accrual in 2008 because they claimed that most of government officials, particularly local government officials, were barely acquiring knowledge of accounting at that time. Government accounting practices were still unfamiliar to them. The government officials had found the implementation of government accounting as a complicated practice which only escalated their workload. In general, the official's attention to government accounting practices were very low in 2002.

In 2002, my colleagues in IGASB noticed that the existing practices cannot be neglected. Those practices were based on cash basis single entry recording. We have been implementing them for decades since our independence day in 1945. If we completely changed those practices into accrual practices, this country would be in turmoil. – Interview with Binsar H. Simanjuntak, Chief of IGASB Working Committee for the period of 2002 to 2017, on Wednesday, June 14, 2017.

Yeah, you have to know that few years ago, the word "accounting" was the most anxious word in government financial management context. I mean that those which executed budget, loan, and the others were technical divisions in ministries and local governments, meanwhile the accounting division reported what they had already done. In the past, when we were going to the ministries to collect data for composing financial report, they didnt pay any attention to us. If they gave us a glass of water, it was an alhamdulillah, blessing for us. That was an example of how government officials regarded the importance of accounting which was poorly regarded. – Interview with Zulfikar Aragani, a member IGASB technical group, on Wednesday, May 24, 2017.

On the contrary to those statements, Profesor Bastian kept insisting the use of accrual accounting in government sector as soon as possible. He argued that the obstacles of accounting change institutionalization in the past were just related to habitual problems as the government apparatus would get used to accrual practice once it was being implemented earlier. The fact was mentioned by Chalimah Pujihastuti who was studied in the same university as Professor Bastian.

Mr. Indra Bastian said that "Australia has implemented accrual standards, then why we, the governments, have to create other different standards than accrual ones!!!. Why should the

standards be different? we also manage resources, officials, and others as Australia does. Actually, it is no more than a matter of habits.” – Interview on Friday, June 2, 2017.

Therefore, the normative isomorphic pressure from Gadjah Mada University academician has influenced the Indonesian government decision's to undertake accrual accounting practice by insisting the use of accrual basis on government financial reporting system through his involvement in the initial government accounting standards setting in 2002.

Mimetic Isomorphic Pressure: Pressure from Other Accounting Practices

Researchers identified several robust evidences of mimetic isomorphic pressure in the period of 1997 to 2009 as well as 2010 to 2014. It was accounting practices in other countries that influenced the government to implement accrual accounting practice in its financial reporting system. IGASB inquired about how other countries executed their accrual practices. If IGASB did not refer to them, we believed that IGASB had no ideas in developing its standards.

When formulating the concept of CTA standards in 2002 to 2004, IGASB visited India to comprehend how Indian government dealt with its financial reporting problems. Several top-notch IGASB officials were appointed to carry out the task, namely, Hekinus Manao and Amdi Very Dharma. Yet they were shocked as the nuclear-producing nation widely conducted cash-based accounting to generate the budget realization report. They did not find any fact that Indian government had used accrual accounting to yield other reports than budget realization report. Still, the India's felt ease to underpin the use of cash accounting in its financial reporting system. This knowledge actuated IGASB to adapt India's practice to initial draft of CTA standards. The board then adjusted the draft to related regulations and current conditions of government agencies in Indonesia. In this case, IGASB was not performing a 100% adoption strategy but adaptation by examining suitable practices for the Indonesian government. If there were no suitable practices to solve existing government conditions, then IGASB would find another accounting practice in different countries.

In 2004, I, along with Pak Hekinus, went to India. Our visit was funded by Asian Development Bank...By the time we arrived in India, we carried out the agenda to find whether accrual accounting has been implemented by the Indian government. Gee! How embarassed we were. There was no accrual accounting at all!. The government only published budget realization report and it was what accounting meant to them. Meanwhile, India was renowned as a country that could produce nuclear weapon!...So that precious experience was useful for us in developing Government Regulation Number 24/2005 on (CTA Based) Government Accounting Standards. – Interview with Amdy Very Dharma on Wednesday, 7th June 2017.

Well, what we do in creating the standards is that we look at some practices in other countries to formulate initial drafts. After that, we adjust them to our conditions, right!...Well, we adjust the drafts to the conditions of Indonesian government, as well as the the laws and regulations. – Interview with Chalimah Pujihastuti on Friday, June 2, 2017.

The same methods were applied for implementing mixed based standards in 2010 to 2014. The Indonesian government snooped around the accounting practices in Association of South East Asian Nations (ASEAN) countries by commencing The First ASEAN Meeting of Governmental Accounting Standards Setters in Bali at 5th – 6th August 2010. The government had obtained a proud finding that Indonesia was one of leading nations in ASEAN which was ready to implement accrual standards for government sector while other ASEAN countries, like Malaysia, had not started enacting any regulation yet to provide the use of government accrual accounting. Eventually, the government took the finding as a credit to IGASB which was capable of ratifying the Government Regulation Number 71/2010 as the legal basis of accrual accounting implementation in the government sector.

Well! We held the ASEAN government standard setters conference in Bali in 2010. We gathered them to share some information about government accounting issues. Obviously, Indonesia was one step ahead of those ASEAN countries because we were able to develop accrual standards and implemented them afterwards. Meanwhile, the others, like Malaysia and India, were still in cash-based not accrual-based back then. – Interview with Binsar H. Simanjuntak on Wednesday, 14th June 2017.³⁹

Therefore, the mimetic isomorphic pressure from accounting practices in other countries has influenced the Indonesian government decision's to perform accrual practice by adapting the practices to IGASB standards.

The Internal Obstacle Pressures

In addition to the external pressures leading to isomorphism of accrual accounting practices in government sector, researchers also identified the most dominant pressures that neutralized, provisionally, those external pressures and prohibited the isomorphism process. We named the renowned pressures with the internal obstacle pressures. They wafted out to the field of Indonesian government accounting standardization in 2002 when the external pressures of World Bank/IMF and academician emerged. We found four internal obstacle pressures that exerted the government to not implement the accrual accounting for its financial reporting in year 2002: (1) government apparatus used to perform cash based single entry recording to generate Budget Realization Report, (2) the difficulties in encouraging the government apparatus to use double entry accounting in order to generate Balance Sheet as required by World Bank/IMF, and (3) most of government accountants were centralized in Financial and Development Supervision Agency (BPKP) and Ministry of Finance.

In 2002, the government of Indonesia faced an unavoidable circumstance that government officials had been practicing cash based single entry recording system for decades since 1945 to 2001 in order to produce Budget Realization Report (The World Bank, 2001). *“we want to use the existing experience of cash based accounting because experience is the best teacher. We understand about how to create Budget Realization Report. Well, it was very simple, actually, because it contained the*

³⁹ The details of the conference can be found in IGASB website as follows: <https://www.ksap.org/sap/the-1st-asean-meeting-of-governmental-accounting-standards-setters-bali-august-5-6-2010/>

budget and its realization”, said Joko Supriyanto, a member of IGASB technical group, in interview, 30th May 2017.

In order to produce the first Balance Sheet of Indonesia required by World Bank/IMF, the government had to implement double entry accounting system. It was difficult to shift the habits of government officials from using single entry to double entry because they found that double entry accounting was confusing and impractical. *“Based on past experience, we know that it was hard to encourage government officials to implement double entry accounting. Basically, they don't want to be disturbed by accounting because it was complicated.”*, said Chalimah Pujihastuti in 2th June 2017.

Besides that, the availability of government accountants in ministries and local governments triggered a serious constraint in year 2002/2003. Most of government accountants were concentrated in two major institution, namely, BPKP and Ministry of Finance. Meanwhile their availability in other government agencies were scarce. *“The major problem of human resource was the insufficiency of government accountants that were piled up in BPKP and Ministry of Finance. In other ministries, particularly in local government, there were lack of them.”*, said Binsar H. Simanjuntak in interview, 14th June 2017.

Based on previous internal conditions, the government of Indonesia decided to delay the implementation of accrual accounting in 2008. For the period of 2002 to 2007, the government chose to develop the cash basis of accounting into more advanced basis, CTA.

*In 2002, my colleagues in IGASB noticed that the existing practices cannot be neglected. Those practices were based on cash basis single entry recording. We have been implementing them for decades since our independence day in 1945. If we completely changed those practices into accrual practices, this country would be in turmoil.*⁴⁰

It was cash towards accrual because it was not, people were just learning double entry accounting. If you go into accrual basis immediately, they will get lost....And people were just learning how to do debit and credit, and now you teach them depreciation... So, you have to do it gradually, it cannot be outright, you teach them double entry and you teach them accrual accounting which may require accrual budgeting also. – Interview with Profesor Mila V. Gregorio on Wednesday, June 14, 2017.

Therefore, the internal obstacle pressures have influenced the Indonesian government decision's to perform accrual accounting practice by delaying the implementation of accrual accounting practice for government sector in Indonesia until 2008.

⁴⁰Interview with Binsar H. Simanjuntak, Chief of IGASB Working Committee for the period of 2002 to 2017, on Wednesday, June 14, 2017.

Interplay between Government Behaviours towards Conflicting Pressures of External and Internal Pressures

Drawing on the explanation of conflicting pressures between external isomorphic pressures and internal obstacle pressures, researchers have summarized the interplay of those pressures, accrual accounting, and government behaviours as illustrated in Table 3.

Table 3. Interplay Between The Pressures and Government Behaviours

	External Isomorphic Pressures	Internal Obstacle Pressures	Government Behaviours
Cash Based (1997 - 2004)	<ul style="list-style-type: none"> • Coercive (WB/IMF) • Mimetic (Academician) • Mimetic (Other Accounting Practices) 	Human Resource Problems	<ul style="list-style-type: none"> • Delaying the implementation of accrual accounting until 2008 • Developing CTA Standards by recognizing assets, liabilities, and equity in accrual basis; and recognizing revenues and expenditures in cash basis
CTA Based (2005 - 2009)	<ul style="list-style-type: none"> • Coercive (Law 17/2003 & Law 1/2004) 	-	<ul style="list-style-type: none"> • Implementing CTA accounting • Developing Full Accrual Standards
Mixed Based (2010 - 2014)	<ul style="list-style-type: none"> • Coercive (GR 71/2010) • Mimetic (Other Accounting Practices) 	-	Implementing full accrual accounting or CTA accounting
Accrual Based (Since 2015)	Coercive (GR 71/2010)	-	Implementing full accrual accounting

Conclusions and Contributions

The dynamics of transformation process in the government accounting standardization field for the period of 1997 to 2004 was the key process of all changes in the field since 1945. During that period, researchers found three external pressures: coercive pressure from World Bank/IMF, normative pressure from academician, and mimetic pressure from accounting practices in other countries. Those three pressures connected each other to form a bricolage of isomorphic pressures that exerted the implementation of accrual accounting in the field. As a consequence to those pressures, Indonesia should become homogeneous with other developed countries such as United Kingdom, Australia, and New Zealand by the time the pressures emerged in 2002 because those nations implemented the same accrual accounting as Indonesia. On the contrary with that ideal condition, Indonesia delayed the implementation of accrual accounting practices and developed cash towards accrual (CTA) accounting as the substitute. There was only one reason why Indonesia had to delay the accrual implementation: internal obstacle pressures of government accountants scarcity. Nevertheless, in 2015, Indonesia started a new beginning in its financial reporting system. The government of Indonesia has enunciated the implementation of full accrual accounting standards to improve quality of information of state financial report (Harun, Van-Peursem, & Eggleton, 2015).

This paper contributes to the literature of IPSAS adoption in developing countries by providing a big picture of the drivers of and responses to the IPSAS based accrual practices utilizing neo-institutionalism theory as theoretical lens. Most of studies in government accounting reform have evaded to portray the complete external isomorphic extrusions and the government behaviours towards them (Andrews, 2009; Collier, 2004; Goddard et al., 2016; Harun & Kamase, 2012; Hassan, 2015). The evidence of their existence is always troublesome, but this paper has managed to undermine this issue. To gain closer understanding, international donors –World Bank/IMF– that fund the development of IPSAS (The World Bank, 2004; Uddin & Tsamenyi, 2005) have to pay attention to the effectiveness of their accrual agenda in developing countries. Pursuing accrual implementation without transition period will only bring difficulties hampering the initial outcome of their agenda. Assisting the government of developing countries to implement IPSAS based accrual accounting and mobilizing support for the government will be the best way to enhance the outcome. International donors shall take into consideration the use of Indonesian-made framework of the cash towards accrual for other developing countries having the same cultures and conditions as Indonesia. Cash towards accrual is a proven framework to smoothen the change from cash based practices into full accrual based practices.

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1st Asian Applied Accounting and Business Conference

INTEGRATED REPORTING TOWARDS ACHIEVING ACCOUNTABILITY FOR SUSTAINABLE DEVELOPMENT

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ABSTRACT

The Malaysian Government has encouraged the corporate sector to be seriously committed in supporting sustainable development. One of the elements in sustainable development is the inclusiveness of stakeholders' engagement by providing comprehensive reporting such as integrated reporting. Integrated reporting promotes a cohesive and efficient approach that draws on different reporting strands and communicates a full range of variables that can affect the ability of a company in creating its value and at the same time, enhances accountability. However, there is a lack of study that has examined integrated reporting practices particularly in a developing country, thus motivating this study to examine the integrated reporting practices among the public listed companies in Malaysia particularly the property companies. Specifically, this study examines the level of integrated reporting disclosure and the factors influencing such disclosure among the property companies listed in the Bursa Malaysia. Using content analysis on the annual reports of a three year period, this study shows that although the level of integrated reporting disclosure among the property companies has increased over the three year period, the level of integrated reporting practices among the property companies is still low. This study also shows out of the four factors chosen in this study, only company size is significantly associated with the level of integrated reporting practices among the property companies in Malaysia. Leverage, returns on asset, returns on equity and liquidity show no significant association with the level of integrated reporting disclosure. These findings would be of interest to the policy makers and regulators on strategizing ways in improving integrated reporting practices in the corporate sector.

Keywords: Sustainable development, accountability, integrated reporting, property companies, Malaysia.

1. INTRODUCTION

In recent years, the tremendous growth in the Malaysia economy is attributed by its ability to exploit environment resource base available for the country. Although Malaysia is classified as a middle income country, it has provides consideration sustainable development in its policies. The Government has put much effort in inculcating the culture of maintaining the needs of today while preserving the environment for future generations. As stated by the previous Malaysian Prime Minister, Tun Dr Mahathir Mohamad in his 1991 working paper entitled 'The Way Forward', Malaysia is committed towards sustainable development and by the year 2020, the country can ensure that the valuable resources are not wasted, water unpolluted and forest resources capable of regeneration and yield the needs of the nation (Mohamad, 1991). This commitment is not only to safeguard the wellbeing of the nation but also for the advancement of the country's economic growth.

The Government's commitment on sustainable development has been included in the Ninth Malaysia Plan 2006 to 2010 that has been stipulated into Thrust 1, Thrust 3 and Thrust 4 that focuses on improving the standard and sustainability of life. The establishment of the Malaysia's Sustainable Development Policies following the Malaysian Plan is to support the sustainable development. The Government is serious of providing its commitment in addressing sustainable development issues for the betterment of the nation, economy and environment for present and future understanding (Ismail, 2015). To ensure that the Government agencies provide their full commitment in supporting the country's vision for sustainable development, certain indicators have been identified to measure the country's visions are achieved.

The Government has also encouraged the corporate sector to be seriously committed in sustainable development. The activities, investment and innovation of the companies are all major drivers of productivity that promote job opportunities and economic growth. The Government acknowledges the diversity of the corporate sector, thus calls for all companies to apply their creativity and innovation to solve the challenges of sustainable development. The companies can enhance the value of sustainability by protecting and creating value to improve operational efficiency, stimulating product innovation, reducing employee turnover and strengthening its brand. The companies also need to strengthen the relationship between them and their stakeholders by improving the trust and accountability to their stakeholders. This can be done through reporting and communicating its commitment on sustainable development (SGD Compass, 2015), which is consistent with the trend of the current reporting that includes financial and non-financial information, thus improving transparency and accountability corporate reporting (Flack & Douglas, 2007).

According to Babe (2016), a change in the reporting framework has been implemented to assist the companies in better understanding the new reporting structure to include both financial and non-financial information. Studies have suggested that integrated reporting fits the new reporting structure (Graham, 2014; Lee & Yeo, 2015; Jamal & Ghani, 2016). Integrated reporting can be described as a "holistic" reporting where the stakeholders would be furnished with information related to the organisational activities of the companies (Abeysekera, 2013). Arguably, integrating the important components of corporate reporting such as financial, environmental, sustainable development and governance into one single document would provide a holistic view on the companies' commitment and accountability to their stakeholders. This is even more true when the companies that are directly involve with the environment such as property companies.

In Malaysia, the property industry has enjoyed many years of booming property and it is fragmented and dominated by large companies since it is capital intensive. Over the last four decades, the residential property segment has been the mainstay of the property market due to the favourable demographics with the addition of Government's efforts in promoting infrastructure development and home ownership (Cajias, Geiger & Bienet, 2013). The current slowdown is promoted by the central bank to ensure a more sustainable growth in the long-term. The Government has also made an effort on new infrastructures that will open opportunities for property developments and townships (Thim, Choong & Asri, 2012). In the announced budget for 2016, an allocation of MYR 267.2 billion was pledged to secure the sustainability of the country's economic growth through assets such as road project, mass rapid transit, and light rail transit lines. Up to 2016, there were 865 companies listed on the Bursa Malaysia and out of 92 are classified under property classification.

Initiatives have been taken to promote integrated reporting in Malaysia. To build a strong sustainable culture within the corporate sector, the Malaysian Securities Commission is working with the professionals and industries on the adoption of integrated reporting. There are a few large companies that have shown interest and commitments to change their current reporting practices to integrated reporting. According to the current Malaysian Prime Minister, Datuk Seri Mohd Najib Tun Razak, Sime Darby is committed to adopt integrated reporting by 2016 (Accountants Today, 2014). A spokesperson for Sime Darby, an agriculture company noted that the company is working seriously on the initiative towards integrated reporting. Other than what is reported, the level of integrated reporting practices in Malaysia is still unknown. Graham (2014) suggested a need to examine the level of integrated reporting practices in developing countries such as in Malaysia.

Following Graham's (2014) suggestion, this study aims to examine the integrated reporting practices among the public listed property companies in Malaysia. The findings in this study contribute to the existing literature that is currently lacking in evidences on integrated reporting practices in the developing country. The remainder of this study is structured as follows. The next section, Section 2 provides the literature review related to integrated reporting practices and subsequently, the development of the research question and research hypotheses. Section 3 outlines the research design. The findings of this study are presented in Section 4. The final section summarises and concludes this study.

2. LITERATURE REVIEW

The stakeholders often see the company performance as a measurement of the companies' success in operating their business. One of the ways in communicating the performance of companies is by way of reporting disclosure in the annual reports. The annual report serves as a way for the companies to provide relevant, useful, and reliable financial information to the stakeholders on their performance (Flack & Douglas, 2007; Binh, 2012). Reporting disclosure is crucial for companies to guarantee their mutually beneficial relationship with their stakeholders and raise capital at the lowest possible cost (Healy & Palepu, 2001; Jain & Kumar, 2013). However, the annual reports provided by the companies often consist of information related to past activities that were not relevant for the stakeholders who prefer future information of the companies.

The increasing awareness on non-financial information from the stakeholders has encouraged the companies to expand their sustainability programs (Lodia & Hess, 2014). Sustainability includes environmental, social, sustainable development and governance issues that provide the stakeholders with more understanding on corporate performance.

Sustainability in the context of a company refers to how the company operates to meet the current needs of their stakeholders without compromising their ability to meet the needs of future generations. The companies also need to consider the impact that they have on the economic life of the community in the environment that they are operating. Therefore, sustainability reporting provides information on the natural resources, employees, and the community of the companies. According to Oprisor (2015), the number of companies that provide formal sustainability reporting has increased over the years.

Integrated reporting derives from sustainability information as a result of a financial and non-financial performance at all levels. The novelty of integrated reporting results from a commitment to the environmental and social recognition, as information on sustainability and Corporate Social Responsibility (CSR) are integrated in the annual report. This trend is supported by the Integrated Reporting Council (IIRC) that develop a globally-accepted integrated reporting framework with three objectives namely, provision of external drivers, explanation on resources and interaction of organisation on external environment and capitals to create value in short, medium and long term period. However, the adoption of integrated reporting is only voluntary disclosure. Voluntary disclosure is voluntary in nature that aims to improve the transparency and accountability to the stakeholders (Ho & Wong, 2003). Arguably, companies that are involved directly with the environment such as the property companies would be committed to practice integrated reporting.

Previous studies have shown that although the property industry plays an important role in contributing to the country's growth, these studies highlighted this industry as the main contributor to the global environmental problem compared to other industries as it generates a lot of pollutants including noise, air, solid waste, and water (Stibbe & Voigtlander, 2014). This signifies the imbalance contributions to the economy and pollution of the country (Razali, 2015). Thus, the concept of integrated reporting needs to be enforced in the property industry as well as introducing the integration between financial and non-financial information so that they can provide assurance on their transparency of reporting and accountability not only to their stakeholders but also to the country as a whole. Integrated reporting provides them the ability to link and balance the activities and assist them in sustaining in the business.

A large body of the accounting literature has examined voluntary disclosure of information in the annual reports of the companies (Sarikas, Vu & Djatej, 2009; Binh, 2012). Most of these studies conducted their research in developed countries although there are few studies that have used developing countries as their study setting (Sarikas et al., 2009; Binh, 2012). Studies that have examined voluntary disclosure practices have often used two levels of measurement. The first measurement is of the actual disclosure and distributional of sectional disclosure (Ahmed & Courtis, 1999) and the second measurement is the item to item comparison (McNally, Eng & Hasseldine, 1982; Wallace, 1988). There are studies that combined both measurements (Karim, 1995). Other studies have used a disclosure index to examine the extent of reporting disclosure among public listed companies (Buzby, 1974).

Recent studies have extended the voluntary disclosure literature to include integrated reporting (Abeysekera, 2013; Steyn, 2014; Lee & Yeo, 2015). These studies have identified several benefits of integrated reporting such as facilitating achievement of a more holistic reporting that reports the interaction and implication of financial, social, environmental, and governance-related organisational activities for the stakeholders. It also provides the full picture of the companies' ability to create and sustain value. Despite the many benefits of integrated reporting, it also provides challenges in implementing integrated reporting. The challenges include lack of consensus on the standards and assurance methodologies, poor

understanding of the relationship between financial and non-financial performance, and lack of adequate regulations for effective presentation of integrated reporting (Krzus, 2011). In addition, to this date, there is still an unclear picture on the level of integrated reporting practices (Graham, 2014), particularly in Malaysia. In addition, since the property companies have a direct link to sustainability development, it would be interested to examine their level of integrated reporting practices. Therefore, the following research question is developed:

***RQ₁:** What is the adoption level of integrated reporting practices among the property companies in Malaysia?*

Studies examining the factors influencing voluntary disclosure have also examined the factors influencing voluntary disclosure practices (Uyar, Kilic & Bayyurt, 2013; Ghasempour & Atef, 2014; Mutakkin, Khan & Azim, 2015). One of the factors is company size. Most of these studies found that the company size influences the extent of voluntary disclosure practices among the companies (Lan, Wang & Zhang, 2013; Ghasempour & Atef, 2014; Albitar, 2015). That is, the managers of larger companies are likely to realise the possible benefits of better disclosure while smaller companies are more likely to feel that full disclosure of information would endanger their competitive position. Lee and Yeo (2015) extended the voluntary disclosure studies to integrated reporting by examining the link between company size and integrated reporting among the public listed companies in South Africa. They found company size influences the companies to practice integrated reporting. Their results showed that larger companies tend to provide integrated reporting compared to smaller companies (Botosan, 1997).

In addition, Inchausti (1997) argued that voluntary disclosure may be used to decrease agency costs, reduce information asymmetries between the companies and the providers of funds and political costs. Furthermore, larger companies faced the higher demand for information from customers, suppliers, analysts, and general public and hence, are pressured to disclose more information. Lee and Yeo (2015) have attempted to extend the voluntary disclosure literature by examining the link between company size and integrated reporting practices. However, apart from Lee and Yeo's study, there is yet a study that examines the link between company size and integrated reporting practices using a Malaysian context, particularly companies in the property industry. Therefore, the first research hypothesis is developed:

***H₁:** There is a positive association between company size and integrated reporting disclosure among the public listed property companies in Malaysia.*

A body of the voluntary disclosure literature has also examined the link between leverage and voluntary disclosure practices among companies. Leverage refers as a company financial structure. It also measures the risks for the company to pay back its obligations. Past studies have shown that companies with high leverage often provide more information as they need to cater the information needs of their creditors. These studies largely used agency theory to explain the association between leverage and voluntary disclosure (Inchausti, 1997; Alsaeed, 2006; Lan et al. 2013). However, these studies provided mixed evidence on the relationship between leverage and level of voluntary disclosure.

Alsaeed (2006) and Lan et al, (2013) claimed that there is a positive association between leverage and voluntary disclosure. Other studies however, found a negative relationship between leverage and voluntary disclosure (Uyar et al., 2013; Albitar, 2015). There are also studies that claimed leverage is not a factor that influences voluntary disclosure (Ghasempour & Atef, 2014; Hieu, Thi, & Lan, 2015). However, the widely held

view remains that companies with a higher degree of leverage suffer serious agency problem and incur a higher agency cost, in an attempt to satisfy the requirement of the creditors for more information and decrease the cost of raising capital, the companies with a high leverage are more likely to disclose more information voluntarily. Therefore, the second research hypothesis is developed:

H₂: There is a positive association between leverage and integrated reporting disclosure among the public listed property companies in Malaysia.

A body of the voluntary disclosure literature has examined the link between profitability and the level of disclosure (Alsaeed, 2006; Hossain & Hammami, 2009; Agyei-mensah, 2012; Uyar et al., 2014). These studies found that company with high profitability will disclose more information to signal positive effects of its performance. That is, when the companies' profitability is high, the management is more willing to disclose detailed information (Inchausti, 1997; Agyei-mensah, 2012). On the other hand, when the companies' profitability is low, the companies would be less inclined to release more information. Arguably, when the companies have high profitability, they would not mind bearing the cost of preparing and disclosing the information. In other words, since the cost of preparing the information is high, companies with high profitability would be able to support the information production cost and has the position to disclose more information. This is consistent with the signalling theory that provided the notion companies with high profitability would disclose more information to signal positive effects of their performance and enhance their value.

The agency theory suggested that managers of larger profitable companies may wish to disclose more information. This is because the companies may want to illustrate their ability to maximise the shareholders' values and increase managerial compensation (Inchausti, 1997). Previous studies have employed different measures of profitability such as the returns on asset and equity which may lead to mixed evidence. For example: Alsaeed (2006) argued that profitability influences the level of voluntary disclosure whilst Agyei-mensah (2012) found that profitability is significantly associated with the extent of disclosure. Unexpectedly, Uyar and Kilic (2014) found no significant relationship between returns on asset and the extent of disclosure. Hossain and Hammami (2009) also found a negative relationship between profitability and the extent of voluntary disclosure. In view of these findings, the third and fourth research hypotheses are developed:

H₃: There is a positive association between returns on asset and level of integrated reporting disclosure among the public listed property companies in Malaysia.

H₄: There is a positive association between returns on equity and level of integrated reporting disclosure among the public listed property companies in Malaysia.

The assessment of companies' liquidity is also an important issue for the stakeholders who rely on the financial statements to gauge solvency. Liquidity refers to the ability of a company in fulfilling its short-term liabilities. The inability of a company in meeting its current obligation indicates a default in payment of interest and principal to its lenders that leads to bankruptcy. The current ratio is often used as a proxy for liquidity (Camfferman & Cooke, 2002). Cooke (1989) argued that companies that enjoy high liquidity would seem to

have good financial position. Therefore, they incline to disclose more information than those suffering from low liquidity.

In line with the signalling theory, companies with high liquidity may have greater incentive to disclose more information to signal their strength to the market. In contrast, Camfferman and Cooke (2002) argued that companies with weak financial position have greater incentive to voluntarily disclose more information in order to mitigate fears in capital market. However, empirical evidence on the relationship between liquidity and level disclosure was not clear. For example: Albitar (2015) found that liquidity has a significant positive relationship between liquidity and the extent of voluntary disclosure. In contrast, Lan et al, (2013) found no significant association between liquidity and the level of voluntary disclosure. This indicates that the expected directional association is unclear. Therefore, the fifth research hypothesis is developed:

H₅: There is a significant association between liquidity and level of integrated reporting disclosure among the public listed property companies in Malaysia.

3. RESEARCH DESIGN

The objective of this study is to examine the integrated reporting practices among the public listed property companies in Malaysia. Specifically, this study examines:

1. The level of integrated reporting disclosure among the public listed property companies in Malaysia.
2. The effects of company structure on integrated reporting disclosure among the public listed property companies in Malaysia. The structure in the context of this study includes company size and leverage.
3. The effects of company performance on integrated reporting disclosure among the public listed property companies in Malaysia. The performance in this study includes returns on asset, return on equity and liquidity.

The objective of this study is achieved by way of content analysis.

3.1 Sample Selection

This study chose the public listed property companies as the sample study because of their strong characteristics. The property investment in Malaysia is increasing and popular among the local and foreign investors (Thim et al., 2012) and hence, has more ability to create value over time and are concerned with the long-term value creations as the output takes of at least five years to complete (Adiana & Abdullah, 2007). In addition, the property companies play a major role in the country's growth (Cajias et al., 2013) but at the same time is the main contributor for pollutants. Therefore, the property companies are more likely to prepare integrated reporting.

There are 81 property companies listed in the Bursa Malaysia as of 31 December, 2015. However, 7 companies are excluded from this study due to the unavailability of their annual reports for three consecutive years. The final sample comprises of 74 property companies. In total, the sample for this study is 222 annual reports of 74 property companies over a period of 3 years.

3.3 RESEARCH INSTRUMENT

This study used content analysis as the research instrument to examine the nature and level of integrated disclosure. This study performed content analysis on the annual reports of the property companies for three year period from 2013 to 2015. In this study, the self-constructed disclosure index was built based on the literature. The process of disclosure index construction in the majority of studies followed four steps. The first step was preparing a checklist that consists of voluntary disclosure items. This study constructed a checklist that consists of 40 information items classified under eight different categories. This checklist was adapted from Lee and Yeo (2015). The second step was employing content analysis to analyse the actual information in the annual reports, and then comparing them with the prepared checklist. The third step was scoring each company for the number of disclosed and non-disclosed items. This study then adopted the dichotomous procedure as it is a common evaluation method where each company-year observation was assigned if items were disclosed and assigned zero if otherwise. The final step was calculating the disclosure index.

For the dependent variable, this study relied on the International Integrated Reporting (IIR) Framework that categorised integrated reporting into eight elements, which are (1) organisation overview and external content, (2) strategy and resources allocation, (3) business model, (4) governance, (5) risk and opportunities (6) performance, (7) outlook, and (8) basis of preparation and presentation. The independent variables consisted of two groups; (1) structure-related variables (company size and leverage) and (2) performance-related variables (returns on asset and equity and liquidity).

3.4 DISCLOSURE INDEX CONSTRUCTION

A disclosure score was constructed as a yardstick to measure the level of disclosure by the property companies. The construction of disclosure score is based on the information that firms supply in their annual financial reports to shareholders. Financial reports serve as a widely accepted proxy for the level of voluntary disclosure provided by companies. This study adopted the Integrated Reporting Score (IRSCORE) developed by Lee and Yeo (2015) which was based on the integrated information provided by the companies in their annual reports. Lee and Yeo developed the IRSCORE as an equal-weighted score based on the eight major content elements identified by the IIR framework.

Each major content element consists of 5 questions, making a total of 40 questions over 8 elements. Each question is provided a score ranging from 0 as 'non-compliance' with IR framework to 5 as 'strong compliance' with IR Framework. If a company has no or little information on a question in an element in the annual report, then the question would obtain a score of 0. On the other hand, if information related to a question of an element is extensive, then the question would have a score of 5. Therefore, based on the scoring procedures, the minimum IRSCORE would be 0 (40 questions x score of '0') and the maximum IR score would be 200 (40 questions x score of '5'). In other words, if a company scores '5' for all the questions in all elements, then the company has a total score of 200. Likewise, if a company does not provide any information related to integrated reporting in all the questions in all elements, then the company would have a score of 0. A high score of the accumulated questions for all elements indicates that the companies have disclosed more integrated reporting information in their annual reports which is in line with the IR framework and guiding principles.

3.5 DATA MEASUREMENT AND ANALYSES

Before the data analysis was performed, the data for company size were coded based on the total assets owned by the property companies. Subsequently, the companies were divided into 3 categories namely '1' for companies that owned total assets of not more than

RM10,000,000; '2' for companies that have total assets between 10,000,001 to RM100,000,000, and '3' for companies that have total assets of between 100,000,001 to RM1,000,000,000.

For leverage, consistent with the previous studies, debt ratios were used as a proxy to measure financial leverage in this study (Uyar et al., 2013; Albitar, 2015). Leverage measures how much the companies make borrowings or obtain external financing to generate business. This study used total debt divided by total asset was used to measure debt ratio.

This study used return on asset and return on equity as the measurements for profitability. These measurements were used widely by other studies on the ground that profitable companies will provide more voluntary disclosure (Soliman, 2013). The return on asset was measured by net income divided by the total asset whilst the return on equity was measured by the net income divided by the shareholders' equity at year end.

For liquidity, this study used the current ratio as a measurement for liquidity where the current asset was divided by the current liability. This measurement was used widely by other studies on the grounds that the companies with high liquidity will provide more voluntary disclosure in their annual reports compared to companies suffering low liquidity (Hieu, Thi & Lan, 2015; Alsaeed, 2016).

For the level of integrated reporting practices, the total score of the integrated reporting information was coded into 5 categories. The first category represents the companies that have a score of 0 to 39 and were coded as '1' to represent non-compliance. The second category is for companies that have a score of 40 to 89 and were coded as '2' to represent very low compliance. This is followed by '3' to represent moderate compliance on the integrated reporting practices of the companies and '4' as strong compliance on the integrated reporting practices of the companies. The last category is very strong compliance of integrated reporting practices of the companies and this was coded as '5'. The data were then analysed using Statistical Package for Social Sciences (*SPSS, version 23*).

4. RESULTS AND DISCUSSION

4.1 Level of Integrated Reporting

This section presents the descriptive statistics on the level of integrated reporting practices among the property companies. Table 1 presents the level of the integrated reporting disclosure for 222 property companies listed in Malaysia for the year 2013 to 2015. From Table 1, it shows that for the year 2013, the level of integrated reporting from 1 to 11 is 45.94%. The result also shows that the highest disclosure represented by 51% is the level from 11 to 20 score representing 38 property companies. Only 3% of the property companies obtained score from 21 to 30. However, none of the companies attained score of more than 30. Such results indicate that the integrated reporting practices among the property companies are still very low.

Table 1: Level of Integrated Reporting Disclosure

level /year	2013		2014		2015	
Level of reporting disclosure	Frequency	%	Frequency	%	Frequency	%
01-11	34	46%	34	46%	28	38%

11-20	38	51%	36	48%	40	54%
21-30	2	3%	4	6%	6	8%
31-40	0	0%	0	0%	0	0%
TOTAL	74	100%	74	100%	74	100%

n=222

For the year 2014, the highest disclosure is 48% that gained the level from 11 to 20 score. The result shows that 36 property companies disclosed the integrated reporting information in their annual reports. The level of integrated reporting from 1 to 11 is 38% representing 34 companies disclosed integrated information at this level. Only 6% is represented by 4 property companies which attained score from 21 to 30. No property companies have attained the total score of 31 to 40.

Compared to the year 2015, the highest disclosure is 54% that scored the level from 11 to 20 score. The results show that 40 property companies disclosed integrated reporting information in their annual reports. The level of integrated reporting from 1 to 11 is 38% which shows 28 property companies disclosed integrated information at this level. This indicates a decrease compared to the years 2013 and 2014. During these years, an increasing level of integrated reporting for level 21-30 is observed, where 6 property companies obtained scores from this level, an increased when compared to year 2014. However, no property companies attained the total scores of 31 to 40. This indicates that there is an increasing trend from 2013 to 2015 towards level 21 to 30 even if it is just a 2% increase.

The results in this study answer the research question in this study that posed ‘What is the adoption level of integrated reporting practices among the property companies in Malaysia?’ This study indicates that the property industry had a lower score on the level of integrated reporting disclose in the annual reports. This can be attributed by the fact that integrated reporting is still relatively low in Malaysian which could be attributed by lack of guidance and experience. However, this study proves that the property companies are aware of the responsibility to disclose integrated. The results in this study support the findings by Said, Omar, and Abdullah (2016) that examined the level of environmental disclosure made by Malaysian public listed companies. Their results showed that even though the level of environmental disclosure among companies has increased, it is still remained low.

4.2 Company Characteristics

Table 2 presents the integrated reporting score over the total score of 40 varied between nine (minimum score) and 26 (maximum score). The mean score for the integrated score is 17.76 with standard deviation of 7.512. The mean score of the company size is RM 301,293,331.49 with a standard deviation of RM 51,258,605.76. This shows that there is a moderate variation in the sizes across the property companies. The mean score of the leverage is 16.21% with a standard deviation of 31.41%, an indication that the sample of property industry in this study is highly geared. The mean score of returns on equity is 16.21% while the standard deviation is 31.41%. It can be said that the property companies can pay their investors with high returns. The mean score for return on asset is 6.1 % and the standard deviation is 9.99%, indicating that the industry has low return on asset as compared

to the return on equity. The liquidity shows that the property companies have 28.29% ability to liquid their assets.

Table 2: Company Characteristics

Statistics	Integrated reporting score	Company size (RM)	Leverage (%)	Return on asset (%)	Returns on equity (%)	Liquidity (%)
Mean	17.76	301,293,331.49	0.612003	0.060089	16.209	28.2866
Median	15.00	2667023.00	0.896900	0.041600	12.140	2.4400
Std. Deviation	70.512	51258605.764	3.2247087	0.0997253	31.4179	282.83391
Minimum	9	110925	-31.6542	-0.2940	-78.4	.05
Maximum	26	25,986,220.42	11.0274	1.0381	131.1	38.91

4.3 Company Characteristics and Integrated Reporting Score

This section explains the relationship between company characteristics and integrated reporting score. Table 3 presents the summary statistics of correlation analysis between integrated reporting score and company characteristics. Table 3 shows that the integrated reporting score and company size is positive but lowly correlated ($r=0.305$; $p<0.01$). Such result indicates that to a certain extent, an increase in the integrated reporting score is associated with an increase in the company size and vice versa. The integrated reporting score and leverage is negatively and minimally correlated ($r= -0.176$; $p<0.05$). Such result indicates that to a certain extent, an increase in integrated reporting score is associated with a decrease in leverage and vice versa. This indicates that when the leverage is low, the property companies will disclose more information to the public. The results also show that there is no significant correlation between integrated reporting score and return on equity ($p>0.05$). That is, on average, there is no relationship between integrated reporting score and return on equity. In addition, there is no significant correlation between Integrated Reporting Score and returns on asset ($p>0.05$). That is on average, there is no relationship between integrated reporting score and returns on asset.

Table 3: Company Characteristics and Integrated Reporting Score

Variable	Integrated Reporting Score	
	Spearman Coefficient of Correlation (r)	p -value
Company size	0.305	0.000*
Leverage	-0.176	0.032*
Return on Equity	0.040	0.586
Return on Asset	0.138	0.058
Liquidity	0.061	0.407

** Significant at 0.01

*Significant at 0.05

Finally, the results showed that there is no significant correlation between integrated reporting score and liquidity ($p > 0.05$). That is, on average, there is no relationship between integrated reporting score and liquidity. The analyses of Spearman Coefficient Correlations indicate that integrated reporting and company size is positively significant at 0.01 but minimally correlated between the two variables. The result also shows that the integrated reporting score and leverage is significant but minimal correlation at 0.05 between them. The other variables consisting of return on asset, return on equity and liquidity show no correlation with integrated reporting scores. Such results indicate that company characteristics referring to the company size and leverage of property companies in Malaysia correlate with integrated reporting disclosure. The findings in this study are supported by previous studies that found company size is highly correlated with voluntary disclosure (Lan et al., 2013; Ghasempour & Atef, 2014; Albitar, 2015).

4.4 Factors affecting Integrated Reporting Disclosure Score

The multiple regression analysis was used to determine whether there is an influence of company-specific characteristics (independent variables) on the extent of integrated reporting disclosure scores (dependent variable). A regression equation was estimated with integrated reporting score as the dependent variable and company size, leverage, return on equity, returns on asset and liquidity as the independent variables. Table 4 presents the summary statistics of the estimated regression equation.

Table 4: Estimated Regression Equation

Variable	Coefficient	<i>t</i> -value	<i>p</i> -value
1. Company Size	1.792	2.627	0.010*
2. Leverage	3.131	0.893	0.373
3. Return on Equity	0.802	0.482	0.631
4. Return on Asset	1.080	0.458	0.648
5. Liquidity	0.569	0.384	0.701
F		5.850	0.000**
R ²		0.215	

** Significant at 0.01

*Significant at 0.05

From Table 4, the regression equation is statistically significant at 0.01 ($p < 0.01$), implying that there is an association between integrated reporting score and all of the independent variables. However, the R-square value is 0.215 indicates that the five independent variables as a whole accounted for 22% of the variation in the dependent variable (integrated reporting score). That is, the effects of company size, leverage, return on equity, return on asset and liquidity on integrated reporting disclosure is moderate. The results indicate that there are other variables that exerted much more influence on the integrated reporting score.

Under the company characteristics, there are two research hypotheses. H_1 states that there is an association between company size and integrated reporting score among the public listed property companies in Malaysia. The coefficient of company size is (1.792) indicating that when the size of a company increases, the integrated reporting score is also likely to increase and vice versa. In contrast, H_2 states there is a positive relationship between leverage and integrated reporting score among the public listed property companies in Malaysia. However, this hypothesis is rejected since the result shows leverage is not significantly associated with integrated reporting. As shown in Table 4, only regression coefficient of company size is statistically significant at 0.00 ($p < 0.05$). Therefore H_1 is supported as it indicates company size has a significant positive association with integrated reporting score. On the other hand, H_2 is rejected as the result shows there is no significant association between leverage and integrated reporting score.

Under the company performance, there are three research hypotheses. H_3 states that there is a positive association between returns on asset and level of integrated reporting disclosure among the public listed property companies in Malaysia, H_4 states that there is a positive association between returns on equity and level of integrated reporting disclosure among the public listed property companies in Malaysia and H_5 states that there is a positive association between returns on equity and level of integrated reporting disclosure among the public listed property companies in Malaysia. From the regression results, this study concludes that company performance variables in this study have no significant association with integrated reporting. Therefore, H_3 , H_4 and H_5 are rejected.

5. CONCLUSION

This study examines the level of integrated reporting disclosure among the public listed property companies in Malaysia. This study also examines whether size, leverage, profitability and liquidity influence the companies to practice integrated reporting. This study shows that the mean value of integrated reporting disclosure in property companies is 55%, reflecting a low to moderate level of disclosure. This study also shows that company size measured by the total asset is the most powerful explanatory variable when related to integration reporting. In contrast, leverage, returns on asset, return on equity and profitability are not statistically significant to integrated reporting.

This study is not without limitations. First, since this study was conducted solely on public listed property companies, the results should be interpreted cautiously. Findings may not represent the integrated reporting disclosure practices of unlisted property companies and other industries such as manufacturing and construction. Therefore, in future, researchers can increase the sample size by including other industries. Secondly, over time, the quality of disclosure may have improved and the practices may change. For example: Malaysia has implemented integrated reporting among the public listed companies but the process is time consuming. In addition, the public listed companies may also be confused with the other reports such as the sustainability and environmental reporting.

This study has few implications for companies, investors, and regulators. All these parties play an important role in improving the companies' transparency and disclosure practices. Companies may increase integrated reporting information disclosure by being aware of its benefits to the stakeholders and to the companies. Therefore, to influence the extent of disclosure, investors may demand higher disclosure from the companies. The

regulatory body such as the capital market board may also guide the companies by issuing guidelines for proper integrated reporting disclosure practices in the annual reports.

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**TWO WORDS IN ISLAMIC ACCOUNTING RESEARCH; ACCOUNTABILITY
AND SUSTAINABILITY**

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Abstract

Theoretically, Islamic accounting plays a significant role to expose meaning of accountability however; not much of Islamic accounting studies have been well exposed. This paper aims to provide future research direction in the area of Islamic accounting by promoting accountability and sustainability after examining 150 articles published in 38 leading journals. The map portrays the flow of debates from 1986-2017 to answer what has been researched, what are research directions, and what is the level of analysis. The paper finds that the role of Islamic accounting researchers to support the meaning of accountability and sustainability is still insignificant. The finding shows that research on standardization of Islamic accounting and testing the accounting information on the annual reports have become the main research focus with countries under study are Bangladesh, MENA, and Indonesia. Contribution of this research is to help future research capture the role of Islamic accounting in the emergence of Islamic finance.

Keywords: Islamic Accounting, Accountability, Sustainability

1. The role of Islamic accounting; history and presence

Accounting is the most important aspect of business because it collects, processes, analyses and communicates information to the both internal and external users who make their important decisions (Sultana, 2015). Accounting has been getting recognition on its role in development of Islamic finance. Increasing claims on operating Islamic finance products and services leads the formation of Islamic accounting (Lahrash, 2015). Today, accounting which is transformed in form of standards has been very much debatable on which standards that fit to the Islamic finance industry. Accounting as technology has also been proposed to replace the current role of accounting, which is merely to serve the Islamic finance industry. Thus, accounting should become a traffic light for the Islamic finance to develop (Warsono, 2011).

Islamic accounting is an alternative accounting system to replace the conventional accounting system which aims to provide information to clients enabling them to invest to project, operate business according to Islamic law (Yousef, 2004). The need for Islamic accounting is emphasized in the Quran. It has been clearly stated in the following verses: “... *Never get bored with recording it, however small or large, up to its maturity date, for this is seen by Allah closer to justice, more supportive to testimony and more resolving to doubt...*” (QS Al-Baqarah (2): 282). The role of Islamic accounting then questions the term of testimony of accountability as raised in the above verses. There is necessity to perform religious accounting when producing financial reports for the purpose of ensuring the sustainability of Islamic financial institutions. This leads to a research question “To what extent have accountability and sustainability been well discussed in the context of Islamic accounting?”

The paper is organized as follows. Section 2 presents the meaning of accountability and sustainability while Section 3 offers mapping method. Section 4 draws mapping analysis of Islamic Accounting, accountability, and sustainability, followed by Section 5 that wraps discussion and conclusion as well as recommendation for future research.

2. The meaning of accountability and sustainability

Accountability describes internal control of an accounting by management to assist in the efficiency of resources by providing information, either for ex post monitoring of performance or for ex ante decision making by those responsible for making investment decisions (Whittington, 1992). Accountability can be proven through transparency and disclosure as Allah SWT states in the following verse: “*And O my people, give full measure and weight in justice and do not deprive the people of their due and do not commit abuse on the earth, spreading corruption*” (QS Hud (11): 85). In the Quran, accountability is called *hisab*. The word of *hisab* is repeated more than eight times in different verses (Askary and Clarke, 1997). *Hisab* is the root of accounting and in Quran, it is related to one’s obligation to account to God on all matters pertaining to human endeavor for which every Muslim is accountable (Lewis, 2006). Similarly in business, all of stakeholders are accountable for their actions both within and outside their firm. Disclosure is an important aspect of the accountability function of Islamic Finance to its stakeholders (El-Halaby, 2015).

Sustainability on the other hand is associated with social and environmental impact of business (Adam and Gonzalez, 2007). The social and environmental reporting theory was first developed without involving the companies that did not prepare sustainability reporting. Nevertheless, it was found that the process of reporting, the attitude of participants and corporate culture play an important role determining in the extents of disclosure discharged through corporate accountability (Adam, 2002).

By definition, sustainability in accounting related to both present and future generations and it requires that all needs are met. It is common to refer to the needs of the USA for instance, for eco-justice, eco-efficiency and eco-effectiveness (Gray and Bebbington, 2000; Gray, 2006). Sustainability accounting has many perspectives, it is reflected in different names used for the concept, such as accounting and carbon accounting (Bebbington and Gray, 2001; Gray, 2010; De and Van, 2014). Sustainability accounting is also defined by as a process for information collection and communication to support internal decision making to implement corporate sustainability (Burritt and Schaltegger, 2010). Both accounting and sustainability are related and have common objectives. According to Rubenstein (1992 p.506) accounting not only measures consuming resources in producing goods and services for trade but it also preserves wealth created for future use. The later also refers to the meaning of sustainability.

According to Hasan (2006), sustainability implies maintaining the long-run rate of economic growth; achieving inter-generational equity in the use of the natural resources; and restricting as far as possible the increase in pollution for maintaining the present quality of environment. Sustainability in Islam is extension of ensuring inter-generational equity in the distribution of wealth and prosperity, conservation of resources, and substance of the environment (Hasan, 2006; Killawi, 2014).

3. Mapping method

This research aims to prove whether research papers on Islamic Accounting substantially composed the meaning of accountability and sustainability. The scope of this article covers research papers ranked in Academic Journal Guide, Association of Business School (ABS) 2015 version. The guide is specific on business school studies unlike Scopus List or Thomson & Reuters that index and rank papers from various disciplines. The ABS rank journals through six steps such as; 1. Assessing the need of business and management research community; 2. Ranking from 1 – 4*(read: star/s)after consulting at least three out of five international journal listings; 3. Classifying the journals through several reviews; 4.Drawing comprehensive coverage of research; 5. Finalizing process from editors; and 6. Stating justification from editors on the methodology.

The method of this research is first, the authors list down 1-4* journals published in ABS under the “Accounting” heading then search the subject with keywords: “Islamic Accounting.” There are 150 papers from 38 journals that have published papers on Islamic accounting including two Islamic journals (International Journal of Islamic and Middle

Eastern Finance & Management/IJIMEFM and Journal of Islamic Accounting and Business Research/JIABR). Details of the 38 journals are as follow:

1. Journal of Business Finance & Accounting, (JBFA), 3*, 2 Papers
2. Accounting, Auditing & Accountability Journal, (AAAJ) 3*, 2 Papers
3. Accounting and Business Research, (ABR), 3*, 2 Papers
4. Financial Accountability & Management, (FAM), 3*, 2 Paper
5. Abacus, 3*, 4 Papers
6. International Journal of Bank Marketing, (IJBM), 1*, 1 Paper
7. European Accounting Review, (EAR), 3*, 1 Paper,
8. Journal of International Accounting, Auditing & Taxation, (JIAAT), 3*, 5 Papers
9. Journal of Business Ethics, (JBE), 3*, 8 Papers
10. Journal of Management and Governance, (JMG), 1*, 1 Paper
11. International Journal of Theoretical and Applied Finance, (IJTAF), 2*, 1 Paper
12. Asian Review of Accounting, (ARA), 2*, 6 Papers
13. International Journal of Accounting, (IJA), 3*, 1 Paper
14. Managerial Auditing Journal, (MAJ), 2*, 14 Papers
15. Managerial Finance, (MF), 1*, 1 Paper
16. Journal of Accounting and Economics, (JAE), 4*, 1 Paper
17. Accounting Historians Journal, (AHJ), 2*, 1 Paper
18. Research in Accounting Regulation, (RAR), 2*, 3 Papers
19. Advances in International Accounting, (AIA), 2*, 13 Papers
20. Accounting Research Journal, (ARJ), 2*, 9 Papers
21. Journal of Contemporary Accounting & Economics, (JCAE), 2*, 3 Papers
22. Journal of Accounting & Organizational Change, (JAOC), 2*, 1 Paper
23. Journal of Applied Accounting Research, (JAAR), 2*, 7 Papers
24. Accounting Forum, (AF), 3*, 3 Papers
25. Journal of Banking Regulation, (JBR), 2*, 2 Papers
26. Critical Perspectives on Accounting, (CPA), 3*, 4 Papers
27. Journal of Islamic Accounting and Business Research, (JIABR), 1*, 21 Papers
28. International Journal of Auditing, (IJA), 2*, 2 Papers
29. International Journal of Islamic and Middle Eastern Finance and Management, (IJIMEFM) 1*, 11 Papers
30. International Journal of Disclosure and Governance, (IJDG), 2*, 9 Papers
31. Meditari Accountancy Research, (MAR), 1*, 1 Papers
32. Journal of International Financial Management & Accounting, (JIFMA), 2*, 2 Papers
33. Journal of Accounting in Emerging Economies, (JAEE), 2*, 1 Paper
34. Journal of Economic Issues, (JEI), 2*, 1 Paper
35. British Accounting Review, (BAR), 3*, 1 Paper
36. Accounting in Europe, (AE), 2*, 1 Paper
37. Australian Accounting Review, 2*, 1 Paper
38. Social and Environmental Accountability Journal, 1*, 1 Paper

From the above journals, major countries under study are Malaysia, GCC countries, Bahrain and 92 papers focus on accountability issues, while 58 papers focus on sustainability issues. Section 4 elaborates the depth of each study per period of time.

4. Mapping analysis of Islamic Accounting, accountability, and sustainability

This analysis aims to explore how many Islamic accounting studies have given priority to discuss accountability and sustainability issues.

Table 1. Empirical Research of Islamic Accounting (1986-1990)

Yr/ Author : Journal	Country, Sample, Method, Paradigm	Finding
1986, Gambling & Karim ; JBFA	N/a, Literature Review, interpretativism, Sustainability	The traditional Western double-entry based accounting technology is well-suited to an orthodox, positivist society of any kind, and it is proving inadequate for an integrated Islamic world-views.
1989, Karim & Ali ; JBFA	Sudan and Kuwait, Faisal Islamic Bank of Sudan (FIBS) and Kuwait Finance House (KFH). Data 1979-1985, Descriptive Statistic, Interpretivism, Sustainability	This paper attempts to shed light on that important aspect of Islamic banks.
1990a, Karim ; AAAJ	N/a, Literature Review, Critical, Accountability	It is necessary that through joint forces, SSB and external auditors are perceived to be independent to ensure the credibility of financial statements.
1990b, Karim ; ABR	N/a, Literature Review, Interpretivism, Accountability	The fear of Islamic banks of possible future intervention by their regulatory agencies in their current accounting practices seems to be the predominant factor that has motivated Islamic banks to establish a standard setting body to regulate their financial accounting and reporting.

The first paper categorized under “Islamic accounting” found in the journal was written in 1986. The two words: accountability and sustainability are not directly termed in the papers within this period although the finding shows that the authors impliedly state the meaning of the two words.

Table 2 Empirical Research of Islamic Accounting (1990-2000)

Yr/ Author : Journal	Country, Sample, Method, Paradigm	Finding
1993, Gambling, Jones, & Karim, FAM	N/a, Literature Review, Interpretivism, Sustainability	The common feature of accounting for charities, Islamic banks, and governments, is the absence of agreement over the inherent moral justification of their financial activities, thus requires assurance.
1993, Hamid, Craig And Clarke, Abacus	N/a, Literature Review, Interpretivism, Sustainability	Its potential for influencing accounting policy is illustrative of religion as a confounding element in the analysis of national idiosyncrasies in accounting practice and in deconstructing the impediments to international harmonization.
1995, Karim, ABR	N/a, Literature Review, Interpretivism, Sustainability	The ambiguities that may arise from different interpretations of the religious rules will require resolutions primarily by reference to religious rather than accounting authority.
1996, Karim, IJBM	N/a, Literature Review, Interpretivism, Accountability	It develops four possible scenarios for the treatment of profit sharing accounts.
1996, Cooke & Cürük, EAR	N/a, Turkey, Literature Review, Interpretivism, Accountability	The results of the empirical part of this paper show that, except for three requirements stated in IAS 17, all the principles set out in that standard are acceptable to accountants in Turkey.
1997, Pomeranz, JIAAT	N/a, Literature Review, Critical, Sustainability	Increased communication between the West and the nations of Islam will help mankind to follow the ethical and moral precepts of the revealed religions.
1997, Zaid ; JBE	Australia, 303 Accountant and auditor,	The examination revealed the lack of such general agreement and further indicated that the perceptual differences are subjective in nature and not influenced by the participant's qualifications, income,

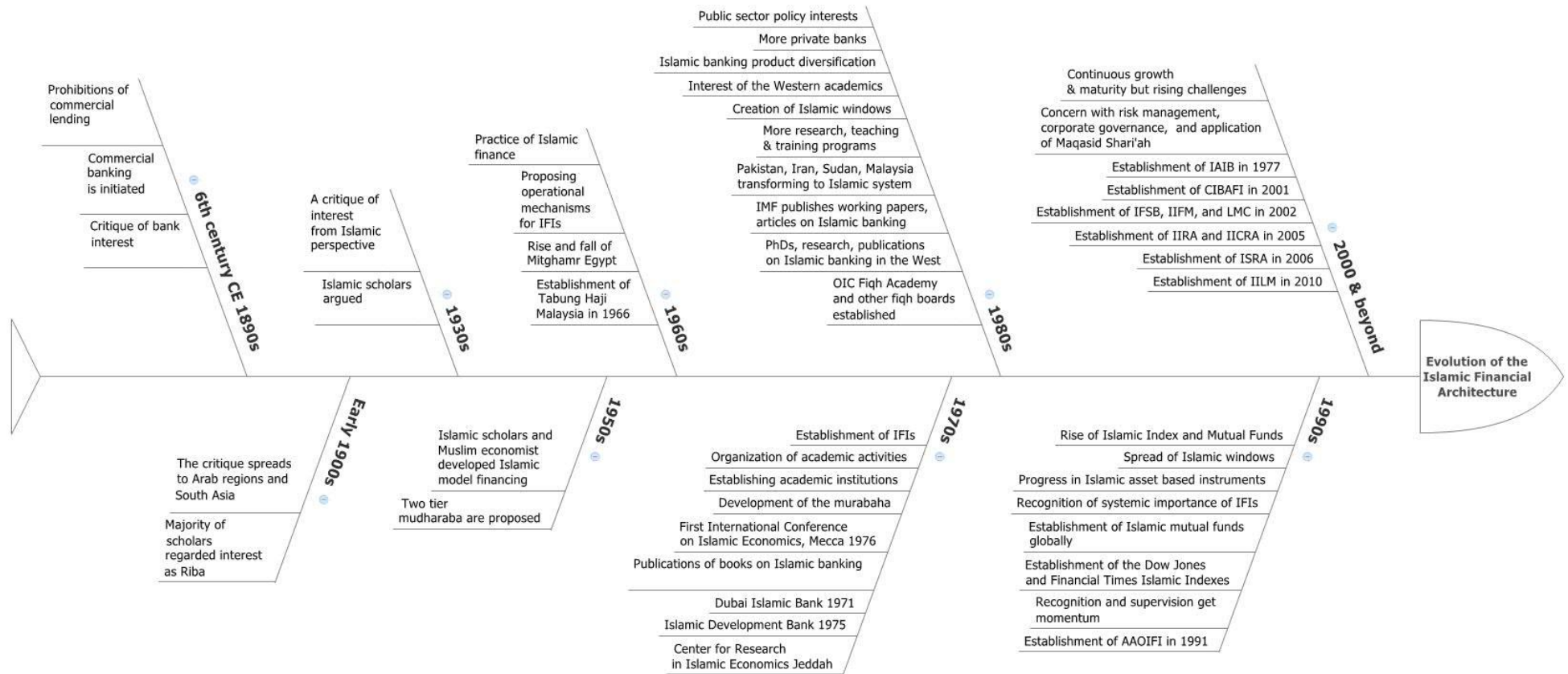
	Observation, Poststructuralism, Sustainability	experience, gender or marital status.
1998, Archer, Karim, & Al-Deehani ; JMG	N/a, Literature Review, Interpretivism, Accountability	Three main ways to mitigate deficiencies in IAH governance; reduce Islamic Banks' discretion to manage IAH's return; increase monitoring; generalization of hostage posting.
1998, Rahman and Goddard ; FAM	N/a, 12 Islamic banks, Observation, Poststructuralism, Sustainability	The emergent theoretical perspective stage is an important but far from terminal stage. More theorizing and testing is required both within the organizations studied in this research and in new case studies before a grounded theory can be proposed.
1999, Al-Deehani, Karim, & Murinde ; IJTAF	N/a, Bahrain, 52 accountants, Interview, Poststructuralism, Accountability	It provides new dimension to the theory of capital structure.
1999, Joshi & Al-Basteki; ARA	N/a, Malaysia, Literature Review, Interpretivism, Accountability	It is found that the need for compliance with IASs will better enhance users' understanding of accounting concepts and financial statements.
2000, Iskandar, Pourjalali ; ARA	N/a, Literature Review, Critical, Accountability	The development of IAS continues to help the advancement of accounting practices in Malaysia as the MASB continues to support and adapt the IASs.
2000, Baydoun And Willett ; Abacus	N/a, Literature Review, Interpretivism, Accountability	The specific recommendations are that ICRs should contain a value-added statement as the focus of performance of the accounting entity and a current value balance sheet in addition to the historic cost balance sheet. It is argued that ICRs, extended in this way, would better serve the needs of users wishing to act in accordance with the Islamic code.
2000, Naughton and Naughton ; JBE	N/a, Literature Review, Interpretivism,	The use of stock index and equity futures and options are also unlikely to be acceptable within an Islamic market.

Accountability

Regulatory authorities in Muslim countries will therefore find a vast array of problems in attempting to structure a trading system that will be acceptable.

Period from 1990 to 2000 was considered as the emerging development of Islamic finance that was noted with the establishment of several Islamic financial institutions. The following figure explains the development of the institutions from the first period of introducing Islamic finance in the 6th century however this section focuses on the meaning of accountability and sustainability that have been discussed during this decade.

Figure 1: Evolution of the International Islamic Financial Architecture



Adapted from Ali (2000).

Figure 1 depicts the key events in the evolution of the International Islamic Financial Architecture (IIFA) over time⁴¹. The development of IIFA can be traced to as far back as the 6th century, during which the fundamental principles of Islamic finance such as strict prohibition of usury (*riba*), were established through Qur’anic revelations and the traditions (i.e., *hadith*) of Prophet Muhammad (peace be upon him). By the end of the 19th century, however, much of the Muslim world had become subject to Western colonial powers, who introduced commercial banking into the local economy. This had been met with strong criticisms by Muslim scholars during the 1900s-1930s who considered lending with interest as a form of usury that goes against the Islamic principles. Discontents that grew rapidly within the Muslim world in the 1950s and 1960s had then become the impetus for the development of a modern framework for Islamic finance, leading to the establishment of Islamic financial institutions during the 1970s. The creation of the Islamic Development Bank (IDB) in 1975 arguably marked the turning point in the development of IIFA, as it paved the way towards the establishment of various other organizations within the architecture. To date, the IDB has continued to play a central role in supporting the development of Islamic finance.

Rapid growth of the Islamic finance sector since 1990s has created the need for a more resilient supporting architecture in order to deal with issues such as risk management, corporate governance, accountability and sustainability. During the period of 1990 to 2000, the authors tend to discuss the meaning of accountability (8 papers) instead of sustainability (6 papers).

Table 3 Empirical Research of Islamic Accounting (2000-2017)

Yr/ Author : Journal	Country, Sample, Method, Paradigm	Finding
2000, Karim ; IJA	N/a, Literature Review, Critical, Accountability	Islamic banks casts light on the need to develop and implement accounting standards that specifically cater for the unique characteristics of the contracts.
2001, Ataur Rahman Belal ; MAJ	Bangladesh, 30 annual reports, Statistic Descriptive,	in addition to measuring the extent and volume of disclosures by using content analysis, it explores the socio-political and economic context in which these

⁴¹ The term Islamic financial architecture was first introduced in 2000 by the then President of IDB, Dr Ahmad Ali Al-Madani, during his keynote speech at the 5th Harvard University Forum on Islamic Finance. The full text is available in Ali (2000).

	Accountability	disclosures take place.
2002, Haniffa And Cooke ; Abacus	Malaysia, 167 companies that published their annual reports during the year ended 31 December 1995, Regression, Positivism, Accountability	This finding has implications for corporate governance policy formulation by the Malaysian Institute of Corporate Governance (MISG). One cultural factor (proportion of Malay directors on the board) is significantly associated (at the 5 per cent level) with the extent of voluntary disclosure suggesting that governmental focus on culture may solicit a response to secrecy from those who feel threatened.
2003, Harahap ; MF	Indonesia, Bank Muamalat, comparative and analytical, Interpretivism, Accountability	The standard issued by AAOIFI are not binding but can be used as a guideline to be followed by Islamic financial institutions when preparing their financial statements. It is also argued that the BMI annual report places primary emphasis on local regulations and in particular, those decreed by Indonesia's central bank, Bank Indonesia.
2003, Ahmad, Sulaiman, Alwi ; MAJ	N/s, Malaysia, 62 companies in two sectors; industrial products 104 companies) and consumer products 58 companies), questionnaire survey, Poststructuralism, Accountability	The companies in Malaysia appear to use flexible budgets more than those in the UK and New Zealand.
2003, Robin & Wu ; JAE	Hong Kong, Malaysia, Thailand, Singapore, Literature Review, Interpretivism, Accountability	The paper shows their financial reporting quality is not higher than under code law, with quality operationalized as timely recognition of economic income (particularly losses). It is misleading to classify countries by standards, ignoring incentives, as is common in international accounting texts, transparency indexes, and IAS advocacy.
2004, Zaid ; AHJ	Arab World, Literature Review, Interpretivism, Accountability	This paper argues that the accounting systems and recording procedures practiced in Muslim society commenced before the invention of the Arabic numerals in response to religious

		requirements, especially zakat, a mandatory religious levy imposed on Muslims the year 2 H.
2004, Joshi, Amal Wakil ; MAJ	N/a, Bahrain, 30 companies listed on the Bahrain stock exchange, Descriptive Statistic, Positivism, Accountability	ACs do not report their findings to shareholders, but other functions seem to accord with the BRC's recommendations. However, some perceptions of audit firms negate the claims of the companies to comply with BRC recommendations.
2005, Mirshekary & Saudagaran ; IAAT	Iran, 55 bank loan officers, 35 academics, 40 stockbrokers, 40 bank investment officers, 55 institutional investor representatives, 95 auditors, and 180 tax officers, Kruskal–Wallis and Mann–Whitney U tests, Positivism, Accountability	There is a weak level of consensus among bank loan officers, tax officers, and auditor groups about the importance of several information items. The overall results showed that they ranked the income statement, the auditors' report, and the balance sheet as the three most important parts of the annual report (in that order).
2005, Hassan & Christopher ; ARA	N/a, Malaysia, Literature Review, Interpretivism, Sustainability	Being an Islamic organization (by virtue of label attached to and/or the nature of its operations) and/or having Malaysia/Muslim directors leading such Islamic organization have not resulted in better corporate governance practices and disclosure relative to other secular banking institutions that have fewer Malay/Muslims directors.
2005, Shankaraiah and. Rao ; RAR	Oman, 2001–2002 annual reports of 10 top Omani companies, Literature Review, Interpretivism, Accountability	To strengthen accounting standards and improve financial reporting and corporate governance in Oman, the Capital Market Authority in Oman, in consultation with other appropriate professionals and regulatory bodies, should develop some mechanism to limit the scope of alternative methods available by focusing on appropriate disclosures under Oman's domestic conditions to improve the relevance and indigenisation of accounting standards.
2005, Bakar, Rahman, and Rashid ;MAJ	Malaysia, 86 officers of commercial Banks, Survey,	Audit firm size appears to be the most important factor that affects the auditor independence, followed by tenure, competition, audit committee, audit firms providing managerial advisory services

	Poststructuralism, Accountability	and size of audit fee.
2005, Sulaiman, Ahmad, Alwi ; MAJ	Malaysia, 66 companies, Descriptive Statistic, Postivism, Accountability	Despite its various criticisms, the empirical findings suggest that standard costing is still being used by a large majority of firms in Malaysia. Thus, Malaysian companies (both Japanese and local) perceive that the basic principles of standard costing remain sound.
2005, Beekun and Badawi ; JBE	N/a, Literature Review, Interpretivism, Sustainability	The Islamic ethical system is balanced, fair, just, and benevolent, and seeks to respect the rights of both primary and derivative stakeholders without allowing for exploitation, nepotism and other human ills. Islam advocates a tiered, multi-fiduciary stakeholder approach that calibrates what various stakeholders of a business receive in proportion to their inputs.
2006, Rahman & Ali ; MAJ	N/a, Malaysia, 100 top companies, for the period January 2002 to December 2003, Regression, Positivism, Accountability	The study reveals that earnings management is positively related to the size of the board of directors.
2006, Naser, Hussaini, Kwari and Nuseibeh ; AIA	Qatar, Annual reports from 22 listed companies for the year 1999/ 2000, Regression, Postivism, Accountability	The outcome of the study lends partial support to agency theory, political economy theory, legitimacy theory, stakeholder theory as well as the accountability approach.
2006, Auyeung, Dagwell, Ng, Sands ; ARA	Australia, Hong Kong, Malaysia and Singapore, Participants were accounting academics, Observation, Poststructuralism, Sustainability	Results suggest that Australian and Malaysian accounting educators differed significantly in their epistemological beliefs on the source of knowledge as well as the acquisition of knowledge.
2006, Maali, Casson And Napier ; Abacus	N/a, 200 financial institutions around the world offering Islamic banking, disclosure index, Interpretivism,	The results of the analysis also suggest that banks required to pay the Islamic reli-gious tax <i>Zakah</i> provide more social disclosures than banks not subject to <i>Zakah</i> .

Sustainability

2007, Haniffa, Hudaib ; JIAAT	Arab Saudi, 48 respondents, the questionnaire using a Likert scale, Positivism, Sustainability	the 'performance gap' arises from four factors in the environment within which auditing is practiced: licensing policy, recruitment process, the political and legal structure, and dominant societal values.
2007, Perera and Baydoun ; AIA	Indonesia, Literature Review, Interpretivism, Accountability	The possibility that the use of IFRSs in Indonesia might trigger a change from a 'credit-insider' to an 'equity-outsider' financing system should not be ruled out.
2007, Kamla, AIA	Middle East, Literature Review, Critical, Accountability	Pursuing a critical and postcolonial perspective that is sensitive to the context of the AME, it is concluded that social accounting manifestations in the AME are largely orientated towards 'repressive /counter radical' positions of accounting.
2007, Waha, How and Verhoeven ; JCAE	Malaysia, 440 firms from 1999 to 2002, Panel data, Positivism, Accountability	The implementation of MCCG has had a substantial effect on shareholders' wealth, increasing stock prices by an average of about 4.8%. Although there is no evidence that politically connected firms perform better, political connections do have a significantly negative effect on corporate governance, which is mitigated by institutional ownership.
2007, Ali and Ahmed ; RAR	South Asia, Literature Review, Interpretivism, Accountability	The paper concludes that the prevailing similarities in political, legal, economic, business ownership, accounting profession, culture and institutional structures in the three countries should have facilitated regional accounting harmonization.
2007, Haniffa and Hudaib ; JBE	The Arabian Gulf region, 24 annual reports for the years 2002-2004, content analys, Interpretivism, Sustainability	The study finds the largest incongruence to be related to four dimensions: commitments to society; disclosure of corporate vision and mission; contribution to and management of zakah, charity and benevolent loans; and information regarding top management.
2008, Hassan ; JAOC	Egypt, 12 individuals, Interview,	The paper finds that the EFAR have had a constitutive tendency during the Egyptian

	Poststructuralism, Accountability	transformation towards a market-based economy.
2008, Mashayekhi and Azaz ; JCAE	Iran, companies listed in the Tehran Stock Exchange (TSE) for the years 2005-2006, Regression, Positivism, Accountability	There is no relationship between leadership structure and firm performance. Likewise, the presence of institutional investors on the board of directors is not positively associated with firm Performance.
2008, Dey, Grinyer, Sinclair, El-Habashy ; JAAR	Egypt, 320 firms, multivariate analysis, Positivism, Accountability	The evidence of the study is consistent with the validity of the conventional 'bonus' and 'debt' hypotheses and the new 'taxation' hypothesis. These conclusions are also consistent with recent empirical studies of cultural and socio-economic change in Egypt.
2008, Joshi, Bremser , and Ajmi ; AIA	Bahrain, 52 listed companies, Survey, Poststructuralism, Accountability	The survey findings suggest that there will be a growing demand for detailed application guidance for IFRS. Also, it appears that nationalism may well continue to be a major impediment to global adoption of IFRS.
2008, Irvine ; AF	UAE, Literature Review, Interpretivism, Accountability	this paper identifies some of the global coercive, normative and mimetic pressures which have contributed to this widespread adoption. The challenge for emerging economies such as that of the UAE is whether the reality of IFRS implementation can match the image of IFRS adoption.
2009, Ariffin, Archer, &Karim ; JBR	14 different countries, including Malaysia, Sudan, Bangladesh, Pakistan and Middle East countries, 28 Islamic banks, a questionnaire survey, Poststructuralism, Accountability	The findings show policy implications for the issue of transparency, with particular reference to risk reporting in Islamic banks.
2009, Archer &Karim ; JBR	Middle East, Asia, Jordan, Malaysia, Qatar and Bahrain, Literature Review, Interpretivism, Accountability	It explains problems of and offers solution to profit-sharing investment account holders.

2009, Tapanjeh, ; CPA	N/a, Literature Review, Interpretivism, Accountability	the OECD principles have been successfully implemented and considered a very effective tool of corporate governance as compared to Islamic principles of corporate governance.
2009, Joshi, Ajmi, Bremser ; AIA	Bahrain, 87 clients, Survey, Poststructuralism, Accountability	The audit process and evidence problems reported indicate possible audit quality problems faced by audit firms in Bahraini environment when conducting external audits, indicating the need for future research on auditor– client relationships in emerging economies.
2009, Dey, Grinyer, Sinclair, El-Habashy ; JAAR	Egypt, 320 Egyptian firms with the largest net asset, Survey, Poststructuralism, Accountability	The paper finds that technical reasons were frequently given in survey responses from managers. However, the available evidence on the actual depreciation methods used by their firms and industries is in fact more consistent with PAT-based theories of accounting choice than with such alternatives. This suggests that the responses to the survey reflected managers' rationalisations of decisions made for self-interested purposes.
2009, Al-Ajmi ; AIA	Bahrain, 300 credit and financial analysts , Survey, Poststructuralism, Sustainability	Non-audit services were found to affect auditor's independence and hence impair audit quality. Effective audit committee enhances the quality of audit reports. Financial analysts perceive financial statements to be more credible than do credit analysts.
2009, Wahab, Zain, James, Haron ; ARJ	Malaysia, 390 Malaysian firms from 1999 to 2003, Panel Analysis, Positivism, Accountability	Based on a panel analysis of 390 Malaysian firms from 1999 to 2003, a positive relationship between institutional ownership and audit fees is found, although the economic impact is minimal. Further, the authors find that audit fees are higher for politically connected firms.
2009, Al-Ajmi ; MAJ	Bahrain, 800 individual investors, Survey, Positivism, Accountability	The study found that individual investors perceived corporate financial statements as the most important source of information for their investment decisions. The results also show a relatively high degree of agreement within the groups (both large and small) as to the ranking in terms of the importance of the topics.
2009, Hossain and Hammami ; AIA	Qatar, 42 Annual reports	The users of financial reporting including

	for the year 2007, Regression, Positivism, Accountability	investors need confidence of financial markets and information disclosure is a vital element to fulfill this confidence and in this case this study would provide a communication bridge to the various stakeholders in the society.
2010, Maali and Napier ; JIABR	Jordan, Literature Review, Interpretivism, Sustainability	The paper shows that creating a new type of organisation – an Islamic bank – in Jordan required special legislation. A study of the development of this legislation reveals that the bank's founder needed to convince both the religious and political authorities and potential investors that the bank would comply with <i>Shari'a</i> principles while at the same time generating profitable business.
2010, Sufian, ; JIABR	Malaysia, 11 domestic window Islamic banks, and four foreign window Islamic banks during the period of 2001-2007, Regression, Positivism, Sustainability	The empirical findings suggest that overhead cost is negatively related to Malaysian Islamic banks' profitability. On the other hand, Islamic banks which are better capitalized and have a higher level of liquidity tend to be more profitable
2010, Archer & Karim ; JIABR	N/a, Literature Review, Interpretivism, Accountability	The characteristics of PSIA can vary from being a deposit like product (fixed return, capital certain, all risks borne by shareholders) to an investment product (variable return, bearing the risk of losses in underlying investments), depending upon the extent to which the balance sheet risks get shifted (“displaced”) from investment account holders to shareholders through various techniques available to Islamic banks' management. Second, the paper finds that this DCR has a major impact on Islamic bank's economic and regulatory capital requirements, asset liability management, and product pricing.
2010 Haniffa & Hudaib ; JIABR	N/a, Literature Review, Interpretivism, Accountability	Islamic accounting research is still at the infancy stage compared to Islamic banking and finance.
2010, Abdullatif and Khadash ; IJA	Jordan, Literature Review, Interpretivism, Accountability	The results of the study show that the business risk approach has been generally adopted by the larger Jordanian audit firms to varying extents, especially those which are full members of an

2010, Vinnicombe ; AIA	N/a, Literature Review, Critical, Accountability	international audit firm network. The findings of the study show compliance to be very high with respect to the governance standard relating to the in-house supervisory boards of Islamic banks, and reporting the Islamic murabaha contract. In contrast, compliance with the AAOIFI's requirements regarding the zakah religious tax and the mudaraba contract is relatively low.
2010, Menassa ; JAAR	Lebanon, annual report social disclosures of 24 Lebanese commercial banks, Correlation, Postivism, Sustainability	The findings provide evidence of the widespread use of this phenomenon by these banks as a means to communicate with their stakeholders. Moreover, results reveal that these banks attribute a greater importance to human resource and product and customers disclosures, whereas the availability and extent of environmental disclosure is still weak.
2010, Hassan & Harahap ; IJIMEFM	Bahrain, Bangladesh, Indonesia, Malaysia, Saudi Arabia, Kuwait, and the United Arab Emirates, annual reports of seven Islamic banks, content analysis, Intepretivism, Sustainability	The results show the overall mean CSR disclosure index of one Islamic bank out of seven to be above average and the issues of CSR are not of major concern for most Islamic banks.
2010, Kamil, Abdullah, Shahimi and Ismail ; IJIMEFM	N/a, Descriptive, analytical, and comparative analyses, Interpretivism, Accountability	The paper reveals that although sukuk are structured in a similar way to conventional asset-backed securities, they can have significantly different underlying structures, provisions and shariah-compliant.
2011, Gallhofer , Haslamb, & Kamla ; CPA	Syria , 10 respondents, Interview, Poststructuralism, Sustainability	The critical understanding of Syrian accountants and their appreciation of the ambiguity of the accounting-globalisation interrelation for Syria, is a particular form of resistance to globalisation's problematics. Concurrently, given the significance of local influences in Syria, it is somewhat surprising that interviewees evidenced so little resistance.
2011, Amin, Rahman, Sondoh Jr,	Malaysia, 150 customers,	The study found three determinants to be

and Hwa ; JIABR	Regression, Positivism, Sustainability	significant in influencing the intention to use Islamic personal financing, namely, attitude, social influence and pricing of Islamic personal financing. Religious obligation and government support were found to be insignificant predictors.
2011, Al-Janadi , Rahman, Normah Omar ; IJDG	Arab Saudi and UAE, Analytical Descriptive, 150 companies, interpretivism, Sustainability	The results indicate that voluntary disclosure has been found lacking for most of the items of social and environmental information. In comparing the results of voluntary disclosure between the two countries, it was found that UAE companies have significantly higher voluntary disclosure than Saudi companies, with an average of around 42 per cent for UAE companies and 32 per cent for Saudi companies.
2011, Haji & Ghazali ; IJDG	Malaysia, companies listed on the Main Market of Bursa Malaysia for the years 2006 and 2009, Wilcoxon signed-ranks test, Positivism, Sustainability	The results reveal that based on the category of information (that is, strategic, financial, CSR), CSR information was the most widely disclosed category following the financial crisis.
2011, Ariff & Fah ; AIA	40 largest banks in the four countries, Australia, Korea, Malaysia and Thailand. The data set spans over eight years across 2000–2007 (before world financial crisis), OLS Regression, Positivism, Sustainability	The investors in Malaysia and South Korea appear to consider changes in fee income as bad news with negative price impact, anomalous to theory. The Australian investors appear to regard both total and fee incomes as equally important whereas investors in other markets either ignore or consider changes in fee income as bad news for share valuation.
2011, Al-Ajmi, Al-Saleh, & Hussain ; AIA	Gulf Cooperation Council (GCC), 105 conventional and Islamic financial institutions, t tests and interview, Positivism, Sustainability	the decisions to select particular capital budgeting techniques, cost of capital estimation methods, and risk assessments are partly related to the characteristics of the chief financial officers.
2011, Aribi & Gao ; MAJ	The Gulf region, the annual reports of 21 fully Shari'a approved IFIs, Content Analysis, Interpretivism, Sustainability	This study provides evidence of Islamic influence on the CSR of IFIs. It finds that the largest part of CSR produced by the IFIs is the disclosure of reports of the Shari'a Supervisory Board. IFIs also disclose other Islamic information (e.g.

		“Zakah” and charity donation, and free interest loan) and report on their compliance with Islam along with information of philanthropy, employees and community.
2012, Atmeh & Ramadan ; JIABR	N/a, Literature Review, Critical, Accountability	The paper finds that presenting UIAHS in a separate category in the financial position statement (balance sheet), without reclassifying the assets in the financial position statement to reflect the assets attributable to UIAHS, suggests undue bias in the financial statements.
2012, <u>Zainol</u> & <u>Kassim</u> ; JIABR	N/a, Literature Review, Critical, Sustainability	One of the major issues highlighted is the sensitivity of Islamic banks to the changes in the conventional interest rate due to the fact that many Islamic banking products are benchmarked against the conventional interest rate. Moreover, the limited techniques and instruments available to mitigate the rate of return risk also need serious attention by the regulators.
2012, Ika and Ghazali ; MAJ	Indonesia, 211 non-financial Indonesian listed companies, Multivariate Regression, Positivism, Accountability	The findings show that timeliness of reporting is associated with audit committee effectiveness. This result suggests that audit committee effectiveness is likely to reduce the financial reporting lead time, i.e. the time taken by companies to publicly release audited financial statements to the stock exchange.
2012, Mohammadrezaei, Banimahd, and Saleh ; IJGD	Iran, Literature Review, Interpretivism, Accountability	Thus, it can be concluded that, first, due to the aforementioned reasons, full adoption of IS by Iran seems very difficult. Second, if Iran fully adopts the standards due to the less-developed infrastructure, there is no guarantee of successful implementation and <i>de facto</i> convergence.
2012, Baydoun, Maguire, Ryan, and Willett ; MAJ	Gulf Countries, Survey data reported by the OECD (2005), Interpretivism, Accountability	Based on the corporate governance measurement scale, Oman is the clear leader among the five countries, followed by Kuwait and the United Arab Emirates. Bahrain and Qatar rank fourth and fifth, respectively.

2012, Al-Saidi and Al-Shammari ; IJDG	Kuwait, Interview, Academic and investor, Poststructuralism, Accountability	The findings suggest that the corporate governance concept is well known, yet current laws are irrelevant; several obstacles need to be addressed to implement corporate governance in Kuwait.
2012, Muniandy and Ali ; RAR	Malaysia, Literature Review, Interpretivism, Sustainability	The conclusion suggests the necessity to improve the quality of financial reporting practices and to build the confidence of stake- holders and potential investors.
2012 , Pellegrina ; ARJ	GCC, conventional and Islamic banks[6] has been extracted from the database Bankscope for the period 2001-2011 , Panel Regression, Positivism, Accountability	Results provide evidence that more capitalized Islamic banks are associated to less risky positions in terms of their asset structure. In particular, the latter exhibit higher liquidity standards and a lower incidence of non-performing loans compared to other banks.
2012, Yunos, Ismail, and Smith ; ARA	Malaysia, 300 Malaysian listed firms between 2001 and 2007, Panel Data Regression, Positivism, Sustainability	The analysis shows that the ethnic groups influence the adoption of conservatism, but that the evidence is mixed, implying that there could be factors other than ethnicity which explained the directors' behaviour.
2012, Cebeci ; ARJ	Literature Review, Critical, Sustainability	Concepts of SR and corporate social responsibility (CSR) are not enough to describe Islamic Banks' responsibilities. Also, this failure cannot be understood only with reference to the "external environment", i.e. competition-driven, capitalistic market conditions; but it is also closely related to the transformation of Islamic finance into an almost exclusively murabaha-based Islamic banking, which promotes more individual maslahah than social maslahah.
2012, Grassa ; ARJ	GCC Countries, Data from 2002-2008 for 42 Islamic banks, Regression, Positivism, Accountability	This article reveals that greater reliance on the income share of the profit-loss-sharing products is associated with higher risk and higher insolvency risk for both listed Islamic banks and non-listed Islamic banks.

2012, Hassan ; IJDG	UAE, the annual reports of 23 UAE financial institutions, Content Analysis, Interpretivism, Sustainability	The article findings show that UAE financial institutions utilize 'assertive' and 'defensive' disclosure tactics to gain, maintain and restore their social legitimacy. The article is one of the first studies to examine how financial institutions, operating in emerging economies, use narrative disclosures to pursue organizational legitimacy.
2013, Kamla and Rammal ; AAAJ	Selected Muslim Countries, annual reports and web sites of 19 Islamic banks, Content Analysis, Critical, Sustainability	The disclosures do not indicate that the banks have serious schemes targeting poverty elimination or enhancing equitable redistribution of wealth in society.
2013, Naim, Isa and Hamid ; JIABR	Content analysis, interviews, observations and descriptive, Interpretivism and Poststructuralism, Accountability	The findings showed that there were negligible changes on the principle term and condition (PTC) of the Sukuk after the pronouncement, thus it did not have much effect in changing the Shariah Advisors and industry players when deciding more authentic principles and decisions.
2013, Taylor ; MAR	South Africa, quasi-experimental, three former studies, Poststructuralism, Sustainability	The results indicate that the business ethics course was indeed effective in increasing the ethical sensitivity of accounting students. Students' demographic characteristics, in terms of accounting specialisation area and years of work experience, did play a role in the extent of their changes in ethical sensitivity. However, gender and previous ethics education as influencing factor in ethical sensitivity was negated.
2013, Noghondari and Foong ; MAJ	Malaysia, 212 Loan Officers, structural equation modelling (SEM), Positivism, Sustainability	The findings indicate that the knowledge/experience factors could significantly mitigate the audit expectation gap. More importantly, the audit expectation gap is found to adversely affect the loan decision quality. The mediating role of the audit expectation gap is also supported.
2013, Al-Saidi, and Al-Shammari ; MAJ	Kuwait, nine listed Kuwait banks over the 2006 to 2010 period, ordinary least squares (OLS) and two-stage-least squares (2SLS), Positivism,	The results provide some evidence that board composition of banks relates to their performance. According to the OLS regression results, only board size and proportion of non-executive directors negatively affect bank performance.

	Sustainability	Meanwhile, the 2SLS results indicate that role duality positively affects a bank's performance while board size affects a bank's performance negatively.
2013, Ismail, Kamarudin, Ziji, and Dunstan ; ARA	Malaysia, 4,010 observations, OLS, Positivism, Accountability	The results show that IFRS adoption is associated with higher quality of reported earnings. It is found that earnings reported during the period after the adoption of IFRS is associated with lower earnings management and higher value relevant.
2013, Johl, Johl, Subramaniam, and Cooper ; MAJ	Malaysia, 620 firms listed, Regression and Interview, Positivism, Accountability	this paper finds although the lower ordered variables board quality and internal audit quality coefficients are negatively related to abnormal accruals, the interaction variable between these two variables is positively associated with abnormal accruals, indicating the possibility of a substitution relationship between board quality and internal audit quality.
2013, Quttainah, Song, and Wu ; JIFMA	Bahrain, Bangladesh, Egypt, Indonesia, Iran, Jordan, Kuwait, Lebanon, Malaysia, Pakistan, Qatar, Saudi Arabia, Sudan, Turkey, and the United Arab Emirates, 84 Islamic banks in 15 countries, Dummy Regression, Positivism, Accountability	First, Islamic banks are less likely to conduct earnings management as measured by both earnings loss avoidance and abnormal loan loss provisions. Second, there are no significantly different earnings management behaviors between Islamic banks with and without Shari'ah Supervisory Boards. Third, several Shari'ah Supervisory Board characteristics, such as size and the presence of members from Auditing Organization for Islamic Financial Institutions, are important determinants of the earnings management of Islamic banks who have Shari'ah Supervisory Boards.
2013, Fooladi, Shukor, Saleh, and Jaffar ; IJDG	Malaysia, 400 companies listed on Bursa Malaysia, Regression, Positivism, Accountability	It is found that high quality audit firms can mitigate the agency problems in firms with divergence between cash flow and control rights.
2013, Hayat, Butter and Kock ; JBE	Muslim Countries, Literature Review, Critical, Accountability	As the financial product become increasingly complex, the credibility of these sharia scholars become ever more

2014, Echchabi, Olorogun, and Azouzi ; JIABR	Tunisia, Hundred Tunisian customers, SEM, Postivism, Sustainability	questinable. the results indicate that the Tunisian customers are willing to adopt Islamic insurance services.
2014, Velayutham ; JIABR	N/a, Literature Review, Intepretivism, Sustainability	It is shown that this belief of incompatibility can be traced to misconceptions about the assumptions underlying conventional accounting. It is then argued that the neglect of Islamic accounting in Islamic countries could be attributed to Islamic accounting not meeting the needs of users rather than acculturation or economic dependency.
2014, Al-Kayed, Zain, and Duasa ; JIABR	N/a, 85 IBs covering banking systems in 19 countries,a two-stage least squares, Positivism, Sustainability	The result is consistent with the signaling theory which predicts that banks expected to have better performance credibly transmit this information through higher capital. Optimal capital structure results of the IBs found a non-monotonic U-shaped relationship between the capital-asset ratio and profitability, supporting the efficiency risk and franchise value hypotheses.
2014, Salihin, Fatima, and Ousama ; JIABR	N/a, Literature Review, Intepretivism, Accountability	The paper found that the TFVO is relevant and applicable in Islamic accounting and auditing and not contradictory to the rules of the Shari'ah. Therefore, the concept is acceptable for use in Islamic accounting. Moreover, based on the several roles played by the TFVO, inthe Islamic context, the practicality of this concept in Islamic accounting provides further justification for itscontinued usage.
2014, El-Firjani, Menacere, and Pegum ; JAEE	Libya, 470 questionnaires, Survey, Poststructuralism, Accountability	This paper found general agreement that the accounting regulation of public corporations and banks is strongly influenced by the Libyan Commercial Code and the Income Tax Law.
2014, Alzeban and Gwilliam ; JIAAT	Arab Saudi, 203 managers and 239 internal auditors, OLS,	Results suggest that management support for IAE drives perceived effectiveness of the internal audit function from both

	Positivism, Sustainability	management's and the internal auditors' perspective.
2014, Muttakin & Khan ; JEI	Bangladesh, 135 manufacturing companies listed, Regression, Positivism, Sustainability	The study finds that CSR disclosure has positive and significant relationships with export-oriented sector, firm size and types of industries.
2014, Ismail ; ARA	Malaysia, 396 Questionnaires, Regression, Positivism, Sustainability	The study discovered a significant impact of ethical ideology on judgments regardless of the legality of the cases. In addition, the study found a significant positive and negative impact of idealism and relativism, respectively, on ethical judgment. Moreover, the study reported that absolutists are stricter whilst situationists are more lenient in making ethical judgments compared to other ideologies.
2014, Mohdali, and Pope ; ARJ	Malaysia, 302 Respondent, Survey, Poststructuralism, Sustainability	Religiosity is found to have a minimal but statistically significant positive impact on voluntary tax compliance. This probably can be explained by the strong religious values held by many Malaysians, as well as the concept of giving which has been emphasised in almost all religions.
2014, Ringim ; IJIMEFM	Nigeria, 385 respondents, PLS, Positivism, Accountability	The results revealed that perception was positively associated with a Muslim account holder's decision to patronize Islamic banking products.
2014, Mulcahy ; IJIMEFM	N/a, Literature Review, Interpretivism, Accountability	Purification is a pivotal element of the Islamic investment process, yet Standard 21 permits a loose interpretation which causes portfolios to be under-purified. Standard 21 also makes no mention of the interest tax shield from debt even though the benefits are at odds with the principles of social justice in Islam.
2014, Suzuki and Uddin ; IJIMEFM	Bangladesh, 16 available banks during the period 2007-2012, Content Analysis, Interpretivism, Accountability	The asset-based financing gives the Bangladeshi Islamic banks relatively higher Islamic bank rent opportunity for protecting their "franchise value" as Shari'ah-compliant lenders, while responding to the periodic volatility in transaction costs of profit-and-loss

2015, Gupta ; IJIMEFM	UAE, Literature Review, Interpretivism, Accountability	sharing. The author has found that the accounting treatment of Ijarah practiced by four UAE Islamic banks, it is clear that all of them are following IAS-17 and not FAS-8 of AAOIFI.
2015, Belal, Abdelsalam & Nizamee ; JBE	Bangladesh, annual reports over a period of 28 years (1983–2010) of Islami Bank Bangladesh Limited's (IBBL hereafter), Interview and content Analysis, Poststructuralism, Accountability	the bank is still failing to provide full disclosure on certain significant categories such as sources and uses of disposable income, thereby contradicting the principles of full and comprehensive disclosure and accountability.
2015, Rosman and Rahman ; JIABR	MENA, Asian, 32 Islamic banks from 16 different countries, Mann-Whitney U test, Positivism, Accountability	a significant difference was found between the Islamic banks in the Middle Eastern and North African (MENA) and Asian countries concerning the practice of both displaced commercial risk and operational risk/Shari'ah non-compliance risk management.
2015, Kamla & Alsoufi ; AF	N/a, Literature Review, Critical, Sustainability	So far, the limited and technical Islamic accounting agenda has ignored issues of poverty and environmental tragedies in the Muslim world and beyond
2015, Abdullah, Perc, and Stewart ; JCAE	Southeast Asian and Gulf Cooperation Council regions, 67 Islamic banks, Regression, Positivism, Accountability	The results inform the global debate on the need for corporate governance reform by Islamic banks by providing insights on the part played by corporate governance mechanisms in encouraging enhanced disclosure in the annual reports of Islamic banks.
2015, Kamla, Gallhofer, and Haslam ; AF	N/a, Literature Review, Interpretivism, Sustainability	In concluding, we point, among other things, to the irony whereby Western transnational corporations have sought to promote their particular brand of corporate social (and environmental) responsibility accounting in Arab countries, variously influenced by Islam, with little to no mention of a notion of accounting for the environment integral to and deeply rooted in Islam.
2015, Sensoy and Guvemli ; BAR	Middle East, Literature Review, Interpretivism,	Risalei Felekiyye is seen as an excellent example of a written doctrine of

	Accountability	accounting book with explanations of an accounting system and advanced level of accounting understanding.
2015, Mukhlisin and Hudaib ; IJIMEFM	Indonesia, 160 respondents, survey, Poststructuralism, Accountability	The respondents differ in their opinion on the possibility of Shariah harmonization, both <i>de jure</i> and <i>de facto</i> . The role of various actors involved in the financial reporting standardization may impede Shariah harmonization to take place.
2016, Rezaei, Saleh, Jaffar and Hassan ; IJA	Iran, the annual reports of firms listed on the TSE between 1999 and 2010, Probit Regression, Positivism, Accountability	The findings suggest that increased competition in the audit market is more likely to decrease the relative bargaining power of auditors and that there is a significant concern regarding audit opinions when both auditee and auditor are state-controlled entities.
2016, Al-Hadi et al ; JIFMA	GCC, logistic regression, 553 firm-year observations over the 2007–2011 period, Positivism, Sustainability	This study finds that MRDs are significantly and negatively associated with both under-investment and over-investment and that this association is more pronounced for larger firms.
2016, Moume, Othman, and Hussainey ; AIA	MENA, 320 listed firms in nine MENA emerging markets (789 observations) over the period from 2007 to 2009, Regression, Positivism, Sustainability	Our findings suggest that the composition of the board and its size enhance the informativeness of risk disclosure as it allows investors to better predict future earnings growth. A further finding is that a CEO/Chairperson duality does not impact the way investors trust risk disclosures.
2016, Mathuva and Kiweu ; AIA	Kenya, 1272 observations for 212 deposit-taking SACCOs in Kenya over the period 2008–2013, OLS, Positivism, Accountability	The results reveal a relatively low level of CSED by deposit-taking SACCOs in Kenya at 29.3%. As a departure from findings in mainstream studies, the study reveals a negative association between CSED and financial performance.
2016, Alotaibi & Hussainey ; IJDG	Saudi Arabia, annual reports of Saudi Arabian firms listed in the Tadawul Stock Exchange over the period 2013–2014, Regression,	The results suggest that Saudi Arabia provides higher levels of disclosure with a lower quality. In addition, the levels of CSR disclosure quantity and quality have different drivers.

Positivism, Sustainability

2016, Alzoubi ; ARJ	Jordan, 86 industrial companies in the period of the years from 2007 to 2010, OLS Regression, Positivism, Accountability	The result produces evidence on the negative association between DQ and EM. The result also evidences the view that as the level of the disclosure is high, the magnitude of the EM reduces and, in turn, increases the financial reporting quality.
2016, Al-Akr, Qader, and Billah ; JIAAT	MENA, Literature Review, Intepretivism, Accountability	We find that while the majority of the region has introduced reforms to the IA function, more needs to be done to (1) insure independence and objectivity; and (2) involve IA in consulting services, particularly with respect to risk management, control and governance.
2016, Tahat, Dunne, Fifiield, and Power ; ARJ	Jordan, 82 Jordanian listed companies, Survey, Poststructuralism, Accountability	The study finds that a larger number of Jordanian listed companies provided a greater level of FI-related information after IFRS 7 was implemented.
2016, Haji ; ARJ	Malaysia, annual reports of 153 rm-year observations across a three-year period (2008-2010), Regression, Positivism, Sustainability	the overall amount of IC disclosures, and in particular human capital information, has a significant positive association with hidden values and, consequently, the market value of the companies.
2016, Gharbi and Khamoussi ; JIABR	GCC, annual Reports of 20 Islamic banks and 40 conventional banks, Regression, Positivism, Sustainability	Empirical evidence shows that there is a significant change in dynamic volatility in GCC banking sector because of financial crisis 2008.
2016, Gundogdu ; JIABR	N/a, Literature Review, Critical, Accountability	The author argues that the ECA export financing structures, or restricted Mudaraba if preferred, with an embedded supplier financing Wakala agreement can pave the way for Islamic FIs to support exporting companies. It is also concluded that development and support of the Takaful industry are vital for the success of Islamic export financing schemes because of its role in risk management.
2016, <u>Al Shattarat</u> & <u>Atmeh</u> ; JFRA	N/a, Literature Review,	The paper proves that implementing the Mudarabah contract by banks imposes

	Critical, Accountability	
		several problems among which are the following: difficulty in the determination of total profit resulting from Mudarabah and in allocating this profit to the multiple parties involved in Mudarabah; usage of reserves to cater against future losses may undermine the concept of Mudarabah profit-loss sharing and lead to earnings management; corporate governance is also a major problem in Mudarabah contract, as the depositors are exposed to risks but have no governance rights; and Mudarabah may also lessen the fair presentation of financial reporting.
2016, Shafii & Rahman ; JIABR	N/a, Literature Review, Intepretivism, Accountability	The paper found that the classification and measurement of equity-based Islamic financial assets do not fit into the “default” classification category of amortised cost, as the future cash flow receivable does not constitute solely the payment of principal and interest (fixed rate payment)
2016, Nainggolan, How, and Verhoeven ; JBE	MENA and GCC, Islamic equity funds (IEFs) from 1984 to 2010, Regression, Positivism, Sustainability	the study finds no such out- performance for other crises or high volatility periods. Based on fund holdings-based data, we provide evidence of a negative curvilinear relation between fund performance and ethical screening intensity, consistent with a return trade-off to being more ethical.
2016, Abdullah ; IJIMEFM	N/a, Literature Review, Intepretivism, Accountability	The research found that in assessing economic substance over legal form, each of the three products involved risk-free transactions and interest.
2016, Platonova, Asutay, Rob Dixon, and Mohammad ; JBE	Bahrain, Saudi Arabia, Qatar, Kuwait and the United Arab Emirates (UAE), 24 fully fledged Islamic banks from five GCC countries, Panel Data Regression, Positivism, Sustainability	the findings show no statistically significant relationship between the individual dimensions of the CSR disclosure index and the current financial performance measure except for ‘mission and vision’ and ‘products and services’.

2017, Atmeh & Maali ; JIABR	N/a, Literature Review, Interpretivism, Sustainability	This ambiguity may hinder the faithful representation of financial statements. The Tabarru contract is used to justify the risk-shifting practices by Islamic banks. The accounting effects of such contracts may result in failure to recognize assets or liabilities in the financial reports, earnings management and incomplete financial information for the users of the financial reports.
2017, Fakhfakh, ; JIABR	Bahrain, Bangladesh, Britain, Malaysia, Pakistan, Kingdom of Saudi Arabia, the Republic of the Sudan, Tunisia, Palestine, Jordan and Oman, 27 auditing reports signed in 2012 and 2013, t-test, Postivism, Accountability	The results show lack of harmonization in several elements related to the form of the auditor's report and in all elements related to the content of the auditor's report among the Islamic banks.
2017, Abdul-Baki & Uthman ; JIABR	N/a, Literature Review, Interpretivism, Sustainability	The paper concludes that despite the unfavorable environment, the social ideals of the Islamic banking system may still be met, to an extent, through investment in microfinance and awqaf.
2017, Nawaz & Haniffa ; JIABR	World, 64 IFIs operating in 18 of three main groupings, namely, Asia, Europe and the Middle-East, Panel Data, Positivism, Sustainability	the results suggest that value creation capability of IFIs is highly influenced by HCE and CEE.
2017, Kamla & Haque ; CPA	N/a, Literature Review, Interpretivism, Accountability	The paper showed that AAOIFI's role in sustaining the accounting-imperialism nexus was mainly performed through providing narrow intellectual challenge to the Anglo-American logic under IAH. Alternatives suggested by AAOIFI were mainly limited to technical notes to the accounts on interest-ban and Zakat calculations.
2017, Garas & Tee ; IJDG	Kuwait, firms listed in Kuwait over the period of 2000–2013, OLS Regression, Positivism, Accountability	This suggests that IFAB-3 is more important for Islamic than conventional institutions. Accordingly, This study conclude that corporate governance guideline (IFAB-3) has improved the corporate governance structure of firms

		listed in the Kuwait stock market. In this context, the study increases the awareness of standard setters, academics, investors, regulators, and many other stakeholders about the effect of IFAB-3 in the region.
2017, Montenegro ; AE	N/a, Literature Review, Intepretivism, Sustainability	It demonstrates that accounting and capitalism have religious roots, and highlights how the four main monotheistic religions viewed and incorporated accounting historically. This book can be used in the Ph.D. curriculum, but I think that it is too challenging to be included in the master-level curriculum.
2017, Mihret, Alshareef, Bazhair ; CPA	Saudi Arabia, Literature Review, Intepretivism, Accountability	Professional closure in accounting takes multiple forms, and is contingent upon the socio-historical context in which it occurs. This study has illustrated that hybridization enables an occupational group to form alliances with the state, and other potentially competing groups to secure entry controls, despite lacking demonstrated capacity as a professional body.
2017, Muttakin, Khan & Mihret ; MAJ	Bangladesh, 917 firm-year observations listed on the Dhaka Stock Exchange from 2005 to 2013, OLS Regression, Positivism, Sustainability	Results showed that the level of discretionary accruals is positively associated with business group affiliation status, and higher audit quality reduces this association. This suggests that in environments without strong investor protection, complex ownership structures create opportunities for controlling shareholders to expropriate minority shareholders.
2017, Juhmani ; JAAR	Bahrain, 44 Bahraini companies, Regression, Positivism, Accountability	The results show that three of the CG mechanisms (i.e. board independence, audit committee independence, and Chief Executive Officer duality) are associated with the level of IFRS disclosure. This suggests that CG mechanisms are effective in the financial reporting practices.
2017, Sellami & Tahari ; JAAR	MENA, 38 Islamic banks with disclosure accounting standards during the 2011-2013 period, Regression, Positivism,	The results show a wide variation in compliance levels among the disclosure accounting standards and reveal that compliance is positively related to the listing status, the existence of an audit committee, the bank's age and the

	Accountability	country of domicile.
2017, Mohammed & Muhammed ; JAAR	Developing Countries, 34 Islamic banks annual financial informations ffrom the year 2007-2010, Panel Data Regression, Positivism, Sustainability	The authors of this paper found that the macroeconomic factors reflected in gross domestic product, gross domestic product growth, and inflation rate have a significant positive relationship with the return on assets.
2017, Al-Htaybat ; AAR	Jordan, Literature Review, Intepretivism, Accountability	The four significant elements that emerge as particularly relevant regarding country and corporation-level adoption of IFRS are re- flected in the four central pillars of the model. These are institutional push and uncertainty at the country level, and corporations' need to pull and ramp up their dis- closure levels and deal with corporate deterrents.
2017, Nurunnabi ; IJDG	Saudi Arabia, Literature Review, Intepretivism, Accountability	The findings are innova- tive and will be helpful to local standard setters (SOCPA), international standard setters (IASB), and preparers and investors. The findings suggest that urgent training is required for the effective implementation of IFRS in Saudi Arabia.
2017, Al-Amri, Al Shidi, Al Busaidi, & Akguc ; JAAR	GCC, 7,960 firm-year observations and 796 distinct firms, Regression, Positivism, Accountability	The paper documents evidence consistent with private and public firms using real earnings management to influence their earnings figures. The paper also shows that the level of real earnings management is higher for private firms compared to public firms when cash flow management and discretionary expenses management models are used.
2017, Perkiss & Tweedie ; SEAJ	N/a, Literature Review, Intepretivism, Sustainability	There are many alternative hypergoods on which social accounting could draw. However, whatever goods and sources one chooses, the critical challenge we identify is the need to articulate and defend hypergoods and moral sources commensurate with the scale of contemporary social and ecological sustainability challenges.
2017, Mukhlisin, ; JIABR	Indonesia, 1* to 4* relevant peer-reviewed journals in the academic	Learning from Indonesian experience, the literature suggests that neo-liberalism is piercing through different parts of

	journal guide 2015, Meta-Analysis, Interpretivism, Accountability	economic and political setting of the country's infrastructural powers leading up to the influence of financial reporting standardization process.
2017, Suandi ; IJIMEFM	Asia, 63 Islamic banks from 15 countries, Literature Review, Interpretivism, Accountability	The results show heterogeneity of classification for PSIA's. Applying the same standards does not lead to the uniform classification of PSIA's when banks apply International Financial Reporting Standards, while financial statements applying Financial Accounting Standards by the Accounting and Auditing Organization for Islamic Financial Institutions are more similar.
2017, Tessema, Garas, & Tee ; IJIMEFM	GCC, 395,670 rm-day observations, OLS Regression, Positivism, Accountability	The findings reveal that information asymmetry among investors is lower after the implementation of IFSB-4 than before, indicating that the standard has increased transparency. The results also reveal that information asymmetry after the implementation of IFSB-4 is lower for Islamic than for conventional financial institutions. This suggests that IFSB-4 promotes more transparency for Islamic than conventional institutions.
2017, Kolsi & Grassa ; IJIMEFM	GCC, 223 rm-year observations and a nine-year period (2004-2012), Regression, Positivism, Accountability	Institutional ownership and bank size have no effect on earnings management through DLLPs (discretionary loan loss provision)

The journals that have published more papers on the meaning of accountability and sustainability are JIABR (21 papers), MAJ (14 papers), AIA (13 papers), and IJIMEFM (11 papers). JIABR focuses on Islamic accounting research thus it published the highest number of papers that discuss the extent and extant meaning of accountability and sustainability. The finding shows that the meaning of accountability has been discussed in 81 papers, higher than the meaning of sustainability that has been discussed in 51 papers during the period. The focus on "accountability" indicates that the Islamic financial institutions are very concerned with the role of Islamic accounting as a medium of accountability to God and society as claimed by the Islamic financial institutions whenever they call themselves as "Islamic".

5. Conclusion and Recommendation for Future Research

This paper aims to address “To what extent have accountability and sustainability been well discussed in the context of Islamic accounting?” and finds the meaning of accountability has been discussed more frequently than the meaning of sustainability. It shows that the understanding and application of accountability is still in the emerging trend as compared to sustainability. Sustainability itself portrays a message that the Islamic financial institutions should maintain its long-run rate of economic growth, measure natural resources are used to support their growth, and at the same time safeguard the environment.

This paper is not for generalization as 150 articles examined in this research are from journals ranked only in ABS ranking. Other journal ranking or index used in similar study may lead to different result. It is therefore recommended that other researchers to adopt different ranking or index to conduct similar study. Different methodology to use content analysis could be one way to improve the methodology of this research.

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Note: 150 references are not included in the reference list for conviniences purposes, data will be supplied by the auhors upon request.



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COUNTRY RISK DETERMINANT ANALYSIS: STUDY CASE OF INDONESIA

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ABSTRACT

In this global economy, investing in a foreign country depend heavily on the country risk level. Using the Euromoney and the Economic Intelligence Unit country risk ratings, we analyze the response of Indonesia country risk to a set of domestic and global macroeconomic factors. Using a panel data analysis, we analyzed the influence of the ratings of these two agencies on a set of locale factors. Those factors are: money supply, inflation rate, Gross Domestic Product (GDP), central bank interest rate, Income tax rate, Government expenditure and Unemployment rate, while the international factors are: Official exchange rate, weighted average inflation of G-20 countries, U.S. dollar price per barrel of crude oil.

INTRODUCTION

While there are several competing risk and return models in finance, they all share some common views about risk. First, they all define risk in terms of variance in actual returns around an expected return; thus, an investment is riskless when actual returns are always equal to the expected return. Second, they all argue that risk has to be measured from the perspective of the marginal investor in an asset, and that this marginal investor is well diversified. Therefore, the argument goes, it is only the risk that an investment adds on to a diversified portfolio that should be measured and compensated.

In fact, it is this view of risk that leads models of risk to break the risk in any investment into two components. There is a firm-specific component that measures risk that relates

only to that investment or to a few investments like it, and a market component that contains risk that affects a large subset or all investments. It is the latter risk that is not diversifiable and should be rewarded.

International investors invest in emerging markets quite differently than they do in developed markets. The international investors perspective on country risk which is often used in conjunction with cross border investments is therefore quite different in developed versus emerging markets. International investors react to both global and local economic conditions while infusing capital in emerging markets when it is hot and offload local currency based holdings when the global and/or local economy slows down. The central banks of these countries get hard-pressed to prop up a large amount of devalued local currency based securities which such outflows leaves behind. This phenomenon is in contrast to the developed markets (like the U.S., United Kingdom, Japan), where investors react mainly to the local economic conditions and are more willing to hold on to the local currency denominated securities even in case of global slowdown.

The country risk for a given economy is the unique risk faced by foreign investors when investing in that country. For developed countries it is convenient to measure country risk by credit ratings. However, more refined measures are needed for emerging markets which are structurally different and where international investors respond dramatically to both local and global factors (Gangemi et al., 2000; Verma and Soydemir, 2006). For example, in case of emerging markets, during slowdown, an increase in the local interest rate which is supposed to entice investors and therefore reduce country risk (commonly seen in developed markets) becomes a double edged sword as it can also take a toll on the economic growth. Such simultaneous positive and negative effects can lead to increase or decrease in country risk.

Harvey (1991) suggested the country beta approach to model country risk. Under this approach the country risk is measured as the conditional sensitivity (or covariance) of country returns to the world stock returns. Accordingly, Harvey and Zhou (1993) estimate country betas for seventeen developed countries conditional on the effect of a weighted world market portfolio. Similarly, Erb et al. (1996b) estimate country betas for twenty-one developed and twenty-six emerging equity markets as a function of country credit risk. Gangemi et al. (2000) estimate Australia's country beta conditional on Australian macroeconomic variables by using a country beta approach. On similar lines Verma and Soydemir (2006) examined country risk of four Latin American countries.

In the light of these theoretical, empirical findings and recent global developments it can be postulated that the modeling of country risk in Asian emerging markets is quite different from those used in developed countries. However, it is important to realize that it would be unfair to lump all emerging markets into one basket. Findings for Latin American may or may not corroborate for Asian markets. Even there exist differences among countries of the same region. Many of the emerging markets have sound macroeconomic, financial, and policy fundamentals; some of the medium-term fundamentals for most emerging markets, including the fragile ones, remain strong: urbanization, industrialization, catchup growth from low per capita income, a demographic dividend, the emergence of a more stable middle class, the rise of a consumer society, and the opportunities for faster output gains once structural reforms are implemented. Therefore, a differentiation is needed while investigating the determinants of country risk in Asian markets.

Indonesia has a well diversified economy with agriculture, mining and financial services all contributing to economic growth. Gross domestic product (GDP) growth is forecasted at 5.2% for 2015 with medium term growth projected in the 5.5 to 6.0% range.

Longer term economic growth will be contingent upon increased investment in infrastructure, human development (particularly in education) and institutional reforms.

Indonesia's economy has grown in recent years, mainly driven by consumer consumption and investment. The main components of the economy include services, agriculture, manufacturing and commodities driven export sector. In spite of improving external balances and foreign exchange reserves, Indonesia's currency, the rupiah, has been among the worst performing Asian currencies over the past 18 months. Inflation has risen slightly due to higher fuel costs, as a result of the fuel subsidy cut, and increased food prices. This has somewhat limited the central bank's ability to reduce interest rates in order to stimulate the economy.

President Widodo took office in October 2014 on a platform committed to pursuing a reform agenda focused on improving the business climate. Indonesia scores below average on the World Bank's 2015 Ease of Doing Business survey; ranking 114th out of 189 countries. The country has targeted the operational and regulatory environments as areas needing improvement. The president's reform programs run the risk of being delayed or not being implemented as a result of not having an independent power base and needing to form a coalition government. While the threats of terrorist's attacks have declined in recent years, there is some concern about the potential for future attacks, as Indonesian militants return from the Syrian conflict. Fuel subsidies, which accounted for approximately 15% of the government's budget, were mostly eliminated in 2015. The government plans on spending the savings on infrastructure and education.

The insurance industry is regulated by the Insurance Bureau, part of the Capital Markets and Financial Institutions Supervisory Agency. Financial sector policies have been aimed at deepening market activity, enhancing oversight and increasing corporate sector resilience. Progress has been made on money laundering and anti- terrorism funding initiatives. The country has improved its capacity of risk assessment and put in place a crisis management framework that includes the Financial System Safety Net Law.

Indonesia has high levels of political and financial system risk with moderate economic risk.

This study extends prior research by which local and global factor, has influence on Indonesia country risk ratings.

LITERATURE REVIEW

There are a variety of factors that potentially influence time varying country risk. Oetzel et al. (2000) suggest that several economic factors impact country risk and therefore, relate country risk to national macroeconomic policies. A sound monetary policy with low inflation and unemployment rates contribute to lowering country risk. When a country's economic conditions become unstable, country risk may increase. They find the currency risk as an important element associated with country risk.

Erb et al. (1996) address the economic content of five different measures of country risk for 117 countries (political, financial, economic, composite risk indexes and country credit ratings) over the period 1984 – 1995. Their results suggest that the country risk measures are correlated with future equity returns. However, a major limitation of their study is the inability to capture the nature of country risk and its potential impact on global investment strategies in emerging markets where risk information may be limited (Gangemi et al. 2000).

Erb et al. (1996) extend this previous analysis and model country risk as a function of country's credit rating over the period 1979 - 1995 for 21 developed and 26 emerging markets. They find those factors that simultaneously influence a country's credit rating are mainly political risk, inflation, exchange rate variability and control, industrial portfolio, economic viability, and sensitivity to global economic shocks.

Abell and Krueger (1989) examine the influence of the U.S. macroeconomic variables on the country beta by allowing it to vary with a set of macroeconomic variables. Specifically, their variable set includes budget deficit, six months commercial paper rate, consumer price index, AAA corporate bond yield, crude oil price index, exchange rate, federal funds rate, M1 money supply, merchandise trade balance, and unemployment rate. Their results show that beta estimates are sensitive to a number of macroeconomic variables.

In a similar analysis Gangemi et al. (2000) investigate a set of economic variables to examine the effect of foreign debt on Australia's country risk. The variable set includes Australia's government net overseas borrowing, 90-day bank accepted bill rate, ten year Treasury bill rate, wool price, trade weighted index, manufacturer's price index, retail trade, balance on current account and Australian money supply. They find that the exchange rates are the only macroeconomic factor that has a significant impact on Australia's country beta.

Following same approach Verma and Soydemir (2006) find that both local and global factors have relatively different impacts on the country risk of Mexico, Brazil, Argentina and Chile. The real interest rates and inflation rates of G-7 countries have a statistically significant negative impact on country beta (the highest effect is on Mexico followed by Brazil and Chile). Among the local factors, money supply and exchange rates have a statistically significant effect on country risk. The effect of money supply is most significant in the case of Mexico followed by Chile and Brazil.

Using a semi-parametric approach, Jeon (2001) explores the influence of macroeconomic influences on country risks for 14 developed countries. The variable set includes the U.S. term premium, the U.S. default premium, trade weighted exchange rate, consumer price index, money market rate and industrial production index. The results suggest that for the majority of countries consumer price index, industrial production index, and exchange rates have a significant impact on country betas.

The previous literature has well documented the impact of macroeconomic variables on betas for developed countries. However, such causal relationships have been little questioned in Asian markets. The set of macroeconomic variables relevant in the context of developed countries might be different than those of emerging markets. This study is an extension of the current literature in that it investigates the postulated relationship between economic forces and country risk in the Asian markets by using the country beta approach. Our choice of macroeconomic variables is based on the studies that deal exclusively with emerging markets equity returns.

Economist Intelligence Unit (EIU):

It publishes quarterly country risk reports with monthly updates. The reports summarize the risk ratings for all 120 key emerging and highly indebted countries that are monitored by the Country Risk Service (CRS). EIU country risk ratings (thereafter EIU ratings) are determined by: Political 22%; economic policy 28%; economic structure 27% and liquidity 23%. EIU country risk score is displayed on a 100 point scale, with 0 indicating very little risk and 100 indicating very high risk.

Euromoney (Eurom):

It provides semi-annual country risk ratings and rankings (thereafter Eurom ratings). Countries are given scores based on nine components: Political risk 25%; economic performance 25%, debt indicators 10%, debt in default or rescheduled 10%, credit ratings 10%, access to bank finance 5%, access to short-term finance 5%, access to capital markets 5%, and discount on forfeiting, 5%. The best underlying value per category achieves the full weighting, while the worst scores zero. All other values are calculated relative to the best and worst scores. The Eurom country risk score is displayed on a 100 point scale, with 100 being nearly devoid of any risk, and 0 being completely exposed to every risk.

Variable Operational:

- **Country risk rating (CR):**

This is the dependent variable, which is measured by creditworthiness and is reported by the two rating agencies. Each agency's rating is considered as a separate dependent variable. However, risk rating may be highly subjective, reflecting external perceptions that do not always capture the actual situation in a country. The explanatory variables are described below.

- **money supply (M1 and M2)**

M1 is a measure of the money supply that includes all physical money, such as coins and currency, as well as demand deposits, checking accounts and Negotiable Order of Withdrawal (NOW) accounts. M1 measures the most liquid components of the money supply, as it contains cash and assets that can quickly be converted to currency. Money is the sum of currency outside banks and demand deposits other than those of central

government. This series, frequently referred to as M1 is a narrower definition of money than M2.

Money and quasi money comprise the sum of currency outside banks, demand deposits other than those of the central government, and the time, savings, and foreign currency deposits of resident sectors other than the central government. This definition is frequently called M2; it corresponds to lines 34 and 35 in the International Monetary Fund's (IMF) International Financial Statistics (IFS). Total reserves comprise holdings of monetary gold, special drawing rights, reserves of IMF members held by the IMF, and holdings of foreign exchange under the control of monetary authorities. The gold component of these reserves is valued at year-end (December 31) London prices.

- **inflation rate (CPI)**

Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.

- **Gross Domestic Product (GDP),**

This variable is used by the World Bank to classify countries and to determine borrowing eligibility. The variable measures the level of development of a country. Countries with low GDP per capita may be less able to solve debt serviced difficulties and hence will be generally less creditworthy. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.

- **interest rate (IR)**

Interest rate spread is the interest rate charged by banks on loans to private sector customers minus the interest rate paid by commercial or similar banks for demand, time, or savings deposits. The terms and conditions attached to these rates differ by country, however, limiting their comparability.

- **Income tax rate (Total Tax Rate (ITR))**

Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded.

- **Government expenditure (GE)**

Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits. Taxes withheld (such as personal income tax) or collected and remitted to tax authorities (such as value added taxes, sales taxes or goods and service taxes) are excluded.

- **Unemployment rate (UR)**

Unemployment refers to the share of the labor force that is without work but available for and seeking employment.

- **Official exchange rate (OER)**

Official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market. It is calculated as an annual average based on monthly averages (local currency units relative to the U.S. dollar).

- **weighted average inflation of G-20 countries (CPIG20)**

The G20 consists of the following economies: Argentina, Australia, Brazil, Canada, People's Republic of China (China), France, Germany, India, Indonesia, Italy, Japan, Republic of Korea (Korea), Mexico, the Russian Federation, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, and the European Union (EU).

The G20 CPI aggregate is calculated as a weighted average of the CPIs of the fifteen countries above that are not part of the European Union (that is, the fifteen individual country members of the G20 other than France, Germany, Italy and the United Kingdom) and the harmonized index of consumer prices (HICP) for the European Union.

- **U.S. dollar price per barrel of crude oil (OIL)**

Crude Oil (petroleum), simple average of three spot prices; Dated Brent, West Texas Intermediate, and the Dubai Fateh, US Dollars per Barrel

MODEL SPECIFICATION

$$CR_t = M1_{t-1} + M2_{t-1} + CPI_{t-1} + GDP_{t-1} + IR_{t-1} + ITR_{t-1} + GE_{t-1} + UR_{t-1} + OER_{t-1} + CPIG20_{t-1} + OIL_{t-1}$$

CR_t	=	<i>Country risk rating at the year t</i>
$M1_{t-1}$	=	<i>money supply M1 t-1</i>
$M2_{t-1}$	=	<i>money supply M2 t-1</i>
CPI_{t-1}	=	<i>Consumer Price Index t-1</i>
GDP_{t-1}	=	<i>Gross Domestic Product t-1</i>

<i>IR t-1</i>	=	<i>interest rate t-1</i>
<i>ITR t-1</i>	=	<i>Income tax rate t-1</i>
<i>GE t-1</i>	=	<i>Government expenditure t-1</i>
<i>UR t-1</i>	=	<i>Unemployment rate t-1</i>
<i>OER t-1</i>	=	<i>Official exchange rate t-1</i>
<i>CPIG20 t-1</i>	=	<i>weighted average inflation of G-20 countries t-1</i>
<i>OIL t-1</i>	=	<i>U.S. dollar price per barrel of crude oil t-1</i>

The research hypothesis will be as follow:

H₀₁: The aggregate money supply M1 of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₂: The aggregate money supply M2 of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₃: The Consumer Price Index of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₄: The Gross Domestic Product of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₅: The interest rate of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₆: The Income tax rate of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₇: The Government expenditure of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₈: The Unemployment rate of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₉: The Official exchange rate of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₁₀: The weighted average inflation of G-20 countries of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₁₁: The U.S. dollar price per barrel of crude oil of the t-1 has significant influence on the Euromoney country risk rating of the year t.

H₀₁₂: The aggregate money supply M1 of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₃: The aggregate money supply M2 of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₄: The Consumer Price Index of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₅: The Gross Domestic Product of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₆: The interest rate of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₇: The Income tax rate of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₈: The Government expenditure of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₁₉: The Unemployment rate of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₂₀: The Official exchange rate of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₂₁: The weighted average inflation of G-20 countries of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

H₀₂₂: The U.S. dollar price per barrel of crude oil of the t-1 has significant influence on the Economic Intelligence Unit country risk rating of the year t.

DATA AND ECONOMETRIC METHODOLOGY

Quantitative research is the numerical representation and manipulation of observations for the purpose of describing and explaining the phenomena that those observations reflect. It is used in a wide variety of natural and social sciences, including physics, biology, psychology, sociology and geology(Wikipedia Encyclopedia, 2005).

In addition, according to Cohen (1980), quantitative research is defined as social research that employs empirical methods and empirical statements.. He states that an empirical statement is defined as a descriptive statement about what “is” the case in the “real world” rather than what “ought” to be the case. Typically, empirical statements are expressed in numerical terms, Another factor in quantitative research is that empirical evaluations are applied. Empirical evaluations are defined as a form that seeks to determine the degree to which a specific program or policy empirically fulfills or does not fulfill a particular standard or norm.

Moreover, Creswell (1994) has given a very concise definition of quantitative research as a type of research that is `explaining phenomena by collecting numerical data that are analyzed using mathematically based methods (in particular statistics).

The estimation model that is going to be used is the *Fixed Effect Model* Panel Estimation model. The data range will be from the year 2010 until 2015.

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**MARKET REACTION TO EARNINGS MANAGEMENT
AND THE ROLE OF AUDIT QUALITY EVIDENCE
FROM INDONESIA**

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ABSTRACT.

This study aims to determine whether the earnings management affects market reaction and whether audit quality moderates the relationship between earnings management and market reactions. The research sample had 115 manufacturing companies that go public in Indonesia Stock Exchange listed in 2013 – 2015 so that the number of samples (n) = 345 observations. Consistent with previous research, differentiation between Big 4 and non-Big 4 audit firms are used as a audit quality proxy and discretionary accruals are used to measure the earnings management. This study uses bootstrap test. The results shows that earnings management affects the market reaction positively. So this indicates if the market still gives a positive reaction to the report that generates profit even though the profit contains earnings management. Other evidence indicates that the interaction between book value equity and audit quality variables will have a significant positive effect on the relationship between earnings management and market reaction, while the interaction between loss after interest before tax and audit quality will negatively affect the relationship between earnings management and market reaction. It can be concluded that audit quality moderates the relationship between earnings management and market reaction when book value and loss after interest before tax is controlled.

Keywords: Earnings Management, Discretionary Accruals, Market Reaction, Audit Quality

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INTRODUCTION

The capital market relies on credible financial accounting information. Good quality financial reporting helps investors to assess the company value. One of the scandals of earnings management is the practice of reporting fraud by giant companies in Europe and America such as Enron, WorldCom, Xerox, and Parmalat has caused serious harm to the world economy so significantly that users of financial statements lose confidence. In late 2001 and early 2002, Enron and World Com announced bankruptcy. Later investigations to Enron and World Com by the Securities and Exchange Commission (SEC) revealed that their bankruptcy is due to earnings management practices (Mostafa, 2017). From that moment on, the earnings management received more attention from practitioners and academics. This raises the spotlight on the importance of financial reporting quality, with particular emphasis on earnings quality. Audited financial statements influence financial capital market and agency relationship by providing information about financial performance for a variety of users (Hatfield *et.al.*, 2008). Thus, these statements must be prepared by the managers in accordance with Generally Accepted Accounting Principles (GAAP).

The period earnings is a result of changes in many variables that affect the price of the firm's products, the mix of the firm's product, the costs of the firm's inputs, all of which can be as unpredictable as the firm's utility bill for the period (Amadi and Amadi, 2014). Profit is an item of income that can be manipulated. Earnings are cash flow and accruals products that can be managed through means such as accruals, changes in capital structure, and changes in accounting methods as stated by Jones (1991). Jones (1991) uses total accruals in earnings management studies by firms in the import business. Earnings management can occur

because the accrual basis of income depends on the use of estimates made in the financial reporting process. For example, current income may be encouraged by underestimating bad loans on credit sales or expected warranty costs on goods sold (Huang *et al.*, 2008).

Managers compensation typically based on a performance-based incentive schemes that encouraged management to manipulate the amount of revenue until the results of which will enhance the company's stock price, the consequences on the incentives that will be accepted. These incentives by Koh *et.al.* (2008) has led "some managers to continue to see expectations of meeting holders / beatings as important"; and gives managers strong incentives to record analysts' earnings estimates to increase their chances of reaching final estimates (Athanasakou *et.al.*, 2009).

Our research is motivated by a lack of empirical studies that focus on measuring effects. of earnings management to market return of stock in the Indonesian context, considering these shortcomings, is very important to look for the their relationship. Second, the phenomenon of earnings management is studied under the institutional arrangements of a typical emerging market and hence the results can be extended to other similar markets. Third, this study provides specific evidence for the constituent of accounting standard.

Associated with financial manipulation, managers are permitted by Generally Accepted Accounting Principles (GAAP) to use their discretion in choosing accounting methods. GAAP allows management to use judgment in the estimation of certain economic activities such as the depreciation of long lived assets, (straight line or accelerated method) and inventory valuation (LIFO, FIFO or weighted average) in the determination of the cost of goods sold (Matsuura, 2008). GAAP also allows management to exercise judgment in assessing working capital in association with cost allocation and revenue; in essence, accruals are used to create true/fair financial statements through the allocation of revenues and costs to

their appropriate period (Hettihewa and Wright, 2010). This encourages earnings management practices can lead to disclosure of information in earnings reports not reflecting actual circumstances. This causes the users of financial statements do not obtain accurate financial information to be used as a reference in decision making. One user of financial statements is a participant or investor of the capital market. Earnings reports that contain earnings management practices may mislead investors into estimating expected returns.

Earnings management used by managers to deliver their private information about the condition of the company that will be reacted by the investors if they know the condition of the company reported in the financial statements is different from the actual conditions. In a recent study and following (Jansen *et.al.*,2012), reported that variations in earnings management (accruals and real) can be explained by firm, industry and country variables, and the evidence can be supported by agency theory, information asymmetry, institutions and signaling. Our research is motivated by a lack of empirical studies that focus on measuring effects. of earnings management to market return of stock in the Indonesian context, considering these shortcomings, is very important to look for the their relationship. Second, the phenomenon of earnings management is studied under the institutional arrangements of a typical emerging market and hence the results can be extended to other similar markets. Third, this study provides specific evidence for the constituent of accounting standard.

The opportunistic perspective explains earnings management as a harmful financial manipulation that benefits managers (Desai and Rajgopal, 2004). On the other hand, the informational perspective defines earnings management as a means for disclosing and enhancing the quality of accounting information, thereby leading to a better view of firm performance (Arya *et.al.*, 2003). In the end, earnings management benefits users in decision making (Rahman *et al.*, 2013). Previous studies have examined the conditions motivating

managers to apply this opportunistic perspective, such as (a) increasing their bonuses (Guidry *et.al.*, 1999), (b) increasing stock prices during initial public offering (Teoh *et.al.*, 1998), and (c) decreasing earnings during the threat of investigation for monopolistic practices (Cahan, 1992).

The role of financial statements in a market economy can not be overemphasized (Amadi and Amadi, 2014). Management delivers information about the company performance to its owner and other elements concerned with using the financial statements.. This function has significance in public companies where the separation of ownership and control make it the only way in which owners and investors can see at a glance the company's operations. "Agency theory suggests that earnings management can occur when managers have an incentive to promote their own personal interests by compromising shareholder interests" as a result of information asymmetry (Chen *et.al.*, 2010). The agency issues associated with the company's business forms generated by its owners seek to "adjust the interests of managers with shareholders of the company."

The most widely accepted management objective is to maximize shareholder value as reflected in company value. The stock price has become a key objective measure of how successful management is in achieving this goal. (Gavious (2007) identifies the earnings management as a positive discretionary accruals, *i.e.* an increase in earnings and a report pegged by the investor against reported earnings and appears unable to decipher earnings management information, at least ten days after the full publication of a set of financial statements. Twenty days after the date of disclosure when analysts released their recommendations and price targets, investors seemed to react negatively to the discretionary accruals.

Beaver (1968) in his seminal research finds that both trading volume and return volatility tend to increase during the earnings announcement week thereby establishing the information content of earnings announcement. While price based studies tested the ability of financial statements to summarize the events affecting the firm up to a specified date, return based studies looked at the ability of accounting information to capture events affecting the firm over the return interval (Dawar, 2014). This study investigate whether earnings management practices influence stock returns in short window designs up to five days before and after the release of financial statements.

Gavious (2007) distinguishes companies that make earnings management from companies that do not make earnings management based on discretionary accruals while (Keung *et.al.*, 2010) use firms that only meet or beat analysts' income expectations as earnings management firms. (Dechow *et al.*, 2012) have documented that companies manipulate their financial statements to report small earnings increases or avoid reported losses.

The extent of earnings management may depend on the company's auditor. The company may adopt a more conservative approach to financial reporting in the face of a higher quality audit (McNichols and Stubben, 2008). Although the managers often have powerful incentives to make their performance appear better than it is by improving reported earnings, the external auditors are expected to be independent of the managers (Memiş and Cetenak, 2012). With audited financial statements by an independent auditor, it is assumed that the responsibility to the public extends beyond the working relationship with the auditee. At the end of the audit mission, the auditor provides an audit report whereby he expresses an independent opinion on the auditee company's financial statements. Therefore, audit reports are an important source of information that helps decision making for investors.

Some researchers have examined audit quality as a measure of earnings quality (Lenard and Yu (2012); Boone *et al.* (2010); Jenkins and Velury (2008)). The above authors who studied U.S. companies used the Big Four auditors to distinguish audit quality. Many studies of audit quality and measurement suggest the use of audit firm sizes as a proxy for audit quality; suppose that large audit firms tend to perform more robust tests and are more likely to be associated with more precise information than smaller audit firms (Al-Khaddash *et.al.*, 2013).

Earnings management is expected to decrease in countries which have efficient legal system to protect stakeholders' right other than audit quality, because strong protection restricts insiders' skills to gain personal benefits (Memiş and Cetenak, 2012). The level of earnings management may depend on corporate auditor. In the case in Indonesia, the company can apply a more conservative financial reporting approach to face higher quality audits. On the other hand, audit quality or auditor itself may not be able to reduce an earnings management practice which was made with the intent of either misleading stakeholders about an entity's performance or affecting contractual outcomes.

Some studies have found a negative relationship between audit quality and earnings management, among others: (Ahmad & Suhara (2016); Alzoubi (2016); Nawaiseh (2016); Jordan *et al.* (2010) prove that audit quality (proxied with the Big Four auditors) significantly limits earnings management efforts through EPS rounding. In contrast, a number of studies provide evidence that the Big Four auditors (as a proxy for high quality auditing) may not provide them higher audit quality than non-Big Four auditors (Yaşar, 2013). In the context of Malaysia, (Ching, *et al.* 2015) find that audit quality does not actually constrain earnings management practices. when earnings management is added as a mediating variable, it mediates the relationship between audit quality and financial performance. In other words, the audit quality that is delivered by either Big Four audit firms or non-Big Four audit firms

does not actually improve financial performance when earnings manipulation activities are conducted by the management divisions of these firms. In the context of the Greek case, (Tsipouridou and Spathis, 2012) find that there was no significant difference between the earnings management practices of companies audited by the Big Four auditors and non-Big Four auditors.

Earnings management practices can certainly affect the quality of earnings information because the profit information presented in the financial statements does not reflect the actual state of the company's performance, so the users of the financial statements do not get accurate information to make investment decisions. In Indonesia, Financial Accounting Standards (SAK) allow accountants to influence earnings through selection of accounting methods or policies. The results of Leuz *et al.* (2003) indicates that Indonesia is in a cluster of countries with weak investor protection, resulting in high earnings management practices. This paper contributes to the ongoing debate about the market reaction on publication of financial statement with earnings management and effectivity of audit quality on reducing earnings management and improving earnings quality

LITERATURE REVIEW

Earnings Management

Healy & Wahlen (1999; p.368) stated that “Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either misleadsome stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers”. Not withstanding of the above definitions, earnings management is unobservable.

Prior research investigated a variety of incentives for earnings management. These incentives may occur inside the classes of agency cost, information asymmetry, and external influencing non-covenant parties (Healy and Wahlen, 1999). Other researchers argue that earnings management is used to add revenue information content (Hunsader and Pennywell, 2011). In addition, earnings management can also be the basis fair and legal management decision-making, intended to achieve and disclose predictable and stable financial results (Chen, 2010).

There are many studies of earnings management that examine how managers manipulate certain financial statements such as accruals and, or real economic activities for their own personal interests. Stubben (2010) examines the revenue and accrual models in their ability to detect simulated and actual earnings management. He find that the revenue model is less biased than the accrual model, and the revenue model is more appropriately defined and more powerful than the accrual model. He also find that revenue models are more likely to detect a combination of income and cost manipulation. (Kwag and Stephens, 2010) examines the level of discretionary current accruals (DCA) as a proxy for earnings quality. Operationally the threshold of earnings management is defined as the mean DCA,

and it is assumed that highly managed firms (both income-decreasing and incomeincreasing) produce low-quality earnings information. The findings strongly indicate that there is a

significant mispricing at the earnings announcement date for the income-decreasing) and income-increasing portfolios and the mispricing persists in the short run. Thus, it may be possible for investors to exploit the mispricing by holding a long position in income-decreasing and a short position in income-increasing. The evidence suggests that investors possess idiosyncratic perceptions toward earnings management. Investors of income-decreasing firms tend to under-adjust for analyst optimism, while investors of income-increasing firms are inclined to over-adjust for analyst optimism.

Pae & Quinn (2011) investigate whether companies issuing new bonds were involved in earnings management, they find that these companies increased their accruals before issuing the bonds, and subsequently reduced the accruals after the year of publication. (Cohen and Zarowin, 2010) examines whether managers are involved in real earnings management to meet quarterly financial reporting standards. Their study use advertising spending as a real revenue management instrument. They find that managers of the sample companies reduced their advertising spend to avoid losses and decrease in revenues. Instead, they also find that adult companies tend to increase advertising to meet revenue benchmarks.

Audit Quality and Earnings Management

Accuracy and reliability of financial information has an important role in ensuring the quality of auditing. In the aftermath of some financial scandals reported in certain firms and entities in recent years, the role of legal arrangement and auditing in validating financial information of the firms is now more crucial and urgent. The discrepancies resulted from the quality of auditing emerge in the form of discrepancies in the reliability of auditors and the quality of their clients' earnings (Memiş and Cetenak, 2012). DeAngelo's definition of audit quality (1981) is two- dimensional. Audit quality is a function of the auditor's ability; First; to

detect material misstatements and errors in financial statements (technical capabilities).

Second; to report these materials misstatements and errors (auditor independence).

Previous studies provide evidence of a relationship between audit quality and earnings management. Becker *et al.* (1998) examine the relationship between auditor size and audit quality. Discretionary accruals were used to measure earnings management. They find that large audit firms (Big-6) allowed less earnings management behavior than small audit firms. They suggest that this may be due to large audit firms' superior ability to identify earnings management, and their greater opposition to such behavior in order to maintain their reputation. Maijoor and Vanstraelen's (2006) study the differences in audit quality and audit environment in four European countries. They find evidence of a significant negative relationship between audit quality and earnings management. Dang *et al.* (2011) explore the relation between audit quality and earnings management. The study's results find that firms experiencing audit failures have more earnings management problem than those did not. This provides additional evidence of a connection between audit quality and earnings management.

In contrast, a number of studies provide evidence that the Big Four auditors (as a proxy for high quality auditing) may not provide them higher audit quality than non-Big Four auditors (Yaşar, 2013) In the context of the Korean case, for example, (Jeong and Rho, 2004) shows that there is no difference in audit quality between Big Six and non Big Six auditors. The authors suggest that earnings management practices are not influenced by auditor intervention. This actually depends on the institutional arrangements set and adhered to encourage high quality audits too,

Several previous studies have reported a significant negative relationship between audit quality and earnings management (Gerayli *et.al.*, 2011) In contrast, (Nawaiseh, 2016) find a positive relationship between audit quality (proxied with audit tenure, audit fees, and the affiliation with international large audit with earnings management. Ahmad *et al.* (2016) examines the effect of audit quality on earnings management in the emerging market of

Indonesia. The results show that audit quality (proxied by big size auditors and auditor industry specialists) is negatively related to earnings management

In the context of the Greek case, Tsipouridou & Spathis (2012) find that there is no significant difference between the earnings management practices of companies audited by the Big Four auditors and non-Big Four auditors. (Al-Khaddash *et.al.*, 2013) argue that the size of audit firms is irrelevant in the selection of auditors. According to him, there may be several factors affecting audit quality, emphasizing the quality of the audit is not only affected With the size of the audit firm.

Asthana *et al.* (2009) examined the impact of the high-profile corporate scandals and passage of SOX on audit fees. They identified significant increase in audit fees from 2000 to 2002 (the year SOX was passed). Additionally, they find that Big-4 audit firms increased their fee premium over non-Big-4 audit firms after the various scandals and the passage of SOX. The results imply a trend towards increasing audit quality by the largest audit firms. Rutledge, *et. al.*,(2012) find that EM of companies audited by the Big-4 peaked during the scandal period, and declined during the post-SOX period. However, the EM of firms audited by Non-Big 4 audit firms did not experience a decline in the post-SOX period. Further tests suggest that SOX had greater reduction in EM for companies audited by Big-4 audit firms as compared to those audited by Non-Big 4.

Zehri & Shabou (2011) assert that high quality auditors are more likely to discover questionable accounting practices by clients and report material irregularities and misstatements compared with low quality auditors. Due to this, a higher audit quality is able to better constrain earnings management, and in turn enhance the quality of financial reports. Previous research in the related literature have employed various measures as proxies of audit

quality. Several studies have indicated that a higher quality of auditing mitigates accruals based earnings management (Okolie, 2014) (Soliman and Ragab, 2014), (Gerayli *et.al.*,

2011). Numerous studies has used various audit quality measures such as audit firm size, audit fees and audit hours to research the effect of audit quality on earnings management. Following DeAngelo (1981) who demonstrates analytically that large audit firms (with international brand names *i.e.* Big Four auditors) are likely to provide higher quality audits than small audit firms (*i.e.* non-Big Four auditors), many studies use audit firm size (Big Four versus non-Big Four) as proxy for audit quality.

A research carried out by Gerayli *et.al.* (2011) demonstrates that companies with Big Four audit firms are involved in lower earnings management than companies with non-Big Four audit firms. Consistently, Soliman and Ragab (2014), and (Inaam *et.al.*, 2012), confirm that audit quality has a significant negative association with earnings management when earnings management is measured by using discretionary accruals. This indicates that Big Four audit firms provide better audit quality than non-Big Four audit firms in mitigating accruals based earnings management. However, (Yaşar, 2013) argue that the audit quality of Big Four audit firms may not restrain accrual earnings management in some institutional environments.

The Effect of Earnings Management to Market Reaction

We focus on investor behavior with the aim of testing the effect of earnings announcements on market reaction with the presence of earnings management. During these recent years the bankruptcy of Enron and Wordcom has raised serious questions about earnings management practices. However, regardless of this financial scandal, the accounting model remains a vector of information that allows information users to formulate or revise their expectations of the firm's economic perspective (Sayari *et al.*, 2013).

Gavious (2007) examines whether analysts make an additional contribution to investors in detecting and responding earnings management to future financial statement statements. His research examined the relationship between stock price reaction to earnings

management in short window design (up to 30 days after disclosure of financial statements) using return and price analysis). The results show that analysts give negative reactions to firms that manipulate earnings by increasing earnings, then this reaction followed by a negative market reaction as well.

There is a positive relationship between stock prices and unexpected earnings, indicating that the higher the shock effect (good or bad news), then the market reacts more significantly (Kang *et.al.*, 2010). Thus, if the diffusion of accounting information causes a change in equilibrium stock prices, we can point intuitively to the practice of earnings management as one of the reasons. In the information perspective, accounting production, opportunistic manipulation of accounting results and their publicly represented ways can represent a tool to influence or guide investors positively in anticipation of an increase in stock performance. This line of thinking, paradigmatic as it is. Explicitly known as earnings management depends on the flexibility of the accounting conventions to express higher profits (Sayari *et al.*, 2013).

For this perspective as in emerging markets are characterized by strong asymmetry information and weak information efficiency. This particular case may lead to the practice of earnings management especially in the Indonesian capital market. Then, we pay attention to the impact of this accounting practice on investor behavior. The purpose of this article is to examine whether Indonesian investors are aware of the presence of manipulation practices and whether this further encourages them to react during the publication of earnings. If financial statement information is useful to investors, as well as net income (Ball and Brown, 1968) some accounting practices that carry important information content should make the market react. To evaluate the impact of this behavior on stock return, we adopt the approach proposed by Gavigous (2007).

Ball & Brown (1968) documented that subsequent to the announcement of earnings, abnormal returns continue to drift down (up) for companies announcing a surprisingly negative (positive) variation in earnings. This phenomenon seems to continue from an initial reaction on day one through to day 180 and, in some cases, even longer than that. The treatment of earnings management in the presentation of financial statements causes the information contained in the financial statements does not reflect actual company performance conditions. With earnings management, managers can set a reported nominal profit. This may mislead investors in estimating expected returns. Based on the above framework, the author has the following hypothesis:

H1: There is a negative effect of earnings management on market reaction.

The Role of Audit Quality on the Effect of Earnings Management on Market Reaction on Publication of Financial Statement

According to efficient markets hypothesis of the halfstrong shape, the prices of stock securities reflect all information related to the company, including the present and future prospect of the financial performance (Nuryaman, 2013). Publication of financial information in the form of earnings information obtained in a given period will affect the expectation of investors concerning to the company's ability to make profits in the future, and will be reflected in changes in the stock return of concerned companies in the capital markets. By seeing that stock return can be influenced by the quality of the reported earnings of companies and perceptions regarding the quality of the earnings, it can also be influenced by the the auditor quality.

Investor expects high return on his or her investment. Return is the results of the obligation or capital investment. Market return is the results obtained from investments.

Return can be either real return, which has happened, or expected return, which have not happened yet but expected to happen in the future". Abnormal return is used to measure the

market reaction against an event for which information is published as an announcement. If the announcement contains information, then the market is expected to react as the announcement is welcomed by the market. Market reaction is indicated by the existence of market return changes on the concerned securities

Auditors play an eager role in ensuring the conservation and publication of high quality financial reporting (Alzoubi, 2016). Audit failure in the Enron scandal has driven the analysis into the nature of earnings management. The concentration of specific analysis is the effect of audit quality on earnings management control (Alali (2011); Rusmin (2010)). The agency theory proposes that monitoring mechanisms are assumed to align managers and shareholder interests at once to reduce the conflict of interest and any opportunistic behavior resulting from it. Jensen & Meckling (1976) describe the audit function as something significant is a binding mechanism in companies that "serve to more closely identify the interests of managers with those of outside equity holders". Therefore, the audit process is considered a monitoring mechanism that will reduce the manager's incentive to manage earnings (Alzoubi, 2016). Management will employ independent auditors to minimize agency costs (Jensen & Meckling 1976). Independent auditor participation is an important part in reducing managerial opportunistic behavior. If the auditor is not independent, the financial statements will be more suspected and hence, the social costs will be maintained. An important implication of a high-quality audit is that it is expected to reduce information asymmetry and in this sense facilitates market efficiency. Hence, security prices may be used as a means against which to evaluate the thoroughness of an audit (Beaver, 1998). Scott (1997) also identifies audit quality as an indirect signal in the valuation of new issues.

Several prior studies have investigated capital market impacts of audit quality. In an earlier study, Balvers *et al.* (1988) find that high reputation investment bankers will more frequently use high reputation auditors and that both investment banker and auditor

reputation will help to reduce underpricing. Teoh and Wong (1993) find that the ERCs of Big 8 clients are significantly higher than that for non-Big 8 clients and show that the auditors' reputation lends credibility to the earnings report they audit. In the China context, that the positive association between increase in earnings per share and CAR is stronger for firms audited by higher-quality auditors. In addition, our results also show that the negative association between MAOs and CAR is weaker for firms with higher-quality auditors. Some explanations for these results are provided. In general Gul (1999) suggests that audit information in China is valued by the market and some large domestic auditors have been able to product-differentiate themselves in the Chinese market. Gul (2003) examines whether audit quality in the Shanghai Stock Exchange affects the positive association between change in earnings per share and cumulative abnormal return (CAR). Regression results using 659 Shanghai listed company observations in 1996 and 1997 show that the positive market reaction to increase in earnings is stronger for firms audited by high quality auditors. A broad conclusion of the study is that audit quality is playing an important role in China and that investors in the Shanghai market differentiate between high quality versus low quality auditors.

Datar *et al.* (1991) investigate the role of audit and audit quality in valuing new issues and demonstrate that the value of an audit increases with audit quality. They point out that the choice of the auditor and the resulting audit report provides partial information about the entrepreneur's private information. At the time of announcing accounting earnings, there was some speculation which consequently affected the stock price and market return. (Dyreg *et al.*, 2012) indicating that publication of open accounting results in the market leads to significant variations in stock returns. Nuryaman (2013) proves negative relationship of

earnings management with stock return bigger for companies audited by Big 4 audit firm than with a non-Big 4 audit firm at a company in Indonesia, so audit quality can moderate the

negative relationship of earnings management with stock returns. Thus, we expect higher quality auditors will strengthen the market reaction to earnings managements, which leads to the following hypothesis:

H2: Audit quality strengthens the negative effect of earnings management on market reaction.

METHODOLOGY

The population in this research is manufacturing company of basic industry type and chemical which is listed on the Jakarta Stock Exchange (JSX). The sample was chosen based on purposive sampling method with the following sample collection results: 1) Companies registered from January 1, 2012 to December 31, 2015 continue (143) 2) No data the date of publication of financial report) (22), 3) Financial statement incomplete (6) 4) Final sample of 115 companies or 345 observations.

Measurement

In this study, discretionary accruals as a proxy for earnings management are measured using Modified Jones model, because this model has standard error (error term) regression result of total actual value estimation is the smallest compared to other models. (Dechow *et.al.*, 1995). This study used a discretionary accrual model with modified Jones in (Kothari *et. al.*, 2005) which was later defined by (Tucker and Zarowin, 2006). Return on assets (ROA) added as control variables of various studies indicate that misspecification occurs in the Jones model (Kothari *et. al.*, 2005). Here is the discretionary accrual calculation model ..

$$\text{Accruals } t = a (1 / \text{Assets } t-1) + b \Delta \text{Sales } t + c \text{ PPE } t + d \text{ ROA } t + \mu t \quad (1) \text{ From}$$

the Regression equation (1), total accruals (Accruals); Sales changes (Δ Sales); And gross property, land and equipments (PPE) are each deflated by initial asset. Total accrual represents the difference between net income and cash flow operation Non-discretionary accruals (NDAP) is the coefficient of Regression (1) and discretionary accruals (DAP) is the difference between actual accruals and NDAP. Pre-discretionary income (PDI) is calculated from net income minus discretionary accruals ($\text{PDI} = \text{NI} - \text{DAP}$).

Market reaction. This research analyze market reaction to evidence of earnings management, proxied by discretionary accruals, by exploring whether the presence of earnings management affects return reaction, after the issue of a full set of financial statements. The issue date and not the earnings announcement date is used as the information contained in a full set of financial statements is needed by investor to unvail earning managements (Rabin and Negash, 2015). In line with Gaviious (2007) and Baber *et al.* (2006) this study use short windows approach to isolate investors reaction to the release of full set of financial statements and specially to examine whether share returns react to earning management. Event study specify an event window sorrounding the event of interest in order to capture the pre event and post even reaction (MacKinlay, 1997). We examine the return reaction using an 11 day (-5,+5) window.

Data analysis technique

As with previous studies in relation to value relevance studies, this study uses a stock return regression model in a combination of accounting fundamentals reporting, assuming that financial statements provide investors with relevant and valuable information. The research model was adapted from (Gaviious, 2007) as follows:

$$\text{Model 1: } \text{CAR}_{it} = \beta_0 + \beta_1 \beta V_{it} + \beta_2 E_{it} + \beta_3 \text{NEG_} E_{it} + \text{DACC}_{it} + \varepsilon_{it}$$

Model 2: $CAR_{it} = \beta_0 + \beta_1 BV_{it} + \beta_2 E_{it} + \beta_3 NEG_E_{it} + AUDIT + DACC_{it} + DACC_{it} * BV +$

$$DACC_{it} * E_{it} + DACC_{it} * NEG_E + DACC * AUDIT + \varepsilon_{it}$$

CAR : Cumulative Abnormal Return is a sum of abnormal returns from -5 to +5 days from the date of publication of financial statements

BV : Book Value

E : Profit after interest but before tax

NEG_E : Earn before extraordinary = E if E < 0: = 0 otherwise

DACC :discretionary accruals of firm i in period t using modified

Jones model

AUDIT : Audit Quality

This study uses discretionary accruals (DACC) as a proxy of earnings management variable. The DACC forming component consists of total accrual (TA), 1 / ASET, Fixed Assets (PPE), Sales changes (Δ SALES), and Return On Assets (ROA). Descriptive statistics of the DACC and its components are presented in Table 1.

-Insert tabel 1-

From the table it appears that DACC (Discretionary Accruals) as a proxy of earnings management shows an average value of $-5.7971E-08$ or close to 0 indicating that the sample company generally performs earnings management with a value that is not too large with a negative direction means the average company make decreasing income (lower profit) than they should.

The variables of this study consist of earnings management, cummulative abnormal return, book value, profit after interest but before tax, profit before extraordinary. The results of statistical descriptive data are presented in table 2.

-Insert tabel 2-

From table 2 it appears that the average CAR is positive, it shows the average number of abnormal returns during the observation period indicates a positive market response ..

Hypotheses Test

This study uses the bootstrap method because of the data normality test results, the data is not perfectly normal as shown in the table below:

-Insert tabel 3-

Bootstrapping is a method to derive strong estimates of atandar errors and confidence intervals to estimate proportions, mean, median, odds ratios, correlation coefficients or

regression coefficients. The result of regression analysis using bootstrapping method with sample size 1000, as presented in table 4 below.

-Insert tabel 4-

The regression analysis of model I does not include control variables. The AUDIT variable is not an independent variable but a moderator variable. The result shows the value of F-value 0.514 with significance of 0.599 so it can be concluded that the independent variables (DACC and DACC * AUDIT) together do not affect the CAR. From the regression analysis it is seen that both the DACC and the DACC * AUDIT level of significance exceeding 0.05 means that DACC and interaction between DACC and AUDIT have no effect on CAR.

In the next analysis, conducted regression testing using model 2, namely by entering the control variable. The results are shown as follows.

-Insert tabel 5-

From the above table, obtained the significance of the F value of 0.00, smaller than 0.05 so the model is said to be good and can be used to predict independent variables. The value of coefficient of determination (R^2) is 0.173, meaning 17.3% CAR variable can be explained by all independent variables in model 2. The rest (82.7%) is influenced by other factors. The value of Adj R^2 0.154 greater than model 1 of - 0.003 indicates that model 2 (by inputting control variables) is better than model 1 (without entering control variables).

The model 2 is proven that the DACC individually has a positive and significant effect on CAR (sig. at 5%). This proves that earnings management affects the market reaction positively. So this indicates if the market still gives a positive reaction to the report that

generates profit even though the profit contains earnings management. This is in accordance with the alternative hypothesis that earnings management will have a positive effect on market reaction..

Other variables that significantly influence market reaction are interaction variables (BV * AUDIT) and (NEG_E * AUDIT) respectively at 3,516 (sig. at 10%) and -0.027 (sig. at 10%). This proves that the interaction between book value equity and audit quality variables will have a significant positive effect on the relationship between earnings management and market reaction, while the interaction between loss after interest before tax and audit quality will negatively affect the relationship between earnings management and market reaction. It can be concluded that audit quality becomes moderating variable in relation between earnings management and market reaction when book value and loss after interest before tax is controlled.

DISCUSSION

This study aims to test the market reaction of earnings management on publication of financial statements and audit quality role as a moderating variable. The first hypothesis in this study is that earnings management has an effect to market reaction. In the first model without control variables (earnings, book value, negative earnings) shows that partially, earnings management and interaction between earnings management and audit quality has no effect on CAR. Similarly, earnings management and audit quality have no effect on CAR. These findings indicate that without such control variables, earnings management has no effect on market reaction, and audit quality is not a moderator variable.

In the second model with control variables (earning, book value, negative earnings), the results show that the DACC individually has a positive and significant effect on CAR (sig. at 5%). This proves that earnings management affects the market response positively. So this indicates if the market remains to react positively to the income generating report even though it contains earnings management. This contradicts the alternative hypothesis that earnings management will have an negative effect on market reaction, and contrary to the results of research by Gavius (2007), Mostafa (2017) and Shan (2015). The researcher suspect that the findings contradict with the hypothesis, this may be because of the firm size which uncontrolled, as Sayari *et al.* (2013) have done who find that earnings management raised positive abnormal returns in large firms, and lowered negative abnormal returns in small firms.

The next finding is the variable of equity value with audit quality has positive significant effect on the relationship between earnings management and market reaction, while the interaction between loss after interest before tax with audit quality will negatively affect to the relationship between earnings management and market reaction. It can be

concluded that audit quality becomes moderator in the relationship between earnings management and market reaction when book value and loss after interest before tax is controlled, thus the second hypothesis has been proven.

CONCLUSIONS

The practice of earnings management makes financial reporting misleading to users of information from financial statements, regardless of which accounting information remains a vector of information that allows users to formulate or revise their exposure to the firm's economic perspective. At the time of publication of financial statements will appear speculation that will affect the stock price and market return. The audit process is considered a monitoring mechanism that will reduce the manager's incentive to earn earnings management. This study aims to test the market reaction of earnings management on financial statement publication and the role of audit quality as a moderating variable.

The results of this study prove that earnings management affects the market reaction positively. So this indicates if the market remains to react positively to the income generating report even though it contains earnings management. Other evidence indicates that the interaction between book value equity and audit quality variables will have a significant positive effect on the relationship between earnings management and market reaction, while the interaction between loss after interest before tax and audit quality will negatively affect the relationship between earnings management and market reaction. It can be concluded that audit quality becomes moderator in relation between earnings management and market reaction when variable of book value and variable of loss after interest before tax is controlled.

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APPENDICES

Table 1. Descriptive Statistics of Discretionary Accruals

	Minimum	Maximum	Mean	Deviation Standard
TA	-309.68	5965.67	18.56	320.03
1/ Assets	0.0000000042	0.000217	0.000016	0,000026
Δ SALES	-9,47	10087.08	38,85	554,94
PPE	0,00	10.468,92	36,92	567,50
ROA	-1,25	1.14	0,04	0,30
DACC	-5,80	16,16	-5.7971E-08	0,99

TABEL 2

Table 2. Descriptive Statistics of Main Variable

	Minimum	Maximum	Mean	Deviation Standard
E	-4799552	27523000	660912,91	2908938,65
BV	-18211,11	53057,63	2455,63	6147,65
NEG_E	-4799552	0,00	-64977,40	336982,89
CAR	-0,30	725223,15	22645,55	68477,13
AUDIT	0,00	1,00	0.3721	0,48

. Tabel 3. The Results of Data Normality Test

	E	BV	NEG_E	CAR	DACC
Sig.	0.00	0.00	0.00	0.00	0.00

Table 4. The Results of the Bootstrap Regression Analysis of Model 1

Variables	Regression	Sig.	Lower	Upper
Constants	22.701	0.002	15268	30746
DACC	1.016	0.219	57	5033
DACC*AUDIT	73.040	0.147	35658	723283
R ² 0.003	Adj R ² -0.003	F-value 0.514	Sig. 0.599	

Table 5. The Results of Bootstrap Regression Analysis of Model 2

Variables	B	Sig.	Lower	Upper
Constants	12858.77	0.003	5057	18927
DACC	980.91	0.031**	-1334	2414
E	-0.002	0.557	-0.009	0.006
BV	0.458	0.390	-0.427	2.104
NEG_E	0.025	0.125	-0.004	0.067
DACC*AUDIT	-41491	0.748	-51623	681125
E*AUDIT	0.007	0.144	-0.002	0.018
BV*AUDIT	3.516	0.080*	0.887	8.633
NEG_E*AUDIT	-0.027	0.091*	-0.068	0.000
R ² 0.173	Adj R ² 0.154	F-value 9.788	Sig. 0.00	

** significant at $p < 0.05$; * significant at $p < 0.10$



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**THE INSTITUTIONAL WORK OF IFRS ADOPTION IN TELCO COMPANY:
TRANSFORMATION FROM US GAAP TO IFRS**

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Abstract

This paper draws on an in-depth longitudinal analysis in PT Telekomunikasi Indonesia Tbk to understand the role of institutional work in the transformation of organization from using US GAAP to IFRS. This paper examines work of actors to disrupt, create, and maintain the institution during the transformation of organization in adopting IFRS. This paper revealed that IFRS adoption in Telkom Indonesia is beyond a shallow compliance of financial reporting standards but has significant impact to the companies transformation as a whole. The IFRS adoption has transformed the business process, accounting practices, organization culture, as well as the system and technology of the company. This paper also finds that different types of institutional works are evident during the four stages of institutional transformation : Stability, Conflict, Change and Implementation. The tone of the top in the organization is crucial to the key actors to stay committed to the long transformation process. Literature on IFRS adoption process to date mainly focuses at the macro level. This paper contributes to the literature of IFRS adoption process by providing a framework of IFRS adoption at the micro level. The case study may assist other companies in their real transformation embracing IFRS.

Key words: Institutional Work, IFRS, Transformation of Organization, Telco, US GAAP

Introduction

With the increasing globalization in the economic world, the harmonization of accounting standards has become an important issue and has become the focus of attention of the academics, researchers, and practitioners in accounting. The need of harmonization of financial statements has become a necessity (Abongwa, 2005). The ideals of a common accounting language are then issued in the form of an International Financial Reporting Standard (IFRS).

IFRS has proven to provide encouragement for many countries in the world to participate in adopting it, as well as in Indonesia. As the only country in Southeast Asia that is a member of G20, Indonesia has the consequences for implementing IFRS as the agreement of the G20 member countries which committed to IFRS convergence program to the national standard of each country (Wahyuni, 2011).

IFRS adoption in Indonesia is conducted by IAI through the Financial Accounting Standards Board (FASB). FASB gradually performs the convergence process to the Statement of Financial Accounting Standards (SFAS) beginning in 2012 to accommodate Indonesian accounting standards that adopting the IFRS.

As an accounting standard, IFRS is recognized for its reliability, relevance, have a good appeal, accommodates the materiality needed for decision making, and demands high transparency and accountability, as well as more extensive information disclosure. Not only at the state level, IFRS affects many companies in the world to participate in adopting IFRS as the accounting standard used to produce financial statement (Adji and Basuki, 2012; Lee *et al.*, 2008).

In Indonesia, the implementation of IFRS by the company as the accounting standard of financial reporting initially received a lot of resistance. This was because the process of change is not easy, costly, change of the thinking paradigm of accountant in the company, and also the impact on the financial statements of the company. For example, the implementation of SFAS 50/55 on IFRS-based financial instruments has been issued in 2008 to be implemented effectively as of January 1, 2009. However, with the enormous pressure from the financial industry that declaring its unpreparedness, the implementation of SFAS was suspended to be effective as of January 1, 2010 (Wahyuni, 2009).

At the same time, PT Telekomunikasi Indonesia Tbk. (PT Telkom) made a breakthrough by deciding to fully adopt IFRS and targeting its implementation one year earlier than what the IAI has determined, which is in 2011. This makes Telkom as the role model of the implementation of IFRS in Indonesia, especially in SOE (Indonesian: BUMN) companies. Moreover, its implementation is conducted at the transaction level, not by conducting group

adjustment in the financial statement or by IFRS reconciliation method with Indonesian standards in the financial statements (Adji and Basuki, 2012).

This was conducted by PT Telkom as a consequence of being an open public company listed on the stock exchange. PT Telkom shares that are traded not only in Indonesia Stock Exchange, but also in New York Stock Exchange require PT Telkom to follow the rules applicable in the capital market, including regulatory changes regulated by the supervisor of the capital market. One of the regulatory changes was the rule issued by the US-SEC, as the US stock market regulatory body, in 2007. This regulation allows foreign private issuers, including PT Telkom, to submit IFRS-based financial statements without having to reconcile them with the US-GAAP, formerly the only US-SEC guidelines (Arryman *et al*, 2010).

The adoption process of IFRS in PT Telkom brought big change to the company. This can be seen from the process of change that takes a long time, ie since 2007, reached the peak point in 2011, and still last until today (Arryman *et al*, 2012). The process of change also needs commitment and long preparation. This is because the adoption process is carried out from the transactional level, so that it impacted on the changes of accounting and reporting, system and process, business and human resources (Adji and Basuki, 2012). Upon this major change, PT Telkom is expected to undergo institutional change.

In addition, a number of studies reviewing the adoption process of IFRS in a country are not comparable with the same study with the scope of an organization. Given this research gap, the opportunity to conduct a research related to IFRS adoption in an organization is still wide open. Therefore, researchers take the theme of institutional change that occurs due to the adoption of IFRS in the company.

Literature Review

Institutional approaches to organization studies focus attention on the relationships among organizations and the fields in which they operate, highlighting in particular the role of rational formal structures in enabling and constraining organizational behaviour. Although the traditional emphasis of institutional approaches to organization studies has been on the explanation of organizational similarity based on institutional conditions, but in its development since the 1990s, there has been a renewed emphasis in institutional studies of

understanding the role of actors in influencing, changing, and maintaining an institution (Lawrence dan Suddaby, 2006).

Institutional work is an action which is performed by an individual or organization that aims to create, maintain, and disrupt an institution through some certain actions. From that definition, it can be concluded that there are three main categories of institutional work, that is, creating, maintaining, and disrupting institutions. These three categories simultaneously explain the life cycle of institutional work which is in line with the life cycle of an institution (Lawrence dan Suddaby, 2006).

Creating work is an action that causes a creation of a new institution which is performed by actors. The practice of creating institutions itself, reflects the main activity categories, as follows (Lawrence and Suddaby, 2006).

Table 1. Creating Work

Forms of Institutional Work	Definition
Advocacy	The mobilization of political and regulatory support through direct and deliberate techniques of social suasion
Defining	The construction of rule systems that confer status or identity, define boundaries of membership or create status hierarchies within a field
Vesting	The creation of rule structures that confer property rights
Constructing Identities	Defining the relationship between an actor and the field in which that actor operates
Changing Normative Associations	Re-making the connections between sets of practices and the moral and cultural foundations for those practices
Constructing Normative Networks	Constructing of interorganizational connections through which practices become normatively sanctioned and which form the relevant peer group with respect to compliance, monitoring and evaluation

Forms of Institutional Work	Definition
Mimicry	Associating new practices with existing sets of taken-for-granted practices, technologies and rules in order to ease adoption
Theorizing	The development and specification of abstract categories and the elaboration of chains of cause and effect
Educating	The educating of actors in skills and knowledge necessary to support the new institution

Source : Lawrence dan Suddaby (2006)

Maintaining work is an action which performed by actors to maintain an institution. The practice of maintaining institutions, reflects the main activity categories, as follows (Lawrence and Suddaby, 2006).

Table 2. Maintaining work

Forms of Institutional Work	Definition
Enabling work	The creation of rules that facilitate, supplement and support institutions, such as the creation of authorizing agents or diverting resources
Policing	Ensuring compliance through enforcement, auditing and monitoring
Deterring	Establishing coercive barriers to institutional change
Valourizing and demonizing	Providing for public consumption positive and negative examples that illustrates the normative foundations of an institution
Mythologizing	Preserving the normative underpinnings of an institution by creating and sustaining myths regarding its history
Embedding and routinizing	Actively infusing the normative foundations of an institution into the participants' day to day routines and organizational practices

Source : Lawrence dan Suddaby (2006)

Disrupting work is an action aimed at disrupting the institution, including the act of attacking or destroying mechanisms aimed at directing members to comply with the institution. The practice of disrupting institutions, reflects the main activity categories, as follows (Lawrence and Suddaby, 2006).

Tabel 3. Disrupting work

Forms of Institutional Work	Definisi
Disconnecting sanctions	Working through state apparatus to disconnect rewards and sanctions from some set of practices, technologies or rules
Disassociating moral foundations	Disassociating the practice, rule or technology from its moral foundation as appropriate within a specific cultural context
Undermining assumptions and beliefs	Decreasing the perceived risks of innovation and differentiation by undermining core assumptions and beliefs

Source : Lawrence dan Suddaby (2006)

Research Methods

The method used in the preparation of this scientific paper was a qualitative research method with a case study approach. The case study was conducted at PT Telekomunikasi Indonesia Tbk (Telkom) in 2008-2017 periods. In that period, Telkom experienced organizational transformation due to the IFRS adoption. 2007 was the first phase, namely institutional stability. In this phase, the company uses US-GAAP as the accounting standard used. 2008 to 2009 was the second phase, namely institutional conflict. In this phase, an initial assessment of the impact of IFRS was conducted as a response to the regulations issued by US-SEC. A lot of resistance were also occurred in this phase, pros and cons from various parties in the internal company on the IFRS adoption plan to be conducted, until finally a decision making was made that Telkom will adopt the IFRS in 2011 with the approach of transaction-based adoption. In 2010, after it was decided that Telkom will adopt the IFRS with transaction-

based approach, a planning process was conducted related to the change management to be performed. In 2011, when Telkom has adopted IFRS, implementation period began and operational problems occurred due to the implementation of IFRS in the company.

Data obtained in this research were primary and secondary data. Primary data were obtained from the interview process and observation. Secondary data was obtained from library research. Researcher conducted a semi-structured interview to seven interviewees involved in the IFRS adoption process in PT Telkom. Interviewees were divided based on the involvement phase in the IFRS adoption process in PT Telkom. Interview provides and insider's perspective and also motivation of an event, however, on one hand they were also the subject of information bias. Therefore, researcher compared the organizational document at the time of the event.

Data analysis was conducted by the following steps: 1) Organize and prepare the data for analysis. At this stage, the researcher built timeline of the IFRS adoption process in PT Telkom, collected the data obtained from the results of interview, observation and various secondary data from organizational documents, books, and internet. Copied the results of interviews, scanned the material, typed the field notes, categorized all visual materials, as well as sorted and organized the data into different types depends on the source of information obtained; 2) Read or look at all the data. At this stage, the researcher reflected the overall meaning of information, provided notes on the interview transcripts or field notes to start concluding the main idea of the data obtained; 3) Start coding all of the data. At this stage the researcher grouped the information obtained (interviews transcript, field note, or images) and wrote the titles representing categories; 4) Generate description and themes. At this stage the researcher describes detailed information on people, places or events, then used the coding to determine the theme to be analyzed; 5) Interrelating themes/description. At this stage, the researcher connected the themes and descriptions using narratives, tables and images to convey the findings of the analysis; 6) Interpreting the meaning of themes/description. At the last stage, the researcher interpreted the research results in the form of narrative and compared it to the theory.

Results

Phase 1 : Institutional Stability

At the beginning of this research, the financial reporting process in Telkom was in a stable phase. Telkom consistently applies US-GAAP as the financial accounting standard used by a company. Institutional stability was occurred in 2008 and before. However, by the end of 2007 the “International Series Release No. 1306, File No. S7-13-07 “Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to US. GAAP” was issued by US-SEC which provides freedom for foreign companies listed on the US stock exchange to deliver IFRS-based financial statement without the need to reconcile into the US-GAAP. This event became the initial motivation for Telkom to adopt IFRS.

Phase 2 : Institutional Conflict

In 2009, the initial assessment phase of the impact of IFRS adoption in PT Telkom began. Initially, there was resistance arising from the internal company. The resistance occurred due to several reasons, namely: first, the tendency to delay the changes because they feel they still have plenty of time to make changes. Second, some argued that this does not provide benefits and therefore reluctant to change. Third, adopting IFRS means learning new accounting standards, some people may fear that their control over these old standards is not as good as mastering the new standards. Fourth, reluctance or resistance to change can also be caused by concern that the changes will change they role within the organization. Fifth, doubts on the ability of the initiator of change or even dislike can reduce the acceptance of a person to change initiatives. Sixth, often what the employees imagine on change is different from what leaders think of change. Seventh, not everyone is ready or dare to enter a new territory or know something new.

The leadership support plays an important role in reducing employee resistance, eliminating employee concerns and hesitancy in facing major change, so that hesitant employees are now actively involved in the program.

To eliminate this resistance, many things were conducted. Management commitment as well as various socialization conducted in the end bring along all employees of PT Telkom which initially resistant to support the IFRS adoption process.

It was finally established that Telkom will fully adopt IFRS with a transaction-based approach and the adoption would be started in 2011, one year earlier than the IFRS-based SFAS implementation in Indonesia.

Phase 3 : Institutional Change

April 2010 marked the start of IFRS adoption program through the Kick-Off IFRS Implementation Telkom Group 2011 event took place in Bandung. The presence of President Director of Telkom, Rinaldi Firmansyah, Finance Director of Telkom, Sudiro Asno, Director of Information Technology & Supply Indra Utoyo, Director of Compliance & Risk Management Prasetio, the senior leader, and Finance Director of the subsidiary in Kick Off event themed “Transforming the Finance Environment through IFRS Adoption” shows how big the commitment of top management of the companies and subsidiaries to IFRS adoption program.

Top management supports in the IFRS adoption process is instrumental in helping to manage the resources, influencing priorities, and directing the course of change.

The initial process of change began with the establishment of IFRS adoption task force and roadmap of Telkom IFRS adoption. IFRS Task Force organization is responsible for the effectivity as well as coordination of the implementation activity of mediation, assistance, standardization of implementation escorting and monitoring for all adoption activity of global finance statement standard/IFRS so that the implementation of IFRS in Telkom can be fully implemented starting in 2011 and the achievement of clean opinion from the auditor on IFRS in the financial reporting of PT Telkom in 2012. To perform such responsibilities, the IFRS task force has the following main duties: a) preparing the concept of IFRS adoption into SFAS and the implementation guidelines of IFRS, b) preparing the implementation plan and roadmap of SFAS implementation to be prepared for full implementation starting in 2011, c) the implementation of assistance activity for the preparation and adoption process of IFRS to the functional unit directly related to the IFRS implementation, d) the implementation of advisory role to the Director of Finance through VP Financial Logistic Policy for the development of IFRS implementation in Telkom, e) escorting the implementation stages and problem solving for the implementation of IFRS in PT Telkom, as well as escorting the

transfer of its management to the related functional unit, and f) the provision of IFRS implementation help desk.

Roadmap of Telkom IFRS adoption was arranged in such a way as a form of change management guidelines that will be conducted in Telkom related to the IFRS adoption. To achieve the goal of change, the company created transformation roadmap that was divided into four phases, namely assessment, design, implementation, and sustain. The initial assessment on the accounting differences serves as a foundation to assess other areas, including their impact on system, process, and human. Such thorough assessment will help to reduce the workload to the level that is really needed. The management view that there are three variables that must be controlled in this adoption project, namely schedule, quality, and cost.

Table 4. Adoption roadmap of IFRS in PT Telkom

Years	Phases	Activities
2010	Assessment	<ul style="list-style-type: none"> ● Assessment of business processes and IT in Telkom ● Assessment of <i>accounting gap</i> and <i>practical gap</i> ● Define and select IFRS options for the first implementation of IFRS ● Assessment of IT and business processes that affected by IFRS implementation. ● Mock-up creation of IFRS financial statements (March 31, 2010)
	Design	<ul style="list-style-type: none"> ● Framework and detail creation of Chart of Account (“COA”) ● BRDs creation for affected IT application ● Mock-up creation of IFRS financial statements (June 30, 2010) ● Creation of position paper IFRS for the important accounting topics ● Creation of group reporting package IFRS ● Preparation of recognition and measurement process for transitional transactions

Years	Phases	Activities
	Implementation	<ul style="list-style-type: none"> ● Accounting and Reporting : <ul style="list-style-type: none"> – guidelines creation for <i>group reporting package</i> – preparation of IFRS financial statements, IFRS accounting policy, and blank IFRS financial template ● Data and Technology : <ul style="list-style-type: none"> – defines technical specification – build and modify new IT application – test the affected system – migrating relevant data – Go live system ● Process and Control : <ul style="list-style-type: none"> – updating and customizing SOA & SOP business processes – redesigning the relevant controls – reviewing the division of tasks in ERP ● Management of Change : <ul style="list-style-type: none"> – socializing and training on accounting and reporting of data and technology, as well as processes and controls ● Overall Project Monitoring <ul style="list-style-type: none"> – monitoring progress of IFRS implementation and identify and mitigate risks
2012	Sustain	<ul style="list-style-type: none"> ● Create and operate IFRS implementation support systems ● Identify, prioritize and resolve issues that arise in business processes, controls, and IT applications ● Manage IT application retest and activation and business process changes ● Checking the process and quality of data ● Make a list of activities and roadmaps to make improvements ● Compile the transition process from sustain phase to the daily business phase

Source : Annual Report PT Telkom (2011)

Phase 4 : Implementation

Starting from 2011 onwards was the implementation phase of IFRS in Telkom. In this period IFRS had been consistently implemented. It is in this phase that the stabilization of new processes, new procedures, and the new systems took place. The main activity in this phase was to monitor compliance or in other words reviewed the accounting transactions to ensure that transactions are properly booked and monitor the compliance with the new reporting standards.

Continuous improvement program was the next focus. Some other activities in this phase were facilitating the transfer knowledge to the accountants within the company as well as end users of the report, to review the status, productivity, and issues to identify areas of improvement as well as implement changes to improve the reporting process. This phase is an important phase for maintaining corporate compliance in the delivery of financial reporting.

In addition, as a result of transaction-based IFRS adoption, problems arose and resulted in difficulties in the implementation of transactions at the operational level. In general, the difficulties that arose at this operational level come from the business of the revenue process. The ongoing difficulties that have never been solved to the root of the problem ultimately resulted in findings by external auditors for several consecutive years from 2011 to 2016. These audit findings related to the implementation of IAS 18 regarding the selection of the revenue recording point of view from the Agent or Principle side and revenue records for multiple element arrangement (MEA) type of transactions. The research results found that there is a change in management and lack of key actors involved in the process of adoption of IFRS in the implementation phase. Therefore, the commitment to IFRS implementation is fading away.

Institutional Work in the Transformation of Organization

The institutional changes took place in Telkom as a result of the transaction-based IFRS adoption have a huge influence as they impact on all aspects of the organization, starting from the people, business process, accounting standards, culture, and also system and technology. The impact was so big that the process of transaction-based IFRS adoption in Telkom can be said to lead to organizational transformation.

Disrupting Work in organizational transformation in Telkom took place in the institutional conflict phase. Disrupting work in Telkom is the third form of institutional work, namely undermining assumptions and beliefs. In other words, Telkom's management directly undermines the core assumptions and beliefs of all employees in the organization to participate in a major shift from being originally oriented to the rule-based US-GAAP accounting standards to the principle-based IFRS, and support the management program in IFRS adoption. The management of PT Telkom also conveys the benefits that will be felt by the company in the future if it adopts IFRS, so that all employees are eager to learn and face change.

Disrupting work was done by giving tone of the top, as evidence of management support in IFRS adoption program in PT Telkom. The management support was formally upheld in the form of Kick-Off IFRS Implementation Telkom Group 2011 event held in Bandung in April 2010. The presence of President Director of Telkom, Rinaldi Firmansyah, Finance Director of Telkom, Sudiro Asno, Director of Information Technology & Supply Indra Utoyo, Director of Compliance & Risk Management Prasetio, the senior leader, and Finance Director of the subsidiary in Kick Off event themed "Transforming the Finance Environment through IFRS Adoption" shows how big the commitment of top management of the companies and subsidiaries to IFRS adoption program.

Tone of the top is an important component for changing the culture of the company. In the COSO 2013 Internal Control Framework, tone of the top is a key component in establishing a control environment. In other words, the corporate culture is reflected in its leadership culture. Like a child who imitates his parents, so does with employees who imitate his leadership.

Management's commitment in supporting IFRS adoption helps in eliminating the obstacles and resistance that arise, and turns it into a support effort of the various line units in the company.

Creating Work in organizational transformation in Telkom takes place in the institutional change phase. Creating work in PT Telkom is the third form of institutional work, namely

mimicry, theorizing, and educating as it is done by connecting new practices with the existing practices, technologies and rules to facilitate adoption, forming new concepts and practices for members of the organization to engage and become part of the new program, as well as educate change agents, in this case the IFRS Task Force in terms of skills and knowledge needed to support the adoption of IFRS in PT Telkom.

Creating work is evidenced by the establishment of IFRS Task Force Team at PT Telkom which is a dedicated work team to escort IFRS adoption program in Telkom that will be implemented according to its implementation targets, that is in 2011. This team is then the change agent in PT Telkom. Previously this team was equipped with various knowledge related to IFRS through various training, workshop, and certification which then used to disseminate to other related units in PT Telkom affected by IFRS adoption.

In the process, the task force team conducts preliminary assessments, assesses the differences in US-GAAP and IFRS accounting standards, calculates their impact on overall systems, business processes and organizations and designs changes with benchmark support to overseas telecommunication industry companies to link new practices with the existing practices.

The final output of the team includes IFRS technical position papers, IFRS reporting package group, IFRS manual accounting, post-adoption IFRS business process, a practical guide on operations in implementing IFRS.

Maintaining work in organizational transformation in Telkom takes place in the implementation phase. Maintaining work that occurred in PT Telkom on the adoption of IFRS are the first three forms of institutional work, namely enabling, policing, and deterring. This is because, in the sustain phase, as mentioned earlier, the primary focus is on maintaining compliance with financial reporting. The thing conducted to maintain compliance is by conducting continuous supervision, making accounting policy as well as operational execution guidance, and also business process which has been validated by management, so that is binding and must be obeyed by all employees in PT Telkom.

Unit Financial Logistic Policy is the unit responsible for issuing financial policies and operational guidelines that bridge accounting and operations. Every policy issued is mandatory to be obeyed by all business units in PT Telkom.

In addition, maintaining work is performed by auditing the implementation of business processes conducted annually by the Internal Audit unit and reported to management in the form of Management Assessment Report. In addition, related to the implementation of IFRS-based accounting standards and IFRS-based SFAS are also reviewed by external auditors who are conducted annually in Accounting Issue discussion sessions. Units receiving red cards from external and internal audit results will be subject to different sanctions, depending on the type of findings. The President Director and the Audit Committee monitor the company's ongoing operational process through input from the auditor.

Table 5. Sample of Qualitative Evidence

Sample of Qualitative Evidence	
Phase 2. Institutional Conflict	
2.1	"...So far, we always communicate with the audit committee, we always pay attention to every rule set by PCAOB and SEC. It began in 2009, that we started preparing for IFRS. Just beginning of 2010 Telkom took the initiative to prepare the adoption of IFRS. This is an opportunity for Telkom because, firstly, Telkom is the only company in Indonesia that issued shares on NYSE (New York Stock Exchange), secondly, Telkom always makes reconciliation with US GAAP, whereas in the future accounting standard will only lead to one accounting standard and globally directed to IFRS..."(interview, M.Wisnu Adji, Head of Telkom's IFRS Implementation Team)
2.2	"...At that time, the US SEC provided an opportunity that if Telkom adopted a full adoption of IFRS, Telkom only had to provide one document, not to make any reconciliation again..."(interview, M.Wisnu Adji, Head of Telkom's IFRS Implementation Team).
2.3	"...A that time Telkom's finance director had an accounting education background, therefore he was very supportive. Maybe if his background is not accounting, it can not happen. In addition, the chief of audit committee has educational background up to S3 in economics so strongly supports the adoption of IFRS...because management from comissioner level and others have been really supportive, timing when doing this convergence has been very right..." (interview, M.Wisnu Adji, Head of Telkom's IFRS Implementation Team).

- 2.4 "...One thing must be understood that Telkom is the only state-owned entity (SOE) that issued shares on the NYSE. Telkom will be a benchmark for other SOEs in terms of financial reporting. Then, we assure the parties that the implementation of IFRS will support the business. We socialize all business units that IFRS adoption will not interfere with business, instead it will build a business. At that time there were benchmarks in some telco industries globally how the influence before and after IFRS. The biggest things affected are on the income side, then can be accounted for in business and will increase the confidence of investors and stakeholders. At that time we have explained the things that will be obtained if adopted and if not adopted IFRS..." (interview, M. Wisnu Adji, Head of Telkom's IFRS Implementation Team).
-

- 2.5 This resistance arises from some reasons, these are: first, the tendency to postpone change because it feels there is still plenty of time to make changes. Second, some argue that this does not provide benefits and is therefore reluctant to change. Third, adopting IFRS means learning new accounting standards, some people may fear that their control over these old standards is not as good as mastering new standards. Fourth, reluctance or resistance to change can also be caused by concerns that the change will change their role within the organization. Fifth, doubts about the ability of the initiator of change, or even dislike, can reduce a person's acceptance of change initiatives. Sixth, oftenly what employees imagine change is different from what leaders think about change. Seventh, not everyone is ready or dare to enter a new territory or know something new. Top leadership support plays an important role in reducing employee resistance, eliminating employee concerns and hesitancy in the face of a major change, so that hesitant employees are now actively involved in the program (Leading Through Transformation, Adji and Basuki, 2012)
-

Phase 3. Institutional Change

- 3.1 "...the final decision about IFRS adoption was decided on director meeting...I felt very supported by management. Therefore, I didn't face any obstacles in IFRS adoption process...management from comissioner level and others were very supportive. Timing when doing this convergence has been very right..."(interview, M. Wisnu Adji, Head of Telkom's IFRS Implementation Team).
-

- 3.2 "... When the IFRS adoption was decided, the IFRS implementation process was planned well enough at the beginning. For example, a gradual resource recruitment, Telkom filled its resources by recruiting several experts. And regeneration, especially in financial unit was quite good Telkom also very supportive to send some employees to get update and training related to this IFRS ..." (interview, M. Wisnu Adji, Head of Telkom's IFRS Implementation Team).
-

- 3.3 The adoption of IFRS in PT Telkom brought a big change to the company. This can be seen from the process of change that takes a long time, that is since 2007, reached the peak in 2011, and still lasts until now. The process of change also requires a long commitment and preparation. This is because the adoption process is carried out from the transactional level, affecting accounting and reporting changes, systems and processes, business, and human resources (Mengurai Benang Kusut, Merajut Masa Depan: Transformasi Tata Kelola Pelaporan Keuangan Telkom Pasca Sarbanes-Oxley Act, Arryman et al, 2012)
-

- 3.4 "... The initial stage is to identify firstly from existing standards related to telco industry, the second stage is to benchmark the financial statements of similar companies that have implemented IFRS, for example British Telecom company, a company from the UK, where they have full adoption IFRS ... Once we know the difference, then we do a qualitative assessment. Which is in this qualitative assessment we compare the standard to make the difference manual, in order to see the difference Next we do quantitative assessment, where in this quantitative assessment we have entered the numbers, where we see the effect of applying this standard to the number on a transaction"(interview, Marisi Purba, Manager of Telkom IFRS Implementation Team)

Phase 4. Implementation

- 4.1 "... The main factor of adoption of IFRS is less successful can be categorized into two. First, it is related to process flow. At the beginning of this IFRS was decided, the establishment of agent/principle is done by the inputer in the business unit. What we found is usually a lot of transaction evidence is not complete when the user will determine the agent/ principle. Contracts between Telkom with customers or suppliers are still not obtained. Users still do not get enough information. Second, the user's competence is still not sufficient in the classification. Assessment agent/principle is complex. Basic classification agent/principle, there are 7 parameters that must be assessed. Users in front of the Account Manager, are employees who usually handle sales, offer solutions, and not given understanding of the 7 parameters assessment agent/principle so that the results are not accurate"(interview, Jarot Widyatmoko, Telkom AVP ICOFR Audit)

- 4.2 "... There are some aspects that cause this to not work properly. First, planning should be reviewed periodically. Whether the implementation is in accordance with the planning or not. If from the review found a problem, should perform directly spontaneous action. If the problem is found due to competence, training should be done. If the problem is visible on the system, an adjustment should be made to the system. The monitoring and review process is inadequate resulting in problems. This should be a lesson. It should not be that adjustments are made only once and are confident that it will be one hundred percent successful this should be a lesson learn. In related units (finances), with the adoption of IFRS they gain IFRS knowledge. However, this knowledge should come down to the operational part. If this knowledge is not evenly distributed, it would not be good for Telkom that on the other hand some understand but the facts, show that the result is not good ..."(interview, Jarot Widyatmoko, Telkom AVP ICOFR Audit).
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Conclusions

The result of this research reveals that IFRS adoption process analyzed using institutional work theory is as follows: (1) disrupting work is held by giving tone of the top, making management commitment as a form of support to IFRS adoption program, (2) creating work is held by considering the impact of adoption to rule, technology, and business processes, creating a change program, as well as educating change agents, (3) maintaining work is held

by providing ongoing monitoring, and issuing compulsory policies to all employees. IFRS adoption has an impact on easing the process of financial reporting, but on the other hand it has a negative impact by providing operational difficulties. From this research we can conclude that its not easy to implement IFRS transaction based in a company. Tone of the top is an important thing that must exist in the company to continuously maintain consistency of implementation and provide solutions to problems that arise as a result of changes that occur in the company.

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THE ROLE OF INFORMATION TECHNOLOGY ON THE QUALITY OF INFORMATION SYSTEMS IN SOEs

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Abstract

This study was aimed at identifying the impact of information technology on the quality of accounting information system and the impact of the quality of accounting information. This study is a quantitative research. The samples of this study included 18 18 sectors of banking and insurance institutions The data was analysed using double regression analysis with the assistance of SPSS V20 software. The results of this study showed that knowledge positively and significantly affected the information technology to the quality of accounting information system and positively and significantly affected the quality of the accounting information systems to quality of accounting information.

Key words: information technology, accounting information system, quality of accounting information.

1. Introduction

Today, information technology Growing rapidly along With increasing needs The public will be inside information Various life scales. Development Information technology into something that Unavoidable, that affects All aspects of human life. The development of information technology Significantly affect the competition Business industry players.

One of the factors influencing the quality of accounting information system is the factor of using information technology.

Information technology in research is all forms of hardware, software, and communication technology and network, and combinations formed among these technologies are used as a means to organize input activities, Processing and output into accounting information and data storage quality (Bagranof, et al2010: 8; Baterman & Snell, 2004: 6; Turban and Volinino, 2011: 8: O Brien, 2004: 7; & Keen, 1995)

The linkage between the use of information technology and accounting information systems has been the subject of many studies today (D. Macini 2013: 2). In most of these studies, information technology factors are used as the main variables that affect the components of other accounting information systems (D. Macini, 2013: 2). Study Husen et al 2007, reveals that technological factors have a very important influence To ensure the successful implementation of information systems. The study of Ismail and King (2007), concludes that the dimension of maturity level of information technology becomes one of the dimensions that affect the alliance (alignment) accounting information system.

Demands for business sectors including SOEs for deep reform Its corporate governance also increases with the demand that corporations be more accountable and responsive to consumer demands. A quality accounting information system has not been fully implemented by companies in Indonesia. Mistakes of administration and posting of bookkeeping "according to Dahlan Iskan (2012) become the biggest obstacle in the management of a number of SOEs at this time. Because of technical guidance (SOP) financial reporting system so that most insurance companies constrained in applying international accounting standards or International Financial Reporting Standard (IFRS) (Hendrisman Rahim, 2013, Solihah, 2013.

2. Review of Literature .

The theory underlying the concept of this study is based on a Critique of the classical public administration model which then gave birth to a new public management concept (New Public Management). The concept of NPM emerged in the 1980s with the main Goal wanted. Achieved is a change in the way of government management in the delivery of services to the community with an emphasis on market orientation (market orientation) so as to produce efficiency and effectiveness of public services.

Information technology means all forms of hardware, software, and communications technology and networks, as well as combinations formed among these technologies used as a means of organizing input, processing and output activities into accounting information and quality data storage (Bagranof et al. 2010: 8, Baterman & Snell 2004: 6, Turban & Volinino 2011: 8, Keen 1995, O'Brien 2004: 7) Overall, information technology according to Applegate et al (2009: 240) is grouped into (1) the technological elements of networks, (2) technology related to the transaction processing system (the technological elements of processing systems), And (3) information technology related facilities (the technological elements of facilities)

System quality is focused on the interaction between users and the system. Dellon & McLean (2003) use the term "success" of information systems to measure out-put generated by the real system. Gelinas and Dull (2008: 23) state that the successful implementation of accounting information system (SIA) as a profitable system is applied On key organizational strategies, and satisfy one or more users, and improve the quality of their performance.

According to Nelson et al. (2005: 26) "Some dimensions to measure the quality of the system include system reliability, system flexibility, system integration, system accessibility, and system response time". Users of information systems certainly hope that by using information systems will get the information they need.

Wixon and Todd (2005: 85) which states that quality accounting information systems have dimensions such as reliability, integration, and accessibility. Sacer & Oluic research, (2013: 124) also explains that information technology affects the quality of information systems through ease of operation accounting information system. (Husen et.al.2007) which reveals that technological factors have an important influence to ensure the successful implementation of accounting information systems. Information systems capable of producing information in a timely, accurate, and relevant manner as well as meeting other criteria and measurements about the quality of information, will impact on user satisfaction.

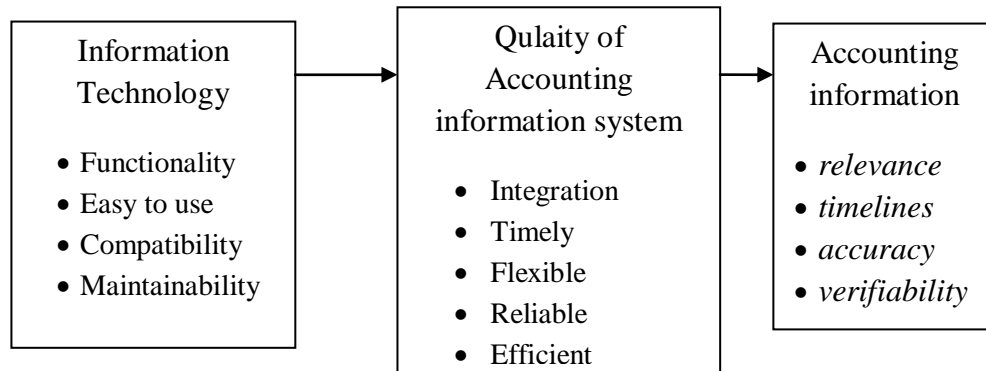
3. Research purposes.

In general, this study aims to identify the factors that Considered to affect the successful implementation of State owned company information systems. Based on the research that has been done before can be identified several main factors that influence the successful implementation of SOE information systems, namely organizational culture, technology and commitment of leaders and policy (policy). To test the research empirically then selected case of SOE information system in Indonesia.

4. Reseach Model.

Based on the theories and concepts as well as previous studies related The problem of this research, then built research model to answer research question. Research model that want to be developed in this research is proving hypothesis that there is influence of information technology to successful implementation of

accounting information system and its impact to quality of information on state-owned company at banking sector and insurance.



5. Proposition and Hypothesis.

Based on the theoretical framework that has been mentioned above, then submitted Several propositions that will be the frame of reference in this study. As for The propositions are:

Proposition 1: The Quality of Accounting information system influenced Technology.

The success of accounting information systems in SOEs is influenced by technological factors. Bhimani examines the pharmacy industry in the UK and discovers the weaknesses of accounting information systems that cause incomplete information to be received by consumers, and a reality that information needs are not just mere financial data but are extended to information related to competitors and product and resource life cycles. Bihmani, A., & Bromwich, M. (1989).

Rowe, A., Mason, R., & Dickel, K. (1985) The disadvantages of accounting information systems in insurance companies in Australia, there are 23 insurance

companies affected by liquidation caused by global market changes that are not anticipated by the accounting information system in The company.

In support of financial decisions, the use of information technology becomes important to communicate the data so that the distribution of data in harmony that form the accounting information system or management information system / business. (Azhar susanto, 2013: 87).

Blanton et al (1988) describes one of the main objectives of the organization using information technology is to improve the effectiveness of information technology support (IT support effectiveness) on the implementation of accounting information system as a whole. Technology simplify the process and data communications so as to accelerate the implementation of the system. The effectiveness of information technology is judged on the objectives of the information system at the time the information system is implemented (Hamilton & Chervany, 1981).

Husein et al (2007) found that information technology is critical in ensuring the successful use and application of SIAs. It is also explained that all technological factors (information system facilities, information technology staff competencies, information systems integration, user support and information system structures) used in the study have a significant effect on the success dimensions of SIA (system quality, information quality, perceived usefulness And user satisfaction).

Proposition 2: The quality of accounting information systems affect the quality of accounting information

Quality accounting information obtained from the results of the application of quality accounting information systems (Sacer et al, 2006: 6) Research begins to examine AIS to support it. The chosen strategy recognizes that AIS has the potential to

facilitate management in improving organizational performance by providing targeted information (Gerdin and Greve, 2004). The study of evidence of the relationship between AIS and this financial performance; Highlighting studies conducted by Elena Urquia Grande, Raquel Perez Estebanez and Clara Munoz Colomina (2010) who found a positive relationship between AIS design and organizational strategy and Performance. Successful implementation of AIS can save money and shareholder time. Information provides Value generated by AIS to shareholders and stakeholders in making investment decisions (Zulkarnain Muhamad Sori, 2009). Accounting information relating to the financial required for the manager level is generated by accounting information system as said Sri Mulyani (2009: 25) stating that Accounting information system as a media or tool that produces information so that project managers or employees engaged in management level can make decisions (De lone & McLean, 2003), information criteria are generally said to be qualified if they meet relevant, timely, accurate, Complete and concise (Hall, 2011: 19; McLeod & Schell, 2007: 35). Meanwhile, according to O'Brien & Marakas (2010: 327), quality information has three dimensions including time dimension, content dimension and format / shape dimension.

Based on the above proposition, the research hypothesis is:

1. Implementation of Information technology affects the success of accounting information systems.
2. The success of accounting information systems supported the quality of accounting information.

6. Empirical Results the Studies

1. Measurement Variables and Testing Hypotheses

In order to analyze the data, which was collected through questionnaires different statistical tools, were used. For that purpose, the information gathered was analyzed using the SPSS software version 20.0. According to the results of the demographic questionnaire, the following summary information about the profile of the sample is presented. In terms of education, 5.1 percent of the samples were PhD, 38.1 percent were Masters and 55.8 percent were Bachelors

Construct validity is typically evaluated by looking at the patterns of correlations of the scale in question with a variety of other measures. Validity is measured in two contexts – first is content validity and second is construct validity.

The statistical tool used for measuring reliability based on internal consistency is Cronbach's alpha. The Alpha Value greater than 0.6 it shows that the questionnaire is reliable (Ghozali, 2012). A correlations' matrix was used for determining the relationship among all the variables. As the result, the highest correlation 0.74 existed between AIS and information technology and the lowest correlation 0.52 existed between accounting information and accounting information systems.

7. Result and Discussion

Based on the results of studies in research indicate that in SOE companies that have developed information technology, the successful implementation of accounting information systems in support of various managerial decisions influenced by information technology that always support in data processing, display data and information accurate and targeted, thus The quality of accounting information systems is influenced by the ease of information technology when used in information systems.

The results of this study illustrates that the use of information technology support the operation of information systems based on two factors: the benefits of information technology to provide support to the process of information systems and services in the field

of information technology when used by users in completing tasks in the process data into information systems. Information technology is easy to use so it can be learned easily, easy to use, easy to remember, compatible to use.

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THE EFFECT OF SUSTAINABILITY REPORT DISCLOSURE AND GCG TOWARD FIRM VALUE MODERATED BY INFORMATION ASYMMETRY IN CGPI PARTICIPANTS 2012-2015

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ABSTRACT

In these social media era, information could be easily transferred among people. Especially something about reputation. A good reputation could increase firm value and on the other hand bad reputation can decrease firm value. In many occasion, threats to firm reputation occurs, some of it caused by negative publication about it's operational activities, especially the one that breach code of ethic. Ways to resolve those are by issuing sustainability report and applying a good corporate governance practice.

The purpose of this study is to find out how big the influence of sustainability report disclosure and GCG toward firm value moderated by information asymmetry in CGPI participants 2012-2015. The research method used in this study is descriptive quantitative. The samples are various firm who participate in CGPI Scoring. Based on the results of purposive sampling there are 8 firms that fit into the criteria during observation period of 2012-2015, so there are 32 samples in this research. Data analysis technique used in this research is multiple linear regression analysis and moderated regression analysis.

Based on statistical test, concluded that sustainability report disclosure has significant positive effect towards firm value, GCG has no significant effect towards firm value, information asymmetry moderated the effect of sustainability report towards firm value, and information asymmetry did not moderated the effect of GCG towards firm value. We suggest that the next researcher to use other proxy to measure GCG beside CGPI without losing it's comprehensiveness and with added internal and qualitative information and to expand the scope of the sample (not limited to CGPI participant).

Keywords: Sustainability Report, GCG, Firm Value, and Information Asymmetry.

Introduction

In the last few years, internet user especially social media in every country grew larger, information can be spread out really quickly and could have direct impact for some publicly traded companies (Kipp, 2017). Some of those information could be about firm reputation. A good reputation could increase firm value and on the other hand bad reputation can decrease firm value. In many occasion, threats to firm reputation occurs, some of it

caused by negative publication about its operational activities, especially the one that breach code of ethic.

It happened to United Airlines in April 2017⁴². United Airlines' decision to forcibly eject a customer from an overbooked flight got recorded by a passenger and went viral on the internet. It caused shares of United fell as much as 6.3% in pre-market trading, dropping \$1.4 billion from the now \$21 billion company by market cap. Another example from Indonesia, on April 1st, 2016, Indonesian Corruption Eradication Commission (Komisi Pemberantasan Korupsi-KPK) established CEO of PT. Agung Podomoro Land Tbk (APL) as a suspect of bribery. He alleged giving a bribe to House of Representative DKI Jakarta (DPRD DKI Jakarta). When the trading open on Monday april 4th, 2016, the APL shares took a dive as much as 10%⁴³. Other cases, happened concerning environmental issue. Singapore Environmental Commissioner boycott paper-based product sales from 5 firms in Indonesia because of the way their plantation caused forest fire. Gandi, Manager Director of PT. Sinar Mas, one of the 5 firms that got banned, said that he is worry that this step will be followed by other countries who import their paper from Indonesia. This boycott is a hard hit to the firm, furthermore Gandi said that this could be a big threat to the industry who employ 2,1 millions workers.⁴⁴ Surely, if its considered a hard hit, it will also have a big impact to profitability

From all those fact, it shows that negative publication caused investors have a negative perception thus effected firm value. Ways to resolve those are by issuing sustainability report and applying a good corporate governance practice. Djatmiko⁴⁵ said, if seen in a bigger scale, lately, foreign investor who are willing to invest in Indonesia, usually look at how far the firm practice their good corporate governance. Furthermore, he said that this has been a global trend for the last two decades. Jeremy Paul Wawointana, Chief of Investment in PT Sucorinvest Asset Management⁴⁶ also said that about 90% of investment portfolio placed in firms that have a GCG practice assessment.

Director of The Sustainability Accounting Standard Board, Elisse Walter (2016) said that "Investors are pushing harder and harder for this information...They are doing this through an increasing number of shareholder proposal"⁴⁷. This statement also supported by a survey conducted by Ernest & Young and Boston College in 2013 which showed almost 60% of the respondent stated that sustainability report increase firm reputation. Surely, increased firm reputation means firm value is getting higher.

Nonetheless, there are some interesting phenomena happened. PT. Garuda Indonesia who got Most Trusted Company rating (according from Corporate Governance Index Perception (CGPI) rating assessed by The Indonesian Institute for Corporate Governance

⁴² Shen, Lucinda. April 11, 2017. "United Airlines Stock Drops \$1.4 Billion After Passenger-Removal Controversy" <http://fortune.com/2017/04/11/united-airlines-stock-drop/>

⁴³ Kusuma, Dewi Rachmat (2016) "Bosnya Ditahan KPK, Saham Agung Podomoro Anjlok 10%" <https://finance.detik.com/bursa-dan-valas/d-3178824/bosnya-ditahan-kpk-saham-agung-podomoro-anjlok-10>.

⁴⁴ Aria, Pingit (2015) "Akibat Asap 5, Perusahaan Ini Diboikot Singapura" <https://bisnis.tempo.co/read/news/2015/10/13/090709146/akibat-kabut-asap-5-perusahaan-ini-diboikot-singapura>

⁴⁵ Harmanto Edy Djatmiko, "GCG sebagai Pemacu Nilai Tambah" *SWA*, 21 Desember 2015 – 6 Januari 2016, hlm. 26.

⁴⁶ Vicky Rachman, "Konsisten Praktikkan GCG, Kepercayaan Investor Makin Tinggi" *SWA*, 20 Desember 2016 – 4 Januari 2017, hlm. 62.

⁴⁷ Shumsky, Tatyana (2016) "Investors Demand More Sustainability Disclosures From Companies" <http://blogs.wsj.com/cfo/2016/09/26/investors-demand-more-sustainability-disclosures-from-companies/>

(IICG) and SWA magazine) in 2010 to 2013, and then again in 2015, it's CEO become suspect of bribery in purchasing aircraft engines from Rolls Royce UK⁴⁸. Meanwhile, as seen from CGPI score, this firm have been conducting GCG practice with such an outstanding score. Same corruption allegations case happened to BCA, a firm in banking industry with Most Trusted Company rating⁴⁹.

Not only real life event, but some study also showed inconsistency. Haat, et al (2008) conduct research in Malaysia concluded that GCG have no significant impact towards firm value. Nuswandari (2009) also found the same thing, she tested the effect of CGPI score towards firm value resulting in no significant influence. Then, Riandi and Siregar (2011) proved that GCG practice have no influence towards firm value. Inconsistency also shown in research about sustainability report and firm value. Dobre, et al (2015) conducted study in Romania stated that environmental and social performance have no significant impact on financial performance which at the end firm value. Siew, et al (2013), Byus, et al (2010) and Dagiliené (2015) also have similar results.

Moreover, Nielsen Global Corporate Sustainability Report Survey 2015⁵⁰ in ASEAN showed the sales of consumption product from brands that committed to sustainability only grew 4% globally since the year before. Those number considered too low to have an impact in increasing firm value. This survey also means that generally, consumers in ASEAN do not care about firm's commitment on sustainability when they choose a product. Another survey conducted by Ethical Corporation in 2015 stated that Most CFOs are not absolutely convinced of the value of firm's sustainability report.

GCG is used as controlling tool capable of prevent/reduce agency problem in a firm, seen as a positive issue by investors (Randi and Juniarti, 2013). According to agency theory, what agency problem means is occurrence of information asymmetry (Jensen and Meckling, 1976). Thus, when information asymmetry occurrence is high, management will put more effort to reduce it, for example, by issuing sustainability report and good corporate governance practice (Bahmani, 2014). By doing so, investor get the signal that firm is having a positive initiative to reduce the information asymmetry thus increasing firm value. That's why, it was concluded that information asymmetry could be moderating the relationship between the influence of sustainability report disclosure and GCG towards firm value.

Research Questions

Based on introduction above, it was concluded that research question of this study are:

- a. How big is the influence of sustainability report disclosure towards firm value in CGPI participant year 2012-2015.
- b. How big is the influence of GCG towards firm value in CGPI participant year 2012-2015.
- c. How big is the influence of sustainability report disclosure towards firm value moderated by information asymmetry in CGPI participant year 2012-2015.

⁴⁸ Afrianto, Dedy (2017) "*Emirsyah Satar Jadi Tersangka, Begini Jawaban Garuda Indonesia*" <http://economy.okezone.com/read/2017/01/19/320/1595733/emirsyah-satar-jadi-tersangka-begini-jawaban-garuda-indonesia>

⁴⁹ Ngazis, Amal Nur., Firdaus, Edwin (2016) "KPK Lanjutkan Usut Kasus Pajak BCA" <http://nasional.news.viva.co.id/news/read/857008-kpk-lanjutkan-usut-kasus-pajak-bca>

⁵⁰ Septania, Rizky C (2015) "*Sustainability, Momentum Penting Konsumen ASEAN*" <http://swa.co.id/swa/trends/business-research/sustainability-momentum-penting-konsumen-asean>

- d. How big is the influence of GCG towards firm value moderated by information asymmetry in CGPI participant year 2012-2015.

Literature Review

Stakeholder Theory

Freeman (1983) mentioned that the term of stakeholder is introduced by Stanford Research Institute, it means, those groups without whose support the organization would cease to exist. The point of those theory is the existence of an organization (in this case a firm) is heavily effected by the support of groups that have a relationship with it. Freeman (1983) then developed stakeholder theory and introduced these concepts in two model, business planning and policy model; and corporate social responsibility model and stakeholder management.

Meanwhile, Donaldson and Peterson (1995:73), divided stakeholder theory into three aspects:

- a. The stakeholder theory is unarguably descriptive. It presents a model describing what the corporation is. It describes the corporation as a constellation of cooperative and competitive interests possessing intrinsic value.
- b. The stakeholder theory is also instrumental. establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals. The principal focus of interest here has been the proposition that corporations practicing stakeholder management will, other things being equal, be relatively successful in conventional performance terms (profitability, stability, growth, etc.).
- c. Its fundamental basis is normative and involves acceptance of the following ideas:
 - 1) Stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by their interests in the corporation, whether the corporation has any corresponding functional interest in them.
 - 2) The interests of all stakeholders are of intrinsic value. That is, each group of stakeholders merits consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners

Agency Theory

Another theory related to GCG is agency theory. Jensen and Meckling (1976) stated that agency relationship exists when one or more person (principal) hire other person (agent) to give a service and then delegate the responsibility of decision making to that agent. As an agent, manager responsible to optimize profit for principal, but on the other hand manager also have interest in maximize their own prosperity. Therefore, arise conflict of interest so there are high chance agent not always act for the best interest for principal. (Jensen and Meckling, 1976)

Eisenhardt also said the same thing, principal-agent relationship should reflect efficient organization of information and risk-bearing cost. He assumes that there is partial conflict among participants, efficiency as the effectiveness criterion, and information asymmetry between principal and agent. Furthermore, he added that the problem domain in agency theory is relationship in which the principal and agent have partly differing goals and risk preferences (e.g., compensation, regulation, leadership, impression management, whistle-blowing, vertical integration, transfer pricing). (Eisenhardt, 1989:58)

Sustainability Report

According to Brundtland Report published by WCED (World Commission on Environment and Development) (1987:34) sustainability should be seen as development that meets the needs of present (species) without compromising the ability of future generations to meet their own needs. Bateh, et al (2014:1) mentioned that sustainability might refer to social responsibility, ethics, or a larger piece of the strategic management rubric and has also been tied to strategic decision-making. Meanwhile American Institute of CPAs (AICPA), explain about sustainability as mention below:

“Sometimes used interchangeably with the term corporate social responsibility, the most widely accepted definition of sustainability that has emerged over time is the “triple bottom-line” consideration of

- 1) economic viability,*
- 2) social responsibility, and*
- 3) environmental responsibility.*

While environmental considerations are often the focus of attention, the triple-bottom-line definition of sustainability is a broad concept. In addition to preservation of the physical environment and stewardship of natural resources, sustainability considers the economic and social context of doing business and also encompasses the business systems, models and behaviors necessary for long-term value creation”

Therefore, the definition of sustainability report itself according to Global Reporting Initiative (GRI, 2013:13) is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy.

Good Corporate Governance

Fernando (2006:56) said that the earliest definition of corporate governance in its narrow sense is from the Economist and Nobel Laureate, Milton Friedman. According to him, ‘corporate governance is to conduct the business in accordance with the owner’s or shareholders’ desires, which generally will be to make as much money as possible, while conforming to the basic rules of the society embodied in law and local customs. While International Auditing and Assurance Standards Board (2013:216) explained that governance describes the role of person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity.

Organization for Economic Cooperation and Development (OECD) in Agoes and Ardana (2014) try to develop some principle that can be used as guideline by government as well as business in managing the mechanism of stakeholder relationship. Those principles contain five main aspects, the rights of shareholders and on time an precise disclosure; the transparency regarding structure and firm operation; also responsibility of commissioner committee, and the boards of director to the firm, shareholders, and other party. Shortly, those principles can be concluded as: transparency, fairness, accountability, and responsibility.

Information Asymmetry

This study uses information asymmetry as a moderating variable. Mishkin and Eakins (2015:180) define information asymmetry as a situation that arises when one party's insufficient knowledge about the other party involved in a transaction makes it impossible to make accurate decisions when conducting the transactions. Akerlof (1970) mentioned that the existence of information asymmetry caused adverse selection problem and moral hazard. Furthermore, Mishkin and Eakins (2015:180) explained that moral hazard is a problem caused by information asymmetry when the transaction is already happened. Meanwhile, adverse selection problem is when manager and other internal party know more about the firm present condition and future projection than the investors.

Firm Value

It is difficult to define the value of a company literally, but Hticher in his book *Financial Valuation: Application and Model*, states that the premise of value is: "an assumption about the most likely set of transactional circumstances that may be applicable to the subject valuation." (2017: 6) Thus, when applied to the firm, firm value is an assumption about a set of transactional situations when a firm is the subject of an assessment. When investing, the goal is to buy undervalued stocks and avoid overvalued stocks (Jones, 2013: 261). Therefore, investors will see how big the cost of equity of a company. Cost of equity capital is the required rate of return of a stock. Required rate of return itself is the minimum value needed to encourage investors to buy a stock (Jones, 2013: 265).

There are several ways to calculate cost of equity capital, such as Buildup Method (BUM), Capital Asset Pricing Model (CAPM), Weighted Average Cost of Capital (WACC), and P / E Method (Hitchner, 2017: 153). Anyone who thinks for company appraisal can use Earning per Share (EPS), but Jones (2013: 266) argues that compared to EPS, Dividend Discount Model is more feasible. Furthermore, Jones explained, EPS is the concept of accounting, while dividends are cash payments. Investors can not issue EPS, but they can spend the dividends received. Shareholders may plan to sell their shares in the future, resulting in cash flow from the sale price. If investors think about the cash flow flow from ordinary shares as a combination of dividends and future prices in which stocks can be sold, this is equivalent to evaluating the flow of all dividends to be received. Therefore, we can concentrate on the expected future dividend of the company and the required rate of return accordingly. (Jones, 2013: 266).

Prior Research and Hypotheses

The publication of sustainability report and the implementation of good corporate governance is one form of corporate communication from the management to the stakeholders. With the expectation, the disclosure of corporate initiatives in sustainable operations and applying good corporate governance can increase investor and community confidence in general, thereby increasing the company's operational output (corporate performance) and ultimately enhancing the company's value. With the company's initiative to publish sustainability report and implement the good corporate governance is an effort to legitimize their business. With the hope of getting legitimacy from the society (society), of course the company can have a good reputation that can ultimately increase the value of the company.

Studies show that the disclosure of sustainability reports has a role in the creation of corporate value. Bachoo et al (2013: 83) in Australia, SemeNova, et al (2014: 287) in Sweden and Fatchan and Trisnawati (2016: 32) in Indonesia. According to him, companies with high levels of disclosure sustainability report on environmental and social aspects, tend to have high corporate value as well. Randi & Juniarti (2013: 308) explains how agency theory resolves or reduces the conflict of interest between interested parties in adverse business activities. In order to avoid conflict, the basic principles of good corporate governance are required. Corporate governance, which is a concept based on agency theory, is expected to serve as a tool to give investors confidence that they will get the same information and complete with that of management. Putra and Simanungkalit (2014: 100) mention that good corporate governance is a bridge for both stakeholders in a company, principal and agent. According to the results of their research, the implementation of good corporate governance indirectly affects the increase in corporate value. Researchers from Germany and the Netherlands, Claessens and Yurtoglu (2012: 13) also mentioned that the quality of a good corporate governance framework affects firm value.

However, it turns out there are some previous studies that mention that GCG does not affect the value of the company. Haat, et al (2008) conducted a study in Malaysia that concluded that GCG had no significant and negative correlation to firm value measured using Tobin's Q. GCG in the study was measured by assessing the independence of the board of commissioners, cross-directorship of the board, and managerial ownership.

In addition, a study conducted by Nuswandari (2009) that examined the effect of CGPI on Tobin's Q value on firms listed on the BEI found that CGPI variables did not statistically affect. Then, the same is also found by Riandi and Siregar (2011) Gherghina (2015).

Proponents of stakeholder theory argue that earnings maximizing behavior may be able to adapt to the social framework in which well-functioning institutions establish the right fiscal rules and incentives for optimal individual and social reconciliation. However, not surviving in an economic environment filled with conflict of interest, agency costs and information asymmetry on weak institutions can not perform their duties (Becchetti and Ciciretti, 2008: 3).

From the above statement, it can be concluded that information asymmetry becomes one of the factors that can strengthen or weaken the relationship between sustainability report disclosure and GCG to firm value. This is supported by Diebecker and Sommer (2016: 515) examining the relationship between corporate sustainability performance and information asymmetry on the European Stock Exchange. They found that corporate sustainability performance is more useful in reducing information asymmetry in countries where corporate sustainability performance activities serve as a substitute for institutional forms of stakeholder participation. However, corporate sustainability performance information, especially disclosure, also has a complementary or complementary effect.

This is reinforced by Martinez-Ferrero, et al (2016: 229) which suggests that voluntary disclosure such as CSR can suppress information asymmetry which can then increase capital market confidence and ultimately increase firm value. From various research above can be concluded that influence sustainability report disclosure to firm value can be moderated by information asymmetry. It is also supported by Chen and Liu (2013), who conducted research on the influence of corporate governance practices affecting firm value under conditions of information asymmetry. Chen and Liu (2013: 289) found that the impact of GCG had a significant effect on firm value, with increasingly reduced / reduced information asymmetry.

Bachoo, et al (2013) uses the size or size of the company in its research as a control variable. They then revealed that size was included in the study because large firms tend to have low cost of equity capital, possibly due to lower risk (Bachoo, et al, 2013: 75). So in this study used the size or size of the company as a control variable in viewing the effect of disclosure sustainability report on the value of the company. As mentioned by Zhu (2014) above, better corporate governance practices can be linked to firm value and profitability. Furthermore, in his research Zhu (2014) includes profitability as a control variable, because profitability is considered to increase also the value of the company. Therefore, in this study also use profitability as a control variable. In addition to profitability, Zhu (2014) also uses leverage as a control variable. Then Zhu (2014: 400) explains, empirical evidence shows that firms with high leverage are subject to heavy debt obligations and have a high default risk. Surely it will affect the value of the company. Therefore, in this study also use leverage as a control variable.

Based on explanation above, therefore the hypothesis for this study are:

H1: The disclosure of sustainability report significantly influences the value of the company in CGPI participants in 2012-2015.

H2: GCG significantly influences the value of the company in CGPI participating companies in 2012-2015.

H3: Disclosure of sustainability report significantly influences firm value by moderated by information asymmetry at CGPI participant companies in 2012-2015.

H4: GCG affects significantly against firm value by moderated by information asymmetry at CGPI participants in 2012-2015.

Research Methods

This study uses descriptive analysis and associative with quantitative approach. Researcher gather historical data and observe certain aspect that relevant with the research question. Those data were processed and analyze until information regarding the research question can be concluded.

Operational Variables

Table 1 shows what are the object of this study, definition, and also measurement.

Table 1

Operational Variables

Variables	Definition	Measurement	Scale
Sustainability Report Disclosure as Variable Independen (X_1)	A report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. (GRI, 2013:13)	SRDI (Sustainability Report Disclosure Index)	Ratio
Good Corporate	A structure of shareholders,	CGPI (Corporate	Ratio

Governance as Variable Independen (X_2)	directors, managers, a set of goals the company wants to achieve, and the tools to be used in achieving goals and monitoring performance. (OECD dalam Agoes dan Ardana, 2014: 102)	Governanve Perception Index)	
Firm Size as Variable Kontrol (X_3)	A measure that can be classify how big or small a company is. (Hitchner, 2017)	Size=log(Book Value of Assets)	Ratio
Leverage as Variable Kontrol (X_4)	The level of protection provided by the company to its creditors (Hitcher, 2017:1282)	DER = $\frac{\text{Total Debt}}{\text{Total Equity}}$	Ratio
Profitability as Variable Kontrol (X_5)	A ratio that measures a company's ability to generate profits for shareholders (Hitcher, 2017:1282)	ROA = $\frac{\text{Pretax Income}}{\text{Total Assets}}$	Ratio
Information Assymetry as Variable Moderating (Z)	A situation that arises when one party's insufficient knowledge about the other party involved in a transaction makes it impossible to make accurate decisions when conducting the transactions (Mishkins dan Eakins, 2015: 180)	Bid-Ask Spread	Ratio
Firm Value as Variable Dependin (Y)	An assumption regarding the most likely set of transactional circumstances that may be applicable to the subject valuation (Hitchner, 2017:6)	Cost of Equity Capital	Ratio

Population and Samples

Every firm that have been a participant in CGPI scoring starting from 2012 to 2015 are chosen to be population in this study. There are 11 company during 4 observation years, thus makes 44 in total. We used purposive sampling technique to choose sample with criteria below:

1. The company have to be listed in Indonesia Stock Exchange for 4 years during 2012 to 2015.
2. The company have to issue sustainability report for 4 years during 2012 to 2015.
3. The company paid dividend to its shareholders.

After screening above, the company chosen to be sample are:

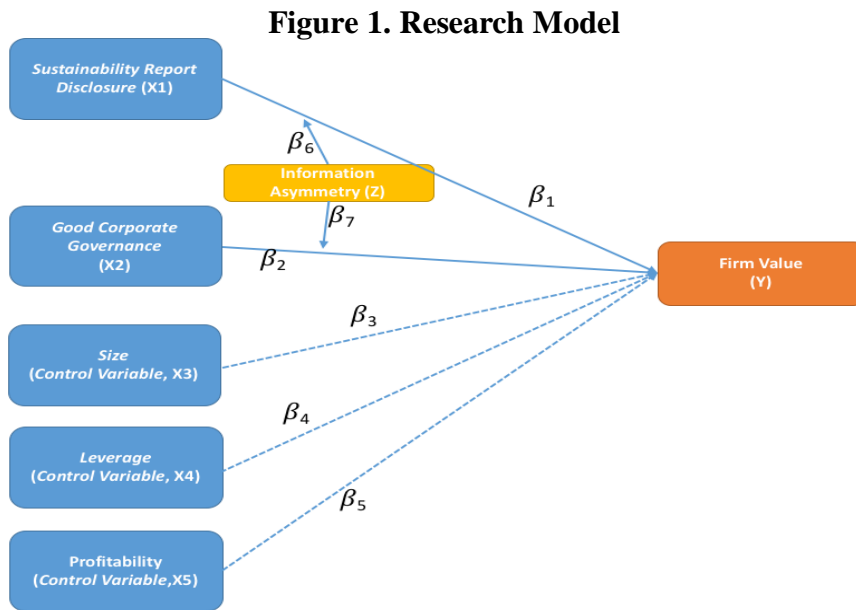
Table 2
List of sample

No.	Company Name
1	PT. Aneka Tambang (Persero) Tbk
2	PT. Bank Mandiri (Persero) Tbk
3	PT. Bank Negara Indonesia (Persero) Tbk
4	PT. Bank Rakyat Indonesia (Persero) Tbk
5	PT. Bank Tabungan Negara (Persero) Tbk
6	PT. Bukit Asam (Persero) Tbk
7	PT. Jasa Marga (Persero) Tbk
8	PT. Timah (Persero) Tbk

As seen above, there are 8 companies during 4 observation years, therefore it's 32 sample in total.

Data Analysis and Hypotheses Test

Since there is moderating variable involved in this study, we use moderated regression analysis and multiple regression analysis. Before we conduct moderated regression analysis and multiple regression analysis, first, we have to test for classic assumption. There are four test included, which are normality test, autocorrelation test, multicollinearity test, and heteroskedastisity test. Figure 1 shows research model used in this study.



Based on research model above, the equation used in this study are:

$$(1) Y = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon$$

$$(2) Y = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 Z X_1 + \varepsilon$$

$$(3) Y = \alpha_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_7 Z X_2 + \varepsilon$$

Keterangan:

Y = Firm Value

X₁ = Sustainability Report Disclosure

X_2 = Good Corporate Governance (GCG)

X_3 = Size

X_4 = Leverage

X_5 = Profitability

Z = Information asymmetry

α = Constanta

$\beta_1 \beta_2 \beta_3 \beta_4 \beta_5$ = regression coefficient

ε = error standard

Z variables is moderating variable, thus β_6 and β_7 coefficient have to be significant at 0.05. Equation (1) shows equation for the multiple regression analysis, meanwhile Equation (2) and (3) shows equation for moderated regression analysis.

Hypotheses test for this study use partial test (t test) and simultaneously test (f test). Partial test is use to show how much influence that independent variable has over dependent variable. While simultaneously test is to find out does all the independent variable have influence over dependent variable. And also this study conduct determination coefficient test to measure how well the regression line fit with it's data.

Results

Descriptive Results

There is something very interesting we found in this study. As seen at Table 3, SRDI Score in 2012-2013 tend to be higher than 2014-2015. We further analyze that these phenomena happened because of new GRI Guidelines. In 2014-2015 most of the firm use GRI G4 Guidelines, while in 2012-2013 most of them use GRI 3.1. GRI G4 have option to decide which item to be disclosed. There are two option, "core" and "comprehensive". If a firm, choose "core" option they only have to disclose minimum 34 item on general aspects, and one tem on environmental, social, and economic aspect. Meanwhile, if a firm choose "comprehensive" option, they have to disclose all item in GRI G4 Guidelines. Surely, if firm are given two option that benefit their behalf, they will choose that option, in this case they choose the minimum disclosed item, "core" option.

Almost all of the sample have most trusted company rating (CGPI Score more than or same as 85 point), which is as much as 24 sample or almost 75% of all the sample. While the rest are trusted company rating (CGPI Score more than or same as 70 point) as much as 8 sample or 25% of all the sample. This is show that most firm are very committed to practice their GCG. On table 2 column Var X_3 (Size), shows that banking industry is the biggest four in term of total asset. While others show smaller size of asset. Same thing happens with Var X_4 (Leverage). As seen in table 2 column Var X_5 (profitability, measured with ROA) have an interesting value. ANTAM have a dramatic decrease over the years. IN 2012 their ROA is 15,19%, then drastically decrease to 1,87%, have a small increase in 2014 to 3,52% but then

again took the fall in 2015 to -4,75%. While in banking industry, their ROA never go over 5%. Even tough never go above 5%, but it shows that banking industry have stability that others don't have.

Table 3.
Variables Data

No.	Firm Name & Year	Var Y	Var Z	Var X1	Var X2	Var X3	Var X4	Var X5	
1	ANTAM	2012	9.38%	2.46%	91.20%	88.71	19,708,541	0.54	15.19%
2		2013	5.89%	3.46%	59.06%	88.92	21,865,117	0.71	1.87%
3		2014	5.00%	2.69%	53.69%	89.12	22,044,202	0.85	-3.52%
4		2015	5.00%	3.53%	77.85%	88.64	30,356,851	0.66	-4.75%
5	MANDIRI	2012	23.30%	2.23%	51.20%	91.88	635,618,708	7.31	2.52%
6		2013	24.54%	3.10%	42.95%	92.36	733,099,762	7.26	2.57%
7		2014	24.17%	1.98%	52.35%	92.88	855,039,673	7.16	2.42%
8		2015	24.30%	2.33%	48.99%	93.3	910,063,409	6.16	2.32%
9	BNI	2012	19.69%	2.03%	64.00%	86.06	333,303,506	6.66	2.11%
10		2013	20.87%	3.24%	35.57%	87.19	386,654,815	7.11	2.34%
11		2014	20.39%	2.35%	38.93%	87.46	416,573,708	5.59	2.60%
12		2015	20.90%	2.78%	38.26%	87.74	508,595,288	5.26	1.80%
13	BRI	2012	25.76%	2.31%	91.20%	85.56	551,336,790	7.5	3.39%
14		2013	27.11%	2.87%	66.44%	86.43	626,182,926	6.89	3.41%
15		2014	26.21%	2.13%	59.06%	86.92	801,955,021	7.21	3.02%
16		2015	26.58%	2.46%	47.65%	87.74	878,426,312	6.76	2.89%
17	BTN	2012	13.75%	2.59%	39.20%	85.43	111,748,593	9.87	1.22%

No.	Firm Name & Year	Var Y	Var Z	Var X1	Var X2	Var X3	Var X4	Var X5	
18		2013	16.45%	3.44%	35.20%	84.94	131,169,730	10.35	1.19%
19		2014	15.68%	3.14%	65.77%	85.75	144,582,353	10.8	0.79%
20		2015	13.63%	2.79%	61.07%	86.59	171,807,592	11.4	1.08%
21	BUKIT ASAM	2012	4.64%	2.53%	91.20%	83.8	12,728,981	0.5	22.86%
22		2013	7.07%	3.53%	67.11%	84.09	11,677,155	0.55	15.88%
23		2014	3.70%	2.80%	51.68%	85.25	14,812,023	0.71	13.63%
24		2015	7.17%	3.48%	81.88%	85.54	16,894,043	0.82	12.06%
25	JASA MARGA	2012	1.45%	2.29%	88.80%	84.53	24,753,551	1.53	6.20%
26		2013	1.99%	2.87%	39.60%	85.16	28,366,345	1.61	4.36%
27		2014	1.12%	2.02%	38.26%	85.47	31,857,948	1.79	3.81%
28		2015	0.83%	2.49%	36.91%	85.81	36,724,982	1.97	3.59%
29	TIMAH	2012	5.79%	1.76%	91.20%	77.81	6,101,007	0.34	7.07%
30		2013	2.68%	2.51%	89.60%	80.1	7,883,294	0.61	6.53%
31		2014	4.58%	2.84%	58.39%	81.7	9,752,477	0.74	6.54%
32		2015	5.09%	3.55%	61.74%	82.15	9,548,631	0.73	1.09%

In Table 2 shows that the highest information asymmetry value is 3,55% and the lowest at 1,76%, surprisingly both held by TIMAH. Also there are vary fluctuation. In 4 years there is up and down with no patterns whatsoever. While the average is stabilizing at 2-3% point. Highest firm value is held by MANDIRI in 2013 at 27,11%. And the yearly average holding steadily around 12,60%-13,32% for every firm. This average surely did not clearly explain all of the sample since there is huge gap between every sample. Also, as seen in Table 2 column Var Y, high firm value is dominated by banking industry.

Statistical Results

Classical Assumption Test

At first we conduct normality test. As seen Figure 2 below, it shows that the dots still following the diagonal line, so it concluded that the data spread is normally distributed. Second test, autocorrelation test result is shown below in Table 4. Since the Durbin Watson value is 0,909, which is between -2 and 2, then as per criteria it is said that the data used doesn't have autocorrelation problem.

Figure 2

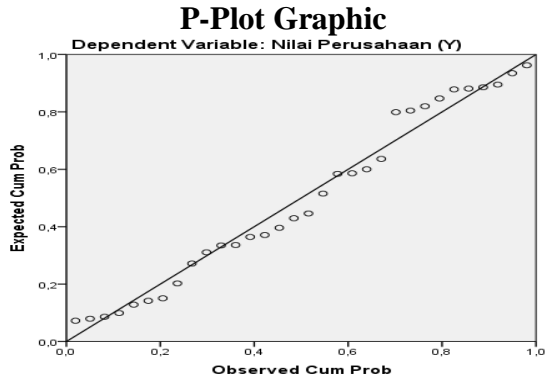


Table 4

Autocorrelation Test Result

Model Summary^a

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.915 ^a	.838	.820	.03965	.909

Third test, multicollinearity test result shows that this study has a tolerance value for each variable $>0,1$ and Variance Inflation Factor (VIF) less than 10. It means that there are no sign of strong correlation between independent variable thus multicollinearity assumption is fulfill.

Table 5

Multicollinearity Test Result

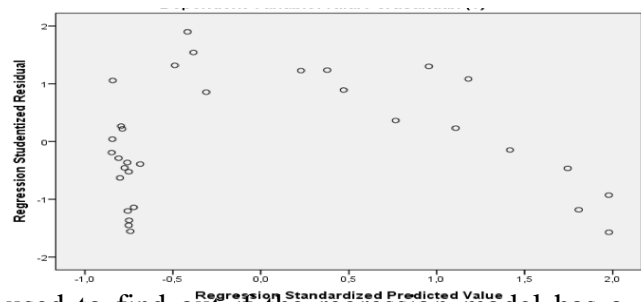
Coefficients^a

Model		Collinearity Statistics	
		Tolerance	VIF
1	SRDI (X1)	.841	1,189
	GCG (X2)	.546	1,831
	Size (Kontrol)	.590	1,694

a. Dependent Variable: Nilai Perusahaan (Y)

Figure 3

Heteroskedastisity Test



The last test is heteroskedastisity test. It is used to find out if the regression model has a similarity varians from one observation residual with other observation. From graphic below, it can be seen that the dots form a random pattern and spread above and below zero on Y line. Thus, it doesn't found any heteroskedastisity breach.

Regression Analysis

Multiple regression analysis result shown in Table 6 as follows.

Table 6
Multiple Regression Analysis Result
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations	
	B	Std. Error	Beta			Zero-order	Partial
1 (Constant)	-74.535	15.268		-4.882	0		
SRDI	0.071	0.032	0.146	2.228	0.035	-0.256	0.4
GCG	-0.286	0.222	-0.105	-1.289	0.209	0.548	-0.245
Size	13.541	1.529	1.102	8.857	0	0.94	0.867
Leverage	0.019	0.259	0.007	0.072	0.943	0.762	0.014
Profitabilitas	0.13	0.108	0.079	1.202	0.24	-0.313	0.229

Thus, the equation is $Y = -74,5.35 + 0,071X_1 - 0,286X_2 + 13,541X_3 + 0,019X_4 + 0,13X_5$. This means that:

- The constant of -74,535 denotes the prediction of firm value when the independent variable is zero (0).

- b. Variable X1 that is SRDI has regression coefficient value equal to 0,071 indicate that when disclosure of SRDI increased 1%, predicted will increase firm value as much as 0,071 percent.
- c. X2 variable that is GCG has regression coefficient value equal to -0.266 indicates that when GCG is increased 1 time, it is predicted will decrease firm value equal to 0,286 percent.
- d. X3 variable that size has regression coefficient value of 13,541, indicating that when size is increased 1 million, predicted will increase firm value equal to 13,541 percent.
- e. X4 variable that is leverage has regression coefficient value of 0,019, indicating that when leverage is increased 1 time, predicted will increase firm value equal to 0,019 percent.
- f. Variable X5 that is profitability have value of regression coefficient equal to 0,13, indicate that when profitability increase 1% predicted will increase firm value equal to 0,13 percent.
- g.

As for partial coefficient determinant, the result shown in Table 7 below.

Table 7

Partial Coefficient Determinant

Coefficients ^a			
Model		Standardized Coefficients	Correlations
		Beta	Zero-order
1	SRDI	0.146	-0.256
	GCG	-0.105	0.548
	Size	1.102	0.84
	Leverage	0.007	0.762
	Profitabilitas	0.079	-0.313

b. Dependent Variable: Nilai_Perusahaan (Y)

Based on the table above, means that;

- a. The effect of X1 on Y = $0.146 \times -0.256 = -0.0374$ or -3.74%
- b. The effect of X2 on Y = $-0.105 \times 0.548 = -0.0575$ or -5.75%
- c. The effect of X3 on Y = $1.102 \times 0.840 = 0.9257$ or 92.57%
- d. The effect of X4 on Y = $0.007 \times 0.762 = 0.0053$ or 0.53%
- e. The effect of X5 on Y = $0.079 \times -0.313 = -0.0247$ or -2.47%

According to Table 8, highlighted blue is the variable beside variable control that have significant influence on firm value, which is sustainability report disclosure. The t-table value is 2,228 while the t-count is 2,056. This means partially disclosure of sustainability report has significant influence to firm value at CGPI participant 2012 - 2015 period. Same thing with variable control (X3), size, it's t-table is higher than t-count. While GCG t-table is lower than t-count ($-1,289 < 2,056$), means partially GCG has no significant influence to firm value at CGPI participant 2012 – 2015 period, similar with the rest of variable control, leverage and profitability.

Table 8
Partially Hypotheses Test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-74.535	15.268		-4.882	0.000
SRDI (X1)	0.071	0.032	0.146	2.228	0.035
GCG (X2)	-0.286	0.222	-0.105	-1.289	0.209
Size (X3)	13.541	1.529	1.102	8.857	0.000
Leverage (X4)	0.019	0.259	0.007	0.072	0.943
Profitabilitas (X5)	0.13	0.108	0.079	1.202	0.240

a. Dependent Variable: Nilai_Perusahaan (Y)

Meanwhile the simultaneously hypotheses test show that sustainability report disclosure and GCG have significant influence on firm value at CGPI participant 2012 – 2015 period. It based on the test result below on Table 9. The F-count is higher than F-table, $60,850 > 4,74$.

Table 9
Simultaneously Hypotheses Test
ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2495.968	5	499.194	60.850	.000 ^b
Residual	213.297	26	8.204		
Total	2709.265	31			

a. Dependent Variable: Nilai_Perusahaan

b. Predictors: (Constant), SRDI (X1), GCG (X2), Size (Kontrol), Leverage (Kontrol) Profitabilitas(Kontrol)

Below we explained the result of moderated regression analysis. Based on the below output table (Table 10), it can be seen that the coefficient of determination obtained is 0.919 or 91.9%. This shows that the sustainability report disclosure and sustainability report disclosure interaction with information asymmetry contributed to the firm value of 91.9%, while the rest of the other 8.1% is the contribution of other variables that are not examined.

Table 10
First Interaction Coefficient Determinant
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.959 ^a	0.919	0.904	2.9021

a. Predictors: (Constant), SRDI (X1), InteraksiZX1, Size (Kontrol), Leverage (Kontrol), Profitabilitas (Kontrol).

b. Dependent Variable: Nilai_Perusahaan

Based on the below output table (Table 11), it can be seen that the t-count value obtained by the interaction between the disclosure of sustainability report with information asymmetry is 2,972 with significance value of $0,034 < 0,05$. Thus, it can be concluded that partially, the disclosure of sustainability report and the interaction between sustainability report disclosure

and information asymmetry have significant effect on the value of CGPI participant companies in 2012 - 2015.

Table 11
Partial Hypotheses Test
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	-93.282	9.77		-9.547	0
SRDI	0.043	0.049	0.088	0.884	0.385
InteraksiZX1	0.216	0.116	0.098	2.972	0.034
Size	12.6	1.234	1.025	10.213	0
Leverage	0.134	0.242	0.053	0.555	0.583
Profitabilitas	0.149	0.11	0.09	1.352	0.188

a. Dependent Variable: Nilai_Perusahaan

After we calculate the influence for first interaction to prove third hypotheses, we conduct second interaction to prove fourth hypotheses. Based on the below Table 12, it can be seen that the coefficient of determination obtained is 0.914 or 91.4%. This shows that GCG and GCG interaction with information asymmetry contributes 91.4% to corporate value, while the remaining 8.6% is contributed by other un-researched variables.

Table 12
First Interaction Coefficient Determinant
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.956 ^a	0.914	0.897	2.99863

a. Dependent Variable: Nilai_Perusahaan

b. Predictors: (Constant), SRDI (X1), InteraksiZX1, Size (Kontrol), Leverage (Kontrol), Profitabilitas (Kontrol).

Based on the above output table, it can be seen that the t-calculated value obtained by interaction between GCG with information asymmetry is 1,500 with significance value equal to 0,146 > 0,05 indicating that information asymmetry weaken the relationship between GCG and firm value at CGPI participant company in 2012 - 2015.

Table 13
Partial Hypotheses Test

Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1	(Constant)	-62.375	14.919		-4.181	0.000
	GCG	-0.525	0.25	-0.192	-2.100	0.046
	InteraksiZX2	0.02	0.014	0.097	1.500	0.146
	Size	14.58	1.759	1.186	8.290	0.000
	Leverage	-0.145	0.28	-0.057	-0.519	0.608
	Profitabilitas	0.223	0.109	0.135	2.039	0.052

a. Dependent Variable: Nilai_Perusahaan

Discussion

First Hypothesis

The results of this study indicate that investors have a positive perception of business activities undertaken by the company, so that investors are more interested to invest in the company. The statement is supported by research conducted by Bachoo, et al (2013), and Fatchan and Trisnawati (2016). In addition, it also proves that the manager's initiative in increasing the firm value by issuing a sustainability report indicates a going-concern. Bachoo, et al (2013), and Fatchan and Trisnawati (2016) mentioned that investors who invest in companies that publish good sustainability reports earn better confidence and lower risk than investing in companies that do otherwise. Other researchers who found similar things were Plumlee et al (2015). Plumlee, et al (2015) presented the same evidence from the results of the regression analysis.

However, the results of this test are contrary to the research that has been done by Dobre, et al (2015) and Dagilienė (2013). They prove that the disclosure of sustainability report has no effect on firm value. And Dagilienė (2013) who conducted research in Lithuania on the influence of CSR reporting on firm value, proves that companies with high CSR reporting scores, do not have high corporate value as well. Based on the results of statistics that have been done and supported by the results of previous research, it can be concluded that with the initiative of companies to publish sustainability report provides a positive signal for investors to invest in the company. In addition, the disclosure of a sustainability report is higher (the level of disclosure), providing a better level of confidence and a lower risk than investing in companies that do otherwise.

Second Hypothesis

This shows that the concept of fairness, transparency, accountability, responsibility, which is expected to be reflected through the CGPI rating can increase the value of the company, is not achieved. The results of this test support the research that has been done by Haat, et al (2008), Nuswandari (2009), Siregar and Riandi (2011), Zabri, et al (2016), and Gherghina (2015). They prove that GCG has no effect on corporate value. Gherghina (2015) examines the effect of corporate governance ratings on firm value on firms listing in Bucharest Stock Exchange (BSE). The proxy used by Gherghina (2016) to measure firm value consists of two, namely accounting-based firm value measures (using ROA and ROE) and market-based firm value measures (using EPS). As for the measurement of corporate governance ratings using Principal Component Analysis (PCA).

The rejection of this hypothesis shows that investors do not make GCG as a consideration in the investment decisions of a company that ultimately determines the value of the company. This can be due to the fact that investors are not getting enough GCG

information from CGPI scores alone. Given that this CGPI score was published in SWA Magazine, the report itself was not published unless the company requested the data directly to the IICG as an appraiser. So not all investors get the same information.

The statement is in line with the results of research conducted by Haat et al (2008). Research conducted in Malaysia shows that one of the causes of investors do not use GCG information in making investment decisions such as investors are not informed about the practice of a comprehensive GCG in a company.

This study may add to the literature on the absence of GCG influence on corporate value, since the majority of previous studies show the opposite, one of which is Zhu (2014). Zhu (2014) concludes that GCG has an influence on corporate value. Zhu (2014) conducted a study with corporate governance data obtained from the Institutional Shareholder Services (ISS) database for the period 2003-2006. The ISS database tracks 55 different corporate governance attributes from 22 developed countries except the United States, and provides 61 corporate governance attributes from the United States (Zhu, 2017: 397). Then Zhu (2017: 397) mentions, "The wide spectrum of governance attributes allows the construction of an overall governance rating as well as several subratings for different aspects of a firm's corporate governance practice." So for further research it can be considered to use the rating attribute more comprehensive in measuring the GCG of a company.

Third Hypothesis

The results of this study prove that the problems arising from agency theory in the practice of accounting is the existence of gaps between managers and principals (information asymmetry) one of which can be overcome with the initiative of managers publish a voluntary disclosure, in this case a sustainability report. This is in line with research conducted by Martinez-Ferrero, et al (2016). The results show that voluntary disclosure such as CSR can suppress information asymmetry which can then increase capital market confidence and ultimately increase firm value (Martinez-Ferrero, et al, 2016: 229).

The disclosure of sustainability reports is considered capable of communicating information that has not been obtained by investors from the company's financial statements or annual reports. This is supported by the findings of Martinez-Ferrero, et al, (2016: 230): "Through CSR or sustainability reports, which are derived from the principal-agent relationship." From those statement, Martinez-Ferrero, et al, (2016) emphasized that through CSR report and sustainability report investors get environmental and social information previously not available in the financial statements. It can reduce the asymmetry of information arising from agency problems. Then, these initiatives are valued by investors to be an important consideration in making investment decisions.

For other investors, the information contained in the sustainability report provides them with the necessary evidence to have knowledge of managerial commitment to social issues. Thus, the company successfully meets the needs of various stakeholders, legitimizing the actions and policies of their business operations to the public.

Fourth Hypothesis

This study can enrich the literature that discusses the influence of GCG on corporate values with information asymmetry as moderating variables are still little found. Research in line with these findings is Jamalinesari and Soheili (2015) and Daines, et al (2010). Jamalinesari and Soheili (2015) conducted a study on 145 companies from 22 industries during 2008-2013, indicating that there is one GCG mechanism that has no effect on information asymmetry. Information asymmetry does not moderate the influence of GCG on

corporate value in this study could be due to CGPI scores that are considered not able to predict future firm value. This is supported by the results of research conducted by Daines, et al (2010: 460) which states that:

"Prior evidence on individual ratings has generally been backward-looking, raising the distinct possibility that the ratings reflect past performances but are not to predict future outcomes. We find that these governance ratings have limited or no success in predicting firm performance or other outcomes of interest to shareholders. Moreover, even when there is a statistical association with future out-comes, the substantive economic effect is small. "

Based on Daines, et al (2010) and the results of this study, it can be concluded that investors can not rely on the CGPI score as a solution to the information asymmetry that can be used as the basis for investment decision making. So the information asymmetry does not moderate the influence of GCG on corporate value.

This is in contrast to the research that has been done by Chen and Liu (2013). They conducted research on the influence of corporate governance practices affecting firm value under the conditions of information asymmetry. It then proves that the impact of GCG has significant effect on firm value, with increasingly reduced / reduced information asymmetry. Chen and Liu (2013) use the OLS regression research method, with information asymmetry as measured by the depth of disclosed credit information, GCG as measured by company ownership, and manager's experience, while firm value is measured by the amount of market capitalization.

Conclusions

The conclusions in this study are as follows:

- a. Disclosure of sustainability report significantly influence the firm value in CGPI participant in 2012-2015.
- b. GCG does not significantly affect the firm value in CGPI participating in 2012-2015.
- c. The disclosure of sustainability report significantly influences firm value by moderated by information asymmetry at CGPI participant in 2012-2015.
- d. GCG does not significantly affect firm value by being moderated by information asymmetry at CGPI participants in 2012-2015.

Based on the research conclusions that have been described previously, the suggestions given by researchers are as follows:

- a. This research uses samples with various types of industries, therefore it is suggested for further researcher to use samples with companies that are in one kind of industry. So that it can examine one of the effects of disclosure sustainability report that is specific to certain corporate characteristics, such as environmental disclosure elements in sustainability report in companies in the mining industry.
- b. The GCG measurements in this study are CGPI so that the sample criteria must be met, one of them must be a CGPI ranking participant, while the CGPI rating / the assessment itself is a voluntary activity. This results in a limited number of samples. It is therefore advisable to use other GCG measurements while remaining comprehensive and independent, or may be supplemented by interviews as confirmation and additional information on a company's GCG practices.
- c. Research on the influence of GCG on firm value has been widely done both in Indonesia and outside Indonesia, but research that also includes information asymmetry in it is still small. Therefore, it is suggested to other researchers to include information asymmetry as a moderating variable in order to deepen the results of this study indicating that information asymmetry can not moderate the relationship of GCG influence to firm value.

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1st Asian Applied Accounting and Business Conference

**ANALYSE OF THE EFFECT OF WORKPLACE SPIRITUALITY
ON AUDITOR DYSFUNCTIONAL BEHAVIOR
AND IMPLICATION TO AUDIT QUALITY
AT THE AUDIT BOARD OF
THE REPUBLIC OF INDONESIA**

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ABSTRACT

This study aimed to analyse of the effect of workplace spirituality on auditor dysfunctional behavior and implication to audit quality at The Audit Board of The Republic of Indonesia. The research approach used is quantitative and causal design. The number of research samples was 92 auditors taken through proportionate sampling. Data analysis using descriptive and inferential statistical analysis by using path analysis. The results show there is a negative significant effect of workplace spirituality on auditor dysfunctional behavior, there is a positif significant effect of workplace spirituality on audit quality, and there is a negative significant effect of auditor dysfunctional behavior on audit quality.

The conclusions of the study there is a significant effect of workplace spirituality on auditor dysfunctional behavior and implication to audit quality, so that the audit quality can be improved through workplace spirituality and auditor dysfunctional behavior

Key words: *workplace spirituality, auditor dysfunctional behavior, audit quality*

1. INTRODUCTION

Auditor is a profession that provides services to the public, especially users of financial statements, among others: investors, creditors, candidates and creditor government or institutions (Boynton & Kell, 2006). As a profession, the auditor is responsible for the trust given by the users of the financial statements, so the auditor needs to ensure that the audit report is qualified (Frohnen & Clare, 2002). According to Vanstraelen (2000), audit quality is the auditor's ability to detect and report material misstatements in sample inspection during the audit process, then auditors are not only required to detect but also to report material misstatements. Audit failure occurs when the auditor provides an audit opinion not in line with the fact that it does not meet the auditing standards specified (Arens et al, 2012).

Of the various factors that affect the audit's quality of auditor dysfunctional behavior. Previous studies have generally shown a threat to degradation of audit quality due to dysfunctional behavior that auditors sometimes perform in auditing tasks (Pierce & Sweeney, 2004; Sweeney & Pierce, 2010). Dysfunctional behavior is an action performed by auditors in implementing audit standards that potentially reduce audit quality, either directly or indirectly (Kelley, 1990; Otley & Pierce, 1996). According to Donnelly, et al (2003), auditor dysfunctional behavior continues to grow and is already at the stage of interrupting the auditor profession, and even according to Otley & Pierce (1995) has led to a disruption of audit quality.

Dysfunctional behavioral conditions of the auditor do not just happen, but are at least influenced by workplace spirituality. The public auditor or accountant in carrying out his professional duties must perform the standard of inspection and adhere to the professional code of ethics in order to maintain the audit quality. When acting for public accountants must meet and apply the basic principles and applicable professional ethics. But in reality there are still frequent opposite conditions, namely the occurrence of auditor dysfunctional behavior or a massive auditor. In

anticipating this, Hartman and Desjardins (2011) state the existence of the basic application of the basic thinking, as well as the potential to reduce dysfunctional behavior. Emerson and McKinney (2010) express the importance of returning to religious beliefs in behavior, after in practice ethics is not capable of being a moral keeper in the business world. Religious values will make the work more useful and meaningful. In this perspective, working not only to meet the needs of material merely, but as a form of sacrifice for the benefit of society. A faithful public accountant and putting forward spiritual values that are partially reflected in professional ethical codes and inspection standards will be able to give opinions more meaningful, so they can be trusted in important decision-making processes.

The above description shows the urgency of workplace spirituality in order to suppress the auditor dysfunctional behavior and to improve the audit quality, including the audit quality by auditors at the The Audit Board of The Republic of Indonesia (BPK), which oversees the management and accountability of state finances. This is very crucial considering that there are still so many corruption cases involving government officials. As an example of the phenomenon that occurred in the case of Tomohon Mayor Jefferson Rumajar was proven to bribe two BPK auditors where on May 21, 2012 the judges sentenced the verdict 4 years 6 months and 4 years respectively to 2 defendants auditor BPK Representative of North Sulawesi (TribunManado, 21 May 2012).

In addition, the Panel of Corruption Court judges sentenced each 4 years to 2 BPK auditors of West Java at the hearing on 8 November 2010 (Detikcom, 8 November 2010) in the bribery case of giving opinion of the WTP (*Unqualified Opinion*) of Bekasi District Government Financial Report of 2009.

Based on these urgency, researchers are interested in examining the effect of workplace spirituality on the auditor dysfunctional behavior and its implications on the audit quality by taking a unit of BPK auditor analysis.

2. LITERATURE REVIEW

Previous studies relevant to this study, are described with the following explanation:

2.1 The Influence of Workplace Spirituality on Auditor Dysfunctional Behavior

Sulistyo's research (2014) entitled "Relevansi Nilai Religius Dalam Mencegah Perilaku Disfungsional Audit" found that there is a relationship between spiritual influence on auditor dysfunctional behavior. Auditor dysfunctional behavior arises due to the low ethical orientation of the auditor, requiring an unsteady ethical value that can prevent the auditor dysfunctional behavior. This unsteady ethical value can be found in a religion that comes from God. Religion proved to play a role in reducing acts that are far from the truth, this happens because someone with high religiosity has self monitoring, self control and self regulation thanks to the knowledge of the Supreme Power that always pay attention (God). The results of Purnamasari and Amaliah research (2015) under the title "Fraud prevention: relevance to religiosity and spirituality in the workplace" with a sample of BPKP auditors of West Java Province also show that workplace spirituality has a significant effect on fraud prevention. The results of the research by McGhee & Grant (2008) with the title "Spirituality and Ethical Behavior in the Workplace: Wishful Thinking or Authentic Reality," also show that workplace spirituality leads to increased ethical behavior (personal and organizational), thus avoiding dysfunctional behavior.

2.2 The Influence of Spirituality on the Audit Quality

Earnest research, Farhana & Saat (2015) "Assessing the Relationship Between Human Capital and Spiritual Capital on Firm's Performance Audit," the results show that both human capital and

spiritual capital provides a significant positive correlation to the performance of the audit in the company. Research Mappanyuki (2016) entitled "Effects of Spiritual Influence of Auditors, Complexity Task, Ethics Auditor and Auditor Expertise on The Performance Auditor with Accounting Information Systems with moderating variables (Empirical Study on BPK Representative Office South Sulawesi)" the results also showed a significant association between the influence of the auditor's spiritual on the auditor's performance. Notoprasetio research results (2012) with the title "Pengaruh Kecerdasan Emosional dan Kecerdasan Spiritual Auditor Terhadap Kinerja Auditor pada Kantor Akuntan Publik di Surabaya." the results also show that there is significant influence emotional and spiritual intelligence on the performance of auditors. Similarly, the results of research and Setiawan, Latrini (2016) with the title "Pengaruh Kecerdasan Emosional, Kecerdasan Spiritual, Kecerdasan Intelektual dan Independensi pada Kinerja Auditor," conducted in Bali KAP describe spiritual acumen positive effect on the performance of auditors. Then, the Ahmadi study, et al (2014) entitled "*The Relationship Between Spirituality in The Workplace and Organizational Citizenship Behavior*" also shows that workplace spirituality affects organizational citizenship behavior, including auditor's auditing behavior.

2.3 Effect of Dysfunctional Behavior on Audit Quality

Research Kustinah (2013) entitled "The Influence of Dysfunctional Behavior and Individual Culture on Audit Quality." The study used a survey method conducted by distributing questionnaires to respondents who were determined purposively. Data analysis using correlation and regression. The results show that dysfunctional behavior affects the audit quality. Separately, dysfunctional behavior has a negative and significant effect on the audit quality. Utary's study (2014) entitled "Effect of Time Budget Pressure on Dysfunctional Audit and Audit Quality,

Information Technology as Moderate," also shows that dysfunctional behavior affects the audit quality

3. THE RESEARCH FRAMEWORK

Empirically the audit quality can be influenced by the workplace spirituality and the auditor dysfunctional behavior. A person who has high religiosity has self-control thanks to the knowledge of the Supreme Power that keeps on watching God tends to avoid dysfunctional behavior (Sulistyo, 2014) and produces high audit quality (Notoprasetyo, 2012; Earnest, Farhana & Saat, 2015; and Mappanyuki, 2016). Moreover, high dysfunctional behavior can degrade audit quality (Kustinah, 2013). Thus, workplace spirituality can reduce dysfunctional behavior resulting in a high audit quality. Audit quality in the context of this study is the ability of the auditor to detect and report material misstatement in the audit of the quotation test during the audit process based on the skills, experience, ethical value, mindset, method reliability, tool effectiveness and availability of technical support used by the auditor in performing the task audit.

Based on the discussed literature on workplace spirituality, auditor dysfunctional behavior and audit quality in the previous section, the research questions set in this study are:

1. How does workplace spirituality have a significant negative relationship on auditor dysfunctional behavior?
2. How does workplace spirituality have a significant positive relationship on audit quality?
3. How does auditor dysfunctional behavior have a significant negative relationship on audit quality?

Audit quality in the context of this study is the ability of the auditor to detect and report material misstatement in the audit of the quotation test during the audit process based on the skills,

experience, ethical value, mindset, method reliability, tool effectiveness and availability of technical support used by the auditor in performing the task audit. The constellation of causal relationships between these variables can be described in the conceptual framework of research as follows:

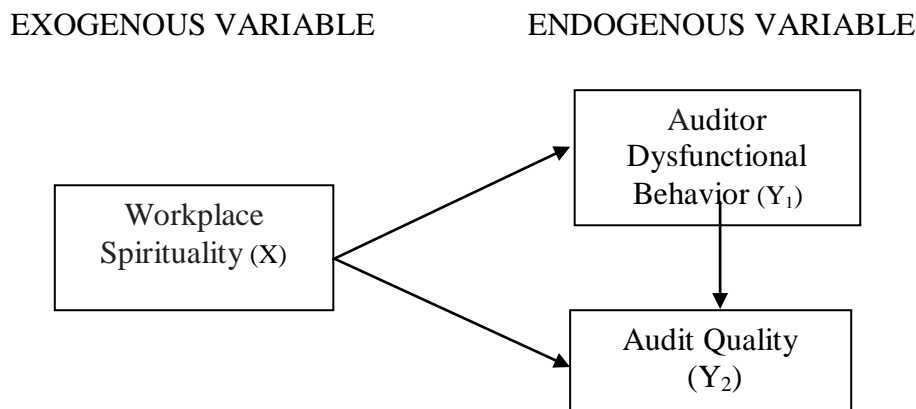


Figure 1
The Research Framework

4. METHODOLOGY

This research uses a quantitative approach or positivistic paradigm (Denzin & Lincoln, 2003). Quantitative paradigms are rooted in the positivist thinking pioneered by Comte, Mill, and Durkheim (Neumann, 2010). Quantitative approach aims to see the relationship between these variables. The use of research approach aims to assist researchers in evaluating the extent to which the data produced through certain methods that accurately and truly reflect the reality (Poerwandari, 2001). Thus this research uses a causal design in the form of path analysis.

The type of data of this research is primary data which is sourced from 92 respondents as the research quote test. The research quote was taken from the study population, which is 1,181 auditors at The Audit Board of The Republic of Indonesia (BPK) working at the BPK Head Office as of 1 September 2016, divided into six levels of role in the Functional Position of

Auditor (JFP). Taking the number of quotation tests using the Slovin formula (in Umar, 2006: 108). From the results of the calculation is known the number of quotation test is 92 auditors.

Testing is done proportionate sampling based on the following roles.

Field research was conducted to obtain primary data through questionnaire distributed to the research respondents, that is BPK auditors working at the Jakarta Head Office. Questionnaire were made in the form on a Likert scale with five alternative answers, namely: Always (SL), Frequent (SR), Sometimes (KK), Rarely (JR), and Never (TP). The questionnaire contains 54 statements derived from 3 variables then filled by the respondents. Scores are given in the lowest range 1 and the highest 5 by giving the score for positive statements given the highest score 5 if the respondent's answer SL then successive SR score 4, KK score 3, JR score 2 and TP score 1. Whereas in the negative statement score The highest 5 if the respondent's answer TP then successively JR score 4, KK score 3, SR score 2 and SL score 1. Besides that there is a modification on the variable statement Audit Quality item on the dimension of knowledge and experience. In the dimension of knowledge, the highest score 5 on the understanding of the overall 4 points stated, while the experience dimension is the highest score is given on the longer duration of the auditor and the more varied types of audit ever undertaken.

Data gathered were analysed using the Statistical Package for the Social Sciences (SPSS) software. Analyses performed include descriptive analysis and Path analysis. Cronbach's Alpha was also done to confirm the reliability of the variables in the questionnaire.

5. RESULTS

5.1 Cronbach's Alpha Test of Reliability

Reliability test among variable should be conducted in order to test the dependent of variables use in a data. Based on reliability test performed, all variable ranked above 0.7 the threshold (Pallant, 2007). The cronbach's alpha for workplace spirituality (26 items) is 0.949, auditor dysfunctional behavior is 0.926 (10 items) and audit quality (22 items) is 0.957. Value of 0.9 above shown they have very good internal consistency reliability for the scale with this sample. As mentioned by Pallant (2007), values above 0.7 are considered acceptable; however, values above 0.9 are preferable.

5.2 Descriptive Analysis

Table 1 shows descriptive results on workplace spirituality. The highest percentage achieved are 75.22 on the statement of '*Enjoyment at work*'. This is followed by '*Team's sense of community*' with the percentage of 74.86. Overall, the percentage of all the items indicate that the workplace spirituality respondents only reached 72.71% of the 100%, so it still needs to be improved.

Table 1
Findings Workplace Spirituality

No	Item	Score	Percentage
1	<i>Team's sense of community</i>	2.066	74,86
2	<i>Alignment with organizational values</i>	1.688	73,39
3	<i>Sense of contribution to society</i>	1.594	69,30
4	<i>Enjoyment at work</i>	1.038	75,22
5	<i>Opportunities for inner life</i>	1.641	71,35

No	Item	Score	Percentage
Average			72,71

While, Table 2 shows the results pertaining to auditor dysfunctional behavior. The highest percentage achieved are 74.35 on the statement of ‘*Under Reporting of Time (URT)*’. Overall, the percentage of all the items indicate that the auditor dysfunctional behavior of the respondents reached 74.18% of the 100%, so it still needs to be reduced.

Table 2
Findings Auditor Dysfunctional Behavior

No	Pernyataan	Score	Percentage
1	<i>Audit Quality Reduction</i>	2.387	74,13
2	<i>Under Reporting of Time (URT)</i>	684	74,35
Average			74,18

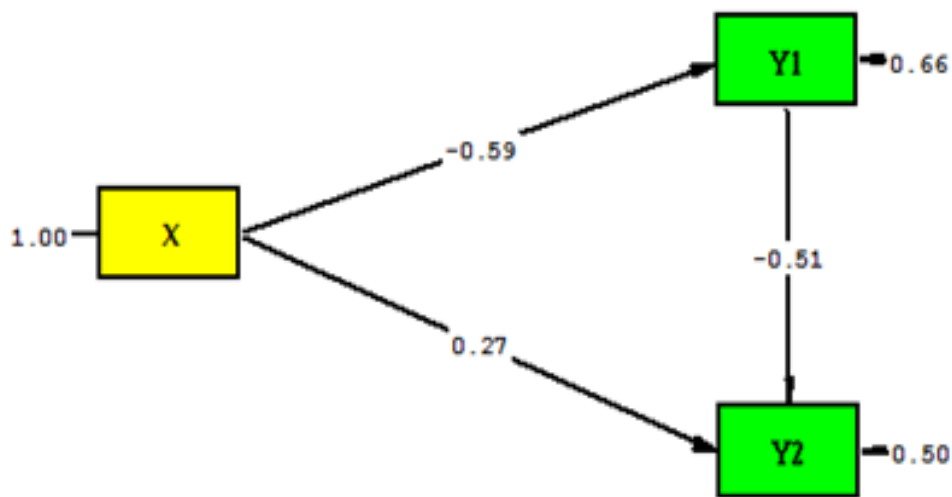
Table 3 shows descriptive results on audit quality. The highest percentage achieved are 74.42 on the statement of ‘*Reliability of methods used.*’ This is followed by ‘*The effectiveness of the tools used*’ with the percentage of 73.04. Overall, the percentage of all the items indicate that the audit quality only reached 68.20% of the 100%, so it still needs to be improved.

Table 3
Findings Audit Quality

No	Item	Score	Percentage
1	Knowledge	1.573	68,39
2	Experience	624	67,83
3	Ethical Values	1.511	65,70
4	Mindset	899	65,14
5	Reliability of methods used	1.027	74,42
6	The effectiveness of the tools used	672	73,04
7	Availability of technical support	282	61,30
Average			68,20

5.3 Path Diagram

The correlation between workplace spirituality, auditor dysfunctional behavior and audit quality were significant at the $\alpha = 0.05$ level (1-tailed). Importantly, it has shown that there exists a positive and a negative relationship between the tested variables. Specifically, workplace spirituality ($\rho = -0.59^{**}$) shows the strongest negative relationship on auditor dysfunctional behavior, followed by auditor dysfunctional behavior on audit quality ($\rho = -0.51^{**}$). Additionally, between workplace spirituality to audit quality, there is a significant positive relationship ($\rho = 0.27^{**}$).



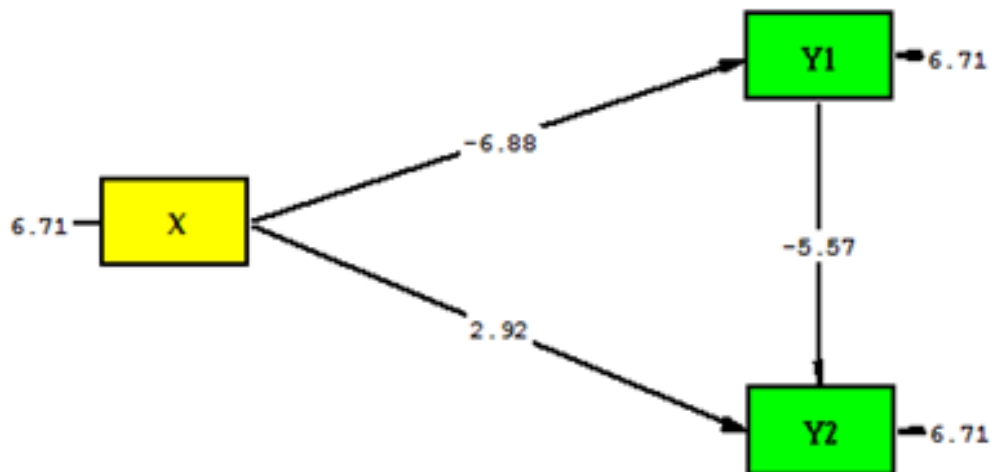
Chi-Square=0.00, df=0, P-value=1.00000, RMSEA=0.000

Figure 2
The Correlations between Variables

6. DISCUSSION AND CONCLUSIONS

This study aimed to examine whether there exist a relationship between workplace spirituality and auditor dysfunctional behavior on audit quality. Besides that, to examine

whether there exist a relationship between workplace spirituality on auditor dysfunctional behavior. Statistical analysis (Path Diagram) performed revealed that both workplace spirituality (t values= 2.92 > t table 1,661 (α 0,05) and auditor dysfunctional behavior (t values = -5,57 > t table 1,661 (α 0,05) sequencely do have a significant positive relationship and a significant negative relationship with audit quality. Then, that workplace spirituality - 6,88 > t table 1,661 (α 0,05) do have a significant negative relationship with auditor dysfunctional behavior.



Chi-Square=0.00, df=0, P-value=1.00000, RMSEA=0.000

Figure 3
The Relationships between Variables

The results of this study indicate that workplace spirituality has a negative effect on auditor dysfunctional behavior. Workplace spirituality is the recognition that employees have a core of life that motivates them and is motivated by meaningful work in society (Asmos & Duchon, 2000). When the condition of such spirituality is owned by the auditor it can reduce

the auditor dysfunctional behavior. These findings are aligned with and in accordance with previous relevant research results by Sulistyono (2014), Purnamasari and Amaliah (2015), and McGhee and Grant (2008) that workplace spirituality can degrade potential auditor dysfunctional behavior. Thus, the results of this study support and confirm previous research on the effect of workplace spirituality on auditor dysfunctional behavior.

This study also shows that workplace spirituality has a positive effect on the audit quality. Workplace spirituality is an acknowledgment that employees have a core of life that motivates them and is motivated by meaningful work in society (Asmos & Duchon, 2000). When such a condition of spirituality is possessed the auditor may encourage the improvement of the audit quality as the ability of the auditor to detect and report material misstatement in the audit of the quotation test during the inspection process (Vanstraelen, 2000).

These findings are consistent with and in accordance with previous research conducted by Earnest, Farhana & Saat (2015), Mappanyuki (2016), Notoprasetyo (2012), Setiawan and Latrini (2016) and Ahmadi, et al (2014), supporting and confirming previous research on the influence of workplace spirituality on the audit quality.

In addition, the results of this study also proves that the auditor dysfunctional behavior affect the audit quality. Auditor dysfunctional behavior is any action performed by the auditor during the conduct of inspection procedures that may reduce the audit quality, either directly or indirectly (Kelley & Margheim, 1990; Otley & Pierce, 1996a). When the auditor dysfunctional behavior does not occur or at least under minimal conditions, the audit quality is maintained better, since the audit quality is usually related to the ability of the auditor to detect and report material misstatement in the audit of the quotation test during the inspection process (Vanstraelen 2000). Strictly speaking is the absence of dysfunctional behavior will ensure better audit quality.

This finding is consistent with previous relevant research results conducted by Kustinah (2013) and Utary (2014) that dysfunctional behavior affects the audit quality. Thus, the results of this study support and confirm previous research on the effect of dysfunctional behavior affect the audit quality.

From the results of the analysis and discussion that have been described previously, then the conclusions of the findings of this study are as follows:

1. Workplace spirituality negatively affects the auditor dysfunctional behavior. These findings suggest that improvements in the form of increased workplace spirituality can distract auditor dysfunctional behavior.
2. Workplace spirituality positively affects the audit quality. These findings suggest that improvements in the form of increased workplace spirituality can improve the audit quality.
3. Auditor dysfunctional behavior has a negative effect on the audit quality. These findings suggest that the auditor dysfunctional behavior may degrade the audit quality.

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EFFECT ISLAMIC INTELLECTUAL CAPITAL AND ISLAMIC CORPORATE SOCIAL RESPONSIBILITY ON ISLAMIC BANKING EFFICIENCY

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ABSTRACT

Purpose, for strategic and competitive insight of Islamic Banking in Indonesia, this paper measures effect of Islamic Intellectual Capital and Islamic Corporate Social Responsibility on Islamic Banking Efficiency.

Design/methodology/approach, we employ data envelopment analysis for measuring efficiency of Islamic Bank, employ Value Added Intellectual Capital for measuring Islamic Intellectual Capital and employ Zakah and Qardh Fund for measuring Sharia CSR.

Originality/value, major contribution of this study include 1) measuring the comparative efficiency of biggest three of Islamic Banking and 2) finding the determinants of the efficiency for strategic insight

Keywords Islamic Intellectual Capital, Islamic Corporate Social Responsibility, Efficiency

Paper Type Research Paper

Introduction

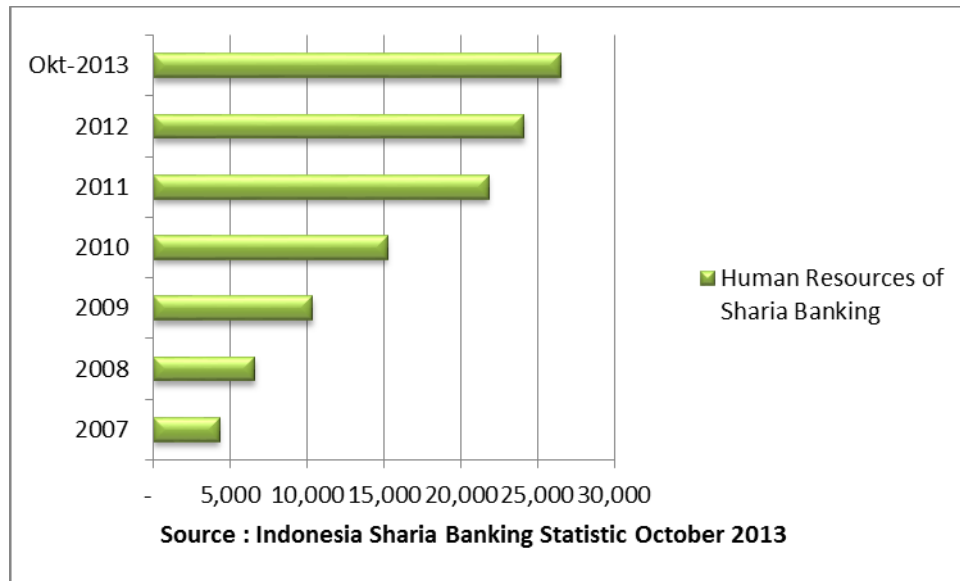
Islamic banking is still being a interesting conversation in the financial industry not only in Indonesia, even in the whole world. Islamic finance industry, including Islamic banking as an alternative to the above stated bawdy bawdy-finance industry in the world, including in Indonesia. Even in less than twenty years, Islamic banking in Indonesia has to be excellent for both investors and users of financial industry other. It can be seen from the growing amount of Islamic Banks can be seen from the following table

	2007	2008	2009	2010	2011	2012	Oct-13
Amount of Banking	3	5	6	11	11	11	11
Amount of Banking Office	401	581	711	1215	1401	1475	1950

Source : Indonesia Sharia Banking Statistic October 2013

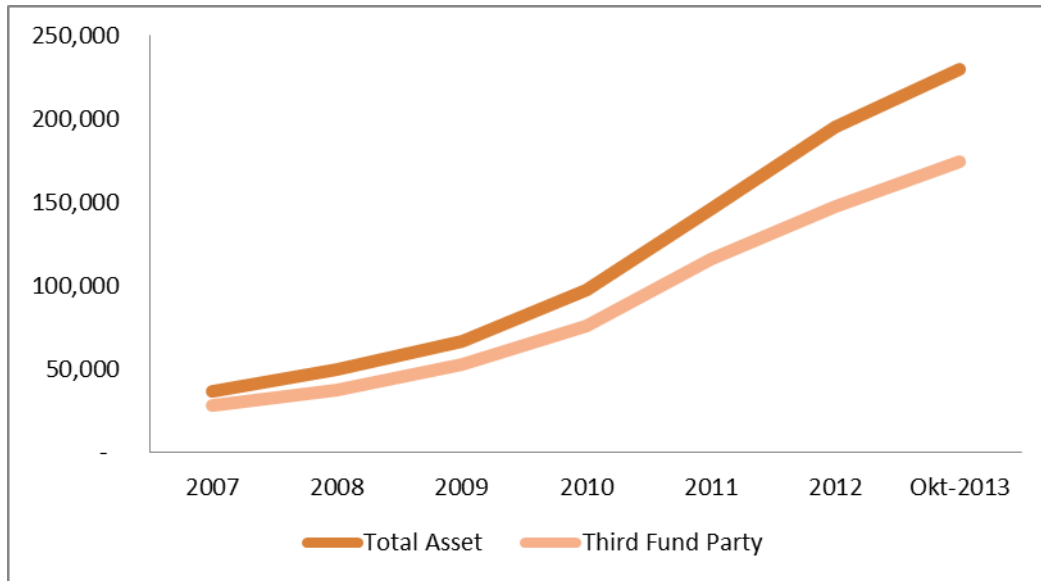
Table 1.1 Amount of Islamic Banking in Indonesia

Based on the above data, it can be concluded that an increase in the number of Islamic Banks from 2007 to 2013. Both the number of banks and the number of offices that significant growth was on average 28% and 32%. This is in line with the employee on Islamic Banks in Indonesia as follows:



Graph 1.1 Staffs in Islamic Banking in Indonesia

From the graph above it can be concluded that the growth in the number of employees Islamic Banks rose to an average of 36.8%. Not only that, Islamic banks as an intermediary institution that serves to channel public funds also experienced an increase in total assets and deposits to be managed. This appears in the following information:



Graph 1.2 Total Assets and Third Fund Party in Islamic Banking in Indonesia

From the above chart, the authors notice that there is a positive trend on the total assets and Third Party Funds Islamic Bank. This is certainly in line with the growth in the number of banks and the number of offices Islamic Bank and also the development of the number of employees in Islamic Banks. From this information it is clear, that turned out to Islamic Bank's total assets grew faster than third party funds itself. This raises the question, why the development of total assets in line with the Third Party Funds? While in the banking industry, the number of third party funds is one indicator of successful management of the funds that have been deposited into the bank.

Islamic banking Blueprint released by Bank Indonesia in 2008 mandated that the industry could have a market share of more than 5%. On the one hand, this is a major target of Bank Indonesia in improving the bargaining position of Islamic Banks but also become a stimulus to make a new breakthrough in the industry Islamic financial. Because, in fact, although the number of offices and employees Islamic Bank increases. Coupled with the positive trend in total assets and third party funds managed by Islamic Banks. This is not a significant impact on the market share of Islamic Banking. Target 5% can not be achieved. It can be seen from the following information:

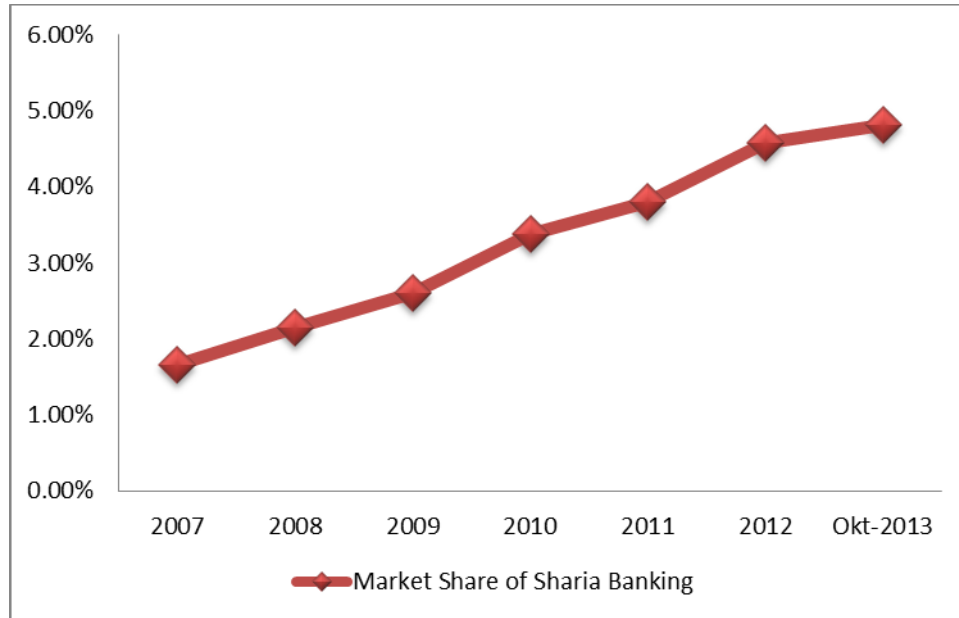
	2007	2008	2009	2010	2011	2012	Okt-2013
<i>Market Share of Sharia Banking</i>	1.66%	2.14%	2.61%	3.37%	3.8%	4.58%	4.81%

Source : Indonesia Sharia Banking Statistic October 2013

Table 1.2 Market-share of Islamic Banking in Indonesia

From the information above, it is clear that the market-share since the Islamic Banks blueprint released until October 2013 was not yet able to reach 5%. Although the trend continues to rise, but this is an anomaly because it is not in line with the development of Islamic Banking growth in the number of office visits, human growth and asset growth as

well as third party funding. Minimal tendency that begs the question, how the management of Islamic Banks for this? Whether already qualified human resources are in it? Though the application of the system of corporate governance or corporate governance in Islamic banking, in which there is Islamic Banking has been started in 2007. This certainly raises the gap, why Sharia Bank has implemented corporate governance within a period of six years has not reached the market-share targeted? Already efficiency whether Islamic Banks in Indonesia?



Source : Indonesia Sharia Banking Statistic October 2013

Graph 1.3 Market-share of Islamic Banking in Indonesia

As noted in the previous paragraph that Islamic banks in Indonesia continues to increase the number of offices, an increasing number of branches, the increase in total assets, and various other improvement, but the market share of Islamic banks never rises significantly. One indicator of the success of a company is measured by the performance of the company concerned. Performance measures are the most commonly used is the ratio of financial performance. However, the bank is a complex organization, which can generate a series of several inputs outputs only. The ratio can not capture the whole picture of the performance of an organization and there are no criteria for choosing the proper ratio of all the interests of the organization (Ho and Zhu 2004). Distance function approach alternative approach that does not require optimization of the underlying assumptions and which allows to use multiple inputs and multiple outputs. In the banking sector, soundness evaluation typically measured according to the provisions stipulated by Bank Indonesia, which refers to the elements of capital (capital), quality of assets (asset quality), management (management), income (earnings), and liquidity (liquidity) or abbreviated with CAMEL.

However, Hanafi (2005) argues that performance is a formal effort by the company to evaluate the efficiency and effectiveness of the company's operations in a particular period. Therefore, the author becomes top-performance efficiency as a proxy for the Company. In connection with the above conditions, the authors assume that the assessment of bank

efficiency becomes very important, because efficiency is a picture of a company's performance as well as a factor that must be considered in the bank to act rationally to minimize the level of risks in the course of its operations. An analysis of the efficiency of Islamic banking into rnenarik topic to study because of the accumulation and distribution of funding (loans) that expansionary regardless efficiency factors will affect the profitability of banks involved. Efisiensi is a measurement of how well the organization manages input to output or the number of output generated from one input used. According Syafaroedin Patient (1989) in Mumu Susilowati Daman Huri and Beautiful (2004) of a company can be said to be efficient if it: (1) using the number of input units fewer than the number of input units used by other companies to produce the same output, (2) using the same amount of inputs but can produce a greater amount of output . Meanwhile, companies that are generally inefficient due to three factors, namely: the presence of prolonged bureaucratic chain, misallocation in the use of existing resources, and the absence of economics of scale (Iwardono S Permono and Darmawan, 2000). In this study, the authors use Data Envelopment Analysis to measure the efficiency of Islamic banks. DEA is a methodology to analyze the relative efficiency and managerial performance of productive units that can analyze more than one input and more than one output (Jemrie and Vujcic, 2002). DEA method is used as a means of evaluating the performance of an activity in an entity, hereinafter referred to as the Decision Making Unit (DMU). Simply put, the measurement is expressed by the ratio between the DEA output and input which is a measurement of efficiency or productivity.

The success of a company can be measured by the performance of the above mentioned companies. The most commonly used is the ratio of financial performance. However, the banking industry is a complex industry. The ratio can not capture the whole picture of the industry, plus there are no specific criteria regarding what is the most appropriate ratio used (Ho and Zhu 2004). The authors prefer to use the method of Data Envelopment Analysis to measure the performance of the company which is proxied by Islamic Banks Efficiency.

Currently the company's success is not only determined by how much capital or physical assets owned, but is determined by how much the company's ability to manage existing resources. One of the company's resources are now starting to be taken into account is the role of intellectual capital (IC) or intellectual capital. As stated by Pike et.al (2002), "when a business organization wants to expand, the key step to do is to increase the value creation of intellectual capacity"

In this era, making decisions based on financial performance is considered irrelevant. Even in 1998, Eipstein and Freedman have already discovered that individual investors are more interested in corporate social information. Companies that have been doing these functions are considered to have "concern" that could further boost what is needed by stakeholders. Company in Islam, is a contributing institutions while protecting the environment and the communities in which it is located, is more than just a brand but improving human function fully as a caliph who take care of the earth God in order to achieve the blessings of Allah SWT. This awareness that ultimately creates a more tightly religious contract (Oman: 2001). The function is, in general, better known as Corporate Social Responsibility (CSR).

This view is no longer led to a profit-oriented but rather the God-oriented. And, in Islam, which can realize the orientation of charity and fund-virtue or qardh fund. With this orientation, the company's success is not judged by how much profit is generated, but the virtue of charity and the funds are generated.

Based on the facts and the relevant literature that has been described above that the problem in this research is to study the influence of Sharia Islamic Intellectual Capital and Islamic Corporate Social Responsibility Sharia on Islamic Banking Efficiency.

Literature Review

Resource Based Theory

Resource-Based Theory (RBT) to analyze and interpret organizational resources to understand how organizations achieve sustainable competitive advantage. RBT focuses on the concept of corporate attributes that difficult-to-imitate as a source of superior performance and competitive advantage (Barney, 1986; Hamel and Prahalad, 1996 in Madhani, 2009). RBT pioneered by Penrose (1959) in Astuti (2005), argued that the company's resources are heterogeneous, not homogeneous, available productive services derived from the company about providing resources to the unique character of each company. Resources must meet the criteria in order to provide a competitive advantage and sustainable performance (Madhani, 2009). VRIN criterias are:

Value (V) : resource can be valuable when delivering strategic value to the company. Resources provide value if it helps companies to take advantage of market opportunities or assist in reducing the threat of market. There is no advantage of having the resources if it does not add or increase the value of the company;

Rare (R) : resources are difficult to find among competitors and become a potential company. Therefore, resources should be rare or unique to offer competitive advantage. Resources owned by several companies in the market can not provide a competitive advantage, because they can not design and implement a business strategy that is unique compared to other competitors;

Imperfect Imitability (I): resources can be the basis of a sustainable competitive advantage only if the company is not holding these resources can not get them or can not imitate these resources;

Non-substitusi (N): non-resource substitution indicates that the resource can not be replaced with other alternative power sources. Here, competitors can not achieve the same performance by replacing the resource with other alternative power sources. Further in Madhani (2009) mentioned that according to the RBT, the resources can be generally defined to include assets, organizational processes, firm attributes, information, or knowledge that is controlled by a company which can be used to understand and implement their strategies (Learned, Christensen, Andrews, & Guth, 1969; Daft, 1983, Barney, 1991; Mata et al., 1995).

From these explanations, according to the Resource-Based Theory, intellectual capital meets the criteria as a unique resource for creating a competitive advantage for the company so that the company can be created. Values for the existence of a better performance in the company

Stakeholder Theory

Stakeholders in the classic definition of the term (most often cited) is the definition of Freeman and Reed (1983: 91) which states that the stakeholders are:

“any identifiable group or individual who can affect the achievement of an organisation’s objectives, or is affected by the achievement of an organisation’s objectives”.

Based on stakeholder theory, organizational management are expected to perform activities that are important to their stakeholders and report back on the activities of the stakeholders. This theory states that all stakeholders have the right to be provided with information about how their activities affect the organization (for example, through pollution, sponsorship, security initiatives, etc.), even when they choose not to use such information, and even when they can not directly play a constructive role in the survival of the organization (Deegan, 2004). Further Deegan (2004) stated that the stakeholder theory emphasizes the accountability of organizations far exceeds the financial or economic performance is simple. This theory states that the organization will choose voluntarily disclose information on environmental performance, social and intellectual, over and above the obligatory request, to meet the real expectations or recognized by stakeholders.

The main purpose of the stakeholder theory is to help corporate managers understand their environment and managing stakeholders more effectively in the presence of the relationships in their corporate environment. However, the broader objectives of the stakeholder theory is to help corporate managers in increasing the value of the impact of their activities, and minimize losses to the stakeholders. In fact, the whole core of stakeholder theory lies in what happens when corporations and stakeholders carry out their relationships. This theory can be tested in various ways by using a content analysis of the company's financial statements (Guthrie et al., 2006). According to Guthrie et al. (2006), the financial statements is the most efficient way for organizations to communicate with stakeholder groups that are considered to have an interest in controlling certain strategic aspects of the organization. Content analysis for the disclosure of Intellectual Capital can be used to determine whether it actually happened this communication. Does the company respond to the expectations of stakeholders, both real expectations and recognized by stakeholders, by offering Intellectual Capital accounts are not required to be disclosed? This question has gained attention, but a deeper study is needed to produce a conclusive opinion (Guthrie et al., 2006). In the context to explain the relationship VAIC™ with corporate efficiency, stakeholder theory should be viewed from two fields, both ethical (moral) and managerial fields. Ethics argues that all stakeholders have the right to be treated fairly by the organization, and managers should manage the organization for the benefit of all stakeholders (Deegan, 2004). When the manager is able to manage the organization's full potential, particularly in efforts to create value for the company, then it means the manager has met the ethical aspects of this theory. Value creation (value cretion) in this context is to utilize the full potential of the company, both employees (human capital), physical assets (physical capital), and structural capital. Good management of the entire potential of this will create added value for the company (in this case called VAIC™) which then can encourage efficiency stakeholder. Bidang company for the benefit of managerial stakeholder theory argues that the strength of stakeholders to influence the management of the corporation should be viewed as a function of levels stakeholders control over the resources needed organization (Watts and Zimmerman, 1986). When the stakeholders attempt to control the resources of the organization, then the orientation is to improve their welfare. Welfare is realized with the high returns generated by the organization. In this context, the concerned stakeholders to influence the management in the process of exploiting the full potential of the organization. Because only with proper management and maximum over the entire potential of this organization will be able to create value added to then encourage the efficiency of a company which is the orientation of the stakeholders in the management intervened.

Legitimacy Theory

Legitimacy theory is closely linked to stakeholder theory. Legitimacy theory states that organizations are looking for ways on an ongoing basis to ensure they are operating within the limits and norms prevailing in society (Deegan, 2004). According to Deegan (2004), in the perspective of legitimacy theory, a company will voluntarily report their activities if the management considers that this is the expected community. Legitimacy theory relies on the premise that there is a 'social contract' between the company and the communities in which it operates. The social contract is a way to explain the large number of people's expectations about how the organization should carry out its operations. This social expectation is not fixed, but change over time. This requires the company to be responsive to the environment in which they operate (Deegan, 2004).

Lindblom (1994 in Guthrie et al., 2006) suggests that if an organization considers its legitimacy is being questioned, the organization can adopt a number of strategies are aggressive. First, organizations can find a way to educate and inform its stakeholders changes in the performance and activities of the organization. Second, organizations can find ways to change the perception of stakeholders, without changing the actual behavior of the organization. Third, organizations can find ways to manipulate the perception of stakeholders with a way to redirect the (U-turn) attention on issues related to other issues and direct interest in the emotional symbols (Guthrie et al, 2006).

Based on the theory of legitimacy, organizations must have operated in a continuous show behavior consistent with social values (Guthrie and Parker, 1989). It can often be achieved through disclosure (disclosure) in company reports. Organizations can use the disclosure to demonstrate management's attention to social values, or to redirect the attention of the community of the existence of the negative influence of an organization's activities (Lindblom, 1994 in Guthrie et al., 2006). A number of previous studies assessed the voluntary disclosure of the annual report and looked at the reporting of environmental and social information as the methods used by organizations to respond to public pressure (Guthrie et al., 2006).

Legitimacy theory is closely related to the reporting of Intellectual Capital and is also closely related to the use of content analysis as a measure of the reporting. The company seems more likely to report their Intellectual Capital if they have special needs untukmelakukannya. This may occur when the company discovered that the company is not able to legitimize its status based on tangible assets is generally known as a symbol of the company's success.

According to Guthrie et al. (2006), the best tool for measuring the development of Intellectual Capital reporting, at this point, is by using content analysis. Based on the study of stakeholder theory and legitimacy theory, it can be concluded that both theories have a different emphasis on the parties that can affect a broad disclosure of information in the financial statements of the company. Stakeholder theory is more to consider the position of the stakeholders who are considered powerful. Stakeholder group that is the primary consideration for the company in the express and / or not to disclose information in the financial statements. While legitimacy theory put public perception and recognition as a major boost in the disclosure of information in the financial statements. In the context of this research, stakeholder theory is more appropriately used as the primary basis for explaining the relationship VAIC TM with the efficiency of the company. In view of the stakeholder theory, the company has stakeholders, not just shareholders (Riahi-Belkaoui, 2003). The groups 'stake' is, according to Riahi-Belkaoui, including shareholders, employees, customers, suppliers, creditors, government, and society. Growing consensus in the context of

stakeholder theory is that accounting earnings is simply a measure of the return to shareholders (shareholder), while the value added is a more accurate measure created by stakeholders and then distributed to the same stakeholders (Meek and Gray, 1988). Value added is considered to have a higher accuracy associated with the return are considered as a measure for shareholders. Thereby both (value added and return) can explain the power of stakeholder theory in relation to organizational performance.

Value added in this case is measured by looking at the value added intellectual coefficient (VAIC TM). Some research on the analysis of disclosure items / components of Intellectual Capital in the financial statements are also using stakeholder theory as the primary basis (see eg Nielsen et al., 2006; Riahi-Belkaoui, 2003, and Guthrie et al., 2006). While legitimacy theory became the foundation underlying both in this study. In the view of legitimacy theory, companies will be compelled to show its capacitance Intellectual Capital in the financial statements to obtain public legitimacy of its intellectual property. Recognition of public legitimacy becomes important for the company to maintain its existence in the social environment of the company.

Agency Theory

Agency theory, a concept that describes the contractual relationships between principals and agents. Principal party is the party who gave the mandate to the other party, ie agent, to do all the activities on behalf of the principal in his capacity as decision makers (Sinkey, 1992:78; Jensen and Smith, 1984:7).

In an agency relationship manager as having direct access to company information, has asymmetric information to external parties, such as creditors and investors. Where there is information that is not disclosed by the company's management to external parties, including investors. To minimize asymmetric information, the management company must be monitored and controlled to ensure that the management is done with full compliance to the various rules and regulations that used. This effort gives rise to what is referred to as agency costs, which in theory should be removed such that the cost to reduce the losses incurred due to non-compliance was found to increase the cost of enforcement.

Agency theory perspective is used to understand the theory of corporate governance. Jensen and Meckling (1976) describe the agency relationship as a contract under which involve the principal agents to carry out their interests involving the delegation of decision-making by agents. The focus in this theory how to determine the most efficient contract in determining the relationship between the agent and the principal. Therefore, a good contract is a contract that is able to answer the specifications that are run by the managing agent and the principal fund of the division returns. However, a complete contract would be difficult. Hence, the principal gives residual control rights, ie rights which the agent can make decisions and certain conditions that are not visible in the contract.

Corporate governance or commonly known as Corporate Governance answer what is the basis of the theory of the Agency, which is a key element in improving the efficiency of the company that includes the company's relationship management with stakeholders.

Separation of ownership by the principal to control the agent in an organization tend to cause conflict between the principal agency to agency. Jensen and Meckling (1976), Watts and Zimmerman (1986) stating that the financial statements prepared by the accounting figures are expected to minimize the conflict between the parties concerned. Reported financial statements by the agent as a responsibility of performance, with the principal to

assess, measure and monitor the extent to which the agency is working to improve their welfare, and to provide compensation to the agent.

The financial statements are used principally to provide compensation to agents in hopes of reducing the agency conflict can be used by agents to obtain greater profits. Accrual accounting are accounted for under the accrual basis of managerial judgment is the subject, because of the flexibility provided by the Accounting Standards provide a boost to the manager to modify the financial statements in order to generate profit as desired, although creating distortions in reporting earnings (Watts and Zimmerman, 1986). One way is expected to be used to control agency costs by implementing good corporate governance.

Kaen (2003) stated that corporate governance is essentially concerned the issue of who should control the activities of the corporation and why it should be done to control the activities of the corporation. What is meant by "whom" is the shareholders, while the "why" is because of the relationship between shareholders and various stakeholders in the company. Previous study of Jensen and Meckling (1976) indicate that the agency is to minimize conflict by increasing managerial ownership in the company. Ross et., Al (1999) states that the greater the ownership of the management company, the management will tend to strive to improve its performance for the benefit of shareholders and for their own interests.

Research Methodology

The population is a region consisting of the generation of objects or subjects that have certain qualities and characteristics are determined by the investigator to be studied and then drawn conclusions (Sugiono, 2002:72). The population in this study were all Islamic Banks, namely Bank Muamalat Indonesia, Bank Syariah Mandiri, Bank Mega Syariah, Bank BNI Syariah, Bank Victoria Syariah, Bank Panin Syariah our bank Sharia, Sharia Bank Jabar, Bank BCA Syariah, BRI Syariah, and Maybank Syariah.

The sample is defined as a part or the whole population with a certain method as a part or the whole population as a representative part of the population. The sampling technique used was purposive sampling in order to obtain a sample that is consistent with the objectives of the study. Purposive sampling is a sampling method that is based on several considerations or specific criteria. The criteria as follows :

- Firms belonging to the Islamic Banks
- Has total assets of the three greatest among Islamic Banks in Indonesia
- Report on the implementation of good corporate governance in accordance with Indonesian laws and published during 2007, 2008, 2009, 2010, 2011, 2012 and 2013. Implementation of corporate governance in Islamic Banks started in 2007.
- Financial reports, statements and reports zakat charity fund published during the year 2007.2008, 2009, 2010, 2011, 2012, and 2013

Selection of the banking sector as an object of research refers to research Firer and William (2003) who calls the banking sector as one (of 4) sector potential. In addition, the banking sector have been on the intellectual aspects, overall, employees in the banking sector is more homogeneous compared with other economic sectors (Kubo and Saka, 2002). Homogeneity is important to ensure that all employees have a level of knowledge that is not very diverse (heterogeneous), so the treatment of the human capital becomes more objective. Treatment of human capital in this case related to salaries, training, career opportunity, and so on.

Data analysis was conducted using Partial Least Square. PLS is a structural equation modeling completion method (SEM), which in this case is considered more appropriate than the other SEM techniques. The number of data samples is small, the potential distribution is not normal variables and the use of formative and reflective indicators makes PLS more appropriate for selected (Cassel, et.al., 2000, in Tan, et al, 2007). Selection of PLS method because in this study there is a latent variable that is formed with formative indicators. Ghozali (2006) stated formative indicator constructs assume that influence indicator, where the direction of causality of the indicators to the construct.

In this study only Islamic Intellectual Capital variables are constructed with formative indicators. Therefore, the authors prefer to use PLS because other analysis programs (AMOS, LISREL, etc.) are not able to perform the analysis of latent variables with formative indicators (Ghozali: 2006)

There are two parts of the analysis that must be performed in PLS:

1. Measurement outer assess the model or models

Because it is assumed that the indicators are not correlated between the size of the internal consistency reliability (Cronbach alpha) are not required to test the reliability of formative constructs (Ghozali: 2006). Ghozali (2006) adds that because the formative construct is basically the relationship between indicators and constructs, then the vote is to see how the regression coefficients and level of significance of the regression. So, we see the weight of each indicator and the significance value. Recommended weight value is above 0.05 and the t-statistic above 1,645 or $\alpha = 0.05$ level (one-tailed)

2. Assessing Inner Structural Model or Model

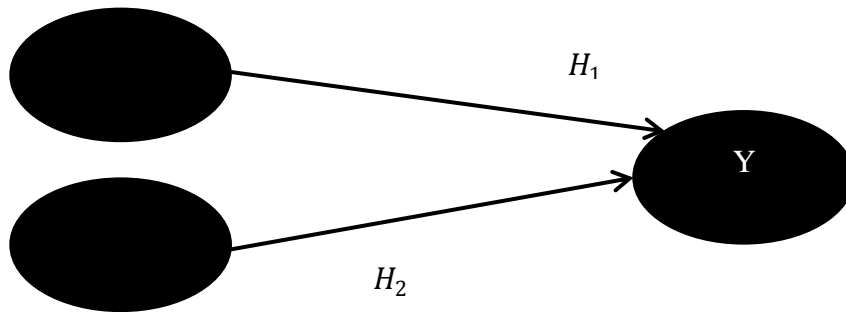
Structural model was evaluated using the R-Square for the dependent constructs, Stone-Geisser Q-Square test for predictive relevance and significance of the t test and the structural path coefficient parameter (Ghozali: 2006). In assessing the model with PLS begins by looking at the R-Square for each dependent latent variable. Changes in the value of R-Square can be used to assess the effect of certain independent latent variables on the dependent variable does have a substantive effect. Effect of the magnitude of f^2 can be assessed as follows (Ghozali: 2006):

$$f^2 = \frac{(R^2 \text{ included} - R^2 \text{ excluded})}{(1 - R^2 \text{ included})}$$

Where R^2 included and R^2 excluded is R-square of the dependent latent variable as a predictor of latent variables used or issued in the structural equation. In addition to seeing the value of R-Square, PLS models were also evaluated by looking at Q-Square predictive relevance for the model constructs. Q-square predictive relevance measure how well the observed values generated by the model and estimate its parameters. Q-square value of predictive relevance is greater than 0 indicates that the model has predictive value relevance, while the Q-square value of predictive relevance is less than 0 indicates that the model lacks predictive relevance (Ghozali, 2006)

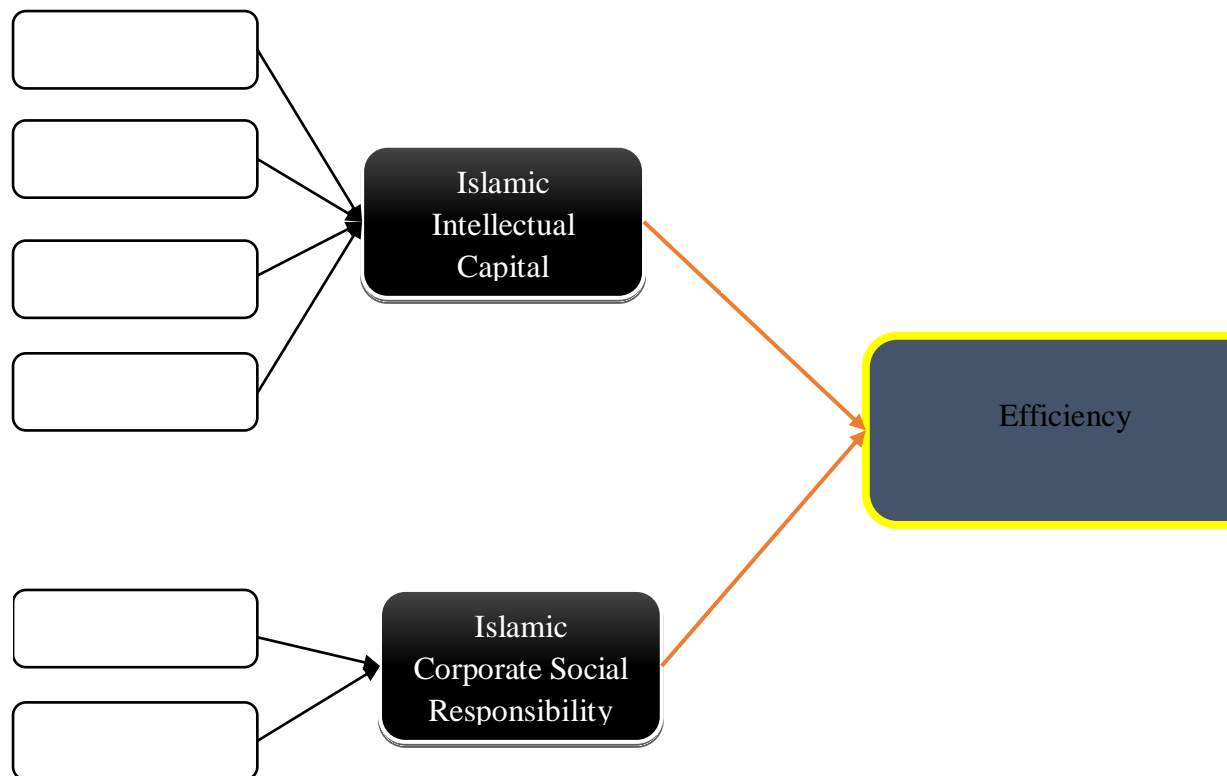
Hypotheses

In H1, the independent variable (Islamic Intellectual Capital) associated with dependent variable efficiency Islamic Bank) and the H2, the independent variable (Islamic Corporate Social Responsibility) associated with the dependent variable (Efficiency of Islamic Banking)



Picture 3.1 Model Hypotheses 1 and 2

Research Findings



Picture 3.2 Research Findings

Based on the results using Partial Least Square regression, it can be concluded that the Islamic Intellectual Capital has positive effect on the efficiency of Islamic Banks. That is, the better the ability of Islamic Banks create value added through the entire capital owned by either physical or non-physical, the more efficient the Islamic Banks. This is consistent with research conducted by Tan et.al (2007) and Chen et.al (2005), and partially supports the

findings Firer and Williams (2003) that there is a positive effect between Islamic Intellectual Capital is proxied by VAIC and efficiency of the company . The findings generated by Tan et.al (2007) and Chen et.al (2005) stated that the VAIC component VACA, VAHU and STVA statistically significant positive effect on the efficiency of the company. However, the results of this study stated that only VACA which negatively affects the efficiency of the company. While overall, VAIC no significant effect on the efficiency of the company. Rationalization that can be given to explain this finding is as follows:

First, in general within seven years of observation, the biggest value added owned Commercial Bank generated through the management of human capital. That is, the Commercial Bank has managed to maximize the expertise, knowledge, and network of their own labor to create added value for the company. According to stakeholder theory, this is obviously very advantageous because it demonstrates the ability of management to manage the organization for the benefit of stakeholders. This is in line with research conducted by Meek and Gray (1998) that VAHU or ability to manage workforce is one of the factors that affect the efficiency of the company. According to Firer and Williams (2003), it shows the seriousness of the company to optimally utilize human capital.

This is because the data used in this study involves only three Islamic Banks in Indonesia in the period 2007-2013.

Second, the legitimacy theory perspective, a company will voluntarily report their activities if the management considers that this is the expected community. This is related to stakeholder theory that having an interest in the management of Islamic Banks is not only "owner" but also those who took part in supervising the trip Islamic Banks. Legitimacy theory relies on the premise that there is a 'social contract' between the company and the communities in which it operates. The social contract is a way to explain the large number of people's expectations about how the organization should carry out its operations. Social expectations are not fixed, but change over time. This requires the company to be responsive to the environment in which they operate (Deegan, 2004).

Conclusion

Based on these results, the authors concluded that the effect VAHU smaller than STVA prove Islamic Banks not optimize its human resources. Islamic Banks still focused on tangible assets rather than its human capital. According to Guthrie et.al (2006) when an organization considers that its legitimacy is being questioned, the organization can adopt a number of strategies that aggressive. First, the organization can find a way to educate and inform its stakeholders changes in the performance and activities of the organization. Second, organizations can find ways to change the perception of stakeholders, without changing the actual behavior of the organization. Third, organizations can find ways to manipulate the perception of stakeholders with a direct way back (rewind) attention on issues related to other issues and direct interest in the emotional symbols (Guthrie et al, 2006).

Based on the theory of legitimacy, a trend that carried Commercial Bank is to optimize the resources other than human capital, such as capital and other tangible assets owned. This is reflected even Sharia Commercial Bank continues to make recruitment to meet the human resource needs of the new branch offices have been opened, but the market share of Islamic banking in Indonesia has not been able to touch the figure of 5%. Sharia Commercial Bank has not been able to optimize its human resources as it is still focused on things related to structural capital such as: corporate information systems, customer service and facilities, the

products of Islamic banking, and other matters related only to technical or banking operations. In fact, human resources or labor is spearheading Sharia Commercial Banks to get better position in the banking sector.

In investing, the investor will use all of the information disclosed in the annual report the company to make decisions. Growing social conditions make the current stakeholders increasingly aware of the ability of the company to disclose and report social information, or better known as corporate social responsibility. Sharia Commercial Bank, has a different outlook on it. In Islam, the form of its corporate social responsibility is a charity as qardh fund. Zakat is something that must be incurred on income or revenue that we receive. Zakat also has special provisions regarding anyone who is obliged to accept it. While qardh-fund hasan does not have provisions on who is obliged to accept it.

Based on the result using Partial Least Square regression, the authors concluded that the higher Islamic Corporate Social Responsibility is distributed, the more efficient the Islamic Banks. However, the influence of Islamic Corporate Social Responsibility and Efficiency of Islamic Banks is only 14%, because if traced partially, each variable formative Zakat Fund and Benevolent Fund (Qardh Fund) had a negative impact on the variable Islamic Corporate Social Responsibility. This means that the higher the Zakat Fund and Benevolent Fund are distributed, the lower the efficiency level of Islamic Banks in Indonesia. According to the authors, this reflects that Islamic Banks in Indonesia, still considers Zakat Fund and Benevolent Fund liability was limited to abort or still consider corporate social responsibility as a burden, not as an obligation that must be met.

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EVALUATION OF THE APPLICATION PERFORMANCE MEASUREMENT AND REPORTING SYSTEM BASED ON LOGIC MODEL ANALYSIS (CASE STUDI AT DINAS PENDIDIKAN RIAU PROVINCE)

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Abstract

New Public Management (NPM) is a concept which is considered to be the most suitable for the attainment of accountability and good governance. This concept changes the role of government in providing services by focusing more on the impacts (outcomes) on society, not only realization of budget absorption or implementation of programs and activities. To ensure the real implementation of this concept, the Government Regulation No. 8 Year 2006 on Financial and Performance Reporting in the form of a Government Performance Accountability Report (LAKIP) was issued. This research tries to examine performance of the Education Agency of Riau Province using an instrument to assist in logical thinking, i.e. the logic model

A performance measurement model with logic model used to measure performance of program indicator developed by Riau Province Education Department. The research method was done by analyzing the data and conducting interviews as well as distributing questionnaire as instrument to gather additional information. Findings of this research is indicated by program that the performance indicators of the Riau Province Education Department have not showed logical relationships

Keywords: NPM, logic model, performance indicators, government performance accountability report

1. INTRODUCTION

1.1 Background

Demands for change in public sector organizations which so far have always been described as unproductive, inefficient, lost-making, low in quality, less innovative, and not accountable later encourage reforms in the governance system. The fundamental change in this governance system has begun since the 1998 reform in Indonesia.

The concept of New Public Management (NPM), which is a concept related to management is considered very suitable for a decentralized system. This concept alters the role of government in relation to its relationship with society into a more democratic one. The NPM concept focuses performance measurement of the organizations in the public sector on their impacts (outcomes), not only on their input and output. As set out in the Regulation of the State Minister for the Empowerment of State Apparatuses and Bureaucratic Reforms No. 13 Year 2010, improvement in governance and the system of agenda management is vital for the the reforms to the ongoing governance run by the government.

Performance measurement is one way to assess the success or failure of a public sector organization in implementing programs or policies that have been set in order to realize the vision and mission of the organization. Performance measurement can provide stakeholders such as heads of institutions or ministries, regional heads, heads of regional working units (SKPD), and heads of institutions with feedback to help make performance evaluation to improve the future performance.

If the program is prepared in accordance with the direction of the program reference frame which should not only be a mere political necessity, certainly an indicator set will accommodate the actual program performance and agency performance extensively. Akbar, et al (2010) examines the factors that are influence performance measurement on local government in Indonesia. His research shows that the difficulty of metrics (size), technical knowledge, management commitments, and legislative interests have an influence very strong in determining the performance measurement of the government.

Marvin (2012) examines the evaluation of the preparation of performance indicators at the Bantul district government. The results of his research indicate that the performance indicators of Bantul District Government have not shown the conformity of information (logical relationship) between the planning documents and the reporting documents. Performance Indicators of SKPD / work unit have not yet shown results-based performance indicator so that they have not fully supported the performance of Bantul Regency Government.

Riau Province as one of the regional governments is also granted the authority by the central government to govern its territory and to be accountable for its performance by requiring it to prepare a government performance accountability report as the instrument. The report is also used to identify realization of the visions and missions of Riau Province. The 2009-2013 Visions of Riau Province are comprised of realization of well-established economic development through well-prepared infrastructure, increased development in the education sector, as well as guarantees for religious life and proportional development of Malay culture.

This study tries to examine further the performance measurement and reporting system of the Riau Province Education Department using an instrument to assist in logical thinking. The LAKIP which stands for Laporan Akuntabilitas Kinerja Instansi Pemerintah or the Government Performance Accountability Report prepared by the Riau Province Education Department covers 11 programs with 238 activities. Therefore, it is certainly not easy to measure the achievement of the overall programs and activities organized by this agency. What makes the Education Department interesting to investigate is the fact that the national development has included the education sector into the list of priorities. Moreover, as stated in its vision, the Education Department of Riau Province aims to “establish educational institutions which are able to produce quality, faithful and pious human resources which preserve Malay culture and have the competitive spirit in 2020”, and this is very interesting because it sets up a high expectation

1.2 formulation of the problem

In 2012 and 2013, the LAKIP prepared by the Riau Province Education Departement got a grade C and ranked 6th (sixth) in the regional working units at the provincial level. The poor grade given to the LAKIP prepared by the Education Agency of Riau Province implies mismatches in a number of

evaluation components. This is evident from the program performance indicators which did not focus on the actual performance, the planning and reporting documents which had not elaborated the conceptual framework, and some predetermined target indicators which had not been achieved. If not addressed properly, these problems may impede achievement of the vision of both the Agency and the Riau Province in a broader sense.

1.3 research question

Based on the formulation of the problems, the author formulates the problems as follows:

1. Is there any logical relationship among components of the programs implemented by the Riau Province Education Departement ?
2. Have the performance indicators established by the Riau Province Education Departement been based on performance? `
3. What are the factors which may support and impede the implementation of performance-based program evaluation?

2. LITERATURE REVIEW

2.1. The Concept of New Publik Management

The NPM concept causes drastic changes in public sector management, i.e. from a traditional management system which is rigid, too bureaucratic and overly multi-level into a public sector management model which is flexible and can better understand the market demand. Implementation of this NPM concept into the governance system has managed to reduce the distance between the government as an agent and society as a consumer (in Mahmudi, 2007).

The NPM concept requires that all organizational resources are used for the attainment of the target performance. This NPM focuses more on attainment of the results (outcomes), not on the policies. Control placed over the output and impacts (outcomes) should be the primary focus of the organization, not merely

over the input anymore. Performance measurement is an integral part of this concept. It includes determination of a series of measures of performance indicators which provide information to allow working units to monitor their performance in generating output and outcomes to the community. This performance measurement will assist working unit managers in monitoring and improving performance and focusing on the objectives of the organization in order to meet public demands for accountability (Mahmudi, 2007).

2.2. Program Preparation

Mahsun (2006) defines program preparation as is the process of making decisions about programs to be implemented by an organization and the estimated amount of resources to be allocated to each of the program It consists of three main activities, namely:

1. Analyzing the New Program Proposal
2. Studying the Ongoing Program
3. Preparing a Separated Program Coordination System

2.3. Accountability

Accountability is an important concept for public sector organizations. According to Endang (in Halim, 2012: 47): “The basic concept of accountability is based on the classification of managerial responsibilities at all levels in the organization which is intended for the purposes of carrying out activities in each unit. Each individual in each line of officers is responsible for any activities which are under the responsibility of their own unit. This is what distinguishes controlled activities from uncontrolled activities”. LAN RI and BPKP (2001) describe the categorization of accountability as follows:

1. Financial Accountability
2. Accountability of the Benefits

3. Procedural Accountability

2.4. Performance Indicators

Performance indicators are defined as quantitative and/ or qualitative measures describing the attainment level of a predetermined goal or objective (BPKP in Mahsun, 2006). Performance indicators should be something that will be counted and measured and used as a basis for assessing or evaluating the performance level in all of the following stages: planning, implementation, and the post-activity stage. In addition, performance indicators are also used to ensure that performance of an organization or a working unit is making good progress toward attainment of the goals and objectives set out in the strategic plan.

2.5. Performance Measurement

Whittaker (in BPKP, 2000) explains that performance measurement is a management tool used to improve quality of the decision-making process and the accountability. According BPKP (in Mahsun, 2006), public sector performance measurement should include the input group, the process group, the output group, the outcome group, the benefit group, and the impact group.

The increasing level of researches in public sector performance measurement that Indonesia people aware about their public sector performance. Because performance is not only to show how the program worked but also policy government performance. Mahsun (2006) explain some of performance measurement which usually used by researcher such as balance scorecard,

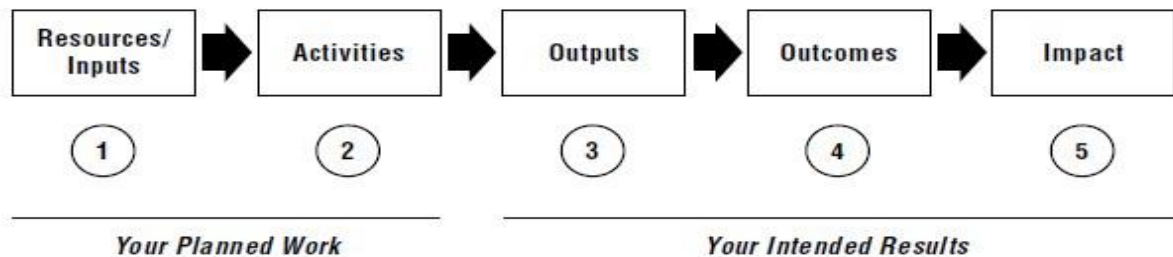
analysis of budget and program disparities and value of money. The performance measurement used in this research is logic model developed by WK Kellogg foundation.

2.5.1 Logic model

W.K Kellogg foundation describe logic model is a systematic and visual way to present and share your understanding of the resources you have to operate your program, the activities you plan, and the changes or results you hope to achieve. Kellogg illustrated logic model in 5 (five) steps:

:

W.K Kellog
Logic model



Source : W.K Kellogg logic model development guide

Your planned work describe what resources you think you need to implement your program and what you intend to do.

1. Resources include the human, financial, organizational and community resources a program has available to direct toward doing the work.
2. Program activities are what the program does with the resources.

Activities are the processes, tools, event, technology and actions that are an intentional part of the program implementation. These interventions are used to bring about the intended program changes or results.

Your intended result include all of the program's desired results.

3. Outputs are direct products of program activities and many include types, level and targets of service to delivered by the program.
4. Outcomes are the specific changes in program participants' behavior, knowledge, skills, status and level of functioning. Short-term outcomes should be attainable within 1 to 3 years, while longer-term outcomes should be achievable within a 4 to 6 year timeframe.
5. Impact is the fundamental intended or unintended change occurring in organizations, communities or systems as a result of program activities within 7 to 10 years.

Logic model is a tool that can be used to planning and evaluate the program and activities that have been completed or running. This is because the logic model can provide a systematic analysis that can describe the actual conditions. The

logical model was developed with the aim of explaining to stakeholders a description of what a program will aim at, who it is its users, the service to be delivered, the outcomes and impacts to be achieved (Kellog Foundation, 2008).

2.6. Previous Studies

Marvin (2012) examines the evaluation of the preparation of performance indicators at the Bantul district government. The results of his research indicate that the performance indicators of Bantul District Government have not shown the conformity of information (logical relationship) between the planning documents and the reporting documents. Performance Indicators of SKPD / work unit have not yet shown results-based performance indicator so that they have not fully supported the performance of Bantul Regency Government.

Solikhin (2005) examined accountability reports in Indonesia and found that the LAKIP submitted remained bias. This is arising from the excessive actions taken by the government which correlates good performance with self-performed efforts and poor performance with external factors.

Safii (2009) studied performance of the program organized by the center for development and empowerment of mathematics education and education personnel and found that, using the logic model to develop the conceptual framework, the program managed to achieve the expected outcomes set by this center for development and empowerment of mathematics education and education personnel with increases in the knowledge by more than 50 percent as the indicator of achievement.

3. RESEARCH METHODOLOGI

3.1 Rationality of the Research Object

The object of the study is the Performance Measurement and Reporting System implemented by the Education Agency of Riau Province to determine performance of a program and the indicators. In addition, so far the Education Agency of Riau Province has never evaluated its existing performance measurement and reporting system to uncover performance of the agency and whether the program that has been set suits the specified indicators.

3.2 Type of the Research

This research employs a descriptive qualitative approach using a method of a case study in the Riau Province Education Departement .

3.3 Types and Sources of the Data

The data collected in this research consist of primary data and secondary data.

1. Primary data, the data collected directly from the object of the research, which is the Riau Province Education Departement , through interviews.
2. Secondary data, the data obtained form publications

3.4 Data Collection Technique

The data collection technique employed the technique of triangulation, i.e. collecting the necessary data from a variety of data sources and using a variety of data collection techniques simultaneously. Moleong (in dunia penelitian blogspot,2011) provide understanding of data triangulation is a technique of examining the validity of data utilizing other milkatu in comparing the results of interviews in the object of research.

3.4.1 Field Research

Field research was conducted by directly visiting the object of the research, i.e. the Riau Province Education Departement using the following methods:

1. Documentation
 - a. The Strategic Plan of the Riau Province Education Departement Years

2009-2013

- b. The Government Performance Accountability Report (LAKIP) Years
2010-2012
- c. Other supporting documents related to the research

2. Interviews

Government officials planned to be interviewed are:

- a. The Secretariat
- b. Head of the Program Development Sub-Section
- c. Head and the Program and Planning Section or other technical staff in charge of planning of the program and reporting of performance indicators
- d. Heads of the Divisions of the Working Unit of the Riau Province Education Departement , such as: the head of the pre-school education, primary school and extraordinary school division, the head of the secondary school division and other divisions.

3.4.2 Library Research

Library research is a type of research on data collection carried out by reading any references relating to the problems faced when collecting the required information. This research was conducted to support the research on program preparation and the indicators used to assess the program.

3.5 Data Validity

According to Yin (2014), qualitative researchers must document their case study procedure and the steps of the procedure as detail as possible. Yin also recommends that they carefully design their case study database protocol.

In this study, the researcher documented every single procedure used by the researcher in an attempt to generate the research findings.

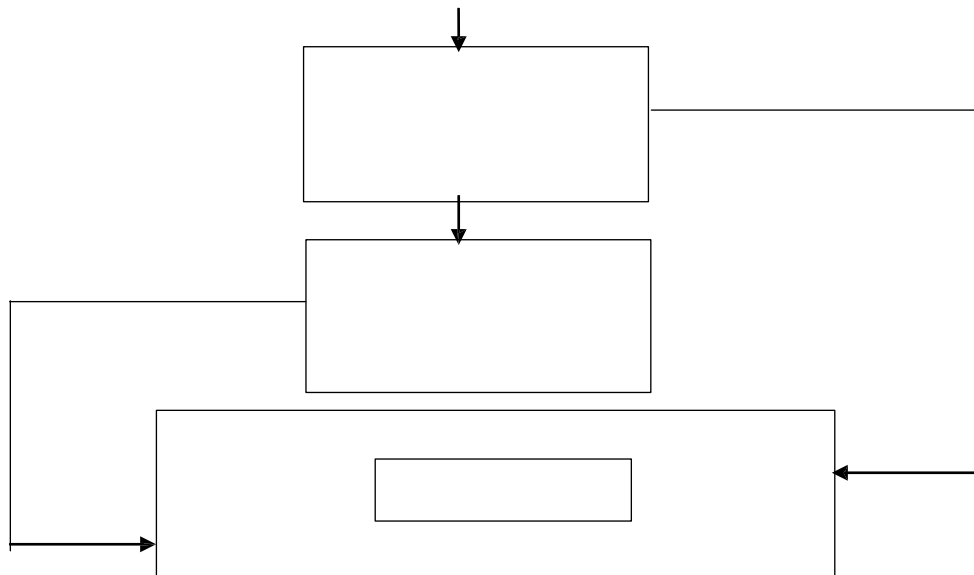
3.6 Data Analysis Technique

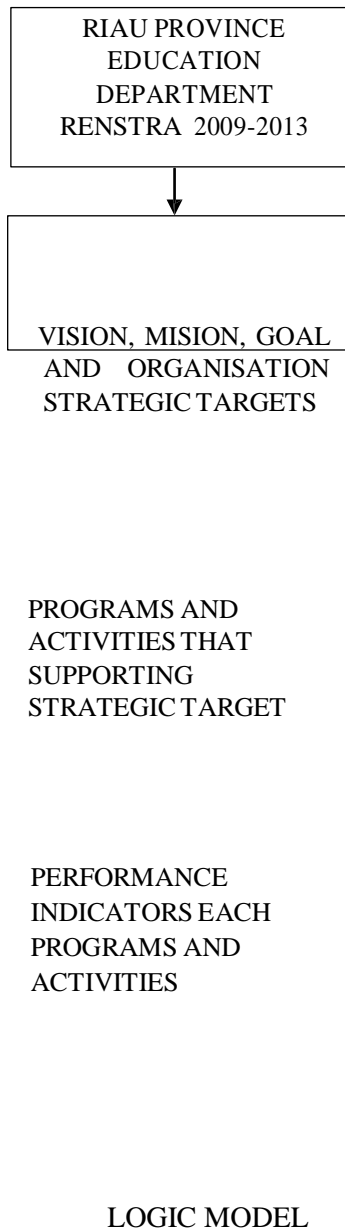
3.6.1 Research Model

This research model can be seen from the following chart:

Picture 2:

Research model design





The steps to analysis data in this research are:

1. Logic model used to analysis strategic planning.

Mapping all of the target, indicator, main program, activities description and performance indicator with logic model analysis.

2. Thematic analysis used to analyzed interview result

The interview result analyzed with thematic analysis to picked which result appropriate to research.

3. Descriptive analysis from previous process analys

4. Decision making

4.1.1 Analysis Tool

The analysis tool used in the present study to analyze the documents and the interview results was thematic analysis. Thematic analysis is a qualitative analysis method used to identify, analyze and present the pattern (theme) of the data (Braun and Clarke, 2006). Consist of 6 (six) steps, such as; 1. Familiarizing yourself with your data, 2. Generating code, 3. Searching for themes, 4. Reviewing themes, 5.defining and naming themes and 6. Producing the report.

5. FINDING AND CASE INVESTAGATION

5.1 The Performance Indicator Suitability of Riau Province Education

Departement .

In gaining the vission in the year of 2011, six missions were formulated along with the objectives and performance target, as follows:

Table 1

The Structure of Performance Target in 2011

Mission	Objectives	Target
Mission 1	Objectives 1	2 Targets
	Objectives 2	3 Targets

Mission 2	Objectives 1	3 Targets
Mission 3	Objectives 1	1 Target
	Objectives 2	3 Targets
Mission 4	Objectives 1	1 Target
Mission 5	Objectives 1	2 Targets
Mission 6	Objectives 1	2 Targets
Total of Strategic Targets	17 Targets	

Source: adapted from LAKIP Riau Province Education Departement 2011

Meanwhile, for the year of 2012, a number of objectives and target were formulated within every mission, as follows:

Table 2

The Structure of Performance Target in 2012

Mission	Objective	Target
Mission 1	Objective 1	1 Target
	Objective 2	6 Targets
	Objective 3	1 Target
	Objective 4	2 Targets
	Objective 5	3 Targets
	Objective 6	4 Targets
Mission 2	Objective 1	1 Target
Mission 3	Objective 1	3 Targets
	Objective 2	4 Targets

Mission 4	Objective 1	1 Target
Total Performance Targets		26 Targets

Source: adapted from LAKIP Riau Province Education Departement 2012

By the end of the five-year plan period, the Riau Province Education Departement formulated four missions and the descriptors for the goals and objectives of every mission, as follows:

Table 3

The Structure of Performance Target in 2013

Mission	Objective	Target
Mission 1	Objective 1	1 Target
	Objective 2	6 Targets
	Objective 3	1 Target
	Objective 4	2 Targets
	Objective 5	3 Targets
	Objective 6	4 Targets
Mission 2	Objective 1	0 Target
Mission 3	Objective 1	1 Target
	Objective 2	4 Targets

Mission 4	Objective 1	1 Target
Total Performance Targets		23 Targets

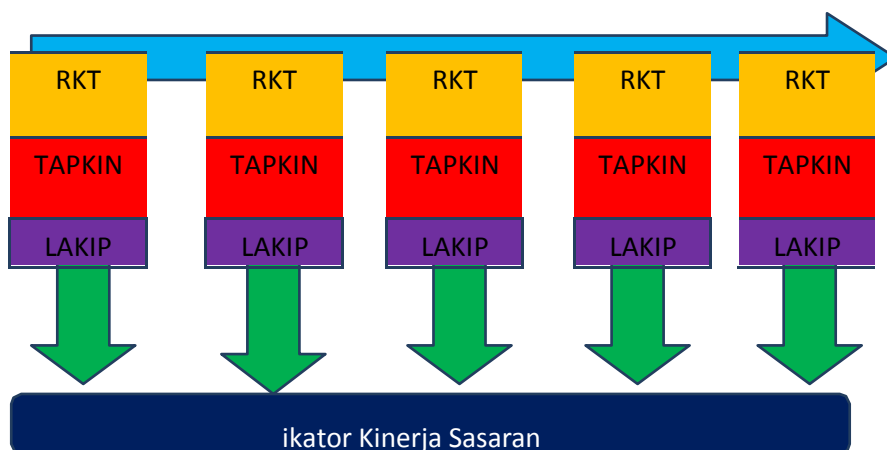
Source: adapted from LAKIP Riau Province Education Departement 2013

The performance indicator of Riau Province Education Departement for three fiscal year is done by using logic model. Testing using a logical model allows for benchmarking of the performance indicators contained in the documentation to the performance reporting document. Logic model is used to know the flow of thought and continuity of thinking starting from planning documents (RENSTRA, RKT, and TAPKIN) with accountability report that is Performance Accountability Report (LAKIP) of Riau Province Education Departement . Here is a chart that shows the process of testing the performance indicators Riau Province Education Departement with the logic model:

Picture 3:

Logic model testing of target performance indicator

RENSTRA Dinas Pendidikan Provinsi Riau



The chart shows the use of a logical model in performance indicator performance testing. Result of analysis by using logic model for three fiscal year found difference of indicator in planning document and performance reporting as seen in following table:

Table 4:

Comparison of Number of Target Performance Indicators Year 2011

Misi	RKT	TAPKIN	LAKIP
Misi 1	RKT 2	TAPKIN 3	LAKIP 2
Misi 2	RKT 8	TAPKIN 6	LAKIP 7
Misi 3	RKT 6	TAPKIN 0	LAKIP 6
Misi 4	RKT 2	TAPKIN 2	LAKIP 2
Misi 5	RKT 1	TAPKIN 1	LAKIP 1
Misi 6	RKT 0	TAPKIN 0	LAKIP 0

The data in the table shows the difference of performance indicators of Riau Province Education Departement's target for 2011. As can be seen that for the 2011 fiscal year, there is no target performance indicator in the Renstra column. This is because in 2011 the applicable Renstra is not the Renstra Revision of 2009-2013. In the Renstra before the revision there is no mention of the targets to be achieved. While the number of performance indicators of Riau Province Education Department Service targets for 2012 can be seen in the following table:

Table 5:

Comparison of Number of Target Performance Indicators Year 2012

Misi	RENSTRA	RKT	TAPKIN	LAKIP
Misi 1	Renstra 18	RKT 17	TAPKIN 18	LAKIP 18
Misi 2	Renstra 2	RKT 3	TAPKIN 3	LAKIP 3
Misi 3	Renstra 2	RKT 1	TAPKIN 1	LAKIP 2

Misi 4	Renstra 1	RKT 0	TAPKIN 0	LAKIP 1
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The data in the table shows the number of indicators of the Riau Province Education Department's performance goals for 2012. Different from the data in 2011 which contains 6 (six) missions, in 2012 the number of missions of the Riau Province Education Department is 4 (four) missions. The number of missions in the 2012 document is the same as that contained in the document in 2013. The following is the number of Riau Province Education Department Service's performance indicators for 2013:

Table 6:

Comparison of Number of Target Performance Indicators Year 2013

Misi	RENSTRA	RKT	TAPKIN	LAKIP
Misi 1	Renstra 16	RKT 16	TAPKIN 16	LAKIP 15
Misi 2	Renstra 3	RKT 5	TAPKIN 4	LAKIP 5

Misi 3	Renstra 1	RKT 1	TAPKIN 1	LAKIP 0
Misi 4	Renstra 1	RKT 1	TAPKIN 1	LAKIP 1

5.1.1 The Mission Discrepancies on Strategic Plan Document with LAKIP Document

The results of the analysis done showed discrepancy of missions on strategic planning document with a document report of LAKIP formed in 2011 to 2012 and 2013. As previously described, in a document in 2011 there were six missions, whereas for the years of 2012 and 2013 there were four found. This amount differs from the amount of the mission of Education Department of Riau Province, which was five in number.

5.1.2 The Discrepancy of Target Performance Indicators on the Planning and Reporting Documents

The discrepancy of target performance indicators on the planning and reporting documents are the results of the reduced, added, or split targets on RKT documents. In addition, the results of the analysis showed differences in the percentage of achievement of the target performance indicators. Some forms of discrepancy are as follows:

1. Reduction on Target Performance Indicators
2. Addition on Target Performance Indicators
3. Division on Target Performance Indicators
4. Merger on Target Performance Indicators
5. Differences in the Percentage of Achievement of Target Performance

Indicators

5.1.3 The Discrepancy of Performance Indicators on the Planning and Reporting

Documents

The results of the analysis showed the discrepancy of performance indicators on the planning and reporting documents occurred in the third year of the fiscal year, specifically in 2011, 2012, and 2013. Meanwhile, the analysis of the logic model in this section has aimed at the program performance indicators and the activities in the planning documents (TAPKIN) and the reporting documents (LAKIP), for the performance indicators are detailed per program in the two documents.

A problem in the discrepancy of performance indicators is the use of different indicators on the same program in the planning and performance reporting documents. The following are some different program indicators used in the planning document with the reporting one:

Table 7

Differences in Performance Indicators in the Planning and Reporting Documents

Year	Main Program	Performance Indicators	
		Program	Indicators
2011	Non Formal Education Program	Training for teachers of early childhood education (PAUD)	TAPKIN: Improving the education services for young learners by increasing the percentage of institution quality of

			Implementing trainings for educators of crèche, units of PAUD, playgroups, managers of PAUD, and baby sitter services in the process of learning of PAUD
2012	9-Year Compulsory Education Program	Subsidized education in SD/MI,SMP/MTs (aids for poor students supporting funds of BOS)	TAPKIN: the percentage of dropouts in SD/MI is 4.0% and SMP/MTs is 0.47% LAKIP: Implementing the subsidized education for poor students
2013	Secondary School Program	Optimizing the learning activities in SMA Plus of Riau Province	TAPKIN: equity and expansion for education access by reducing the number of grade repetition of SMA/SMK/ MA by 0.47% LAKIP: Implementing the development of school program application (PAS)

Source: adapted from the identification of performance indicators

5.2 The Programs Suitability of Riau Province Education Departement

The Education Department of Riau has developed some programs and activities that will run on a five-year budget. The composition of both programs and activities are formulated in the strategic plan (Renstra) document. Furthermore, each of the programs and activities that have been prepared in the strategic plan will set out the need for a budget each year for five years consecutively. Basically, the entire programs and activities lead to the achievement of the compiled missions. The following is a table showing the number of programs and activities for each mission of the Riau Province Education Department in the fiscal year of 2011.

Table 8

Missions, Programs, and Activities of the Education Department of Riau Province
in 2011

No	Missions	Programs	Activities
1	Missions 1	7 Programs	39 Activities
2	Missions 2	4 Programs	16 Activities
3	Missions 3	5 Programs	8 Activities
4	Missions 4	4 Programs	10 Activities
5	Missions 5	4 Programs	14 Activities
6	Missions 6	3 Programs	4 Activities

Source: adapted from the logic model of program/ activity planning

Besides, presented in the following programs and activities for each mission for the year of 2012.

Table 9

Missions, Programs, and Activities of the Riau Province Education

Departement in 2012

No	Missions	Programs	Activities
1	Missions 1	7 Programs	130 Activities
2	Missions 2	6 Programs	33 Activities
3	Missions 3	7 Programs	19 Activities
4	Missions 4	5 Programs	22 Activities

Source: adapted from the logic model of program/ activity planning

Additionally, here is the list of programs and activities for each mission for the year of 2013.

Table 10

Missions, Programs, and Activities of the Education Department of

Riau Province in 2013

No	Missions	Programs	Activities
1	Missions 1	12 Programs	41 Activities
2	Missions 2	9 Programs	15 Activities
3	Missions 3	7 Programs	10 Activities
4	Missions 4	8 Programs	16 Activities

Source: adapted from the logic model of program/ activity planning

The analysis resulted in the findings of different number of activities implemented during the fiscal years (2011, 2012, and 2013). The difference means the consistency of the number of programs set out for one mission for every fiscal year. Such situation emerged as the consequence of some decisions applied to the programs or activities, like the divisions of some programs or activities, which have been formulated in the strategic plan, into some other parts, or the other way around, which some programs or activities in the strategic plan are merged into one document in LAKIP, TAPKIN, or RKT. Besides, some reductions or additions to the programs or activities in the strategic plan caused the differences in the reports.

5.2.1 The Discrepancy of Programs and Activities in the Planning and Reporting

Documents The discrepancy of programs and activities is specifically described in four parts:

1. The Merger of Programs and Activities

The program merger means that there has been more than one program in the planning which are merged into a single reporting document. This kind of discrepancy is proven by the document in the year of 2011 and 2013.

2. The Division of Programs and Activities

The division is defined by the act of dividing one program in the strategic plan into two or more in LAKIP document. Based on the analysis conducted, such division is identified in the fiscal year of 2013.

3. The Reduction of Programs and Activities

Besides the merger and division of programs in the strategic plan and LAKIP, the analysis showed the difference in the number of programs planned and reported, which occurred due to the reduction of programs.

Furthermore, some programs have been planned but not implemented thus not reported.

4. The Addition of Programs and Activities

This addition relates to the emergence of some unplanned programs that are listed as the programs that have been executed in the reporting document. The result of analysis showed that this point of discrepancy is identified in every year of the fiscal years, 2011, 2012, and 2013.

6. CONCLUSION

Depand on analysis above, can be concluded as follows:

1. There is still a target performance indicators in planning documents to the measurement / evaluation of the performance accountability system of Riau Provincial Education Department has not described the suitability of the information (logical connections)
2. The performance indicators in Riau Province Education Department in achieving its vision and mission has not described the logical relationships, information discrepancy occurs on performance indicators in planning documents and reporting documents of performance

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**THE DETERMINANT STABILITY OF INDONESIAN
SYARIAH BANKS**

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Abstract

Islamic banks are categorized by the compliance to Islamic laws and practices, the main ones being the prohibition of interest, loan trading and derivative. During 2008-2009 financial crisis, when a large number of conventional have announced insolvency, no single Islamic bank has been reported. This paper has two goals, the first is to measure Indonesian Islamic bank's stability and the second is to see the factors that influence the stability. In this study, stability will be measured using Z Score. After getting Z-Score, estimation using panel data model will be conducted. The data sample in this study include 4 Indonesian Islamic bank, which is represent by 2 larger bank and 2 smaller one. The larger banks are Muamalat Bank and Bank Syariah Mandiri, while the smaller banks are Bank Syariah Bukopin and Bank Syariah BRI. After calculate Z score, we found that the small Islamic Banks are less stable than the larger one. Using the panel data model, we found that asset variable have negative and significant effect on stability, variable Income Diversity have a positive and significant effect on stability. However, variables like Credit Asset Ratio (CA) and Cost to Income Ratio (CI) have no significant effect to stability, even though, these variable have a correct sign.

Keywords: Islamic banks, stability, z-score, panel data. .

Introduction

Stability on banking industry affected the effectiveness of the conduct in monetary policy (Warjiyo, 2000). It showed by the conduct of banking function as the intermediaries institution for reallocating fund from society to another form of funding product could work well. It is necessary to know how stable banking industry to accomodate the conduct of monetary policy. In the banking industry cycle, islamic banks in conjunction with conventional banks have an important role for maintaining the monetary policy.

The most common characteristic that distinguish islamic banks and conventional is the exist of interest. Islam banks which following islam laws avoid all of transaction which contain interest, but replacing them by profit or loss sharing and goods services trading (Siddiqi 2000). The power of islamic banks has been proven by the great history of islamic banks written through financial crisis where almost all conventional bank got failure, but no single islamic bank reported fail.

In Malaysia, islamic banks are significantly correlated to the long run economic growth and capital accumulation, and bring this country become international islamic islamic financial hub (Hafas, 2009). While based on research by (Beck, Demirgüç-kunt, & Merrouche, 2013) accross 22 countries, including Indonesia showed Islamic banks have higher intermediation efficiency, lower cost efficiency, lower non-performing loans and higher capitalization, those affect the result of z- scores to become higher which indicates the low risk of bank insolvency.

The power of islamic banks could not representated the stablization of the industry. Thus need to do the research to solve this problem.Indonesia which islam has dominant role in their people life is an interesting object to research the islamic banking industry. There are 11 islamic banks in Indonesia which operate using dual banking system based on API (Arsitektur perbankan Indonesia).

This research is using panel data analysis method within Z scores analysis. A higher z-score corresponds to a lower upper bound of insolvency risk—a higher z-score therefore implies a lower probability of insolvency risk (Hesse, n.d.). This method is very useful to show the condition when a

company or firm is going to get insolvency which related to stability. Then, to measure stabilize, we use the volatility test using z-score output.

This purpose is compare the stability of the large islamic banks and the small one. This study use several variables such as Assets, income diversity, credit asset ratio, and cost to income ratio. The data is from the bank financial statement in quartal of 2008-2016. The purpose of this study is to prove how stable islamic banks in Indonesia within 4 samples of islamic banks.

Methods

Stability measurement in this study using Z-Score. The Z Score has become a populer measure of bank soundness (Boyd and Runkle, 1993; Maechler, Mitra, and Worrell, 2005 and Cihak and Hesse, 2008). In the literature of Islamic Banking indicator is first used empirically by Cihak and Hesse (2008), but theoretically had been discussed by Mirakhor (1987, see Gamaginta and Rokhim, 2011). Cihak and Hesse (2008) define z-core as:

Where where k is equity capital and reserves as percent of assets, μ is average return as percent of assets, and σ is standard deviation of return on assets as a proxy for return volatility. According to Yeyati and Micco (2007), a smaller Z-score (a greater risk exposure) can be associated with narrower returns (for example, because of larger inefficiencies or reduced market power), a larger return volatility (due to poorer diversification or a less conservative investment option), or a higher level of leverage (due to lower capitalization).

As a first step in this study, we perform basic statistical tests which is stationarity test for the z-scores and compare z-scores in Islamic large banks and small banks. To examine the robustness of the result in the first step, we conduct standard deviation analysis. The underlying idea behind these alternative approaches is that the standard deviation underlying the z-score gives only a part of the information

about the behavior of z-scores (Hesse and Cihak, 2007; Cihak and Hesse, 2008). As a second step, we use regression analysis to see some additional factors that explain bank-to-bank variation in z-scores. In this step, fixed effect panel regression model will be applied. The specification model of fixed effect model (FEM) is bellow:

$$(1)$$

Where the dependent variable is the z-core, as explain above. All of the independent variable reflect industry variable for all banks. There are total asset for bank i at time t , credit to asset ratio (CA) for bank i at time t , cost to income ratio (CI) for bank i at time t and income diversity for bank i at time t . CA is percentage of total credit to total asset of each bank. For Islamic banks, credit activity refers to lending with the Murobahah and Mudharobah scheme. CI is percentage of total operational cost to total operational income and ID is income diversity. Income diversity is usefull to control for differences in the structure of the bank's income (Laeven and Levine, 2005; Cihak and Hesse, 2008).

This variable captures the degree to which banks diversify from traditional lending activities (those generating net interest income) to other activities (Cihak and Hesse, 2008). Income diversity measure is defined as follow:

$$(2)$$

For Islamic banks, net interest income replace by income from fund disbursement. Higher value of ID variable, correspond to a higher degree of diversification.

Our data set including four Islamic Banks, there are Muamalat Bank, Bank Syariah Mandiri categorized as large islamic banks, while Bank Syariah Bukopin and Bank BRI Syariah as the small

islamic bank. The availability of data series is the reason we use the banks sample. Due to, only four Islamic banks that have more than 30 series data (quarterly). The source of data is from the quarterly financial report from each bank, for 2008q1 – 2016q2. Length of the data series can showing the variability and volatility of the stability score.

Result and Discuccion

In the first step we will discuss about z score, test equality of mean between the two categories of islamic banks. The stationarity test of z scores suggest that large islamic banks tend to be more stable than the small one. Showed by the value of ADF t stat is larger than its critical value.

Table 1 : The Stationarity Test

Z Score	Test for		
	unit root	ADF t	Critical
	in	Stat	Value (5%)
Small IslamicBanks	Level	1.991137	2.963972
Large IslamicBanks**	Level	3.610502	2.954021

Source: Author Calculation

To determine the factor that affect the z score, this study use the fixed effect regression analysis (table

2). These regression result identify that factors are significant in determining z score both of bank categories are, Islamic dummy, total asset and cost to income ratio. Even the other variable are not statistically significant, but they have generally the expected signs.

Table 2: Fixed Effect Model

Dependent Variable: Z?

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ASSET?	-5.66E-08	2.88E-08	-1.963622	0.0518
CA?	-0.024941	0.049255	-0.506379	0.6135
CI?	-0.062542	0.055363	-1.129665	0.2608
ID?	2.866785	1.523090	1.882216	0.0622
Fixed Effects (Cross)				
_MUAMALAT--C	-1.871748			
_BSM--C	0.545444			
_BRIS--C	4.511897			
_BKPS--C	-3.610339			
Effects Specification				

Cross-section fixed (dummy variables)

Adjusted R-squared	0.416908	S.D. dependent var	5.184908
S.E. of regression	3.959218	Akaike info criterion	5.648662

Sum squared resid	1943.751	Schwarz criterion	5.823377
Log likelihood	-364.8117	Hannan-Quinn criter.	5.719658
F-statistic	14.38064	Durbin-Watson stat	0.649281

Source: Author calculation

Total asset have significant effect at 10% level and a negative relation to banks stability. More higher the asset of a bank, these bank will tend to be more unstable than the smaller one. This result is in conjunction with a hypothesis -too big to fail where higher size of bank asset will have higher probability to be default.

Variable credit (loan) to asset ratio have a negative sign but statistically not significant. Even there is no significant effect, but this variable have a correct sign. The same result also found by Cihak and Hesse (2008), if all of banks (Islamic and conventional banks) be a estimator in one model, variable credit to asset ratio have a negative sign but not significant effect. But the sample does not show a significant relationship although the sign is correct as expected. If a bank have a high in credit (loan), this bank will more probable to insolvent due to probability of default from credit activity

Variable cost to income ratio have a negative and not statistically significant. Banks with higher cost to income tend to have lower z-scores. Cost to income ratio as a proxy of efficiency. The greater cost to income ratio, banks will increasingly inefficient. Inefficiency will lead to increased operating costs, thereby decreasing profitability and will result in lower z score. Income diversity have a positive impact and statistically significant at 10%. This variable shows that if islamic banks tend to increase their income from non operational sector, will improve their stability.

Conclusion

In this paper we have presented an empirical study about the comparison of financial stability between large Islamic banks and small islamic banks with the factors that influence it. We conduct two step, in the first step we use stationary test analysis to see the different stability. Using test, noted that small Islamic banks are lower stable than the large banks. We also conducting regression analysis, fixed effect model to identify the factors that influence the stability. The factors that have significant effect to banks stability are asset and income diversity. The other variables that are credit to asset ratio and cos to income ratio are not significant to stability. The limitation of this study are the

econometrics variable. Those variables are suspected have a multicollinearity problems. Therefore, the next research study we suggest to do the classic assumption test.

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INFLUENCE OF PARTICIPATION BUDGET, CLARITY TARGETS BUDGET AND TRANSFORMATIONAL LEADERSHIP ON PERFORMANCE SKPD (Survey on the Regional Government Work Unit (SKPD) of Riau Province Government)

Iit Susanti, Srihadi Winarningsih, Dede Abdul Hasyir

ABSTRACT

This study aims to determine and analyze the effect of budget participation, budget goal clarity and transformational leadership on SKPD performance.

The method used is quantitative descriptive research method with approach. *survey* The population in this study are all SKPD in the Riau provincial government which amounted to 51 (fifty one) SKPD, sampling using *purposive sampling* and sample 31 SKPD determined by technique. *purposive sampling* Technical analysis of the data using *Path* Analysis.

Based on the results of this research concluded that the variable budget participation, clarity of budget target and transformational leadership had positive and significant impact on the performance of SKPD.

Keywords: Participation Budget, Clarity Target Budget, Transformational Leadership, Performance SKPD

INTRODUCTION

Since the enactment of Law No. 32 of 2004 concerning the Central Government to provide more flexibility for districts to organize Regional Autonomy and Law No. 33 of 2004 on the financial balance between Central and local government has brought about fundamental changes in policy or decision-making process at the local level. Both laws other than the consequences for local governments to make improvements in performance (Personal and

Organizational) through the role of local authorities to participate in making important decisions such as; determination of the vision, mission, objectives, and policies of the organization also has an impact on local government management (Mardiasmo, 2009: 31).

The performance of the Local Government Work Unit (SKPD) has become the focus of attention for the community today, especially since the emergence of a more democratic climate in government. People began to question the value they get for the services performed by local government agencies to the community and local governments are required to have high professionalism, productive, transparent, corruption-free, collusion and nepotism.

Performance appraisal is an activity that must be done because it can be used as a measure of the success of an organization in achieving its mission. With performance appraisal, performance improvement can be more systematic and directed. Public bureaucracy performance is not only done by using indicators attached to the bureaucracy, such as efficiency and effectiveness, but must also consider from service users, such as service satisfaction, accountability and responsiveness.

Riau provincial government to get the value of accountability for 5 consecutive years - participated namely CC and no increase, in addition to the Government of Riau Province is one of the areas that have SILPA higher compared to other regions in Indonesia, the achievement of performance and uptake of the budget for Fiscal Year 2015 - in 2016 more than 50% is not reached, this indicates that planning is still weak, so participation in budget preparation is necessary, in addition to the persistence of the findings, especially with regard to Target budget of local budgets, which in turn will greatly affect the performance of SKPD and factors management government to support the achievement of improved performance of government agencies, showed a condition that almost uniform among government agencies. These factors are human resources in the form of qualified personnel, facilities and infrastructure, including budget, budget goal clarity, the application of *reward* and *punishment*, a fair and leadership (*Leadership*) is good.

Based on a statement from Ahmad Fitri as Ombudsman representative of Riau that is assessing the quality of public services in each SKPD is not always dependent on the head of the region because in each SKPD already have high officials who are responsible and have the authority and the problem is in the head of SKPD and the parts associated with budget execution.

This indicates the need for cooperation in various matters related to the achievement of SKPD performance better and give positive impact to the relevant agencies and to the community.

As refers to Law No. 17 of 2003, the management of state finances must be conducted in an orderly, obedient to laws and regulations, efficient, economical, effective, transparent and accountable with regard fairness and propriety. It means that management the state financial should be carried out by following the provisions statutory applicable to produce *outputs* and *outcomes* an effective consistent with the objectives that have been established, have clear guidelines in accordance with the principles of *good governance*, and should be managed by people who are competent and professional.

Broadly speaking, the problem in this research reexamine whether there is an effect of budget participation, clarity of goals and transformational leadership of SKPD Performance in SKPD Riau Province Government.

LITERATURE REVIEW

Budget Participation

Broad participation is basically a joint decision-making process by two or more parties that have a future impact on decision makers and decision makers (Bastian, 2006). The meaning of participation in local government is the involvement of SKPD in the preparation of local budgets (APBD). Head SKPD who is a user of budget / user of goods, given the opportunity to propose related to the implementation of the main duties and functions SKPD he leads. Head of SKPD shall prepare RKA-SKPD by involving section / sub-section, and work unit (Section / section) which substantially must be in accordance with SKPD tupoksi and already approved performance target and budget in KUA and PPAAS. The participation of each SKPD working unit in budgeting, can avoid problems that arise, such as ineffective programs / activities or activities that are out of sync with other programs that can lead to budget wastage.

The benefits derived from budgetary participation are to make budget executives better understand the problems that arise during the execution of the budget, so participation is expected to lead to efficiency. Success or failure of the SKPD apparatus in implementing the budget is a direct reflection on the success or failure of managerial SKPD in carrying out its duties and responsibilities. In addition, the level of participation in budgeting will encourage good performance. Brownel and McInnes (1986) declared leaders who were given the

opportunity through participation, the budget would be more easily achieved than set without participation.

Anthony and Govindarajan (2005) stated that the results of research on participatory budgeting on managerial behavior and performance show that participative budgeting has a positive effect on managerial performance on the grounds that:

1. There is a greater tendency of subordinates to receive budget targets if they participate in budgeting than if the budget is unilaterally defined.
2. Participatory budgeting can produce effective information exchange. The amount of the approved budget because the actual approach-budgeting have the expertise and knowledge directly on the scope of the organization.
3. Budget compilers will gain a clearer understanding of their work through relationships with superiors during the budget review process.

The participation of government officials in the budgeting process is to show the level of involvement in the budgeting process, given the opportunity to take part in decision making. The process of budgeting in an agency is quite complicated therefore required the participation of all parties in the preparation of the budget so as to create conformity goals in the organization. The effectiveness of participatory budgeting by government is highly dependent on several factors, including the involvement of many communities, the effectiveness of the budgeting channel, the determination of performance targets or solutions and the accuracy of the allocation of resources (Syukriy, 2008).

Participation activities are the participation of people or groups to give ideas in order to achieve the goals of the group and can be accountable, so it can be seen in this participation there are precise reasons that can be given superiors when the budget changes and see the role given at the time of preparation and decision from the top downward or otherwise (Millani, 1975). According to Hansen / Mowen (2009: 787) that participatory budgeting is a budgeting approach that allows employees responsible for budget performance to participate in budgeting. So it can be concluded that budgetary participation is a process whereby individuals engage in it and have an effect on the formulation of budget targets whose performance will be evaluated and likely to be rewarded for achieving their budget targets. Budget participation emphasizes the participation of middle and lower level managers in budgeting. This can increase the sense of responsibility of lower level managers and encourage creativity in achieving the goals of their

business units and overall corporate objectives (Bottom Up system not Top down), and with budget participation endorsed by top management perceived to be more just and ultimately targeted within the budget can be achieved.

Through this system, subordinates are involved in the preparation of budgets involving sub sections so as to achieve agreement between superiors and subordinates about the budget. Subordinate participation in budgeting may also affect managerial performance, because with subordinate participation in budgeting, subordinates feel involved and should be responsible for budget execution, so subordinates are expected to implement the budget better (Anthony and Govindarajan, 2005: 88).

Goal clarity Budget

Locke and Lathan (1990) states that the target is what is to be achieved by the employee. So the budget goal clarity will encourage more effective manager and do the best as compared to the target is not clear. The individual's involvement in the preparation of the budget will be made to understand the objectives to be achieved by the budget, and how will achieve this by using existing resources. Further targets will budget prepared in accordance with the objectives to be achieved.

According to Yuen (2007), clarity of budget goal is the establishment of the budget clearly and specifically with the aim that the budget can be understood by people who bertanggungjawab for achieving the budget target.

According Kennis (1979) budget goal clarity that describes the purpose of the budget stated clearly and specifically, and understood by the parties responsible terhadap achievement. Abdullah (2006) states the general policy direction and budget basically contains information on the objectives and targets to be achieved by the region in question in a particular fiscal year.

Transformational Leadership

The concept of transformational leadership Burn (1978) has developed Bass & Avolio (1990) into four principles called "4i" which include idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. (Stone & Patterson, 2006: 7; Bass & Avolio, 2002: 2; rafferty 7 Griffin, 2004: 330; hall, et al., 2012: 1-2).

From some of these understanding transformational leadership is a style of leadership that

seeks to transform the values adopted by superiors to subordinates to support the vision and goals of the organization. Through the transformation of these values, it is expected that good relations between members of the organization can be built so that there is a climate of trust among members of the organization.

A leader is said to be transformational if it can change the style used to do, to talk about lofty goals, has reference values of liberty, justice and equality. The leader of transformational will make subordinates see that the goal would be achieved much more than his personal interests. Meanwhile, according Yukl (2010) transformational leadership can be seen from the high commitment, motivation and trust subordinates to look at the organization's goals to be achieved much more than his personal interests

The characteristics of transformational leadership according to Avolio et al (Stone et al, 2006) are as follows:

- 1) Idealized influence (or charismatic influence)
- 2) Inspirational Motivation (Inspirational Motivation)
- 3) Intellectual Stimullation
- 4) Individual consideration (personal care).

SKPD performance

Indra Bastian (2006) defines the achievement of the performance is a picture of the implementation of an activity / program / policy in realizing the goals, objectives, mission and vision of the organization. A list of what you want to accomplish contained in the formulation of strategic (*strategic planning*) an organization. In general, the performance of an organization's accomplishments achieved within a certain period.

Furthermore, according to Bastian (2006) performance measurement is not only done on the input (feedback) but also on the output program - benefit from the program. Larry D.Stout(*Performance Measurement Guide*,1993) in Indra Bastian, stating that the measurement / performance assessment is the process of record and measure the achievement of the implementation of activities in the direction of achieving the mission(*mission accomplishment*) with results displayed in the form of products, services or a process. This implies that every organization's activities must be measured and expressed its association with the vision and

mission of the organization .. The products and services will lose value if the contribution is not associated with the achievement of the vision and mission of the organization.

Siegel and Marconi (1989) argued that the benefits at the time of budgeting participatif can improve the quality of communication between fellow managers and between managers and their superiors. Besides by their participation makes the budget execution budget better understand the problems that may arise during the implementation of the budget so that the expected participation may lead to efficiencies.

The implementation of performance budgeting (*performance budgeting*) there in adopt a budget with a participatory approach and their budget goal clarity on each program / activities to be implemented in addition to the participatory approach also their budget goal clarity. (Milani, 1975; Nouri & Parker, Parker & Kyj 1998 and 2006, Shah, 2007). Results of research McGill (2001) found that performance budgeting requires measures to gauge public programs such as input, output (quantity and quality of goods and services produced), efficiency (cost units to produce output), quality of service (such as timeliness, accessibility, courtesy, accuracy, and satisfaction) and outcomes (progress in achieving the objectives of the program).

Fladimir (2013), examined the effect of budget participation, budget goal clarity and accountability of local government performance. The results showed budgetary participation, budget goal clarity and accountability positive effect on the performance of local government officials.

Some studies other than those carried out by Kenis (1979) in emilia dkk (2013) support the presence of a positive influence on clarity and specification of *task-goal* against the commitment to the goal, the satisfaction and attainment of employees, as well as by Kewo 2014 there is influence between budget goal clarity and the managerial performance of local government

Locke (1968) and Kenis (1979) in the Emilia dkk (2013) stated that the determination of the specific objectives will be more productive than not set specific goals. This will encourage employees to do the best for achieving the desired objectives. The existence of a clear budgetary targets, it will be easier to account for the success or failure of the implementation of the tasks of the organization in order to achieve the objectives and targets previously set.

With the budget goal clarity performance of a work unit is considered good financial organization. Clear budget targets will allow officers to prepare a budget targets. Further targets

will budget prepared in accordance with the objectives to be achieved by the local government, on the contrary if there is no budget goal clarity authorities would have little information about the success or failure of the organization to achieve the objectives and targets have been set previously. Therefore, the presence of a clear budget targets expected of local government officials in this case each SKPD able to improve its performance in accordance with predetermined targets.

The managerial performance of a business unit can be known through a process of performance evaluation or performance appraisal, which is periodically determining the operational effectiveness of an organization, its organization, and its personnel based on predetermined targets, standards, and criteria. An important part of performance-based budgeting is the determination of the size or target success indicators of shopping functions. Since activity and expenditure are carried out in each SKPD, the performance in question will describe the level of achievement of the implementation of a program activity, and the policy in realizing the goals, goals, vision and mission of the unit concerned as outlined in the report of performance accountability of government agencies (LAKIP).

Performance accountability reports prepared as accountability to stakeholders and fulfill the Presidential Instruction No. 7 of 1999 which mandates all government agencies / institutions funded by the state budget country in order to submit the report. This report details the organizational accountability and responsibility of the use of resources to carry out the mission of the organization.

LAKIP referring to Presidential Decree No. 29 of 2014 states that the Implementation of Government Performance Accountability System includes:

- a. The strategic plan;
- b. Performance Measurement;
- c. Performance data management;
- d. Performance reporting; and
- e. Review and evaluation of performance.

Based on the explanation above, the hypotheses that can be formulated as follows:

H1: Participation of the preparation of the Budget affect the performance of SKPD Riau Province

H2: Clarity of budget targets affect the performance of the regional unit of SKPD Riau Province.

H3: Transformational Leadership effect the performance of SKPD Riau Province.

METHODS

This research used quantitative descriptive method. Descriptive research is research on issues such as the current facts of a population descriptive study conducted to know and be able to explain the characteristics of the variables studied in a situation. The method used is explanatory that is research that uses population to explain the relationship of the variable in the population (have now and Bougie (2013: 97)

The type of data in this study is quantitative data. The data source uses the primary data source. The process of distributing questionnaires is done by directly approaching the respondents. The questionnaire consists of 48 statement points, while the scale used to measure the answer of the statement is Likert scale. To test the influence of independent variable to variable is done by using path analysis (Path Analysis).

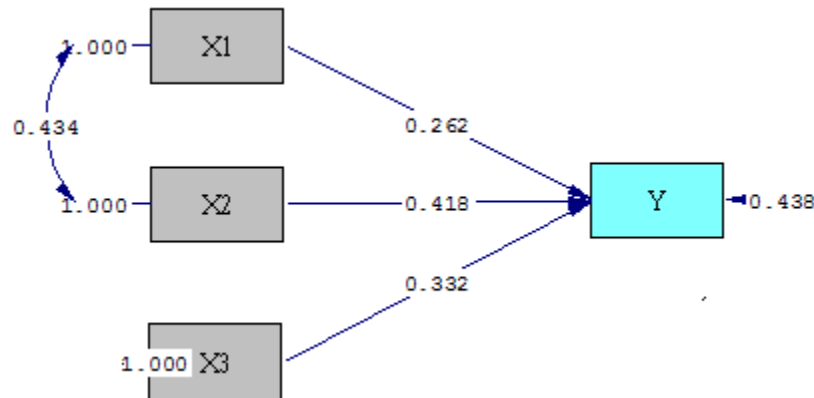
The population in this study is all SKPD in Environmental Government of Riau Province amounting to 51 work unit. In this study the authors take the sample by using purposive sampling technique. Sample selection in this study with consideration of SKPD criteria Office / Office / Agency that has a relatively large budget ceiling value and has a range of activities up to the district / city level. The sample was 31 SKPD, and each SKPD was represented by 3 respondents ie Echelon III, IV and staff related to planning and program.

RESEARCH RESULT

Test results validity and reliability above shows that all proposed statements have a validity coefficient value above 0.30 which indicates that all proposed statements have done the measuring function, in other words declared valid. From the results of reliability testing, obtained reliability coefficient values greater than 0.70 which indicates that the measuring tool used has shown reliability.

The path analysis results are as follows:

Picture 1

Diagram Line X₁, X₂ and X₃ to Y

In structural equation influence organizational culture and Implementation of Internal Control of the Implementation of the PSAP 07 Based Accrual and Its Impact on the Quality of Accounting Information Fixed assets are as follows:

On structural equation the influence of budget participation, budget goal clarity and transformational leadership on SKPD performance is as follows:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

$$Y = 0,262X_1 + 0,418X_2 + 0,332X_3 + \varepsilon$$

Hypothesis testing

The first hypothesis states Participation Budget (X₁) effect on SKPD performance (Y). The results showed the path coefficient of 0.262, t value of 3.306 with 0.001 significance meaning Budget Participation significant effect on SKPD performance. Path coefficient value is positive which indicates that the Budget Participation increasingly High, will produce SKPD Good performance.

The second hypothesis states Clarity Budget Target (X₂) effect on SKPD performance (Y). The results showed the path coefficient of 0.418 with a t-test value of 5.314 and 0.000 significance meaning Clarity Budget Target (X₂) a significant effect on SKPD performance (Y). Path coefficient value is positive which indicates that the high Clarity Goals, will produce a high SKPD performance.

The third hypothesis states Transformational Leadership (X₃) significant effect on SKPD performance (Y) results showed the path coefficient of 0.332 and t-count value amounted to 4,520 and the significant value of 0.00 which means transformational leadership (X₃) significant

effect on SKPD performance (Y). Path coefficient value is positive which indicates that the Transformational Leadership (X_3) is high, will produce SKPD performance (Y) high.

Direct and Indirect Influence

The total influence of Budget Participation, Objective Clarity and Transformational Leadership is shown by determination coefficient $R^2 = 56,2\%$, Distribution of contribution of influence of three independent variable and other factor not examined (ϵ) to SKPD performance can be seen in following table:

table 1
Effect of direct and indirect

variable	Line coefficient	Effects of direct	indirect effect (through), in%			indirect Influence Of Y (%)	Total Effect on Y (%)
			X1	X2	X3		
X1	0.262	6.87 to	7	, to	09	7.09	14.0
X2	0.418	17.47	to			8.05	25.5
X3	0.332	16.73	-	-	-	-	16.7

Source: Data Processing Results

- budget Participation (X_1) to contribute to SKPD performance (Y) by 14% consisting of the direct effect of 6.87% and the indirect effect of 7.09%.
- Budget goal clarity (X_2) contributes to the performance of SKPD (Y) comprising 25.5% of the direct influence of 17.47% and the indirect effect of 8.05%.
- Transformational Leadership (X_3) contribute to the performance of SKPD (Y) of 16.7%

DISCUSSION

EFFECT OF BUDGET PARTICIPATION ON SKPD PERFORMANCE

The hypothesis of this research states that budget participation has a positive effect on SKPD performance and this is proven based on hypothesis testing. Positive influences are shown through the path coefficient of 0.262. The result of determination coefficient test is 14%. The value of the coefficient of determination shows that budget participation contributes 14% which

consists of direct influence of 6.78% and indirect effect of 7.09%, for the direct and indirect effect of this difference is not too large, it indicates the existence of contribution which is almost the same when direct participation is made as well as through Clarity of Budget Objectives to achieve Better Performance, but still remaining 86% is explained by other variables outside the model. In the results of this study is not strong enough to say budget participation on the performance of work units (SKPD), because there is the possibility of other variables that affect predominantly on the Performance of Work Units (SKPD), other factors that affect the Performance Unit Work (SKPD) it is the role of the Managerial Financial Management, Internal Control Systems, Organizational Culture and Organizational commitment, Competence of Human Resources (Sardjito and Muthaher 2007; Rahmi Nur Emilia dkk, 2013; Kewo, 2014; Ernawati Usman, 2016)

The role of participation in the performance SKPD based on the theory of agency leading to enhanced capabilities and decision-making (Locke and Schweiger, 1979; Kenis, 1979; Shield and Young, 1993; Yuen, 2007)

Mean while, based on the results of the partial test, the participation of the budget impact significant positive on the performance of SKPD, this is indicated by the acquisition value of $t_{count} > t_{table} 3.306 > 1.662$. In accordance with the criteria of testing the hypothesis that H_0 is rejected and H_a accepted, meaning that the budget Participation significant positive effect on the performance of work units (SKPD) where the higher participation on a budget then the performance of each Unit (SKPD) will get better.

This research proves that the influence of a positive and significant impact on the performance of SKPD in the Riau provincial government and in line with the research (Rahmi Nur Emilia, et al, 2013; Kewo, 2014) that there are significant budgeting participatory managerial performance in government agencies, which proves that the high participation in budget preparation will improve the performance of local government officials so that the objectives of the organization can be achieved with good.

THE EFFECT OF BUDGET TARGETS ON THE PERFORMANCE OF SKPD

Hypotheses states that the clarity of the budget targets a positive influence on the performance of SKPD and it is proved by testing the hypothesis. Positive effect demonstrated by the path coefficient 0.418. Results of testing the coefficient of determination was 25.5%. the coefficient of determination shows that the clarity of the budget targets accounted for 25.5%

consisted of direct influence by 17.47% and the indirect effect of 8.05% on the Performance of Work Units (SKPD) in Riau Province Government. This shows the direct influence is greater than the indirect effect, so that the clarity of budget targets, the performance of work units (SKPD) in the provincial government can do better. But in this study are the remaining 74.5% is still outside the model variables that affect performance Unit (SKPD), namely the Public Accountability, Managerial Role of Financial Management (Fladimir.E.Mbon, 2013; Rahmi Nur Emilia, 2013)

Meanwhile, based on partial test results, budget goal clarity significant positive effect on the performance of SKPD, this is indicated by the acquisition value of $t_{count} > t_{table}$ $5.314 > 1.662$. In accordance with the criteria of testing the hypothesis that H_0 is rejected and H_a accepted, meaning partial budget goal clarity positive and significant impact on the performance of SKPD where the better budget goal clarity, the performance of the regional work units will also be good.

Goal clarity of the budget (budget goal clarity) illustrate the breadth of the budget of explicit and specific, and understood by the parties responsible for the achievement (Kenis, 1979). The results are consistent with previous studies conducted by Fladimir Mbon E. (2013), Rahmi Nur Emilia dkk (2013) which showed a positive and significant influence with their budget goal clarity will affect the performance of SKPD.

At the Riau provincial government, their implications for the budget goal clarity apparatus Sound budgeting.

THE EFFECT OF TRANSFORMATIONAL LEADERSHIP ON SKPD PERFORMANCE

The hypothesis of this research states that Transformational Leadership has a positive effect on SKPD performance and this is proven based on hypothesis testing. Positive influences are shown through the path coefficient of 0.332. The result of determination coefficient test is 16,7%. the coefficient of determination shows that the clarity of the budget targets accounted for 16.7% consisted of direct influence by 16.07% 83.3% There is still a residual effect of other variables that affect the performance of SKPD ie Internal Control Systems, Organizational Culture , Organizational Citizenship Behavior (Kewo, 2014; Rusman, 2012; Kadek et al, 2016)

partially, transformational leadership has significant positive effect on the performance of SKPD, this is indicated by the acquisition value of $t_{count} > t_{table}$ $4.520 > 1.662$. In accordance

with the criteria of testing the hypothesis that H_0 is rejected and H_a accepted, meaning partial transformational leadership and significant positive effect on the performance of the SKPD.

Performance measurement by ensuring effective individuals do something efficiently can not rely solely on the productivity and organizational proficiency, which is needed nowadays the direct involvement of leaders to get closer to followers jointly achieving organizational goals (Avolio and Bass, 2002: 1-2; Stone and Patterson (2006: 7) and inspirational transformational leaders have a tremendous influence on their employees, antra ain can transform selfish behavior toward the good of the organization. The transformational leadership base is trying to seek improvements in followers conditions in terms of efficiency and effectiveness of achievement organizational goals (Bello, 2012: 229).

The results of this study are in line with research by Rusman Soleman, 2012; Kewo, 2014; Kadek Mahendra Putra; IGA Dewi Adnyani (2016) which states that transformational leadership has a positive and significant impact on performance. To produce a good performance of the Local Work Unit (SKPD), the role of the leadership is very influential, because good coordination and integrity can be built by leaders who are able to facilitate their employees to dialogue, discuss and plan work together so as to establish good communication and facilitate them in implementing programs and activities in accordance with the goals set previously.

CONCLUDE

Based on the results of data analysis and discussion that has been done in the previous chapter, the authors take the following conclusions:

1. Budget participation has a significant positive effect on the performance of the Regional Device Work Unit (SKPD) of Riau Province
2. Clarity of Budget Objectives have a significant positive effect on the performance of Regional Work Unit (SKPD) Riau Province
3. Transformational leadership has a significant positive effect on the performance of the Regional Devices Work Unit (SKPD) Riau Province

SUGGESTION

1. Related to Budgetary Participation, In order to sustainably expect good coordination related to the preparation of budget starting from echelon III, IV and staff, to minimize the occurrence of pseudo participation.
2. With respect to budget objectives Objectives To ensure that budget objectives are clear to the implementers, echelon III, IV and staff officials should be provided guidance on procedures and technical guidance for the implementation of work at all the Local Government Work Units, so that programs and activities can be properly implemented and do not generate interpretation different on the implementation.
3. Related Transformational Leadership, To the head of the region to pay attention to not too often make mutations, so SKPD leadership can be more concentration to set SKPD better and can realize the main objectives of the organization so as to produce good performance.
4. For the next researcher, the results of this research can be used as reference for further research and add other variables such as Organizational Culture, Organizational Commitment, Managerial Role of Regional Financial Management, Internal Control System, Human Resource Competence, Public Accountability, Organizational Citizenship Behavior and other factors . But to get the results of a deep researcher can further add interviews in research and using qualitative research methods so that more focus on the problem.

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THE INFLUENCE OF TOP MANAGEMENT SUPPORT AND ORGANIZATIONAL CULTURE ON THE QUALITY OF ACCOUNTING INFORMATION SYSTEMS AND ITS IMPACT ON THE QUALITY OF ACCOUNTING INFORMATION

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ABSTRACT

This research aims to know and examine the influence of top management support and organizational culture to the quality of the accounting information system and its impact on the quality of accounting information in the local governments of cities/District in West Java that use SIMDA application.

The method used is descriptive and verifikative with quantitative approach. The target population is examined is the local Government of West Java with a population of as many as 16 (sixteen) district/city. The respondents are the accounting staff, eselon IV, eselon III and eselon II. Model testing hypotheses using Partial Least Square analysis (PLS).

The test results show that the support of top management had an influence on the quality of accounting information systems, organizational culture influence to the quality of the accounting information system and accounting information systems quality had an influence on the quality of accounting information.

Keywords : Top Management Support, Organizational Culture, The Quality Of The Accounting Information System, The Quality Of Accounting Information

1. BACKGROUND

The quality of the information is defined by its function for the user and determine the success of an information system. That useful information enables the decision makers make the right decision punctually. Useful to the user, the information must have the following qualities: punctual, integration with other data and information, the accuracy, consistency and relevance (Bidgoli, 2015).

Quality information is information that is accurate, punctual, relevant and complete (McLeod and Schell, 2007, p.35). More further Eppler (2003, p.68) say that an accurate accounting information is information that has a sufficient degree of precision and approach to reality.

Quality information can be gained from a good accounting information system. Gelinas, *et al* (2012) say that the quality of accounting information should be a consideration in the accounting information system.

A quality information system is the information system of the “*ease of use*” that is to be clear and understandable (Guriting and Ndubisi, 2006, p.7) usefull means can help the user in doing its job (Moller and Chardhry, 2011, p.81) *adaptability* namely emphasis on the ability to manage internal and external changes (Tavana, 2011:1) and integrated into the integrated information system which means the top parts of the basic systems in attaining better function in accordance with the expectations (Norman, 2007, p.20). Integration is the key to success in accounting information systems (Nicolau, 2000, p. 92) because with the integration of the system then produced information that is accurate, timely and consistent for management (Brown, 2008).

Quality of Accounting Information System in this research is seen from the Accounting Information System with AIS application that use *Sistem Informasi Manajemen Daerah* (SIMDA) on local authorities in West Java. There are 16 city and County Government area who use SIMDA.

Problems that occur on local governments that use SIMDA is not integrated between SIMDA financial application and SIMDA BMD, and also not integrated between SKPD

computers and central Government/BPKAD (for the most part of the city) which can result in the occurrence of errors in merging data and also takes longer in reconciliation with the result that the financial report become late that result in the user reports may not use such information in a timely manner.

SIMDA have multiple versions so that problems over the results of the financial statements vary in each city. Both reports are obtained through application or created manually since it is not derived from SIMDA application.

Accounting policy changes by the year 2015 from Cash Toward Accrual into Accrual Basis is one of the causes of the problems in accounting information systems. Accounting information obtained from SIMDA application still contained errors that it becomes inaccurate and irrelevant. The application features required by local Governments are vary so that SIMDA need adjustments in accordance with the needs of the local government.

The factors that is influencing the quality of accounting information systems is the support of top management. Top management support is the behaviour of executives associated with the planning of information systems, information systems development and implementation of information systems to look at the leadership, commitment and the provision of resources (Choe 1996)

In addition to top management support in other things that affect the quality of the accounting information system we can see from the prevailing organizational culture in local government. Organizational culture is a reflection of values embraced in any organization and it will affect other things.

Organizational culture refers to the the value received, assumptions, expectations, and underlying definitions presented in an organization (Cameron and Quinn, 2011).

In this study the author will see top management support and influence of organizational culture on quality of accounting information system and its impact on the quality of accounting information.

2. REVIEW OF THE LITERATURE

A. Top Management Support

Support from top management is an executive behavior which is related to the planning

of information systems, information systems development and implementation of information systems to look at the leadership, commitment and the provision of resources (Choe, 1996).

The dimensions of the support of top management, according to Weber (1999, p. 70) consists of 4 function i.e :

1. *Planning –determining the goals of the information system function.*
2. *Organizing- gathering, allocating and coordinating the resources.*
3. *Leading – motivating, building dab communicating with personnel.*
4. *Controlling – comparing actual performance with planned performance.*

Top management support is one of the basics to create a quality information system (Ghonainy, 2002, p. 3). Similar to what that Khosrowpour said (2001, p.78) that one of the important factors that affect the quality of information systems is the existence of top management support.

The similar things that were said (Cruz-Cunlia, 2011, p. 370) that top management support is related to quality information systems further said that achieved or not a quality information system is affected by whether or not the top management support (Abdallah & Albadri, 2011, p. 120). So that the support of top management had a positive impact towards the creation of a quality information system which will eventually affect the development of the Organization in the future (Loonan & McDonagh, 2005).

These include advanced by Zained (2012) the correlation test shows that the top management support lead to increase information system quality. Following the results of research Hussein, et al (2008) indicates that top management support is one of the factors that are significantly correlated with the quality of information systems.

H1: Top management support take affect on the quality of Accounting information system

B. Organizational Culture

According to Robbins and Judge (2013) defines culture as follows:

”Organizational culture refers to a system of shared meaning held by members that distinguishes the organization from other organization. This system of shared meaning is, on closer examination , a set of key characteristic that the organization values”(Robbins & Judge, 2013, p. 585).

Organizational culture refers to the value received, assumptions, expectations, and underlying definitions presented in an organization (Cameron and Quinn, 2011).

According to Cameron & Quinn (2011) type of organizational culture is divided into four types, namely:

1. Clan

This culture places emphasis on flexibility and discretion rather than stability and integration that exist in the cultural hierarchy. A work environment that is open and friendly that lets everyone interacting and sharing. The organization is managed as befits as a spacious family (*extended family*).

2. Adhocracy

Adhocracy characterised by the type of work environment, dynamic, creative and entrepreneurial in nature. Each Member dared to face the risks and leaders have the vision, innovation, and risk-oriented. Adhesive in organizations characterized by often experimenting and innovating.

3. Hierarchy

Organization hierarchy that is formal and structured. The rules and procedures that govern the attitude and behavior of the members of the organization. Leader in it is claimed to be the coordinator and organizer with the mindset and approach to efficiency.

4. Market

Cultural market focus on the external aspects and differentiation. It focuses on cultural relations and dealings with suppliers, customers, contractors, lawmakers, consultants, and regulators. Focus on the external aspect of the organization is believed to be able to bring your organization achieve success.

Based on the above types and analysis the author, then local governments including into the culture of Hierarchy where this culture of formal, structured in addition rules and procedures also set the attitude and behaviour of member organizations

Cultural dimensions according to Cameron and Quinn (2011) on Organizational Culture Assessment Instrument (OCAI), namely:

1. *Dominant characteristic*
2. *Organizational leadership*
3. *Management of employees*
4. *Organizational glue*
5. *Strategic emphasis*

6. *Criteria of success*

Quality information systems, one of which is formed by means of improving organizational culture (O'Brien & M. Marakas, 2011). Leider dan Kayworth (2006) sets forth that cultural understanding is essential to being a system, information on where the culture at every level including national culture, organization and group can affect the quality of information system in an enterprise.

According to Romney & Steinbart (2015) one of the factors that affects the system accounting information is the organizational culture, where the organizational culture will influence the design of Accounting information system with examples of work process flow occurs, the values of openness of information shared includes forms of information such as what is needed by the Organization.

Batool (2011) based on the results of his research that the culture of the organization is one of the factors that influence on the quality of information systems. Likewise research Rapina (2014) stated that cultural organizations have an effect on the quality of accounting information systems. Inta research (2015) also states that the organizational culture significantly influential to the quality of the accounting information system.

H2 : Organizational culture take affect on the quality of accounting information system

C. The Quality Of Accounting Information System

Quality information systems, namely the integrated information system of all items and sub items related partners harmoniously in order to generate accounting information quality (Azhar Susanto , 2013:72).

Petter and McLean (2009, p.161) stated that the quality of information systems is performance of the information system in terms of reliability, convenience, ease of use, functionally and other system metrics. Petter, et al (2008, p.238) stated that information system quality is the desirable characteristics of an information system.

Nelson, et al (2005) Stated that the dimension of the quality of the system is: accessibility, reliability, response time, flexibility and integration. More further Petter et al (2008, p.239) stated that the characteristics of the quality of the system is ease of use, system flexibility, system reliability and ease of learning.

The quality of the Information is defined by O'Brien and Marakas (2010, p.523) as the degree to which information has content, form dan time characteristics that give it value for specific end users or level where the information content, shape and characteristics of the time that can provide value to the end user specifically. O'Brien dan Marakas (2010, p.390) Add to that the information has the quality of both have characteristics, attributes or qualities so that users get a higher value.

Information should be available in the decision-making process before a crisis situation develops or potentially harm occurs. The information should be used by its users to know what is going on at the moment, complete with information about what has been happening in the past. So that the information can make use of to take the actions that need to be done in the future (Hall, 2011, p. 11). The information came after a decision was made at all will not have a value (McLeod, 2007, p. 86).

Dimension for measuring the quality of accounting information (Hall, 2011) consists of:

- 1) *Relevance. The Content of a report or document must serve a purpose.*
- 2) *Timeliness. The Age of Information is a critical factor in determining its usefulness*
- 3) *Accuracy. Information must be free from material errors*
- 4) *Completeness. No piece of essential information to a decision or task should be missing*
- 5) *Summarizing. Information should be aggregated in accordance with the user's needs.*

Gellinas and Dull (2012, p.19) stated that one of the main functions of accounting information system deployment is to support management activities, including in the decision-making process of management. To assist management decision-making, accounting information systems should collect data and process it into financial statements and other information in a quality (Neogy, 2014).

In addition, Azhar Susanto (2009, p. 8) States that the information system will be built with the main purpose to cultivate financial data from different sources into the accounting information needed by a wide range of users. Then added that the fundamental role of accounting information system in the organization is producing quality information.

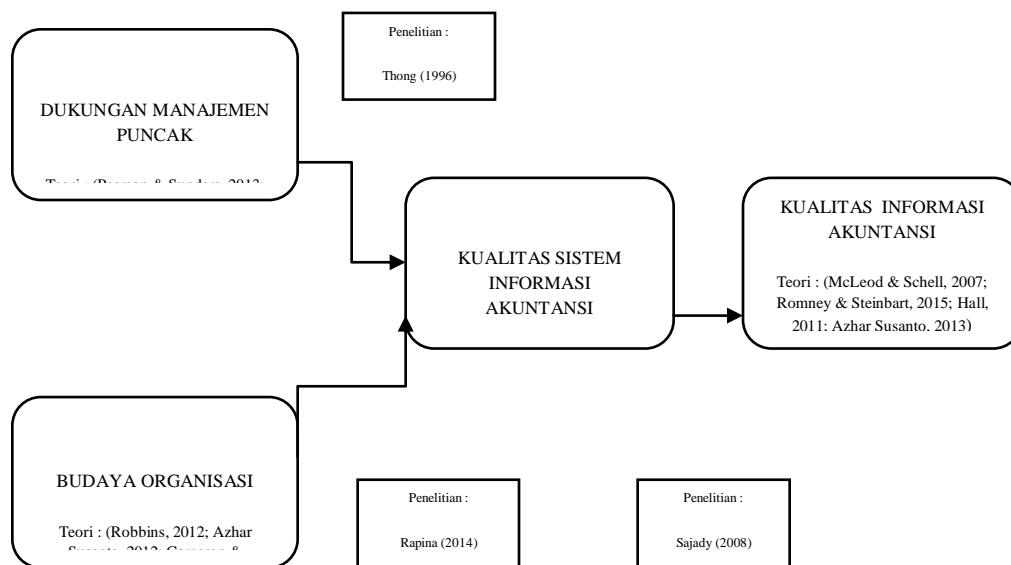
More Romney and Steinbart (2015, p. 238) stated that in order to be useful, the information generated by the system accounting information, such as financial reports and various other types of reports should present an overview of the activities of the organization are accurate, complete and timely.

Based on the results of research conducted Salehi, et al (2010) it is known that the

accounting information system of quality can increase the correctness of financial statements or reports in other forms. So that the system accounting information quality will result in a quality of accounting information that can be utilized at any time by decision making (Laudon, 2012).

H3: The quality of the Accounting Information System take affect on the quality of accounting information.

Figure 1. The Framework Of Thought



3. METODOLOGY

The study was descriptive and verifikative by using the primary data collected by means of the study field is came to the unit of analysis and research based on time with cross-sectional studies. The unit of analysis was add up to 16 cities government/district in West Java that uses application SIMDA with respondents includes Staff, esselon IV, esselon III, and esselon II.

This research uses techniques of analysis of Partial Least Square (PLS) because it is a powerful method of analysis because it is not based on many assumptions. The data does not

have to multi variate normal distributed (indicator with a scale category, ordinal, interval to ratio can be used on the same model), the sample should not be large. PLS may be used to confirm the theory, and can also be used to describe or no relationships between latent variables and measuring the extent to which dimensions can have an effect on these variables.

4. DISCUSSION

Based on the results of the data analysis using the method of Partial Least Square (PLS) and through the stage outer model that includes *convergent validity (loading factor)*, *discriminant validity*, *composit reability* and *cronbach alpha* have been met in accordance with the conditions. Next inner model that specifies the relationship between latent variables (structural model).

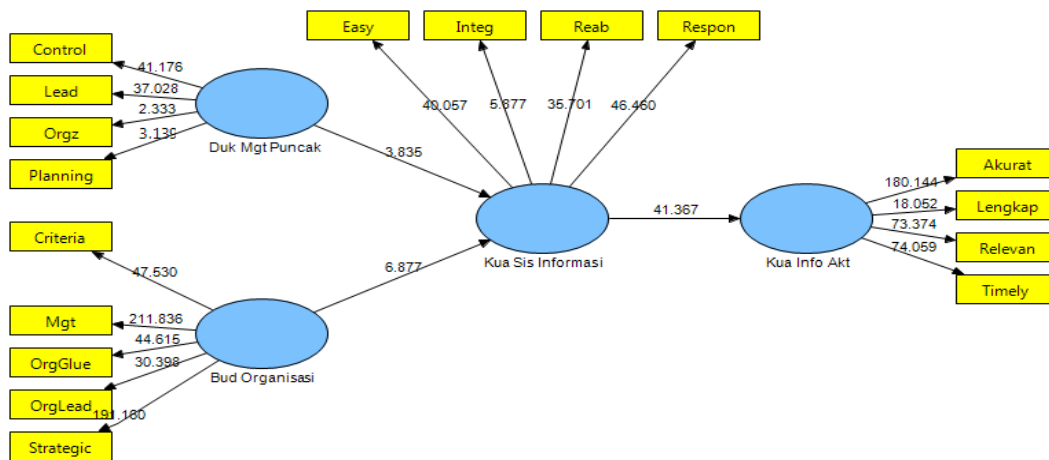


Figure 2

Output PLS (Statistical Test)

Based on Figure 2 shows that large values of t-Statistics (t-count) from the Top Manajemen Support to the quality of the accounting information system is 3,835; of organizational culture on quality of accounting information systems are 6,877; and of the quality of the accounting information system of the quality of accounting information is 41,367.

The test results showed that the support of top management influence on the quality of accounting information systems in local governments in West Java that uses SIMDA application. With the result that the better the top management support then the quality of accounting information system is also increasing.

Top management support is the most influential of the quality of accounting information system there is at the stage where top management support control doing performance appraisal, review of SIA applications to run in accordance with its purpose can be quickly make decisions when problems occur on SIA application up to control by comparing the planning and implementation of SIA applications.

This is in accordance with the research (Riri, 2013) stated that management played an important role in any system development cycle that includes planning, design and implementation of top management support.

Organizational culture affect the quality of the accounting information system so that the better organizational culture then the quality of the accounting information system will increase.

Based on the results of the research the organization culture type hierarchy at the Government run so well that every institution already has a good organization structure and controlled, where regulation is the Foundation of any person to work administering its activities.

Organizational culture on the type hierarchy is that most affect the quality of the accounting information system namely *strategic emphasis*. Strategic emphasis applied by doing the job efficiently and implement the Organization's stability and resilience.

In accordance with the research by Nelsi Wisma (2015) which stated that in systems development, cultural organizations can have a positive affect toward the success of the development of information systems.

The quality of the accounting information system of influence on the quality of accounting information so that the higher the quality of the accounting information system then accounting information quality will increase.

In this research the quality of the accounting information system intended is quality of SIMDA application used by local governments. The highest quality of the application effect of the quality of accounting information that is easy to use and easy to learn.

Accounting Information System application provided by the BPKP has not be well-integrated, either in SIMDA financial applications and SIMDA BMD and also has yet to be integrated with other applications that are used by local governments to support reports the finances of the local government each year.

Research by Soudani (2012) also found that the quality of Accounting information system is an important aspect in building organizations, especially related to data management/accounting information as well as the decisions made based on the data as well as the information. The accounting information system of quality besides being able to have an impact on the decision-making process and the quality of accounting information(Sajady & Nejad, 2008).

5. CONCLUSIONS AND SUGGESTIONS

Top management support influence on the quality of accounting information systems, as well as the organizational culture with the type hierarchy has an impact on the quality of accounting information system and accounting information quality system is impact to the quality of its accounting information.

Based on the results of the research it can be noted that the weakness of the support from top management is the lack of direction to the staff, this should be done properly so that the staff can work better as it gets a clear directive from the top management.

The organizational culture that is less than optimal is organizational leadership, hopefully there is a significant change so the SIMDA application can be use properly, effectively and efficiently also set the SIMDA application users placing an adequate human Resources .

SIMDA application that are not integrated is a problem that most of the quality of accounting information systems. Integration has considerable influence in the quality of SIMDA application, hopefully SIMDA application and other applications can be integrated so well that

this would simplify and minimize the risk of error rate from the the operator and the accounting staff at the time of reconciliation and can speed up the financial reporting (financial information) so that decision making can be done well and proper by information user.



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EFFECT OF HUMAN RESOURCES, LEADERSHIP STYLE, THE USE OF INFORMATION TECHNOLOGY, INTERNAL CONTROL THE OF QUALITY OF FINANCIAL STATEMENTS (Survey Directorate General of Construction, Ministry of Works and Public Housing)

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ABSTRACT

This study aims to examine Whether there is a significant influence of variable human resources competency, leadership, utilization of information technology, internal control of the quality of financial statements either partially or simultaneously. The population in this research is all work units (SATKER) within the Directorate General of Construction Materials for 15 units of work with 45 respondents consisting of financial assistant of the work unit, the Accounting officer of Accrual Based Institution (SAIBA) and State Owned Officer (BMN). The primary used the data Obtained from respondents through questionnaires, for testing the data tested the validity, reliability test and hypothesis testing. The Data then in the analysis with the analysis method used is multiple linear regression. The results Showed that the competence of human resources, leadership style, technology utilization, and internal control Affect the quality of financial statements either partially or simultaneously.

1. Introduction

The development of public sector accounting, particularly in Indonesia grew rapidly in the presence of the Reform Era in the implementation of government policy, public expectations towards the improvement of transparency and accountability in financial management countries as part of the reform of government management so high (Mardiasmo, 2005). This is in line with Anwar Nasution (2009) which confirms that the improvement of transparency and accountability of fiscal or financial state is an important part of enforcement of good governance. The purpose of the financial reform of the state is to realize good governance in the administration and management of state finances. Explanation of the Law No. 17 of 2003 on state finances states that to support good governance, public finance management should be organized in a professional, open and accountable. Furthermore, in Law No. 1 of 2004 on State treasury also confirmed that for realized transparency and accountability in the management of state finances, the government must make the financial responsibility report prepared under Government

Accounting Standards (SAP). Government Regulation (PP) number 71 of 2010 concerning Government Accounting Standards (SAP) which in this regulation states that the financial statements can be said to have a good quality if it meets the qualitative characteristics of financial statements covering the four elements of relevant, reliable, comparable, and can be understood. Huang et al. (1999) states that the usefulness of the information and financial statements can be viewed from the side its role in decision making and ease to understand the consumer.

In this case the Ministry PUPR prepare and submit accountability reports each year and get opinions from BPK. Opinion Ministry PUPR from 2011 till 2015 had been developed. In 2011 gets WDP, year 2012 increased WTP-DPP, in 2013 the Ministry of PUPR won WTP opinion. Although it had won WTP opinion, but this is not apart from problems related to financial management findings. Then in 2014 got a WTP opinion-DPP, and in 2015 fell back to WDP.

Best Opinion issued by the CPC on LKPP audit was unqualified opinion (WTP). In the State Financial Inspection Standards (SPKN), WTP opinion will be given to LKPP who have presented and disclose financial statements fairly, in all material respects. Representation of reasonableness set forth in the form of opinion considering the suitability criteria of the financial statements with government accounting standards (SAP), the adequacy of disclosure, compliance with laws and regulations, and the effectiveness of internal controls (max 2009).

From the findings of the BPK on the financial statements of the Ministry PUPR one being the findings exist in DG Construction, including differences in proof of payment of the package full day meeting of the executive activities of the document accountability is not in accordance with actual conditions, liability cost of surveys by consultants indicated fictitious , accountability workshop by consultant fees indicated fictitious, weak and not optimal to exercise supervision and control of the leadership and commitment of officials (KDP) is negligent in implementing and approving payments. Those problems are a combination of non-compliance with government accounting standards, weakness internal control system, and non-compliance with statutory provisions

The findings on the financial statements given, indicating their weaknesses and shortcomings on several factors that affect the quality of financial reporting. These factors include the competence of human resources, leadership, use of information technology and internal controls.

The former because of limited competence of human resources (HR). The financial statements can be qualified if the competence of human resources knowledge discount, ability (skills) and attitude (attitude) that the process of financial management and financial reporting going well. The second factor affecting the quality of the financial statements is the style of leadership. Leaders are required to give a sample / example, can be motivating, as solving the problem (breaker / finisher problems) and as control / checker on the implementation of the responsibilities exercised by employees who become subordinate, or in other words, a leader must have the management capabilities of organizations in both of labor management aspects as well as aspects of human resource management. Here, the role and the burden to be borne by someone official or head of that if it is not entrusted then what is the vision and mission of the institution / organization even government programs will not be achieved as expected.

The third factor is the utilization of information technology, the problems that exist in the DG Construction is each stand-alone applications and has a separate database, but the interaction of both input and output of data related to each other from one application to another application.

This often leads to various problems in the field, such as not fitting the output result one application with another application, imperfect process of migration / transfer / receipt of data between applications, to the difficulty in verifying the data and documents due to the same source noted repeatedly in different applications.

And the final factor is the problem in terms of internal control. The results of tests carried out BPK found that the presence of the Work Package Workshop within the framework of the proven Control Management Training paid not according to the actual conditions (Indications fictitious) and the payment exceeds the standard General Cost (SBU) FY 2015 based on a document of accountability. And the discovery of evidence of liability in the form of air tickets and airline boarding pass on 7 surveyor (14 roundtrip flights) are not found in the database of airline passenger manifest, and besides there accommodation costs and per diem for 7 surveyors. From the evidence of the payment of fictitious indicated that could harm the state. This shows that is still less than optimal monitoring and control on official travel and work packages by leaders and officials of the commitment maker.

The purpose of this study was to determine and analyze how much influence the competence of human resources, leadership, use of information technology and internal controls partially or simultaneously to the quality of the financial statements.

2. LITERATURE AND DEVELOPMENT Hypotheses

Purpose Theory Decision (Decision Usefulness Theory)

Belkaoui (2001) stated that Chambers was the first to use the paradigm of usefulness decision (decision usefulness).

"Therefore, a natural result of the assumption of rational management is that there should be a system that provides an information; Unlike systems that required both a basis for making decisions or base to regain the consequences of decisions ... System formally presenting information will adjust to two general proposition. The first is the condition of any scientific discourse, it shall logically consistent system; there are no rules or processes that can conflict with any rule or other processes. Both appear on the user's accounting reports as a basis for making a decision on the consequences of the practice, the information generated by each system should be relevant to various forms of decision-making that is expected to be used "(Chambers, 1984 in Belkoui, 2001)

Statements of Financial Accounting Concept (SFAC) - No. 2 on Qualitative Characteristics of Accounting Information describes the hierarchy of accounting quality in terms of the quality of primary and secondary qualities. The primary quality of information that is useful in making economic decisions are relevant value (relevance) and reliability (reliability).

Financial Accounting Standards Board (FASB) states that the relevant value and reliability are the two main qualities that make accounting information useful in decision making. Relevant value are classified as capacity information to make a difference in decision-making by users. Reliability is defined as the quality of a guarantee that the information was rationally free from error and bias, and represents what will be described. To be relevant, information must be logical in relation to a decision.

Human Resources competencies

There are different theories as to the Human Resources (HR) to confirm the role and contribution of HR to the achievement of organizational goals. In the context of governance, HR acts as a change agent who was instrumental in the government's financial reporting activities,

namely as one of the activities that become an integral part of the effort to achieve organizational goals. One of the concepts of human resource can be seen in the concept of scientific management. Taylor (1911), Gudono (2014a: 37) states there are five (5) main ideas of scientific management, and 2 (two) of them related to human resource factors, namely the selection of the right people to do the work and training of employees to do the job efficiently ,

Furthermore, Wiley (2002) tried to establish a definition, including indicators of human resources in an organization. Wiley also defines human resources as well as the main pillar wheel drive organizational challenges of realizing the vision and mission and objectives of the organization. (Azhar,2007). In the context of this study, human resource competency is the ability of the compilers of the financial statements of each entity reporting the scope of the government in this case the ministry in carrying out their duties according to the educational background, knowledge and expertise, as well as training programs in accounting and financial reporting that have followed. HR competencies in this study was measured using three indicators, namely: (1) educational background; (2) knowledge and expertise; and training; (3) The division of tasks; and (4) training

Leadership Style

Leadership, a person's behavior to influence others to achieve a goal in a group or organization so that one can follow the will of the leader. According Yukl (2010: 8) definition of leadership is the process of influencing others to understand and agree with what needs to be done and how the task was done effectively, as well as the process to facilitate individual and collective efforts to achieve common goals. While Hughes et.al (1996) stated that the leadership as a process of influencing an organized group to achieve group goals.

Yukl (2007: 65) explains that a study found three types of leadership behavior can be distinguished between effective managers and managers are not effective. Three types of leadership behavior in question is a task-oriented behavior, relationship-oriented behavior, and participative leadership, every kind of behavior Yukl described as follows: **1. Task-oriented** behavior. Effective managers do not use the time and the attempt is to do the same job as beneath. Conversely, the more effective managers concentrate on functions such as task-oriented plan and organize work, coordinate the technical assistance needed. **2. Relationship-oriented** behavior. For managers who are effective, task-oriented behavior does not occur at the expense of attention to the relationship between human beings. Effective managers more attentive, supportive and help the subordinates. **3. Oriented changes.** This type of behavior, especially pay attention to the improvement of strategic decisions; adaptation to environmental change; increase flexibility and innovation; make major changes in the process; products and services; and get a commitment to change.

Utilization of Information Technology

Wilkinson et al. (2000) says that the use of information technology includes the (a) data processing, information processing, management systems and work processes electronically; and (b) the use of advanced information technologies so that public services can be accessed easily and inexpensively by the community. Statement Wilkinson et al. (2000), confirms that the change became an important point in the use of information technology is an improvement in terms of: 1. processing of transactions and other data faster, 2. Accuracy in the calculation and comparison is greater, 3. The cost of processing each transaction is lower 4. Preparation of reports and other output faster, 5. the data storage is more compact with higher accessibility

when needed, 6. data entry options and the provision of a wider output / lot, 7. Productivity is higher for employees and managers.

By adopting Wilkinson et al (2000), further developed indicators of utilization of information technology in this study include: (1) Software (software) applications; (2) the process of computerized accounting; (3) software (software) in accordance with laws and regulations; (4) accounting and managerial integrated (5) maintenance of equipment; (6) repair equipment damaged / worn; and (7) are antiviral.

Internal Control

Government Regulation 60 of 2008 states that the internal control system of government is a process that is integral to the actions and activities that are carried out continuously by the management and all employees to provide reasonable assurance for the achievement of organizational goals through effective and efficient, the reliability of financial reporting, state asset security, and compliance with laws and regulations thoroughly organized in the neighborhood of the central government and local governments. The local government referred to in this regulation includes the district or city government and the provincial government's internal control system aims to provide reasonable assurance for the achievement of effectiveness and efficiency in achieving the purpose of the state government, the reliability of financial reporting, security of state assets, and compliance with laws invitation. SPIP forming elements (Government Internal Control System) among others: 1. Control Environment, 2. Risk Assessment, 3. Control Activities, 4. Information and Communication, 5. Monitoring Internal Control

Quality of Financial Statements

Government Regulation No. 71 Year 2010 on Government accounting standards describes the qualitative characteristics of financial statements is a normative measures that need to be realized in the accounting information so that it can fulfill its purpose. The following four characteristics is a normative preconditions necessary for the government's financial statements to meet the desired quality:

1. Relevant
 - ✓ Having the benefit of feedback (feedback value), information allows users to define their expectations correcting tool in the past.
 - ✓ Has the benefit of predictive (predictive value), the information can help users to predict the future based on the results of past and present events.
 - ✓ Timely, timely information is presented so it can be influential and useful in decision making.
 - ✓ In addition, the government's financial accounting information is presented as completely as possible which includes all the accounting information which may affect decision-making.).
2. Reliably
 - ✓ Presentation honest, truthful information illustrates the transactions and other events should be presented or could reasonably be expected to be presented.
 - ✓ Verifiable (verifiability), the information presented in the financial statements can be tested, and if the test is done more than once by different parties, the results still indicate that not much different conclusion.

- ✓ Neutrality, information directed at the general needs and not in favor of a particular party needs.
3. Can be compared to information contained in the financial statements would be more useful if it can be compared to the prior year financial statements or other reporting entity's financial statements in general.
 4. It is understandable information presented in the financial statements can be understood by the user and is expressed in the form and terms that are adjusted to limit the users understanding.

DEVELOPMENT HYPOTHESIS

1. Effect of human resources competencies to the quality of financial reporting

The preparation Quality of financial statements requires human resources who control the Government Accounting. human resources is the key factor in creating quality financial statements for the preparing the financial statements are those that master the Government Accounting Standards. No matter how good the Government Accounting Standards, without the support of Human Resources that are reliable, the quality of financial statements is difficult to achieve.

Based on the research framework and empirical evidence obtained from previous studies reinforce the notion that human resource competence factor positive effect on the quality of financial reporting. so it can be hypothesized as follows:

H1: Human Resources Competency positive effect on the quality of financial reporting.

2. Effect of Leadership Style on the Quality financial statements

Leader are planners, organizers, leaders and supervisors in organizations are doing tasks (Luthans, 2006:22). Leaders committed to implementing the task, especially in financial management, also determine how good the quality of the resulting financial statements. According Luthans (2006: 249) is an attitude that reflects the commitment of loyalty to the organization and ongoing process where members of the organization expressed concern for the organization and success and sustainable progress.

Based on the research framework and empirical evidence obtained from previous studies reinforce the notion that leadership affects the quality of the financial statements, so it can be hypothesized as follows:

H2: Leadership Style positive effect on the quality of the financial statements

3. Effect of Utilization of Information Technology on the quality of the financial statements

Information technology (IT) is one of the integral parts of the technology. development information technology is very fast and is used widely in various fields, including in the area of

government accounting and financial reporting. Information technology greatly helps the system adopted by the government entities, and Accounting Information Systems (AIS) are computerized to encourage the development of government performance.

Based on the description above, this study is intended to examine the relationship between the competence of human resources with the quality of financial reporting information. Hypothesis can be drawn as follows:

H3: Information Technology Utilization positive effect on the quality of the financial statements

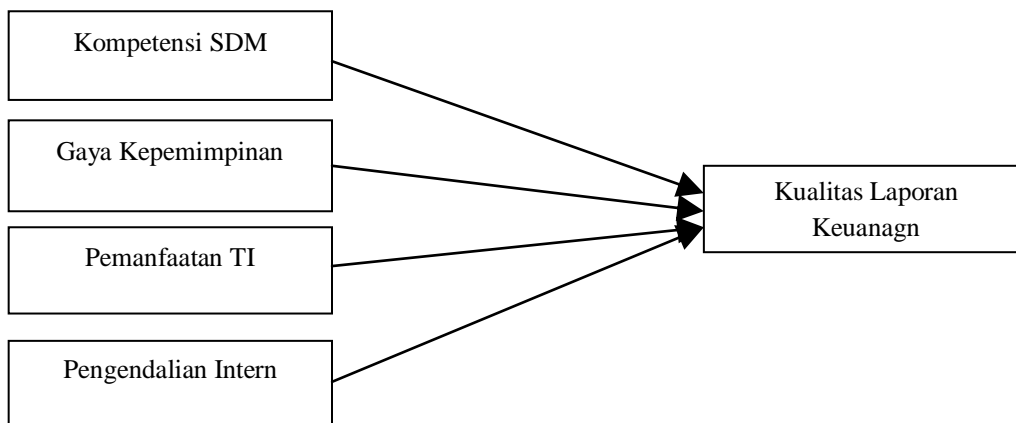
4. Effect of Internal Control of the quality of financial reporting

Internal control on government designed based on the Government Regulation No. 60 of 2008 on. Internal control system (SPI) has a function to provide reasonable assurance for the achievement of effectiveness and efficiency in the accounting process, especially in creating reliability financial statements. So that the implementation of the internal control system capable of improving reliability, objectivity of information and prevent inconsistencies and facilitate the process of auditing the financial statements. As the foundation for the entire process of securing and managing state assets, any government agency shall create and maintain an environment in organizations that encourage behavior (behavior) is positive and healthy management. The main is to encourage the availability of the entire state financial managers who have consciousness (awareness) that strongly about the importance of the enforcement of the internal control system.

Based on the description above, this study is intended to examine the relationship between the ability or the capability of human resources with the quality of financial reporting information. Hypothesis can be drawn as follows:

H4: Internal controls positive effect on the quality of financial reporting.

FIGURE 2.1
CONCEPTUAL FRAMEWORK



3. METHODOLOGY

Coefficient	= 92,1
Determination	
Adjust R Squared	= 0,914
Test F	= 117,178

Based on table 4.1, can be obtained by multiple linear equation as follows:

$$Y = -10.698 + 0.310 X1 + 0.255 X2 + 0.582 + 0.356 X3 X4 + \varepsilon$$

From these equations are known constants of -10.698 means that if a fourth variable independent variable is zero (0) and there is no change, then the quality of financial statements will be worth -10.134 on a scale units Likert.

Effect of HR Competency, Leadership Style, Utilization of Information Technology, and Internal Control of the Quality of Financial Reports.

Based on the results of the first hypothesis testing showed the competence of human resources, leadership style, the use of IT and internal control together affect the quality of the financial statements, have been proven through hypothesis testing. From the research data obtained calculated F value of 117.178 with p value (sig) of 0.000. With $\alpha = 0.05$ and degrees of freedom $v1 = 4$, and $v2 = 40$ ($n - (k + 1)$), the importance of the F tables 2.606. Due $F_{count} > F_{table}$ ($117.178 > 2,606$) H_0 is rejected it means independent variables simultaneously affect the quality of financial reporting.

The results showed a correlation coefficient (R) of 0,960 that the degree of relationship (correlation) between the independent variable on the dependent variable in the category of the relationship is very strong. Which means there a relationship between independent variables (HR competency, leadership style, the use of IT and internal control) with the direction of a positive relationship. Any increase in one of the independent variables will lead to a rise also in other independent variables.

The R2 value obtained from this study is 92.1%. This shows that simultaneously the three independent variables (HR competency, leadership style, the use of IT and internal control) contributed (effect) of 92.1% to the quality of financial reporting. While the remaining 7.1% is influenced by other factors beyond the three independent variables.

Human Resources Competency influence on the Quality of Financial Report

Among the two dimensions in the competence of human resources, training dimension is given a score which is the lowest compared with the dimensions of choosing the right people for whose benefit is actually the category in the category of "good enough" with an average score of 2.86 with a percentage 57.3%. Opportunities for training is very important in developing the human resource competencies to the civil authorities of the country.

In this training dimension of the lowest value obtained at point statement to 11 that Agencies respondence independently frequent technical guidance or training in the field of accounting and financial reporting. This shows that there are employees who feel never had a chance in training ever undertaken by the institution. So that the employee can't development competence in the field of finance. Employees who do not have competence in the financial sector would not be able to prepare financial statements quality.

Based on the results of the first hypothesis testing showed that HR competencies and significant positive effect on the quality of Financial reporting. T-count variable HR competencies of 2.642 greater than 2.021 t-table or when seen from the significant value is far below the 5% error rate of 0.012 produces H_0 rejected and H_a accepted means HR competency significantly influence the quality of financial reporting. In addition HR competencies beta coefficient indicates the positive direction of 0.310 pales HR competence is increased by one unit and the other variables constant, the quality of financial reporting will increase by 0.310 units.

The results are consistent with Dervish and Desi Mahyani (2009), Muhammad Nur Nuryanto & Nunuy AFIAH (2013), Y. Erlynda Kasim (2015) were the result of his research revealed simultaneously Human Resource Competency positive effect on the quality of financial reporting. The results of this study are also consistent with the Su-Chin Hsieh et al (2012) in his research that discusses the literature analysis review competence where the results show that the mapping of competencies is the process a person uses to identify and describe the competencies that are most important to success in the work situation or job roles , In the trend of human resource management at this time, the emphasis is more on mapping competencies which help in improving performance. Meanwhile, according to research Draganidis, F & Mentzas, G (2006) Soderquist and Papalexandris (2010) states that there is a strong relationship between the individual and organizational competencies. This is mainly because the organization has the capability of the apparatus and use of knowledge is the key to gain a sustainable competitive advantage.

Influence of Leadership Style on the Quality of Financial Report

Among the three dimensions of leadership style, dimension style is a relationship-oriented leadership that has the lowest score compared to the actual dimensions of the existing categories in the category of "good" with an average score of 3,60 with a percentage amounted to 72,1%.

In the dimension of relationship-oriented leadership style which is the lowest value obtained at point statement to 5 Leaders need to seek the direction of the relationship employees to smooth reporting and preparation of financial statements. This shows that there is still an employee in the finance department who feel the relationship between employees in his office have not been good, so in the process of preparing the financial statements did not go well.

Based on the results of the first hypothesis testing showed that the leadership style of a positive and significant effect on the quality of financial reporting. T-count for leadership style variable of 2.345 greater than t-table 2.021 or when seen from the significant value is far below the 5% error rate of 0.024 produces H_0 rejected and H_a accepted means that the style of leadership significantly influence the quality of financial reporting. In addition beta coefficient indicates the direction of positive leadership styles of 0.255 means that if the leadership style increased by one unit and the other variables constant, the quality of financial reporting will increase by 0.255 units.

The results are consistent with Adawi and Rwegasira (2011) says that the leadership experience, educational qualifications and age of the leaders in the ability to lead an organization into one of the major factors that increase organizational effectiveness. Also according to Manz et al., (2008) and Trevin and Brown (2004) says that the leadership style should be ethical, effective and successful in the long term. Leaders Must demonstrate the highest moral standards

and ethical behavior in everyday conversation, actions, decisions, and behaviors so that other people / subordinates in an organization can keep up.

Effect of Utilization of Information Technology on the Quality of Financial Report

Among the three dimensions in the use of IT, maintenance dimension is given a score which is the lowest compared to the dimensions that exist despite the fact that the category in the category of "good" with average score of 3.5 with a percentage of 71 %.

In this maintenance dimensional lowest value obtained at point statement to 20 that is an update to the antivirus in institutions equipped with paid antivirus. This shows that respondents believe the security of data storage for all transactions and financial statements in data processing equipment (computer / laptop) must have antivirus software is kept updated and paid. Because if it is not updated anti virus it is possible that transactions and financial statement data can be lost by a virus that attacks the data processing equipment.

Based on the results of the first hypothesis testing showed that IT utilization and significant positive effect on the quality of Financial reporting. T-count for IT utilization variables for 8,922 greater than 2,021 t-table or when seen from the significant value is far below the 5% error rate of 0.000 produces H_0 rejected and H_a accepted means of IT utilization significantly influence the quality of financial reporting. In addition the use of IT beta coefficient of 0.582 indicates a positive direction means that if the use of IT increases by one unit and the other variables constant, the quality of financial reporting will increase by 0.582 units.

The results are consistent with Alaves (2010) shown in the fact that many companies invest heavily in the development of information technology. Some fields in the company take advantage of information technology to solve the jobs related to accounting. Meanwhile, according to M. Khrisna Moorthy, et al (2012) suggest that by adopting the right technology and systems in the management of accounting, the company and the accountant can produce accurate reports.

Then Lim (2013) in his research stating that the use of information technology, many transactions are processed more easily so that the entity becomes more efficient operation, and utilization of information technology makes the flow of information to become more effective and efficient, thereby strengthening managerial decision making. The flow of data and information more effectively and efficiently through the use of information technology in the preparation and presentation of financial statements strengthen managerial decision making in their respective work units through the benefits of feedback, predictive benefit, timeliness, and completeness of the information provided in the financial statements. Then the use of information technology in the preparation and presentation of financial statements also affect the reliability of the data and information presented in the financial statements, for each transaction can be easier to be traced and verified the truth through the applications that are used in the preparation of financial statements.

Effect of Internal Control of the Quality of Financial Report

Among the five dimensions in internal control, risk assessment is the dimension that has the lowest score compared to the existing dimension and into the category of "Good Enough" with average score of 3.4 with a percentage of 67% , In the dimension of risk assessment is the lowest value obtained in the statement items 5 and 6 that the policies / guidelines for risk assessment and implementation and control / risk management plans. This shows that employees believe policies / guidelines for risk assessment and implementation are made regularly and

documented as well as control / risk management plans should continue update periodically according to changes in the needs or expectations of stake holder and carried automatic monitoring by the leadership of the organization, so that risk management can directly be known by the leadership.

Based on the results of the first hypothesis testing showed that the internal control and significant positive effect on the quality of financial reporting. T-count for internal control variables for 7,299 greater than 2,021 t-table or when seen from the significant value is far below the 5% error rate of 0.000 produces H_0 rejected and H_a accepted means of internal control significant effect on the quality of financial reporting. Besides internal control beta coefficient of 0.356 indicates a positive direction means that if the internal control is increased by one unit and the other variables constant, the quality of financial reporting will increase by 0.356 units.

The results are consistent with Gramling et al. (2004) stated that based on reviews of previous surveys and experimental studies, argues that internal controls have the potential to affect the quality of corporate governance, financial reporting quality and performance of the company. Then, according to research Gras-Gil et al. (2012) found that companies with high-quality financial statements have better cooperation between internal and external auditors in the annual audit. Specifically, they found that the greater participation of internal audit in the review of the financial reporting process causes an increase in the quality of financial statements. Meanwhile, according to Setyawati Hari (2013) said that competence, leadership commitment to the organization and implementation of the internal control system simultaneously has a positive influence on the quality of financial reporting Especially in local government. This is in line with research Jessy L. Dimarcus Warongan, Gagaring Pagalung, Paul Uppun, and Abdul hamid habbe (2014) stated that the existence of positive and significant influence on the competence of human resources to the quality of financial reporting through the effectiveness of internal control systems. On the other hand, found a significant mediating effect on the audit opinion on the quality of financial reporting through the effectiveness of the internal control system.

5. CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS OF RESEARCH

5.1 Conclusions and Recommendations

Based on the research and hypothesis testing that has been done, then the results can be summarized as follows: Competence HR, Leadership Style, Utilization of IT and Internal Control either partial or simultan positif influential and significant impact on the quality of financial statements.

Based on the discussion and the above conclusions, the researchers gave suggestions to the Directorate General of Construction Ministry of Public Works and Public Housing is Chairman Agencies in order to give an opportunity to the employees, especially section of finance to participate in various training and technical assistance in the field of finance, both carried out by the institution or by other agencies. So that employees can improve their competence in financial management. Increasing human resource competencies in financial management financial statements will eat more quality, leadership institutions in order to provide direction and policy on relationships with employees for the smooth preparation of the financial statements. A good relationship and harmony among employees, both in financial and other fields will smooth process of preparation of financial statements and to improve financial reporting quality, In the use of information technology is increasingly low overhead, it should be balanced with the provision of advice and adequate infrastructure in each unit work, so it needs the direction and development policy of the leadership to guarantee adequate maintenance and

support necessary budget for each unit of work in seeking that the utilization of information technology can be utilized optimally, Head of Agencies in order to provide direction and policy in the development of policies / guidelines risk assessment and implementation are made regularly and documented as well as control / risk management plans should continue update periodically according to changes in the needs or expectations do steak holder and automated monitoring by head of the institution, so that risk management can be known immediately by the leadership. By improving the implementation of internal control in all work units it will avoid fraud and errors and will give confidence to the financial statements.

For future studies should also use the method of interview or interviews in addition to the questionnaires to obtain more accurate data, the same study, for further research to try to repopulate, indicators, dimensions and methods of analysis differs from previous studies in order to see the comparison results of the analysis , can add a new variable / replace one variable to another variable that will broaden their horizons and knowledge for researchers and readers.

5.2 Limitations study

Some limitations in the research that could affect these results include: 1. This conclusion applies only to the scope of the Directorate General for Construction and Development not be generalized to other General Directorate within the Ministry of Public Works & PERA. 2. The scope of this study is the perception, so that the individual characteristics of respondents strongly influence the responses to questionnaires that will ultimately affect the study. 3. In this study, Variable Utilization of Information Technology and Internal Control does not have a value of variability that can not be used as a variable. 4. In this study as respondents only on the scope of the intern in the Directorate General of Construction Ministry PUPR only and does not involve external parties.

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THE INFLUENCE OF ORGANIZATIONAL COMMITMENT, IMPLEMENTATION OF ACCOUNTING INFORMATION SYSTEM, AND WORKPLACE ENVIRONMENT TO THE PERFORMANCE OF WORK UNIT

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ABSTRACT

This study aims to obtain empirical evidence on the influence of organizational commitment, implementation of accounting information system and workplace environment affected to the performance of work unit at the Ministry of Public Works and Housing. This study method used survey research with the target population studied is the unit of echelon II work unit that prepares the report of the Government Institution Performance unit (Laporan Kinerja Instansi Pemerintah) in the Ministry of Public Works and Housing. This research design used descriptive approach by using questionnaires to collect data on 122 respondents in 67 work units consists of (1) head of work unit (2) administrator official (3) supervisor officer (4) staff, this research hypothesis test using multiple regression analysis model. The results of the research showed that (1) organizational commitment had positively affected to the performance of work unit at the Ministry of Public Works and Housing (2) Implementation of Accounting Information System had positively affected to the performance of work unit at the Ministry of Public Works and Housing (3) Work environment had positively affected at the Ministry of Public Works and Housing. Good condition and work environment variable is considered good.

Keywords: Organizational Commitment, Implementation of Accounting Information System, Workplace Environment, Performance

1. Introduction

The results of infrastructure development performance, not only produce physical infrastructure alone, but also reduce the gap between regions in the effort of equitable development. Infrastructure development from year to year experiencing dynamics to the increasing demands of society, as well as the result of political policies that occur.

In sector of performance of infrastructure development not satisfactory seen performance accountability assessment by 2015 by MENPAN-RB to performance of Ministry of Public Work and Housing (Ministry of PUPR) with value 68,13 or category "B". In previous years, the Ministry of Public Work scored was 64 or "B" categories in 2014 and the value of 73.34 or the "BB" category in 2013. It can be seen that there are significant differences in value for 3 consecutive years, this shows the trend of Ministry Public Work and Housing performance up and down influenced by many factors such as political policy and human resources, and others.

Currently, the challenge of performance enhancement in organizations has increased along with the struggle to manage the quality of the workplace, and accelerated competition among organizations, globalization, the rising expectation of citizens, all have led to organizations' aiming, mostly, on the quality within the contexts of the past few decades (Akdere, 2006 in Al. Zefeiti 2017). Allen, et al (1996) explains that the most important factors affecting employee performance is organizational commitment, he also mentioned that the organization's commitment today as a multidimensional work attitude. The importance of organizational commitment to performance can be explained that employees have a high level of organizational commitment will have a positive outlook and more trying to do the best for the benefit of the organization.

In addition to organizational commitment, organizations with information systems will have the ability to effectively detect when business changes need a strategic response. Information systems are instrumental in the field of accounting. The accounting information system is one of the most effective decision-making tools in dealing with complexity and uncertainty (Mulyani, 2015). Accounting information helps managers understand their assignments more clearly and reduce uncertainty before making a decision (Chong 1997). Soudani (2012) showed that although Accounting Information System is very useful and have effect on organizational performance to listed companies in Dubai financial market (DFM) but, there is no relationship between Accounting Information System and performance management.

Some literature also mentions the advantages of using computer-based information systems, among others: can process a number of transactions quickly and integrated, can store and retrieve

large amounts of data, can reduce mathematical errors, generate reports in a timely manner in various forms, and can be a decision-making tool especially for the type of structured problem (Muntoro, 1994 in Handayani, 2005). Not infrequently found that the accounting information system applied is often not appropriate / not used maximally by users of the system as the application of information systems that provide benefits in performance improvement.

Not only are organizational commitments and accounting information systems important in improving performance, according to Sekar.C (2011) “The workplace environment impacts employee morale, productivity and engagement - both positively and negatively”. It can be said that a fresh, comfortable working environment and meet the standards of worthy needs will contribute to the convenience of employees in performing their duties. Public sector research conducted by Sekar.C (2011) shows that salaries and wages are no longer a factor in the work environment that organizations use to improve productivity.

The significance of work environment in an organization is explained by Davis (1985) in Permasari (2013) which states that the work environment in an organization has significance for the individual. working in it, because this environment will directly or indirectly affect the human in inside. Expanding Sekar C (2011), this study attempts to elaborate the previous researches in examining workplace environment, implementation of accounting information system, and commitment organization in ministry of public work and housing affected to unit works performance.

2. Theoretical Framework and Hypotheses Development

Agency theory is a concept that explains the contractual relationship between principal and agent. The principal party is the party who mandates the agent to perform all activities on behalf of the principal in his capacity as a decision maker. This agency relationship will create two problems: 1) the occurrence of information asymmetry, and 2) conflicts of interest, occurring due to differences in interests between the agent and the principal so that the agent does not always act in the interests of the owner (Tate and Wendy, 2010).

Contingency theory is used to analyze the design and management accounting system to provide information that companies can use for various purposes and to face competition (Otley, 1980 in Paylosa 2014). Contingency factors chosen in this research are organizational commitment, implementation of accounting information system and workplace environment. These factors will act as independent variables on the performance of the work unit.

2.1.1 The Influence of Organizational Commitment to The Performance of Work Unit.

Earlier researchers revealed that organizational commitment is a link between an employee and organizations and also it described as the psychological likings and devotion that employee have to their organization (Faharani 2011, Fulford and Rothman, 2007; Mathieu and Zajac,1990). Moreover, Qureshi et al. (2011) define organizational commitment as “the feeling of responsibility that an employee has towards the mission of the organization.”

Suzanto (2012) in their research found results that showed organizational commitment positively related to performance. Cavalluzzo and Ittner (2004) in Umitasari (2016) suggest that management commitment has a positive effect on the development of performance indicators, performance accountability and the use of information performance generated by the implementation of performance measurement systems. High commitment to make individuals care about the fate of the organization and trying to make the organization to a better direction, so that with a high commitment the possibility of performance degradation can be avoided. Organizational commitment is an individual's identification of the organization and its purposes and intends to maintain its membership (Koesmono, 2007).

Based on the description above, we propose hypothesis:

Hypothesis 1: organizational commitment will influence significantly to the performance of work units.

2.1.2 The Influence of implementation of accounting information system to the performance work unit.

Information systems in a company is a tool that helps smooth the task and easy way in coordinating between the existing parts, because the information system will help to monitor and take decisions to run the company (Baridwan, 2002). The information provided by Accounting Information Systems revolves around, information relating to the results of processing transactions that more financial organizations (Mulyani, 2015).

Accounting Information Systems (AIS) are a tool which, when incorporated into the field of Information and Technology systems (IT), are designed to help in the management and control of topics related to organization' economic-financial area. But the stunning advance in technology as

opened up the possibility of generating and using accounting information from a strategic viewpoint (El Louadi, 1998 in Soudani 2012).

Accounting information system has related field of accounting and management decision-making. According to Nicolau (2000) in Soudani (2012) the fit of accounting information system to decision making is the information has organizational requirements for information communication and control. Accounting systems provide all levels of management with timely and reasonably accurate information to effect on performance management and help them make decisions which are in agreement with their organization's goals (Anthony G, 2006 in Soudani 2012). The function of Accounting Information System by Bodnar (2010) on the organization on accounting information system (AIS) consists of five components: (1) the people who operate the system and perform various functions (2) the procedure, both manual and automated, involved in collecting, processing, and storing data about the organization's activities, (3) the data about the organization business process (4) the software used to process the organization's data (5) the information technology infrastructure including computers, peripheral devices, and network communication devices. Accounting systems affect behavior and performance management and have affects across departments, organizations, and even countries (Noellette Conway, 2009 in Soudani 2012).

Based on the description above, we propose hypothesis:

Hypothesis 2: implementation of accounting information system will influence significantly to the performance of work unit

2.1.3 The Influence of Workplace Environment to The Performance of Work Unit

The importance of the work environment according to Darvis (2000) in Hariandja (2002) will directly and indirectly influence human beings in it is reinforced by evidence showing that tasks can be solved better in a good organizational work environment, there is evidence that managers can influence work environment in the organization or work unit led, the match between individuals and organizations have a very important role in achieving the achievement and individual satisfaction itself in the organization.

The relationship between work, the workplace and the tools of work, workplace becomes an integral part of work itself (Sekar C, 2011). The management that dictate how, exactly, to maximize employee productivity center around two major areas of focus: personal motivation and the infrastructure of the work environment. Organizations must

have the skills to engage employees in setting common goals, clarify expectations of employee roles and provide improved performance.

Based on the description above, we propose hypothesis:

Hypothesis 3: Workplace environment will influence significantly to the performance of work unit.

3. Research Design

3.1 Empirical Design

The purpose of this research is to find empirical findings about commitment organization, Implementation Of Accounting Information System and workplace environment to performance of work unit. This research was conducted to test hypothesis (hypothesis testing) by testing the relationship to all variables studied (causal research). The time dimension of the research involves a certain time with many samples (cross sectional), while data collection methods are done by direct or indirect contact.

3.2 Dependent Variables

According to Sugiyono (2012: 59) in Heny (2015), independent variables are the variables that affect or the cause of the change or the emergence of the dependent variable (dependent variable).

3.2.1 Organizational Commitment

Organizational commitment is used to measure how intensive official public sector organizations are committed to improving accountability and organizational performance. Commitment to the organization that is the attitude of individual members of the organization to accept and believe the values, organizational goals, willingness to perform high for the progress of the organization and the desire to become members of the organization (Allen, Natalie.J, Meyer, 1996).

3.2.2 Implementation Of Accounting Information System (AIS)

This variable is seen from AIS component Bodnar stated (2010) that component of AIS proves has the most important role in optimal AIS implementation such as brainware, procedure, database, software and network of AIS.

3.2.3 Workplace Environment

This variable is seen from the work environment component that Sekar.C, (2011) suggests that the dimension of the working environment consists of working facilities, working relationships, equality, communication, convenience and procedures.

3.3. Independent Variables

3.3.1 Performance of Work Unit

In the government sector, performance can be interpreted as an achievement achieved by government employees or government agencies in carrying out services to the community within a period. This instrument is taken from the performance dimension based on Presidential Regulation No. 29 of 2014.

3.2.4 Hypothesis Testing

The purpose of this research is to empirically evaluating the organizational commitment, Implementation Of Accounting Information System and workplace environment to performance of work units. To achieve that, we use F test is done to test whether simultaneously independent variable have an effect on dependent variable with 95% confidence level ($\alpha = 0,05$).and Partial test (t test) is done with the intention to test the partial influence between independent variable to dependent variable with assumption that other variable is considered constant with 95% confidence level ($\alpha = 0,05$).We use SPSS program version 16.00 and microsoft excel to run the data.

3.3 Sample

The criteria in sampling in this research can be explained as follows work unit which compiled Performance Report of Government Institution (LaKIP) to explain research phenomenon in Ministry of Public Work and Housing .

Below are the work units:

Table 1 – List Sample of work units

NO	DIREKTORAT JENDERAL/ BADAN	WORK UNITS	
1	Inspektorat Jenderal	1	Set.Itjen
		2	Inspektorat I
		3	Inspektorat II
		4	Inspektorat III
		5	Inspektorat IV
		6	Inspektorat V
NO	DIREKTORAT JENDERAL/ BADAN	WORK UNITS	
2	Sekretariat Jenderal	7	Biro Perencanaan Anggaran dan KLN
		8	Biro Kepegawaian dan Ortala
		9	Biro Keuangan
		10	Biro Umum
		11	Biro Hukum
		12	Biro Pengelolaan BMN dan Pengadaan
		13	Biro Komunikasi dan Publik
		14	Pusat Data dan Teknologi Informasi
3	Direktorat Jenderal Sumber Daya Air	15	Set.Ditjen SDA
		16	Direktorat Bina Penatagunaan SDA
		17	Direktorat Pengembangan Jaringan SDA
		18	Direktorat Sungai dan Pantai
		19	Direktorat Irigasi dan Rawa
		20	Direktorat Bina Operasi dan Pemeliharaan

		21	Pusat Bendungan
		22	Pusat Air Tanah dan Air Baku
4	Direktorat Jenderal Bina Marga	23	Set.Ditjen Bina Marga
		24	Direktorat Pengembangan Jaringan Jalan
		25	Direktorat Pembangunan Jalan
		26	Direktorat Preservasi Jalan
		27	Direktorat Jembatan
		28	Direktorat Jalan Bebas Hambatan, Perkotaan dan Fasilitas Jalan Daerah
NO	DIREKTORAT JENDERAL/ BADAN		WORK UNITS
5	Direktorat Jenderal Cipta Karya	29	Set.Ditjen Cipta Karya
		30	Direktorat Keterpaduan Permukiman
		31	Direktorat Pengembangan Kawasan Permukiman
		32	Direktorat Bina Penataan Bangunan
		33	Direktorat Pengembangan Sistem Penyediaan Air Minum
		34	Direktorat Pengembangan Penyehatan Lingkungan Permukiman
6	Direktorat Jenderal Penyediaan Perumahan	35	Set.Ditjen Penyediaan Perumahan
		36	Direktorat Perencanaan Penyediaan Perumahan
		37	Direktorat Rumah Susun
		38	Direktorat Rumah Khusus
		39	Direktorat Rumah Swadaya
		40	Direktorat Rumah Umum dan Komersil
7	Direktorat	41	Set.Ditjen Bina Konstruksi

	Jenderal Bina Konstruksi	42	Direktorat Bina Investasi Infrastruktur
		43	Direktorat Bina Penyelenggaraan Jasa Konstruksi
		44	Direktorat Bina Kelembagaan dan SD Jasa Konstruksi
		45	Direktorat Bina Kompetensi dan Produktivitas Konstruksi
		46	Direktorat Kerjasama dan Pemberdayaan
8	Direktorat Jenderal Pembiayaan Perumahan	47	Set.Ditjen Pembiayaan Perumahan
		48	Direktorat Perencanaan Pembiayaan Perumahan
		49	Dit Pola Pembiayaan Perumahan
		50	Dit Pendayagunaan Sumber Pembiayaan Perumahan
		51	Direktorat Bina Sistem Pembiayaan Perumahan
		52	Direktorat Evaluasi Bantuan Pembiayaan Perumahan
NO	DIREKTORAT JENDERAL/ BADAN		WORK UNITS
9	Badan Pengembangan Infrastruktur Wilayah	53	Set.Badan Pengembangan Infrastruktur Wilayah
		54	Pusat Perencanaan Infrastruktur PUPR
		55	Pusat Pemrograman dan Evaluasi Keterpaduan Infrastruktur PUPR
		56	Pusat Pengembangan Kawasan Strategis
		57	Pusat Pengembangan Kawasan Perkotaan
10	Badan Penelitian dan Pengembangan	58	Set.Badan Penelitian dan Pengembangan
		59	Pusat Litbang SDA
		60	Pusat Litbang Jalan dan Jembatan
		61	Pusat Litbang Perumahan dan Permukiman
		62	Pusat Litbang Kebijakan dan Penerapan Teknologi

11	Badan Pengembangan Sumber Daya Manusia	63	Set.Badan Pengembangan SDM
		64	Pusat Penilaian Kompetensi dan Pemantauan Kinerja
		65	Pusat Diklat SDA dan Konstruksi
		66	Pusat Diklat Jalan, Perumahan, Permukiman dan Pengembangan Infrastruktur Wilayah
		67	Pusat Diklat Manajemen dan Pengembangan Jabatan Fungsional

4. Results

4.1 Descriptive Analysis

4.1.1 Organizational Commitment

Through the total score of responses from 8 statements submitted on organizational commitment variables, it can be seen that the responses of respondents regarding organizational commitment included in the category of "good".

4.1.2 Implementation Of Accounting Information System (Ais)

Through the total score of responses from 13 statements submitted regarding variables Implementation Of Accounting Information System, it can be seen that the responses of respondents regarding Implementation Of Accounting Information System included in the category of "good enough".

4.1.3 Workplace Environment

Through the total score of responses from 12 proposed statements about workplace environment variables, it can be seen that the response respondents regarding Job Circulation included in the category of "good".

4.2 SPSS Output

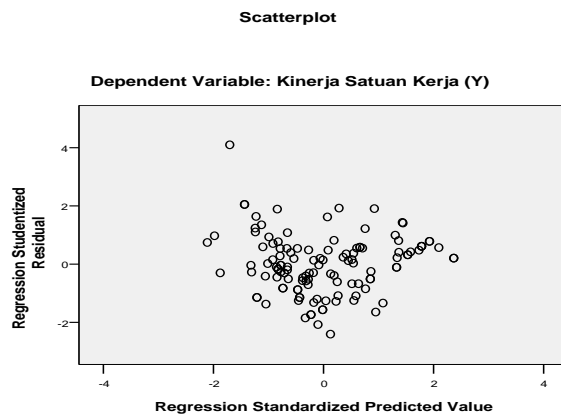
By using SPSS program application, we get the result output below:

Table-2 Normalitas Test

One sample kolmogrov-Smirnov Test

Results	Unstandardized Residual
Asymp.Sig (2-tailed)	0.635

Based on SPSS output above obtained Sig value. normality test using the Kolmogorov-Smirnovs method of 0.635. Since the value of p-value is greater than alpha ($0.635 > 0,05$), it can be concluded that the residual data is normally distributed.



From each picture above shows that the points spread randomly, do not form a pattern. As well as the points spread both above and below the zeros on the Y axis. It can be concluded that there is no heterokedastisity in the regression model, so the regression model is feasible to be used for subsequent analysis.

Table-3
Multikolineritas Test

Variables	Result
Organizational Commitment (X_1)	1.495
Implementation of AIS (X_2)	1.752
Workplace Environment (X_3)	2.221

The above results show that the VIF value of each independent variable is below 10, ie Organizational Commitment (X_1) = 1,495; Implementation of Accounting Information System (X_2) = 1,752; and Working Environment (X_3) = 2,221. Based on these results it can

be concluded that there is no multicollinearity among the independent variables in the model.

Tabel -4
Coefficient Regresion

Model	Hasil Uji
Constant	1,490
Organizational Commitment (X_1)	0.228
Implementation of AIS (X_2)	0.220
Workplace Environment (X_3)	0.523

Based on the above output obtained value of the constant and regression coefficients that can be formed multiple linear regression equation as follows

$$Y = 1,490 + 0,228X_1 + 0,220 X_2 + 0,523 X_3+ e$$

We can see the explanation of the formula:

$a = 1,490$ means that if the Organizational Commitment (X_1), Accounting Information System Implementation (X_2), Working Area (X_3) is zero (0), then Unit Performance (Y) will be worth 1.490 units;

$b_1 = 0.228$ means if the Organizational Commitment (X_1) increases by one unit and the other variables are constant, then the Unit Performance (Y) will increase by 0.228 units;

$b_2 = 0.220$ means that if the Accounting Information System Implementation (X_2) increases by one unit and the other variable is constant, the Unit Performance (Y) will increase by 0.220 units;

$b_3 = 0,523$ means if the Working Environment (X_3) increases by one unit and the other variable is constant, the Unit Performance (Y) will increase by 0.523 units.

Result from f-test showed Fcount value of 66.987 with p-value (sig) 0.000. With $\alpha = 0.05$ and degrees of freedom $v_1 = 3$, and $v_2 = 118$ ($n - (k + 1)$), then F_{table} can be 2,681. Due to the value $F_{count} > F_{table}$ ($66,987 > 2,681$) then H_0 is rejected, meaning that the independent variable simultaneously has a significant effect on the Performance of Work Unit (Y).

Result from t-tets showed t-count value for Organizational Commitment variable (X_1) of 2.026 and t_{table} 1.980. Because $t_{table} > t_{itung}$, then H_0 is rejected and H_1 accepted, meaning Organizational Commitment (X_1) have a significant effect to Performance of Work Unit (Y).

Result from t-count value for the variable of Accounting Information System Implementation (X_2) is 3,710 and t_{table} 1,980. Due to the value of $t_{count} > t_{table}$, then H_0 rejected and H_2 accepted, it means Accounting Information System Implementation (X_2) has a significant effect on Unit Performance (Y).

Result from t-count for Workplace environment variables (X_3) of 5.957 and t table 1.980. Due to the value of $t_{count} > t_{table}$, then H_0 rejected and H_1 accepted, meaning Work Circuit (X_3) have a significant effect on Unit Performance (Y).

5. Discussion

5.1.1 The Influence Of Organizational Commitment To The Performance Of Work Unit

Organizational commitment variable has a significant influence on the performance of the work unit, indicated by the level of significance (Sig) organizational commitment variable of $0.045 < \alpha = 0.05$. In other words, H_1 in this study is supported. The results of research are in agreement with the research of Al Zefeiti (2017) which states that organizational commitment has an influence on organizational performance, where organizational commitment can be achieved if every individual in the organization has dimension of Affective Commitment, Continuity Commitment, Normative Commitment to build high performance contextual.

Employees of Ministry of Public Works and Housing have the desire to work until retirement, this indicates the Ministry of Public Works and Housing where the work is believed to provide good old age guarantees. One of the things that motivates Employees of

Ministry of Public Work and Housing to devote their lives to retirement, namely the bureaucracy reform that started in 2008 has had a positive impact in terms of increasing employee income, and better self-development opportunities.

Based on the above discussion shows that agency theory which explains one of the assumptions about human self-interest and risk aversion is suitable for this research. In addition, contingency theory which explains that there is no universal control is appropriate, so management needs to design a more comprehensive system.

5.1.2 The Influence of Implementation Accounting Information System to The Performance of work unit.

Implementation of accounting information system has a significant influence on the performance of the work unit, indicated by the level of significance (Sig) variable implementation of accounting information system of $0.000 < \alpha = 0.05$. In other words, H_2 in this study is supported. The results of this study are in agreement with Soudani (2012) study which states that the implementation variables of accounting information system have an influence on organizational performance, where the implementation variables of accounting information system can be achieved if the organization executes collection, storage and update of financial data and accounting to be evaluated more so that it can be used as a decision-making material and increase the quality of accounting information, evaluation of targets and internal controls and for the provision of financial transaction facilities.

The availability of information technology and communication infrastructure which is one of its components is hardware becomes the seriousness of Public Works and Housing Minister related to the smoothness of E-Government by stipulated in Decree of Minister of Public Works and Housing No. 35 / PRT / M / 2016.

Based on the above discussion shows that the agency theory which explains one of the assumptions about the existence of asymmetric information in the organization because of the conflict between members of the organization suitable for this study. In addition, contingency theory that explains that there is no universal control is appropriate, so management needs to design a more complete accounting information system and answer the problem.

5.1.3 The Influence of Workplace Environment to The Performance of Work Unit.

Workplace environment has a significant influence on the performance of the work unit, indicated by the level of significance (Sig) variable implementation of accounting information system of $0.000 < \alpha = 0.05$. In other words, H_3 in this study is supported, ie the work environment has a significant influence on the performance of the work unit. The results of research are in agreement with Sekar.C (2011) research which states that work environment variables have an influence on organizational performance, where the work environment variable can be achieved on the condition of the leader / supervisor to create comfort quality on all working environment factors to generate employee motivation.

Based on the above discussion shows that the agency theory which explains one of the assumptions about human nature that suggests that humans have a tendency to self-interest (self interest) and have limited rationality suitable for this research. In addition, contingency theory that explains that no universal control is appropriate, so management needs to design the right working environment by creating work procedures, working relationships and creating workplace comfort.

6. Conclusion & Implication

Conclusion

Based on the results of research and discussion on the influence of organizational commitment, the implementation of accounting information systems and workplace environment on the performance of work unit in the Ministry of Public Works and Housin , then at the end of this study, the authors draw conclusions and provide suggestions as follows:

1. Organizational commitment to the Ministry of Public Works and Housing has been going well.
2. Organizational commitment gives a positive and significant effect of 7.39% on the performance of the work units. This indicates that an increase in organizational commitment will also improve the performance of the work unit.
3. Implementation of accounting information system at the Ministry of Public Works and Housing has been running quite well.
4. Implementation of accounting information system gives positive and significant influence 18.01% on the performance of the work unit. This shows that the

implementation of accounting information system that runs well will improve the performance of the work unit.

5. Working environment at Ministry of Public Works and Housing is considered good.
6. Work environment gives positive and significant effect 37.62% on work unit performance. This indicates that a good working environment will improve the performance of the work unit.
7. Organizational commitment, implementation of accounting information system, and work environment provide a significant simultaneous (joint) effect of 63.0% on the performance of the work unit. while the remaining 37.0% is influenced by other factors not observed in this study.

Implication

In line with the research background and the results of the research discussions conducted, then some suggestions that can be delivered to achieve satisfactory work unit performance through the implementation of organizational commitment, the implementation of accounting information systems and work environment better can be done by:

1. Improving the implementation of decisions on organizational commitment through indicators "Employees of Ministry Public Work and Housing willing to complete the work on time". Improvements to these indicators one of them with a clear reward and punishment for employees who complete the work on time so that it can motivate employees to be more committed. In addition, organizational commitment can be through a clearer working procedure that takes into account the allocation of work time and the target volume of tasks of all human resources, so that human resources can work seriously in accordance with existing working procedures.
2. Improve the implementation of accounting information system through several indicators that are considered less good, among others:
 - "Regular system supervision" indicator. Against these indicators is to carry out monitoring activities of the system once a week and made responsible for monitoring.
 - The "asset information indicator presented in the SIMAK-BMN application is used in decision making". Against these indicators can be improved by presenting updating data of state property (BMN) continuously so that information is presented more accurately so that the leader can obtain the latest information.

- The "cost information / cost / cost indicator displayed in the SAIBA application is used for decision making". Against these indicators can be improved by the presentation of data cost / cost / load more accurate so that the leadership can obtain the latest information.
 - Helpdesk indicator helps with interruptions / difficulties. These indicators can be improved by providing more competent helpdesk operators and responding to user complaints
 - Indicator "software can provide Forecasting information / forecasting". Against these indicators can be improved by making the potential column of future financial position through accurate calculations.
3. Improving the work environment through several indicators including:
- "Mentoring by supervisor" indicator. Against these indicators can be improved by arranging a team of mentors who manage several managers and scheduled once a month. Approach methods used are lectures, games, and discussions. In the delivery, each material takes 60 minutes (one hour).
 - Indicators of "equal training opportunities". Against these indicators can be enhanced by capturing the ability of employees and arranging appropriate training, in addition to disseminating information to participants quickly and accurately.
 - The "discussion forum" indicator. The indicators can be improved by holding monthly scheduled discussions and bringing in competent sources.

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THE EFFECT OF PARTICIPATIVE BUDGETING TO MANAGERIAL PERFORMANCE THROUGH JOB RELEVANT INFORMATION (JRI) AND COMMITMENTS OF BUDGET OBJECTIVES AS INTERVENING VARIABLES

(Survey on the Working Unit of the Environment of the People's Housing Agency)

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ABSTRACT

The purpose of this study is to examine the effect of participative budgeting on managerial performance either directly or through job relevant information and commitment of budget objectives as intervening variable. The existence of inconsistencies among the results of previous research on the effect of participatory budgeting on managerial performance became the motivation in this study.

The data used in this study were obtained from the opinions or perceptions of echelon officials of level III and IV on the Work Unit of the Agency Environment at the Ministry of Public Works and People's Housing through questionnaires. Of the 150 questionnaires distributed, 100 questionnaires were taken as research samples which then analyzed by path analysis technique and assisted by Lisrel 8.7 and SPSS 22.0.

The results showed that, participatory budgeting directly affects managerial performance as well as through job relevance information variables and budget objective commitments as intervening variables, indicating a positive and significant impact. When compared to direct and indirect influences, the results show that the indirect effect is greater than the direct effect. So it can be concluded that the variables of job relevant information and commitment of budget objectives is an intervening variable of the influence of participant budgeting on managerial performance.

Keywords: Participatory budgeting, job-relevant information, commitment to budget objectives and managerial performance.

1. Introduction

Good budget planning can help in terms of achieving the purpose of organization. In order to create a good budget, it is necessary to have active participation between central, middle and lower level managers in accordance with their respective competencies and main duty as well. This is what is called "Participatory Budgeting". Waharif Rahayu, 1999 who assumed that the key word in the budgeting process is the level of participation or the roles of managers taking part in the budgeting process.

With the participation of managers and lower managers involved in budget planning, it is expected that each manager will be more responsible for the achievement of the goals set in the budget. Participation actions in designing budget will make the managers to not only get involved in working area but also encourage their staff during working (one's satisfaction with work, superiors, and information) managers (Siegel and Marconi, 1989; Mulyadi 2001).

Participative action can be done with an attitude appropriate to the theme (Brownell, 1981). Moreover, in the private sector, many have done research with the theme, such as Slamet Riyadi (2000), Supriono (2004), Ghozali, Sumarno and Sadjito (2005) and many others, but in this sector the theme is only few. Ompusunggu Bawono (2007) in his research adds other factors that can affect the relationship between participative budgeting and working performance.

In relation with the results of research on participative budgeting on managerial performance is also still a debat because the results have been inconsistent. Kenis (1979), Merchant (1981), Brownell (1982) suggest a positive relationship between participatory budgeting on managerial performance. Siskawati (2004); Sardjito and Osmad (2007) also in their research suggest a positive and significant influence between participative budgeting on managerial performance. While Millani (1975), Locke and Bryan (1997); Sumarno (2009) proved in their research that there is a negative influence between participative budgeting toward managerial performance. M. Nursidin (2008) also conducts research on the effect of participative budgeting on managerial performance resulting from negative and insignificant correlation to managerial performance, while through other intervening variables there is a positive and significant influence.

See the differences and inconsistencies of the results of the research so far. Brownell 1982 and Murray, 1990 suggest the relationship between budget and managerial performance is most likely due to other variables. For this purpose, Govindarajan (1986) argues that differences in research results between participatory budgeting and managerial performance can be done through a contingency approach by inserting other variables acting as intervening or moderating variables, and in this study the contingency approach is conducted with how to include job relevant information variables and budget goal commitments as intervening variables.

Job-Relevant Information (JRI) is the organization's internal information that tends to relate to the tasks generated by employees. Such information can provide a more accurate prediction of the environment and enable the choice of a better policy to improve performance, Omposunggu and Bawono (2006).

Kren (1997) states that the role of participation in an organization that has a high environmental volatility condition is very important, because with the participation will be generated relevant information about the most appropriate actions that will be taken by manager in making correct decisions related to his duties within the organization. This will certainly improve performance since managers have more accurate forecast information on alternative actions to take.

Furthermore, partisipative budgeting can also increase the commitment of managers to the objectives of the budget that have been arranged so that the high commitment of each individual to the budget goals will automatically improve his managerial performance. Locke et al (1981) defines the notion of a budget objective commitment as a strong desire to strive to achieve the budget objectives accompanied by persistence in achieving the objectives of the budget.

The object of this research is the Ministry of PUPR through the Work Unit of the Agency Environment. The Ministry of PUPR which serves as a driver of infrastructure development in Indonesia, get the largest budget amount from all existing Ministries / Institutions. But with the large amount of budget entrusted, the Working Unit of the Environment Agency in the Ministry of PUPR has not been able to reach the planned budget targets. In addition, the realization of the budget from the Agency environment in the Ministry of PUPR in the first half of 2017 only reached 20.74% of the target plan set as much as 43.37%.

In relation to the achievement of budget targets that have been planned, closely related to the process of budgeting that the method of budgeting in a participatory way is considered capable of improving the managerial performance of the organization, but if the conditions are observed in the Work Unit of the Environment Agency in the Ministry PUPR they are not fully implemented, as stated in the activity report of program and evaluation field of secretariat of ministry of PUPR 2015 on activity "Working Meeting and Coordination and Evaluation" which is a routine activity, there are still superior who assigned his staff who attend the activity is not according his duty with discussion / material in coordination, indicating that the implementation of participatory budgeting has not been fully implemented there. In other words, Echelon III still does not involve (include) subordinates or vice versa that is a subordinate who does not involve themselves in the process of budgeting so as to cause lack of sense of responsibility by staff who are not involved in the implementation of the budget. Thus, this can be one of the causes the lack of managerial performance.

From the background that has been described above, it can be formulated several relevant issues include: (1). Does participatory budgeting have direct influence on managerial performance on the Working Unit of the Agency Environment in the PUPR Ministry?; (2). Does participatory budgeting have an effect on managerial performance on the Work Unit of the Agency Environment in the PUPR Ministry through job relevant information and commitment to the budget objective as intervening variable?

2. Literature Review

2.1 Participatory Budgeting

Mulyadi (2001) said that participative budgeting is a decision-making process by both parties or more that will have an impact on the future for the decision maker so that in the process of budget formation there will be bargaining or negotiating between the budget proprietor with the budget committee as the party will revise and approve the proposed budget.

Further Milani (1975) states that budget participation is the amount of influence and involvement felt by individuals in this subordinate in the process of budgeting and decision-making to achieve organizational goals. These are the factors that distinguish between participative and non-participatory budgets, with participatory action will lead to subordinate respective attitudes toward the work and systems that apply within the organization.

In the act of participation provides an opportunity for staff to convey good information or "Well Informed" and useful that it has, which will be used in the preparation of the budget. According to Milani (1975) the manager's perception of the element of participation is used to determine the position of individual managers in the sequence of participation and the importance of the manager's contribution to the budget.

2.2 Job Relevant Information (JRI)

Job Relevant Information (JRI) is the information that can assist superior in choosing the best course of action against the organization he leads through the effort of filtering the information submitted to him, which includes; (1). The internal and external information gained helps in the process of decision making and action. (2). Job Relevant Information encourages more enthusiasm to perform work tasks. (3). Understanding, availability of information and ability to access strategic information (Kren, 1992).

Baiman (1982); Yusfaningrum and Ghozali (2005) also add that JRI may also assist subordinates / executives of the budget in enhancing their choice of actions through successful business information. This will provide a good understanding for subordinates to be able to use alternative decisions and actions that need to be done in achieving the goals set.

2.3 Commitment Budgetary Objectives

Goal setting theory proposed by Edwin A. Locke (1968) proposed a theory named Goal setting. It is stated that the objective is a projection of intentional intent where the behavior and actions performed thereafter are governed by that purpose.

Motivation to work is a purpose that is reflected in the attitude of work to achieve the goal (Locke, 1968). This means that goals can provide direction to employees about what needs to be done and how much resources need to be spent. Although the intended purpose seems difficult to achieve but if the goal is well received (acceptance of goal) it will produce a higher performance than the goal that is easily achieved.

Locke et al. (1981) defines commitment to budget goals as a strong desire, determination accompanied by persistence in trying to achieve goals over time. In achieving organizational goals, commitment to budget goals is critical because the productivity of managers is determined (mostly) of whether the organization achieves its financial objectives (Wentzel, 2002).

Indarto (2011) discloses that a commitment to achieving budgetary objectives may occur when employees have accepted the established budget objectives, and that acceptance may be attained due to budgetary participation. Thus, individuals who are highly committed to the budgetary goals will be positive and try to do their best to achieve the budget objectives. Someone will perform better when he already has a commitment to achieve certain goals.

Magner et al. (1996), Maiga and Jacobs (2007a) also stated that employees who are highly committed to budget goals, they will seek interaction with people who have knowledge of the work environment, performance goals, task strategies, and other issues that can improve their performance.

2.4 Managerial Performance

Mahoney et al (1963), Yusfaningrum (2005) suggests that managerial performance is the ability of managers to carry out their managerial activities including planning, investigation, coordination, evaluation, supervision, staffing, negotiation and representation. Therefore, managerial performance is one of the factors that can increase organizational effectiveness. Sinaga and Siregar, 2007; Taufik 2014 and Prawirosentono, 1999 define managerial performance is how far managers perform management functions in an effort to achieve the objectives of the organization concerned legally, not violating the law and in accordance with moral and ethics.

In addition, Armstrong and Baron (1998) also revealed that there are several factors that may affect managerial performance, among others:

- 1) Personal factors (skills, confidence, motivation and commitment)
- 2) Leadership Factor (quality of courage / spirit, guidance of giving spirit to managers and group leader of organization).
- 3) Factors Team / group (work system and facilities provided by the organization)
- 4) Situational Factors (changes and pressures from internal and external environment).

Mardiasmo, 2009 suggests that public sector organizations need to take measurements on managerial performance because of such measurement it can help public managers assess the achievement of the strategies they use through financial and nonfinancial instruments whether they are positive or otherwise.

Nanda Hapsari (2010) also added that in order to measure and evaluate, organizational unit managers use a variety of measures, both financial and non-financial. Performance measurement is a process of recording and measuring the implementation of activities in the direction of achieving goals, objectives, vision and mission through the results are displayed or the process of implementation of an activity. Performance measurement also means comparing between established standards and actual performance.

3. The Methodology And Model

3.1 Data Analysis Techniques

In this study the independent variables are participative budgeting (X), and there are two intervening variables: Job Relevant Information (JRI) (Z_1) and budgetary commitment commitments (Z_2) and subsequent managerial performance as dependent variable (Y). The intervening variable is the intermediate variable or the mediating variable. The linear regression model with intervening variable is a multilevel relationship so that if the regression analysis must use path analysis.

According to Ating Somantri and Sambas Ali Muhidin (2006: 259), path analysis or path analysis is used when in theory we have been convinced to deal with causality-related problems. The goal is to explain the direct or indirect consequences of a set of variables, as causal variables, to other variables that are the result variables. "

Sugiyono (2015) also mentions that path analysis (path analysis) is used to describe and test the relationship model between variables in the form of cause and effect. Thus, through the analysis of this path will be able to find which path is the most precise and short of an independent variable to the last dependent variable.

3.2 Hypothesis Testing

The design used in testing the hypothesis here with the determination of the null hypothesis (H_0) and the alternative hypothesis (H_a) is as follows:

Hypothesis 1

$H_0; \rho = 0$: It means that participative budgeting has no direct effect on managerial performance.

$H_a; \rho \neq 0$: It means that participative budgeting has a direct effect on managerial performance.

Hypothesis 2

$H_0; \rho = 0$: It means that participative budgeting has no effect on job relevant

information.

Ha2; $\rho \neq 0$: It means that participative budgeting affects job related information.

Hypothesis 3

Ho3; $\rho = 0$: It means that participative budgeting has no effect on the commitment of budget objectives.

Ha3; $\rho \neq 0$: It means that participative budgeting affects the commitment of budget objectives.

Hypothesis 4

Ho4; $\rho = 0$: It means that job relevant information has no effect on managerial performance.

Ha4; $\rho \neq 0$: It means that job relevant information has an effect on managerial performance.

Hypothesis 5

Ho5; $\rho = 0$: It means that the commitment of budget objectives has no effect on managerial performance.

Ha5; $\rho \neq 0$: It means that the commitment of budget goals affects the commitment of managerial performance.

Hypothesis 6

Ho6; $\rho = 0$: It means that participative budgeting has no effect on managerial performance through job relevant information as intervening variable.

Ha6; $\rho \neq 0$: It means that participative budgeting affects managerial performance through job relevant information as intervening variable.

Hypothesis 7

Ho7; $\rho = 0$: It means that participative budgeting has no effect on managerial performance through commitment of budget objective as intervening variable.

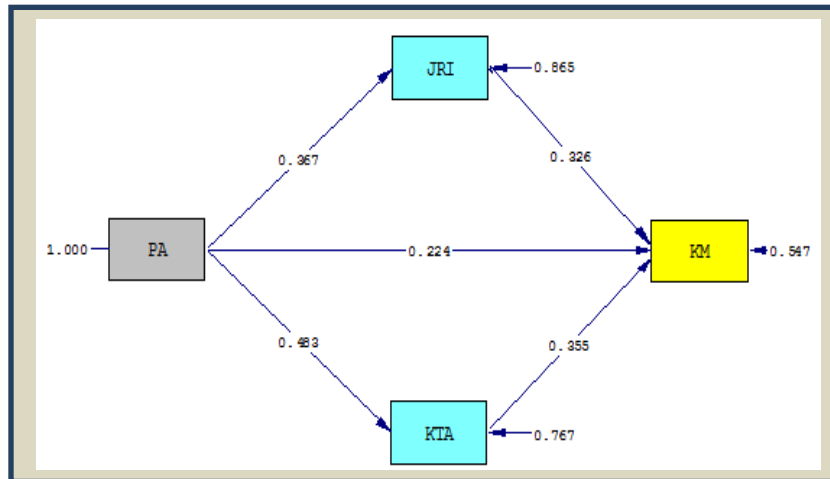
Ha7; $\rho \neq 0$: It means that participative budgeting effect on managerial performance through budget objective commitments as intervening variables.

4. Results of research and discussion

4.1 Path Analysis (Path Analysis)

In this path model, we examine the relationship between the independent variables of Participatory Budgeting (X) on the dependent variable that is Managerial Performance (Y) and intervening variable namely Job Relevant Information (Z1) and Budgetary Objective Commitment (Z2). The results of the path coefficient calculation using the LISREL 8.7 program aid are presented in the equation below.

Figure 4.1
Line Coefficient Diagram



- Based on the above equation and path coefficient, the following results are obtained:
- Coefficient of variable path of Participatory Budgeting (X) to Managerial Performance variable (Y) of 0.224. This shows that the magnitude of direct influence of Participatory Budgeting (X) on Managerial Performance variable (Y) is 5.02% ($0.224 \times 0.224 \times 100\%$);
- Coefficient of variable path of Participatory Budgeting (X) to Job Relevant Information (Z1) variable equal to 0.367. This shows that the magnitude of influence of Participative Budgeting (X) to Job Relevant Information (Z1) variable is 13.47% ($0.367 \times 0.367 \times 100\%$);
- Coefficient of variable path of Participatory Budgeting (X) to Budget Objective Commitment (Z2) variable is 0.483. This shows that the amount of influence of Participative Budgeting (X) to Budget Objective Commitment (Z2) is 23,33% ($0,483 \times 0,483 \times 100\%$);
- The coefficient of Job Relevant Information (Z1) variable path to Managerial Performance (Y) variable is 0.326. This shows that the magnitude of the influence of Job Relevant Information (Z1) on Managerial Performance (Y) variable is 10.63% ($0.326 \times 0.326 \times 100\%$);
- Coefficient of variable lane Commitment Budget Objective (Z2) to Managerial Performance variable (Y) of 0.355. This shows that the amount of influence of Commitment of Budgetary Objective (Z2) to Managerial Performance variable (Y) is 12.60% ($0.355 \times 0.355 \times 100\%$);
- Effect of Participatory Budgeting (X) on Managerial Performance variable (Y) through Job Relevant Information (Z1) of 0.537. This shows that the influence of Participative Budgeting (X) on Managerial Performance (Y) variable through Job Relevant Information (Z1) is 28.84% ($0.537 \times 0.537 \times 100\%$);
- Effect of Participatory Budgeting (X) on Managerial Performance variable (Y) through Budget Objective Commitment (Z2) of 0.676. This shows that the magnitude of influence of Participative Budgeting (X) on Managerial Performance variable (Y) through Commitment of Budget Objective (Z2) is 45.70% ($0.676 \times 0.676 \times 100\%$).
- Effect of Participatory Budgeting (X) on Managerial Performance variable (Y) through Job Relevant Information (Z1) of 0.537 and Budget Objective Commitment (Z2) of 0.676. This shows that the influence of Participative Budgeting (X) on Managerial Performance (Y) variable

through Job Relevant Information (Z1) and Budget Objective Commitment (Z2) is 0.453 or 45.3%, while the rest is 0.547 or 54.7 % is the influence of other factors not examined in this study.

4.2 Discussion

Discussion of research on the effect of participative budgeting on managerial performance through job relevant information and budget objective commitments as intervening variables on the Work Unit within the Agency at the Ministry of PUPR can be made as follows:

4.2.1 The Influence of Participatory Budgeting on Managerial Performance

Based on the result of t-test analysis showing t-count value > t-table or $2.479 > 1.984$, so H_0 is rejected. That is, Participatory Budgeting (X) effect on Managerial Performance variables (Y). Positive path coefficient indicates that higher participation in budgeting (participatory budgeting) will increase managerial performance.

Agree with Nor (2007), which states that participatory budgeting is an approach that generally can improve performance that can ultimately improve organizational effectiveness. The results of this study also agree with Ghazali & Yusfaningrum (2005) to find out that participatory budgeting has a direct relationship with managerial performance.

The results of this study support the Brownell (1982) study which found that there is a positive and significant relationship between participation and managerial performance. The results of this analysis are also in line with the results of Indriantoro's (1993) study in Sumarno (2005) which found that a positive and significant relationship between budgetary participation and managerial performance.

Form of participation in the preparation of the budget is the involvement of managers in an organization in achieving the targets set in the budget. Given that participation, it will encourage managers to take responsibility for each of their tasks so that managers will improve their performance so they can achieve the targets set in the budget. This indicates a positive relationship between the Participation of Budgeting and Managerial Performance. So the involvement of managers in the preparation of the budget can have a positive effect with increased managerial performance. Budgetary participation has a significant role and has a strong influence on Managerial Performance.

Similarly, in the Agency's Working Unit at the PUPR Ministry, with the involvement of subordinates and bottom-level management in budgeting, this can increase the sense of responsibility in budget execution, so that the parties involved in budgeting can have a sense of responsibility for the budget that has been arranged to be used in accordance with organizational goals and generate maximum output.

4.2.2 The Influence of Participatory Budgeting on Managerial Performance through Job Relevant Information As Intervening Variable

The result of t-calculate the influence of variable of Participative Budgeting (X) to Managerial Performance (Y) variable through Job Relevant Information (Z1) is 4,057. When compared to t-table of 1.984 ($\alpha = 5\%$), then the value of t-count > t-table or $4,057 > 1.984$, so H_0 is rejected. That is, the test results prove that Participatory Budgeting (X) has a significant effect on Managerial Performance (Y) variable through Job Relevant Information (Z1). It can be concluded that participation in the budgeting process involving subordinate participation can improve the flow of information between subordinates and superiors leading to improved observation and decision making. Subordinate involvement in budgeting will greatly enable them to provide information that is known. In this case, subordinates may reveal some personal information that can be included in decision making in budgeting. The existence of private information that disclosed employees in the preparation of the budget to give positive feedback in an effort to improve performance.

The results of this study show that the increase in JRI due to participative budgeting that impact on the improvement of managerial performance can be explained from the score of respondents related JRI. Respondents' answers showed the JRI at the Working Unit of the Environment Agency at the Ministry of PUPR run well. Employees generally understand the duties of the positions held, the distribution of information that occurs because of participation / involvement in the preparation of the budget facilitate them in making decisions and collect information related to their duties and responsibilities.

The results of this study support the Shields & Shields (1998) statement which assumes that subordinate participation in the budget process will give them the opportunity to collect, exchange and distribute relevant job information (infomation) for decision making that will result in improved managerial performance.

Consistent with the statement of Kren (1992) who argued that JRI is an information that can assist superiors in choosing the best course of action against the organization they lead through the effort of filtering the information submitted to him. Similarly, Baiman's (1982) study; Yusfaningrum and Ghozali (2005) who revealed that jri can also assist subordinates / implementers of the budget in increasing their choice of action through successful business information well. This will provide a good understanding for subordinates to be able to use alternative decisions and actions that need to be done in achieving the goals set.

In line with research conducted by Wicaksono (2006), which examines the role of Job Relevant Information (JRI) as intervening variable on the influence of budgetary participation on performance and job satisfaction. The results showed that there is a positive and significant relationship between the participation of budgeting on performance and job satisfaction. This study also proves that the influence of budgetary participation on performance and job

satisfaction with job relevant information (jri) as intervening variable with positive and significant result.

The results of this study support the research Marsudi (2001) who successfully proved that JRI is an intervening variable between participative budgeting and managerial performance. It identifies that managers use participation as an efficient tool for obtaining information related to their tasks. This study also supports the results of research by Vincent K. Chong and Kar Ming Chong (2002) who found evidence that JRI and managerial performance were positive and significant (path coefficient = 0.26, $p < 0.05$). Vebyana (2003) also mentioned that JRI can be regarded as intervening variable between budgetary participation with managerial performance. Furthermore, Ghozali (2001) also indicates that managers use participation as an efficient tool to obtain information.

4.2.3 Effect of Participatory Budgeting on Managerial Performance Through Commitment Budgetary Objectives As Intervening Variables.

From result of nalisis t-count influence of variable of Participative Budgeting (X) to variable of Managerial Performance (Y) through Commitment of Budgetary Objective (Z2) 4,160. When compared with t-table of 1.984 ($\alpha = 5\%$), then the value of t-count > t-table or $4.160 > 1.985$, so H_0 is rejected. That is, Participatory Budgeting (X) has a significant effect on Managerial Performance (Y) variable through Budgetary Objective Commitment (Z2).

The results of this study indicate that the increase in Budgetary Commitment Objectives due to participative budgeting that impact on improving managerial performance can be explained from the score of respondents related JRI. Respondents' answers indicate the commitment of budget objectives to the Agency Environment in the Ministry of PUPR is well worth it this means that the manager has a high commitment to the budget objectives so that they will be positive and try to do their best to achieve the budget objectives which in turn will have an impact on improving managerial performance .

It can be concluded that participation in the budgeting process involving subordinate participation may influence subsequent actions, ie they will be more striving to achieve the established budget objectives of cultivating a strong desire, determination accompanied by perseverance in striving to achieve budget objectives. This relates to the opinion of Sields and Sields (1998) which suggests that participation actions can increase subordinate trust, control and self-involvement with the organization, so that subordinates are eager to accept and have a commitment to a co-organized budget.

If individual is committed to a goal, then it will affect the action taken next, ie the individual will be more trying to achieve the budget objectives that have been set. Thus the level of individual performance is related to the level of achievement of budget objectives (Murray, 2009).

In line with the research of Vincent K. Chong and Kar Ming Chong (2002) and Taufikurrahman (2004) found evidence that there is a positive and significant relationship between participatory budgeting and budget objective commitments or it can be said that the higher the participation of managers in the budgeting process will be high commitment to budget goals that will ultimately affect managerial performance. This has been proven by Kriztin (2002), Eko Sugiyanto and Lilik Subagiyo (2005) who presented the results of his research that the participation of budget preparation has an effect on managerial performance through commitment of budget objectives.

5. Conclusions and Suggestions

5.1 Conclusions

When echelon III and IV officials have high participation in the budgeting process, their performance as individuals in the Working Unit of the Agency Environment in the PUPR Ministry in managerial activities will increase. The involvement of these managers in budgeting provides them with the opportunity to collect, exchange and distribute relevant job information (infomation) for decision making and foster a high level of commitment to achieving budget objectives, resulting in increased managerial performance. Therefore, it can be concluded that Participatory Budgeting has an effect on Managerial Performance on the Work Unit of the Agency Environment in the PUPR Ministry either directly or through Job Relevant Information (JRI) and budget objective commitments as intervening variables.

Judging from the analysis of the extent of the contribution of indirect influence of participative budgeting on managerial performance through Job Relevant Information Intervention variable amounted to 28.83% and through the Budget Objective Commitment variable of 45.70% while the direct influence was only 5.02%.

5.2 Contribution of this research

This research contributes to the leadership by providing literature and information that can be a reference in an effort to improve managerial performance through increasing participation in the budgeting that has provided evidence to generate job relevant information and foster commitment of each manager to the budget objectives that ultimately will improve managerial performance on the Working Unit of the Agency's environment in the PUPR Ministry.

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1st Asian Applied Accounting and Business Conference

**THE EFFECTS OF FOLLOW-UP OF INVESTIGATION RESULT, COMPETENCE OF HUMAN RESOURCES AND USE OF INFORMATION TECHNOLOGY TOWARDS THE QUALITY OF STATE PROPERTY REPORT
(Survey on the Directorate General of Water Resources, Ministry of Public Works and Housing)**

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ABSTRACT

Research on the quality of report of state property has not been much elaborated, as report of state property is important. Things behind this experiment is that in the monitoring the results of the follow-up held by State Audit Agency, the findings are inappropriate or incomplete and weakness of the Internal Control System, namely the recording and management of fixed assets have not been conducted orderly, human resources has not been optimally doing the recording and managing the fixed assets, and the perception of *user* in taking advantage of / using information technology is not optimal. The above phenomenon affects the quality of reports of state property.

This study aims to examine the examination result follow-up on the quality of reports of state property, the competence of the human resources toward the quality of state property report and the use of information technology on the quality of state property report on the Directorate General of Water Resources Ministry of Public Works and Housing.

The method used in this study is analytic descriptive method by using a *survey* approach. The target population of this study is 147 Work Units in the Directorate General of Water Resources with the Head of Work Unit and the State Property Officer as respondents. Census technique is used in samples taking. The method of data analysis uses *Covariance-Based Structural Equation Model (CB-SEM) tools LISREL version 8.70*.

The results showed that partially the follow-up of examination results do not affect the quality of state property reports, the competence of human resources affects the quality of state property reports, and use of information technology affects the quality of state property reports.

Keywords: Follow-up Audit, Competence, the Use of Information Technology, Report Quality

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1. INTRODUCTION

The development on the public sector is required to carry out accountability and transparency to the public. This means that the Government has to arrange and present accountability report in the form of financial statement of Central government (Law No. 17 of 2003).

In this case the Ministry of Public Work and Housing arranges and conveys accountability report and accepts opinion from State Audit Agency in every year. Opinion on Ministry of Public Work and Housing from 2011 to 2015 had increased. In 2011 assessed as WDP, in 2012 increased to WTP-DPP, and in 2013 the Ministry of Public Work and Housing was succeeded to get WTP opinion. Although it had been assessed as WTP, but this is inseparable from the problems related to the findings of state property. Then in 2014 assessed WTP-DPP, and in 2015 it fell down again to WDP opinion.

Best opinion issued by the State Audit Agency of Central Government Financial statement audit was the Proper Without Exception (WTP) opinion. In the Inspection Standards of State Financial (SPKN), WTP opinion will be given to LKPP which have presented and stated financial statement properly, in all material aspects. Representation of the properness described in the form of opinion by considering the criteria of the financial statements suitability with the Government's Accounting Standards, the presentation sufficiency, obedience to laws and regulations, and the effectiveness of internal controls (State Audit Agency 2009).

Based on the State Audit Agency Audit Reports on Financial Statements of the MoPWH, one of the repeat findings on Directorate General of Water Resources in years of 2011-2015 in the weakness of the Internal Control System is the recording and management of fixed assets that have not been conducted orderly and in the monitoring of the results of the follow-up State Audit Agency the findings were not appropriate or complete yet. Additionally, Directorate General of Water Resources has not been doing the complete management and administration to the assets that belong to or are in its management. State Audit Agency founded some problems that become an exception to the properness in Central Government Financial statement and it happened repeatedly. "The problem is a combination of inappropriateness with the government accounting standards, weakness in internal control system, and in disobedience to the legislation," said Chairman of the State Audit Agency Harry Azhar Aziz

Winanti (2014) and Setyaningrum (2015) found that the follow-up of the examination results gives positive effect on audit opinion. Fera (2016) and Memen (2016) showed that follow-up on audit findings gives positive effect on the quality of financial statement. Their studies are different with Agustini (2014) and Nurdiono et.al.(2015) which founded that the follow-up of the examination results does not affect the opinion. Darmawati (2017) showed that follow-up of the recommendation on examination results gives significant negative effect on State Audit Agency's opinion

Issues that relate to human resources, namely personnel of SIMAK BMN / fixed assets have not been doing the recording and management of fixed assets optimally, State Property officer has not been carefull enough when inputting data into the SIMAK BMN application and the SIMAK BMN Officer gives less attention to the rules in doing his job.

Human resources are very various, meanwhile standardization of the implementation of management and administration of State Property needs reliable human resources, in addition it has to understand the concept and philosophy of State Property, both when inventorying security, or inputting data into the software system of State Property (www.pu.go.id).

Darno (2012) and Haryanto (2013) concluded that the ability of human resources gives positive effect on the quality of assets reporting. Nuryanto and Afiah (2013), Winidyaningrum and Rahmawati (2010), Nurillah (2014) and Rizal (2015) whom concluded that the competence of human resources gives significant and positive effect on the quality of financial statementing. Their study is different from Zuliarti (2012), Indriasari and Nahartyo (2008), Rosalin (2011) and Arfianti (2011) which shows that human resources competencies does not give significant positive effect on the quality of local government financial statementing.

The use of information technology in Directorate General of Water Resources there are some problems that have been recorded in State Audit Agency, namely the application systems of depreciation and its implementation has not been appropriate with the rules of valid accounting standards, presentation and exposé of accumulated depreciation of fixed assets on the balance sheet has not been adequate, there has not been any depreciation undergo to the fixed assets value.

The *Technology Acceptance Model (TAM)* is one of the behavioral models in using information technology. TAM was stated by Davis (1989) who developed the framework about the interests on using information technology. TAM is widely used to predict the level of user acceptance and the use which based on the perception of the usefulness of information technology by considering the easiness in using information technology.

Darno (2012) and Haryanto (2013) indicate that the use of information technology gives positive effect on the quality of goods / assets reports. Nuryanto and Afiah (2013), Zuliarti (2012), Indriasari and Nahartyo (2008), Rosalin (2011), Winidyaningrum and Rahmawati (2010), and Nurillah (2014) concluded that the use of information technology affects the quality of financial statement. Their study was different from Arfianti (2011) and Pramudiarta (2015) which concluded that the use of information technology does not give positive and significant effect on the quality of financial statement.

The aim of this study is to examine the effect of the follow-up of examination results to the quality of the reports on state property, to test out the effect of human resources competencies to the quality of

reports on state property and to examine the effect of the use of information technology to the quality of the reports on state property on the work unit of Directorate General of Water Resources.

The systematic used in this paper / article is as follows: Part I Introduction discusses the background, the purpose of the article / paper and writing systematic in this article / paper. Part II Literature Review and Hypothesis Development discuss the definition of agency theory, the follow-up of examination result, the competence of human resources, the use of information technology and the quality of State Property reports, formulate hypotheses based on the literature review and research results which is relevant or having relation. Part III Research Methods that is the discussion of research methods, sources of data, analysis and population unit used in this article / paper. Part IV Results and Discussion, which discusses the results and discussion of hypothesis testing. Part V Conclusion and Suggestions. This part discusses the conclusions of the explanation described in Part II to IV.

1. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 LITERATURE REVIEW

2.1.1 Agency Theory

Agency problem may occur both in the private or public sector organizations (Zimmerman, 1977). In the context of government, people act as principal who delegate their authority to the agent of either legislative or executive in managing public affairs. According to the agency theory, the government has direct access about any information than the people so it results asymmetric of information. Sometimes this can lead to corruption by the agents. Therefore, government needs to improve accountability and transparency in order to reduce information asymmetric (Setiawan. 2012: Agusti 2014).

Evan and Patton (1987) says that the government attempts to give good signal to the people, which is intended to make the people support the current government so that the government can work in a good way, the government will give a signal to the people by giving qualified financial statement, improvements in internal control systems and complete presentation (Arifin and Fitriarsi, 2014).

2.1.2 Follow-up of Audit Result

Mardiasmo (2009) revealed that the follow up phase will involve auditors, *auditee* and other competent parties. The follow-up phase is designed to ensure / giving opinion whether the proposed auditor's recommendation has been implemented. The recommendations given by the auditors need to be followed up by the authoritative parties to make the performance improvement can be immediately implemented. Things that need to be considered in the follow-up phase are the Basic Implementation of Follow-Up, the Review of *Follow-Up*, Limit of *Follow-Up*, Recommendation Implementation, Periodic Re-checking.

Information of State Property gives significant contribution in the financial statements (balance sheet) that relates to the items of fixed assets and other assets. In the balance sheet, there is the value of assets owned; the value must hold responsibility to make valid and reliable financial statements.

Each financial or Ministry of State Property reports are examined by the State Audit Agency, and for years there has been prevalent findings on the state property at many working units. One indicator of the quality of financial statement is the unqualified opinion on the financial statements examined by the State Audit Agency in the form of opinions.

Mahmudi (2007) that the unqualified opinion is the highest opinion viewed from the quality of presented report. This means that the financial statement has presented properly to all reported events, that there are reasonably no mistakes in reporting the material and there is no deviation from the standard accounting or accounting principles. Based on the above explanation, we suggest the following hypothesis:

H1: follow-up of the investigation result gives positive effect on the quality of state property report.

2.1.3 Competence of Human Resources

In working its duty and function, assets manager refers to the quality standards of accounting graduates which is set by IFAC (*International Federation of Accountants*), namely IES (*International Education Standards 2012*). Competence is defined as the ability to do the job according to the set standards referring to the working environment, to reveal competencies that can be seen from some types of characteristics that create a competence that is IES 2, *Contents of Professional Accounting Education Programs*, IES 3, *Professional Skills Contents*, IES 4, *Professional Values, Ethics and Attitudes*

The report of state property is a form of government's responsibility to the public that is why to arrange a qualified report of state property, human resources are required, for human resources work as a source of power to process the report, so that they have to know and understand the field of asset. In line with that consideration, Darno (2012) said that application and implementation of the commodity accounting system run can effectively and efficiently when all employees who handle the commodity accounting system know and understand about the accounting system.

Based on the above explanation, we suggest the following hypothesis:

H2: human resource competencies give positive effect on the quality of state property report.

2.1.4 The Use of Information Technology

The use of information technology can be defined as a degree to which a person believes that the use of a particular system would be able to increase the person's job performance (Davis, 1989). There are

five (5) variables of the TAM model research that consist of perceptions about the ease of use, the benefits of the use, attitudes of the use, trend of the use and the real conditions of use.

In general, the use of technology can be used to count the data, processing, storing, acquiring, displaying, and transmitting in various forms and methods used to produce the benefits that can be useful for the user. The information obtained is expected to help concerned parties in identifying a problem, solve and evaluate the problem, so that the information obtained should be qualified information. The qualified information itself must be accurate, well-timed and relevant. Accurate means that it does not have any mistake, not biased because biased information can mislead recipients or users of the information. Appropriate use of information technology can support the realization of qualified State Audit Agency's report. Computer as one of the components of information technology is a tool that can magnify human's ability and also do something that humans may not be able to do so. (Wilkinson *et al*, 2000). Based on the explanation above, we suggest the following hypothesis:

H3: the use of information technology gives positive effect on the quality of state property report

2.1.5 The Quality of State Property Report

Government Regulation No. 71 Year 2010 describes that the qualitative characteristics of financial statements is a normative measurements that need to be realized in the accounting information so that it can fulfill its purpose. The four following characteristics are normative requirements needed to make the government's financial statement meet the most wanted quality namely relevant, reliable, accountable, comparable and understandable.

2. RESEARCH METHOD

3.1 Research Method, Sources of Data, Analysis Unit and Population

Descriptive analytic method was used to performe the research via *survey approach*. The data analysis method used *Covariance Based SEM tools LISREL* version 8.70. The data sources used in this research were primary and secondary data. Analysis unit is the working unit under the Directorate General of Water Resources with the population chosen using census techniques. The populations are 147 work units, the Head of work units and officers of State Property as respondents.

3. RESULT AND DISCUSSION

4.1 Research Result

Structural model is appropriate to describe how fit the indicators could be used as a measurement instrument on latent variables.

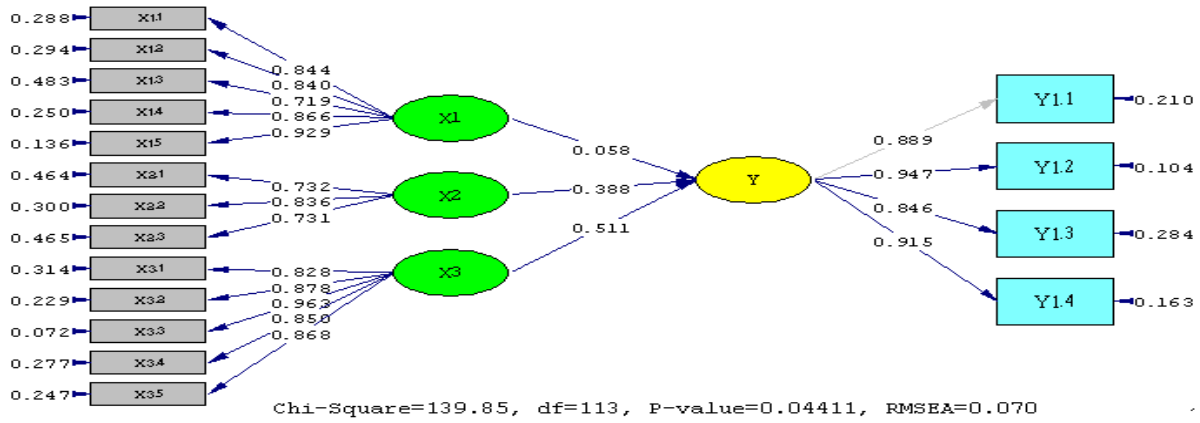


Figure 1
Structural Model (*Standardize*)

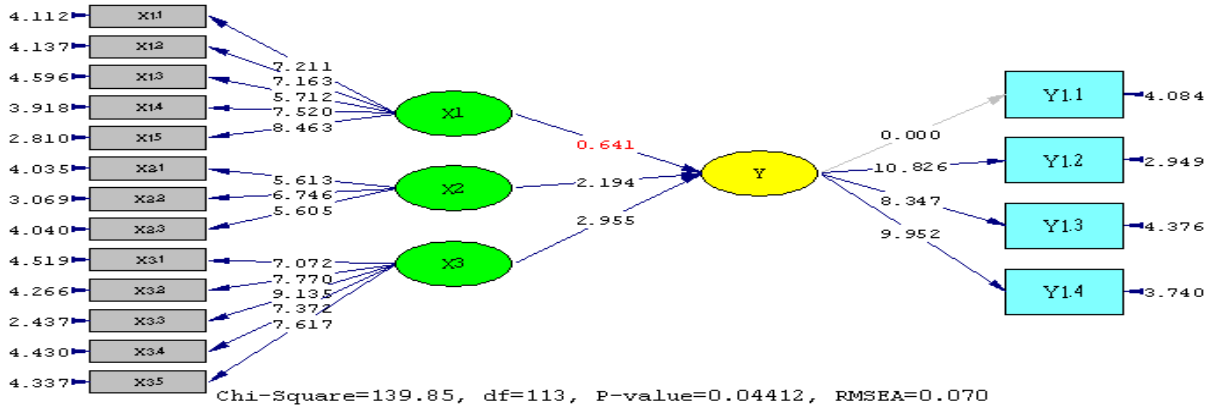


Figure 2
Structural Model (*t-value*)

Based on the above table, we can see that the entire value of weight coefficient are heading to positive relationship and it shows that the t-count value for all indicators is bigger (± 1.96) by using 5% of error rate. This shows that all indicators are significant in reflecting the latent variables.

4.2 Hypothesis Testing and Discussion

T-count value 0,641 is lower than the prescribed critical limit, that is 1.96, so that H_0 is acceptable. That means that there is no influence of the follow-up of the examination results to the quality of state property report. In accordance to the phenomenon in Part I that there are still some unfinished / inappropriate investigation reports from the year 2011 to 2015, this means that the leaders and officers have not completely responded. State Audit Agency's initiative in order to improve the management and responsibility on State Property was still not fully responded by the central and local governments. (State Audit Agency 2009)

There are still some obstacles that have to be faced by the leaders and officials in completing the follow-up of inspection results if there is evidence of assets in last year's findings are hard to be found or even did not found either the documentary or commodity. While the responsibility of the last year's asset is also recorded and presented in the report of State Property so the position of the assets should be obvious. Although the asset is in good condition, but we should not forget about condition of the other fixed assets whether it is damaged, lost and being processed. Although the amount of fixed assets (State Property) which is damaged lost and in being processed is much smaller but it has a price value in which when we convert the value into rupiahs, it has remarkable value price. Fixed assets are goods which are used more than one year, for that reason, the data on the management or the official who manage the asset / goods have to be completely noted including the value information. (Habibi, 2011)

The next problem is the deadline of follow-up when there are many findings of assets that must be processed, the chairman and the officer took a long time to complete their job and in the completion of the follow-up, it often inappropriate with the given time.

After the State Audit Agency completes the examination, it then gives recommendations to be followed up by the relevant parties in local governments, to revise the State Property report in the next year. The finding variable is measured by the scale of *action plan* processed by the local government to revise the State Property reports, but the follow-up efforts have not been done optimally, there are still some recommendations that have not been followed-up, the follow-up has not been appropriate to the given recommendations and delay in the follow-up completion is not on time (Nurdiono, 2015). Response from the inspected officials or in charged official to State Audit Agency, in terms of follow-up is still not satisfying. From the explanation, we concluded that there is still non optimal support / involvement from

all aspects in the process of the report of investigation result as a form of accountability. (Sicily et al, 2017)

2.194 t-test values are greater than the prescribed critical limit is 1.96, so that H_0 is rejected, which means that there is influence of human resources competencies to the quality of state property reports.

From the grouping of data respondents based to the education department in terms of human resource competencies, in the work unit of Directorate General of Water Resources, most officers have a non-accounting educational background. To produce qualified reports of State Property, the person who arrange, present and compile the reports of State Property should be those who have background and competence in the field of economics, especially accounting. In addition, human resources should know, understand and be able to explain the contents of the State Property Report (State Audit Agency, 2015)

The t-count value of 2.955 is bigger than the set critical limit that is 1.96, so that H_0 is rejected, which means that there are effects of the use of information technology on the quality of the State Property report.

In the implementation, there are still some obstacles, from the point of easiness in the use, where not all employees can operate SIMAK BMN, means that besides it is necessary to give the knowledge in the classification of State Property, continuous learning is also required to be able to operate SIMAK BMN. Officers also have to understand the features in SIMAK BMN, its usage and function, but in reality the officers are oftenly still do not understand the features in SIMAK BMN and this must be supported by guidebooks / module with a language that is understandable by the user. In addition, the officer requires long time duration in using SIMAK BMN, as many stages in SIMAK BMN to process and in case of errors in input; revising process is also throughout the long stages. From that explanation, the problems will impact to the time accuracy in the managing and arranging the State Property reports.

This was confirmed by Davis (1989) which states that TAM model can explain that the user perception to the system will affect the user's attitude. TAM shows the perception of easiness in use and the usefulness is reliance to the new technology which affects user's attitude towards the use of technology. Essentially TAM has been tested as a standard in the goals user's attitude in using technology.

CONCLUSIONS, RECOMMENDATIONS AND LIMITATIONS OF THE RESEARCH

5.1 Conclusions and Recommendations

Based on the aforementioned research and hypothesis testing, the results are as follows: Partially, the follow-up of examination result is not influenced by the quality of state property report. The competence of human resources influences the quality of state property report and the use of information technology effects quality of state property report.

Based on the discussion and the above conclusions, we suggest the Directorate General of Water Resources and Ministry of Public Works and Housing that it is necessary to form an implementation team to follow up the occurring weaknesses, so that the report of investigation result can be completed and appropriate. There is a need of coordination, communication and good collaboration between the leaders, officers and auditor both internal and external. A training, socialization and technical guidance are important for the officers in operating SIMAK BMN applications. Kind of appreciation from the examiner and agency is needed by the State Property officers besides attention, support and facilities from the leaders to support the performance State Property officers. Increasing number of officers with competence in accounting is expected. A rotation of officers working position is also needed to avoid the officers being bored in working and to have experience in all fields and other officers can also learn about State Property management

For further studies, we suggest to use also *interview* method or direct interview besides the questionnaires, in order to obtain more accurate data. With the same study, for further research we also suggest to increase the population, indicators, dimensions and methods of analysis that are different from previous studies in order to get the comparison of the analysis results, new can be added / replaced one of them with others that will extend perspective and knowledge of the researchers and readers.

5.2 Limitations of the Research

Several limitations in the research that may affect the results are the response rate does not make the 100% due to the distribution of questionnaires which is given when the respondent was at work and at that time they were facing the consolidation of 1st semester's financial statement. This research using questionnaires method without equipped with an oral interview so that researchers cannot direct their answer. On the statement part of the questionnaire, which consists of the follow-up variable of the inspection results and the quality of state property report, there was only one respondent who answer, he is the Head of work units. Meanwhile on the variable of human resources competence and the use of information technology that was only one respondent of each work units of State Property who fills the questionnaire. The use of information technology does not have the variability because in each work unit the Directorate General of Water Resources uses the same system and benefits.

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1st Asian Applied Accounting and Business Conference

**INFLUENCE OF THE ORGANIZATIONAL CULTURE, IMPLEMENTATION OF
INTERNAL CONTROLS TO THE APPLICATION OF ACCRUAL-BASED
STATEMENT OF GOVERNMENT ACCOUNTING STANDARDS (PSAP) 07 AS
WELL AS ITS IMPACT ON THE QUALITY OF ACCOUNTING INFORMATION
ON FIXED ASSETS
(Survey on Regional Device Work Unit of Bandung City Government)**

Mita Dewi Novianti, Winwin Yadiati, Sri Mulyani

This research aims to find out how big the influence of the organizational culture, Implementation of internal controls to the application of accrual-based Statement of Government Accounting Standards (PSAP) 07 as well as its impact on the quality of accounting information on fixed assets in Bandung City Government.

The method used was an analytical descriptive method using a survey approach. Target population studied was the Regional Device Work Unit within Bandung City Government. The sample technique used was Purposive sampling, with 33 samples of SKPD and respondents were the Users of Goods, Goods Officials and Finance Administration Officers. Hypothesis model was tested using the Path Analysis tools SPSS 24.

Based on the result of the research, it can be concluded that : (a) Organizational Culture had positive and significant effect on the application of accrual-based PSAP 07, B) Implementation of internal controls positively and significantly influenced the application of accrual-based PSAP 07(c) Application of accrual-based PSAP 07 had a positive and significant impact on the Quality of Accounting Information of fixed assets.

PRELIMINARY

Good governance accounting governance can improve the quality of information generated for decision making and the formulation of better government plans. Quality accounting information in financial statements is useful for helping information users in making useful decisions (Gellinas, 2012: 19). One of Accounting information that has a large role is accounting information about fixed assets. According Setiadi (2008) If fixed assets are not managed properly may affect the opinion, because fixed assets is a component of significant financial statements. The treatment of fixed assets is based on Financial Accounting Standards (PSAK No. 16) and Government Accounting Standards

(PSAP No. 07). Problems often encountered in accounting for property, plant and equipment are at the time of asset recognition, accounting treatment for revaluation and impairment of fixed assets (depreciation).

Bandung City is one of the City that did not increased the opinion of financial statement in West Java. Since the last 5 years, the city of Bandung always get a qualified opinion. In the Audited Results Report on the Financial Statements of 2015, the basis of WDP opinion is due to the value of fixed assets: (a) is presented not based on the acquisition value or its fair value; (b) not known to exist; (c) not supported with details; and (d) the presence of unrecorded land of public infrastructure and facilities. The Government of Bandung has a policy of recording, presenting and disclosure of Fixed Assets, but has not been implemented adequately. In relation to the Implementation of Accrual Based Accounting Standards, the Bandung City Government did not restated the 2014 Financial Statements based on Cash towards Accrual into Accrual-based 2014 Financial Statements. Accounting Policies Bandung had set the method of depreciation but Based on the results of audit known that there is accumulated depreciation that can not be believed its reasonableness.

Implementation of accrual-based accounting creates a variety of reactions both positive (accept) and negative (reject). Theory of Policy Implementation Edward III (1980) states that one important factor in policy implementation is disposition. Disposition is the attitude of the implementor in the form of acceptance or refusal to implement the policy. One way that can be implemented in policy implementation is to strengthen the organizational culture. There is almost no doubt that a culture strongly influences the attitude of members of the organization (Robbins, 2015). Government organizations in Indonesia are considered to have a hierarchical type of culture because they emphasize compliance with rules, alignment and attention to technical matters. Government through Government Regulation no. 8 Year 2006 concerning Financial and Performance Reporting Government agencies require every reporting and accounting entity to administer Internal Control System One of the goals to be achieved with the implementation of Government Internal Control System (SPIP) is to provide reasonable assurance regarding the reliability of the presentation of government financial statements.

Broadly speaking the formulation of the problem in this study how big the influence of organizational culture and the implementation of internal controls in the application of PSAP 07 (accrual basis accounting) and how much the application of PSAP 07 Accrual Based have an effect on the quality of fixed asset information produced by SKPD Bandung

LITERATURE REVIEW

Organizational culture

Organizational culture is a pattern of beliefs and values within the organization that are understood, imbued and practiced by members of the organization so that the pattern gives meaning to the organization concerned and the basis of rules of behavior (Sobirin, 2007). According to Cameron and Quinn (2006), there is a model of measuring and diagnosing organizational culture based on the Competing Values Framework. This model divides organizational culture into four cultural types:

1. The Hierarchy Culture.

Clear lines of decision-making authority, standard rules and procedures, controls and accountability mechanisms are valued and rewarded as the key to success.

2. The Market Culture

The core value that dominates this type of market organization is competition and productivity achieved through a strong emphasis on external positions and controls. Success is defined in terms of market share and penetration.

3. The Clan Culture

The shared values and objectives, unity, personality, participation, and shared sense of togetherness are the types of organizations with Clan culture.

4. Adhocracy Culture

The main purpose of adhocracy is to nurture or foster the ability to adapt, flexibility and creativity.

None of the organizations that absolutely embrace a culture, but its reality is characterized by a dominant culture (Chatab, 2009: 31). Based on the four types of organizational culture according to Cameron above, the Government Institutions Organization fall into the category of The Hierarchy Culture, because in government agencies there are clear organizational structures, standardized procedures, clear lines of freedom, and openness/accountability to the public government agencies then government agencies belong to the type of hierarchical organizational culture.

Implementation of Internal Control

Control over the implementation of government activities shall be carried out in accordance with SPIP as regulated in Government Regulation no. 60 of 2008 on Government Internal Control System. The Internal Control System is an integral process of actions and activities carried out continuously by the management and all employees to

provide reasonable assurance on the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets and compliance with laws and regulations. Internal Control consists of 5 Components including Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring.

Accrual-based Accounting

According to Government Regulation No. 71 of 2010 Statement of Accounting Standards (PSAP) 01 paragraph 8 accrual basis is the accounting basis which recognizes the effect of transactions and other events at the time of the transaction and the event occurs regardless of when cash or cash equivalents are received or paid.

PSAP 07 (Accounting for Fixed Assets) Accrual Based

Accounting for property, plant and equipment is regulated in Statement of Financial Accounting Standards (PSAP) Number 7 (PSAP 07), from Annex I of PP 71 of 2010. PSAP 07 provides guidance for the government in recognizing, classifying, measuring, and disclosing fixed assets based on events occurs, such as the acquisition of premises and equipment, maintenance of fixed assets, exchanges of fixed assets, acquisition of assets from grants / donations, and depreciation. The opinion of the Supreme Audit Agency (BPK) still highlights the management of Fixed Assets and its problems, even becoming the basis for qualifying financial statements. If the scope of the examination to the application of depreciation of assets, will likely have a negative impact on the change of opinion on the financial statements presented by the government (Kahar, 2012).

Quality of Accounting Information of Fixed Assets

According to Azhar Susanto (2013: 13) seen from the quality of the general accounting information has four dimensions of information quality, namely: (1) Accurate, can be interpreted that the accounting information really reflects the existing situation and conditions; (2) Relevant, it can be interpreted that the accounting information generated really as needed, the information presented must support a business process and information must be used by the parties who need it; (3) On time, it can be interpreted that accounting information is available at the time the information is required. information is the basis for decision making; (4) Complete, can be interpreted that the resulting accounting information has been as complete as desired and needed.

Organizational culture embodied in the system of local government organizations can serve as guidelines for its apparatus to run each program. Basically, the local government is hierarchical, meaning that any decisions to be determined by the Regional Government will come from the central decree. Where the policy binds the entire apparatus

of the region in behaving and acting within the organization. The existence of new government regulations that have been issued and legalized, then automatically the actions of individuals in government should refer to the new government regulations.

Sugiarto and Alfian (2014) and Winatri (2012) studied show a positive influence between organizational culture and accrual basis accounting implementation. Ouda (2004) states that in addition to the strategy undertaken by the government, the involvement and acceptance of the implementor is an important factor in changing the accounting basis. Najati (2016), Lutfi (2016), Eka (2012) stated that the stronger the organizational culture will increasingly support and improve the implementation of accrual-based accounting. This suggests that organizational culture contributes considerably in improving the effectiveness of public sector accounting applications.

As the concept put forward by Whelelen-Hunger (2012) that in asset management becomes one of the main element (internal source) in environmental scanning process, analysis of company's strength and opportunity in formulating strategy to achieve company goal. The Concept of Internal Control According to COSO, that control has one purpose, namely asset security, on the other hand for asset management also has one controlling function.

The form of the implementation of internal control over the financial statements according to Mahmudi (2011: 295) must disclose the existence and limitations of property rights on fixed assets, accounting policies for capitalization related to fixed assets, the amount of expenditure on fixed assets post in construction and the amount of commitment to the acquisition of fixed assets . If the fixed assets are recorded at the revalued amount, then according to Darise (2008: 78), the basic rules of reassessment of fixed assets, the effective date of reassessment, the name of the independent appraiser (if any), the nature of any instructions used to determine the replacement cost , and the carrying amount of each type of fixed assets. Then against unused fixed assets must be eliminated from the balance sheet. Assets released, disclosed in CaLK.

Research conducted Anindita Primastuti (2008) to get the conclusions of each element in internal control of control has a positive influence of more than 70% in the management of fixed assets. Research Luh Desi (2017), Bayu (2016) shows there is a positive influence between the internal control system with the successful implementation of SAP-Accrual Based.

One important aspect to improve the quality of state finance governance and government financial reporting is the use of SAP (Mahmudi, 2011: 271). Accounting standards according to Mardiasmo (2009: 149) are required to ensure consistency in

financial reporting. The absence of adequate accounting standards will have negative implications of low reliability and objectivity of the information presented, inconsistencies in financial reporting and difficult in auditing.

According to Lauma's (2016) study, the issues that form the basis of consideration of opinion determination include fixed asset issues, such as depreciation, reclassification, capitalization and minus value of fixed assets which are the findings by Research by Najati (2016), Bayu (2016) stated that the implementation of accrual-based accounting has implications for the quality of LKKL, Research M. Ali (2016) states that the implementation of government accounting standards positively affect the quality of financial statement information.

Based on the above explanation then the hypothesis that can be formulated is as follows:

H1: Organizational Culture affects the application of PSAP 07 Accrual Based.

The more hierarchy of organizational culture the better the application of PSAP 07 Accrual Based.

H2: Implementation of internal control affects the application of PSAP 07 Accrual Based. The Better Implementation of Internal Control is better The Implementation of PSAP 07 Accrual Based.

H3: Implementation of PSAP 07 based on accruals affects the quality of accounting information of fixed assets. The Better Implementation of PSAP Accrual Based the better Quality of Accounting Information of Fixed Assets.

RESEARCH METHODS

This research uses explanatory method of exploratory survey that is done to get factual and accurate description or description on facts, properties and relationship among variables studied (Sekaran and Bougie, 2013: 123).

The type of data in this study is quantitative data. The data source uses the primary data source. The process of distributing questionnaires is done by directly approaching the respondents. The questionnaire consists of 55 statement points, while the scale used to measure the answer of the statement is Likert scale. To test the influence of independent variable to the dependent variable through an intervening variable is done by using path analysis.

The population in this research is all SKPD in Bandung City Government Environment, amounting to 63 units of work. In this study the authors take the sample by using purposive sampling technique. Sample selection in this study with consideration of SKPD criteria Office that has fixed asset value is relatively large and has scope of activities

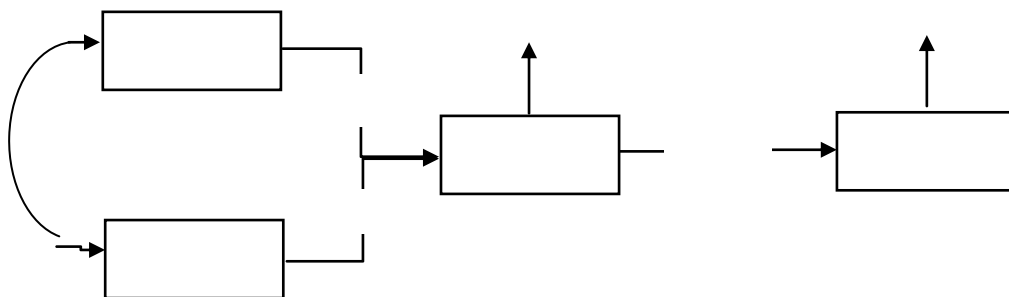
up to the district level. Samples of the study amounted to 33 SKPD. Respondents are determined based on Permendagri No. 13 of 2006 on the management of Regional Finance, namely Officials in each SKPD whose duties and authorities relate to the management of fixed assets and the preparation of financial statements namely: Users of Goods, Goods Officials and Financial Administration Officials.

RESEARCH RESULT

Test results validity and reliability above shows that all proposed statements have a validity coefficient value above 0.30 which indicates that all proposed statements have done the measuring function, in other words declared valid. From the results of reliability testing, obtained reliability coefficient values greater than 0.70 which indicates that the measuring tool used has shown reliability.

The path analysis results are as follows:

Figure 1
Line Chart



On the structural equation of the influence of Organizational Culture and Implementation of Internal Control on the Implementation of PSAP 07 Based on Accruals and Its Impact on Quality of Accounting Information of Fixed Assets are as follows:

$$Y = 0,357X_1 + 0,471X_2 + \varepsilon$$

$$Z = 0,834Y + \varepsilon$$

Hypothesis testing

The first hypothesis states the organizational culture (X2) affects the application of PSAP 07 based on accrual (Y). The result of the research shows the path coefficient 0,357, t value 2,750 with significance 0,007 which mean organizational culture have significant effect to the application of PSAP 07 based on accrual. The coefficient value of the path

marked positive indicating that an increasingly hierarchical Organizational Culture, will result a High Implementation of Accrual Based PSAP 07.

Second Hypothesis states the Implementation of Internal Control (X2) affects the Application of PSAP 07 Based on Accrual (Y). The result showed that path coefficient 0,417 with t-count value 3,221 and significance 0,002 that mean Implementation of Internal Control (X2) have significant effect to PSAP 07 Accrual Based (Y). The value of path coefficient marked positive indicating that Implementation of High Internal Control, will result will result a High Implementation of Accrual Based PSAP 07.

The third hypothesis states that the implementation of PSAP 07 Based on Accrual (Y) has significant effect to the Quality of Accounting Information of Fixed Assets (Z) The result shows that the path coefficient is 0.834 and the t-count value is 14.871 and the significance value is 0.00 which means the implementation of PSAP 07 Based on Accrual (Y) significant effect on Quality Accounting Information Asset Equipment (Z). The value of path coefficient marked positive indicating that Application of PSAP 07 Based on Accrual (Y) is high, will result a high Quality of Accounting Information of Fixed Asset (Z).

Direct and Indirect Influence

The total influence of Organizational Culture and Implementation of Internal Control is shown by coefficient of determination $R^2 = 55,5\%$, Distribution of influence of both independent variable and other factors not examined (ϵ) to Application of PSAP 07 Accrual Based can be seen in following table:

Tabel 1
Direct and Indirect Influence

Variabel	Path Coefficient	Direct	Indirect (%)		Indirect (%)	influence (%)
			X ₁	X ₂		
X ₁	0.357	12,7	-	12,7	12,7	25,4
X ₂	0.417	17,4	12,7	-	12,7	30,1
Total						55,5%

Sumber : Data Hasil Pengolahan

1) Organizational Culture (X1) affects the Application of Accrual Based PSAP 07 (Y) in SKPD in Bandung City Government by 25.4% which consists of 12.7% direct influence and 12.7% indirect influence.

2) Implementation of Internal Control (X2) has an effect on to Application of Accrual Based PSAP 07 on SKPD in Bandung Government 30.1% consisting of direct influence of 17,4% and indirect influence equal to 12,7%.

3) The magnitude of the influence of Organizational Culture (X1) and Implementation of Internal Control (X2) simultaneously to the Implementation of PSAP 07 Based on Accrual (Y) is equal to $R^2 = 0,555 = 55,5\%$. The remaining variation of $1 - R^2 = 0.445$ or 44.5% is explained by other factors not investigated.

DISCUSSION

1. THE EFFECT OF ORGANIZATION CULTURE ON IMPLEMENTATION OF PSAP 07 BASED ACRUAL

The test results showed that the organizational culture variable has a positive and statistically significant effect on the implementation of PSAP 07 Based on Accrual on SKPD Bandung City Government. Organizational Culture in this research is focused on the type of Culture Hierarchy because the existing governmental organizations in Indonesia have a cultural character that follows the bureaucratic model that depends on the formal rules and procedures as a control mechanism which means inevitably the institution must follow and implement the change, although individually there are still those who react negatively to the change in the accounting base. Another thing to be concerned about is the readiness to accept and implement change, since accrual accounting will change many things in the system and organizational procedures that have been implemented (Najati, 2016).

Based on the results of the analysis of respondents on the questionnaire, organizational culture has a score of 79.46%. This condition indicates that the organizational culture in Bandung City Government Environment has hierarchy. For dominant characteristic dimensions, organizations are already structured and there are formal procedures in the administration of assets because all organizations already have SOP (Standard Operating Procedure). Although there are still respondents stating that the new SOP is mostly complete and clear, the respondent has a reason because the SOP is made by the SOP user itself, whereas ideally SOP is composed by a team consisting of SOP Author (author), Executor in the field (employee), Field Supervisor, and Supervisor Supervisor.

Organizational Leadership Dimensions, Employee Management, Organizational Gluing and Success Criteria indicate that there is coordination, collaboration, stability of employment, focus on the work but still pay attention to work process and conformity of goals between leader and employee. For the dimension of strategy emphasis that gets the smallest percentage because 40 out of 99 respondents said the supervision done by the user of the goods to the work process of the committee is still "sometimes". Based on the results

of interviews indicate that the SKPD that is technical or have development activities (Land Acquisition, Building and Building, Road, Irrigation and Network) users of goods more concerned in conducting surveillance. Whereas in SKPD for the acquisition of its fixed assets for operational activities, the user of goods conducting supervision is only incidental. So what is expected is whatever the main tasks and functions of SKPD, the treatment of supervision of the work process of the management of goods is expected to be the same, although the fixed assets owned are only for routine SKPD operational activities.

The results of this study are in line with previous research conducted by Eka (2012), Sugiarto and Alfian (2014) and Winatri (2012), Najati (2016), showing a positive influence between organizational culture and accrual basis accounting implementation.

2. EFFECT OF IMPLEMENTATION OF INTERNAL CONTROL ON IMPLEMENTATION OF PSAP 07 BASED ACRUAL

The test results showed that the variable Implementation of Internal Control has a positive and statistically significant effect on the Implementation of PSAP 07 Based on Accrual on SKPD Bandung City Government. One of the objectives to be achieved with the implementation of Government Internal Control System (SPIP) is to provide reasonable assurance regarding the reliability of the presentation of government financial statements. An examination of the internal control system by BPK discloses the conditions among which the administration and management of fixed assets and other assets are not yet optimal

Based on the results of respondents' analysis of the questionnaire, the implementation of internal control obtained a score of 78.60%. Based on interviews with some respondents that the current conditions have been much better than the conditions of previous years, now has seen an attempt to decipher the "tangled threads" in the administration of assets. One of them with the updating data collections of assets carried out in two stages. The first stage is the updating data collections of land, building and road assets. The second stage is the updating data collections of equipment and machinery equipment, One of the results of the updating data collections is the updating of fixed asset data by adding the identity of the goods that have not been complete the information and the updating of the status of existence and condition of goods at KIB which collected in one Information Management Information system that is MANTAP (Mobile Asset Managemet Application). With this data collection of fixed asset, the application of PSAP 07 based on accrual in subsequent years will be more optimal.

Item Statement of Internal Control Implementation which get low score percentage among others procurement of training to increase capacity of regional apparatus in

management and administration of asset. Education and Training is one way to increase the capacity and capability of the apparatus especially with the enactment of Accrual Accounting Standards. Based on interviews with respondents, there is not much opportunity to get education and training because it focuses more on improving the recording and management of assets in the past. The data collection process undertaken by the Government of Bandung since 2015 is quite time-consuming and the attention of administrators and managers of goods.

The results of this study are in line with previous research conducted by Luh Desi (2017), Bayu (2016) shows there is a positive influence between the internal control system with the successful implementation of SAP-Accrual Based. significant and positive to the application of government accounting standards.

3. THE EFFECT OF APPLICATION OF PSAP 07 BASED ON ACRUAL TO QUALITY INFORMATION ACCOUNTING ASSETS EQUIPMENT

The test results showed that the implementation of PSAP 07 Based on Accrual has a positive and statistically significant effect on the Quality of Accounting Information of fixed assets at SKPD Bandung City Government. Based on the results of respondents' analysis of the questionnaire, the application of PSAP 07 based on accruals obtained percentage of 70.91%. Dimensions and indicators that the percentage value is still low including:

1. Accuracy of classification (65.79%)

The dimension of classification accuracy indicates that some respondents experience about 5-10 difficulties when classifying fixed assets, then in the same range some respondents claim to make adjusting entries on the inaccuracy of classification at the time of reconciliation. The researcher obtained data from the Regional Financial and Asset Management Board that the number of re-klasifikasi fixed assets at the time of financial statements of about 27 SKPD from 63 SKPD at Bandung City Government (the sample in this study is 33 SKPD). The number 27 SKPD has not reflected the number of re-classified journals, due to SKPD related to physical development and budget for the purchase of fixed assets high reclassification journals can be more. According to one respondent the number of re-classified journals is not only due to the ability of the committee to understand the classification of fixed assets, but also influenced by the ability of fixed assets management system applications. Bandung city administration uses the application MANTAP (Mobile Asset Management Application) since 2016, for the Year 2015 and previously using the application Simda BMD (Regional Management Information System-Regional Property). Then regarding fixed assets not used for operational activities are presented in other asset

items, respondents replied that only part of property, plant and equipment which are not used for operational activities are presented in other asset item because they are still in the process of collecting data and physical, so it can not be presented in the asset item others. This information is in accordance with the results of the BPK audit, that BPK has requested the executor of asset empowerment and goods management to validate the lost or lost assets, but until the examination has not been obtained the result of validation has not been obtained, thus BPK does not make the correction of asset transfer to asset etc.

2. Accuracy of Depreciation (63.64%)

Dimensional Accuracy of Depreciation obtained responses of questionnaires respondents including 45.5% of respondents answered only part of the total fixed assets that have been done depreciation for 2 years of accrual basis accounting implementation. In the year 2015, the calculation of depreciation began with the accrual basis of accounting, but the accuracy and reliability of the value of depreciation, respondents said can not guarantee that the calculation can be assured accuracy, even the BPK recommend to recalculate the value of depreciation of property and equipment based on asset inventory still done thoroughly and thoroughly. Then look at the Audit Result Report (LHP) BPK RI on Financial Statements of Bandung Year 2015 stated that "there is a minimum of Rp. 417,294,882,171.00 unacceptable accumulated depreciation, among others are fixed assets of 1900, 2205 and 2007 "and at LHP BPK RI Year 2016, BPK RI declared" presentation of accumulated depreciation on fixed assets of Rp. 431.287.512.705,07 can not be believed its fairness ". Based on the information of the respondents, the balance of 2015 (audited) depreciation is the result of the calculation of BMD simda and depreciation expense in 2016 which is the result of MANTAP. In 2016, the depreciation expense only came from 17 SKPDs from 64 SKPD with the reasons for reporting maturity, Assets field has not completed reconciling all asset data. Respondents during the interview stated that the calculation of fixed asset depreciation is not yet believed to be true

3. Retirement and Disposal (61.41%)

Dimensions of Retirement and Disposal of respondents' responses include the assertion that assets disposed of or permanently discontinued and no future economic benefits have been eliminated from the balance sheet with a percentage of 50.9%. According to information from respondents regarding the process of eliminating asset values from the balance sheet, SKPD must submit to the Goods Manager then awaiting the determination of asset status through the Decree of the Head of Region for the retire and disposal of assets. SKPD temporarily moves only to other assets (assets in the process of removal), while for fixed assets already used by other parties / other SKPD but still recorded in the SKPD of origin

because it has not done the process of handover of goods to the SKPD of the recipient or have not done the grant process if goods are delivered to a third party. It is also visible from the examination results, BPK did not make corrections on the mutual asset because the process of handover / grant has not been done.

The results of this study are in line with previous research conducted by M. Ali (2016), Bayu (2016) states that the implementation of government accounting standards positively affect the quality of financial statement information.

CONCLUSION AND SUGGESTION

Based on the results of tests and discussions that have been described previously, it can be concluded as follows:

1. Organizational Culture had positive and significant effect on the application of accrual-based PSAP 07, with the effect of 25,4% which consist of direct influence equal to 12,7% and indirect influence equal to 12,7%
2. Implementation of internal controls positively and significantly influenced the application of accrual-based PSAP 07, with the effect of 30,1% consisting of direct influence of 17,4% and indirect influence of 12.7%
3. Application of accrual-based PSAP 07 had a positive and significant impact on the Quality of Accounting Information of fixed assets with the effect of 69.5%.

From the result of this research, researcher suggest :

1. Related to Organizational Culture, the emphasis of strategy in applying Accounting Standard of fixed asset to achieve good asset management need to be improved, supervision by user of goods to the administration of fixed asset need to be improved besides need a review for Standard Operating Procedure in the administration of fixed asset at every SKPD so that Organizational Culture in Asset Administration in SKPD can be more hierarchy.
2. Related to the Implementation of Internal Control, capacity building of the regional apparatus in the management and administration of assets is very important. Education and Training is one way to improve the capacity and capability of the apparatus. So as to obtain mutual understanding and agreement how the strategy can be done to manage and administer the assets properly so as to achieve Unqualified Opinion.
3. Related to the Implementation of PSAP 07 based on Accrual, Bandung City Government has done the right thing that is doing an data collection of fixed assets, so that in the future the assets recorded in SKPD is really the asset used and utilized by SKPD. Coordination between SKPD is needed to smooth the data collection process.

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1st Asian Applied Accounting and Business Conference

**THE IMPACT OF APARATUS COMPETENCE AND INTERNAL CONTROL ON THE FINANCIAL ACCOUNTABILITY
(Survey at Major River Basin and River Basin Unit of Works in Directorate General of Water Resources Ministry of Public Works and Housing)**

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ABSTRACT

*This research purposed to find out the effect of the apparatus competence and internal control on the financial accountability in Directorate General of Water Resources Ministry of Public Works and Housing. The method used in this research is survey method. A questionnaire were used to collect data. Target population used in this research were unit of works at major river basin and river basin in Directorate General of Water Resources. The method of analysis is path analysis. The research proved that: (1) there was positive influence of the apparatus competence on the financial accountability of Directorate General of Water Resources, (2) there was positive influence of the internal control on the financial accountability of Directorate General of Water Resources, (3) there was simultaneously positive influence of apparatus competence and internal control on the financial accountability of Directorate General of Water Resources. **Keywords : Apparatus Competence, Internal Control, Financial Accountability***

1. Introduction

One of the main duty of Government in state administration is financial management. UU No. 17/2003 states that as a manager, the Government has the

right to collect all state revenues and use the funds for state activities in order to achieve aim of the state. The consequences of these rights are the obligation to provide the best service and take responsibility for all the activities.

Accountability is the obligation of a fiduciary (agent) to give an account, presenting, reporting and reveals all the activities and event that they are responsible to mandate giver (prinsipal) who have the right and authority to hold

accountable the answer. (Mardiasmo, 2009). Financial accountability is the competence of the apparatus is still a problem that obstruct a good implementation of financial accountability.

Indra (2013) states that the competence of human resources has a positive effect on the financial accountability. Leslie, David dan Hendrik (2017) also stated that the ability of human resources has a significant effect on the financial accountability. Made, Gede dan Edi's research (2017) stated that the competence of human resources has a positive effect on financial statement. Based on the argument above, the first hypothesis proposed is as follows:

H₁ : The apparatus competence has a positive effect on the implementation of financial accountability.

The second factor that may have an influence on financial accountability is internal control. PP No.60/2008 states that internal control is an integral process that is carried out continuously in order to achieve organizational goals through effective and efficient activities, reliable reporting, security of assets and the compliance to the laws and regulation. The result of the audit by the Audit Board of The Republic of Indonesia indicate that there still a weakness in the internal control system of work unit at the Directorate General of Water Resources. Incomplete documentation, improper budget allocation and unoptimal asset control are issues that oftenly found in the internal control audit.

Cecilia (2017) states that the failure of the organization in achieving its intended purpose can occur because of a weakness in one or several stages in the process of internal control. Her research shows that internal control has a positive affect on financial accountability. Dewi (2016) states that an effective internal control will improve a good financial accountability. That result are also in line with Putu, Herawati dan Darmawan's research (2014) which shows that there is a positive

influence on internal control on financial accountability. Based on the argument above, the second hypothesis proposed is as follows:

H₂ : The implementation of internal control has a positive effect on the implementation of financial accountability.

This study also examines the influence of the apparatus competence and internal control simultaneously. The third hypothesis proposed is as follows:

H₃ : The apparatus competence and the implementation of internal control have a positive effect on the implementation of financial accountability.

The purpose of this study is to examine (1) the influence of apparatus competence on financial accountability in Directorate of General Water Resources, (2) the influence of internal control on financial accountability in Directorate of General Water, and (3) the influence of apparatus competence and internal control on financial accountability in Directorate of General Water.

2. Methodology

From the research objectives, this study included in the survey research. The unit of analysis in this study is unit of works in Directorate General of Water Resources. The respondents was the unit of work's leader. The population in this study are all the unit of works in Directorate General of Water Resources. This research using simple random sampling technique to get the data. Simple random sampling is the technique of sample selection that is done randomly, and each member of the population has an equal chance to be selected (Sekaran dan Bougie, 2013). The number of samples of this research are 112 unit of works.

Data collection using primary data and secondary data. Primary data is data or information collected by researchers through a list of questions or statements addressed to the respondent for the purpose of obtaining the fact and factual information from respondents, using questionnaires and interviews. Method data testing conducted by validity and reliability and the method of analysis using path analysis.

3. Research and Discussion

Table 1. Recapitulation of Respondents Percentage of Score About The Apparatur Competence

No	Dimensions	Actual Score	Ideal Score	% Score	Criteria
1	Acievement and Action	1875	2240	83,71	Good
2	Helping and Human Service	1971	2240	87,99	Very Good
3	Influence	1966	2240	87,77	Very Good
4	Managerial	3752	4480	83,75	Good
5	Cognitive	2877	3360	85,63	Very Good
6	Personal Effectiveness	1928	2240	86,07	Very Good
Apparatus Competence		14369	16800	85,53	Very Good

Tabel 1 shows the response of respondents about apparatus competence variable. From the table we know that in average the apparatus competence has a very good category with the total score 85,53%. The lowest percentage in this variable was achievement and action dimension. Through the interviews with some respondents it is known that the high volume of work keep the respondents unable to do check for all the employee's job, so they tends to entrust the job fully to the employee.

Table 2. Recapitulation of Respondents Percentage of Score About Internal Control

No	Dimension	Actual Score	Ideal Score	% Score	Criteria
1	Control Environment	4620	5600	82,5	Good
2	Risk Assessment	2017	2240	90,04	Very Good
3	Control Activities	3760	4480	83,93	Good
4	Information and Communication	943	1120	84,2	Very Good
5	Monitoring Activities	1968	2240	87,86	Very Good
Internal Control		13308	15680	84,87	Very Good

Table 2 shows the response of respondents about internal control variable. From the table we know that in average the internal control has a very good category with the total score 84,87%. The lowest percentage in this variable was control environment. Through the interviews with some respondents it is known that not all employees understand their authority and responsibility. This is due to the placement of some employees who are not in accordance with the background experience and education. It is also known that some respondents didn't directly delegate the authority and responsibility.

Table 3. Recapitulation of Respondents Percentage of Score About Financial Accountability

No	Dimension	Actual Score	Ideal Score	% Score	Criteria
1	Accountability of financial activities	3290	3920	83,93	Good
2	Disclosure of financial performance assessment A reliable financial	1462	1680	87,02	Very Good
3	information	2917	3360	86,82	Good
4	Objective assessment and follow up result	1979	2240	88,35	Very Good
Financial Accountability		9648	11200	86,14	Very Good

Table 3 shows the response of respondents about financial accountability variable. From the table we know that in average the financial accountability has a very good category with the total score 86,14%. The lowest percentage in this variable was the accountability of financial activities. Based on the observations on the notes on the financial statement it is known that the incomplete disclosure

often occurs on the asset. Some work units do not explain the asset's changes or the mutation.

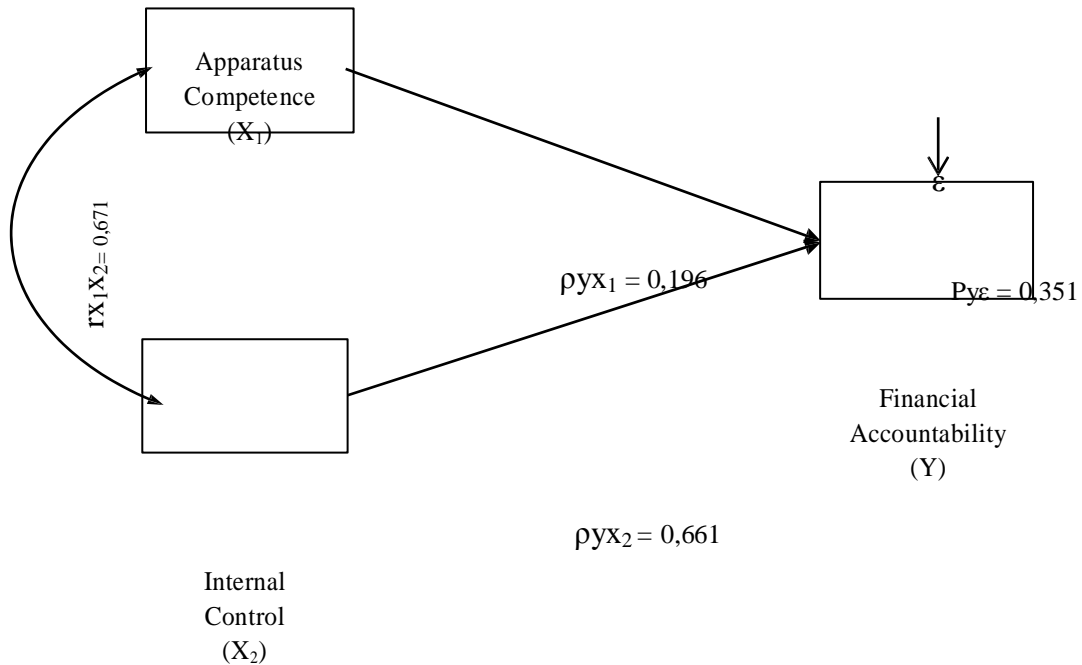
Table 4. The Path Coefficient of Each Independence Variable on Financial

Accountability			
Variable	Path Coefficient	Simultan Influence	Residue Influence
X ₁	0,196	0,649	0,351
X ₂	0,661		

Tabel 4 shows that the simultan influence of independence variable's to financial accoutability are 64,9% and the residue is 35,1%. It means that 64,9% financial accountability variable influenced by the apparatus competence and the internal control variables. While the rest 35,1% influenced by other variables which were not examined. The formula of path coefficient formula is as follows:

$$Y = 0,196X_1 + 0,661X_2 + 0,351$$

The structural model of the formula is as follows::



Picture 4.1

Path Coefficient Diagram

Table 5. Testing Results the Influence of Apparatus Competence on Financial

Accountability

Hypothesis	t _{value}	Db	t _{table}	Decision	Conclusion
$P_{YX_1} = 0$	2,567	109	1,982	H ₀ ditolak	Have a positive effect

The table shows that t_{value} score is 2,567. Since the t_{value} > t_{table} then H₀ is rejected. Thus conclude that there is positive effect on internal control to the financial accountability.

Table 6. Testing Results the Influence of Internal Control on Financial

Accountability

Hypothesis	t_{value}	Db	t_{table}	Decision	Conclusion
$P_{yX_2} = 0$	8,634	109	1,982	H ₀ rejected	Have a positive effect

The table shows that t_{value} score is 8,634. Since the $t_{value} > t_{table}$ then H₀ is rejected. Thus conclude that there is positive effect on apparatus competence to the financial accountability.

Table 7. Testing Results the simultan Influence of Apparatus Competence and Internal Control on Financial Accountability

Hypothesis	F_{value}	db	F_{table}	Decision	Conclusion
Independence Simultan's effect variable	100,945	109	3,079	H ₀ rejected	Have a Positive effect

The table 7 shows that F_{value} score is 100,945. Since the $F_{value} > F_{table}$ then H₀ is rejected. Thus conclude that there are simultaneously significant positive effect on apparatus competence and internal control to the financial accountability.

5. Conclusion

Based on the data analysis and discussion of research in the previous chapter, it can be concluded as follows:

- 1) Apparatus competence has a positive influence on financial accountability at Directorate General of Water Resources's unit of works. Which means that the higher apparatus competence will make the financial accountability also getting better.

- 2) Internal control has a positive influence on financial accountability at Directorate General of Water Resources's unit of works. Which means that the more effective internal control will make the financial accountability also getting better.
- 3) Simultaneously, there is a positive influence of competence apparatus and internal control on financial accountability at Directorate General of Water Resources's unit of works. It means that the higher apparatus competence and the more effective internal control will make the financial accountability getting better.

Suggestion

Since the apparatus competence and the internal control has a positive influence in financial accountability, it is recommended to:

1. Improve the internal control by giving a proper authority and responsibility delegation to a competent and experienced personnel, delegating task loads in accordance with the authority and the responsibilities of the employees, delegates the task directly and monitoring the implementation of authority and responsibility that has been delegated to the employee
2. Improve the understanding of the employees's operational procedure standars, have a notes to monitor and evaluate the implementation of task performed by each employee.
3. For the next study it is recommended to enlarge the population of the research, for example by adding other ministry.

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THE IMPACT OF COMPLETION OF AUDIT FINDINGS, UTILIZATION OF ACCOUNTING INFORMATION SYSTEM AND IMPLEMENTATION OF FINANCIAL STATEMENTS REVIEW ON THE QUALITY OF FINANCIAL STATEMENTS OF DIRECTORATE GENERAL OF HIGHWAY MINISTRY OF PUBLIC WORKS AND PUBLIC HOUSING

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ABSTRACT

This study aims to analyze the completion of audit findings, utilization of accounting information systems and implementation of financial statement review on the quality of financial statements of Directorate General of Highways Ministry of Public Works and Public Housing.

The method used in this research is descriptive explanatory. The population in this study was work units within the Directorate General of Highways Ministry of Public Works and Public Housing (Ministry PUPR). Test of the hypothetical model used multiple linear regression analysis.

The findings led to the conclusion that completion of audit findings, utilization of accounting information systems and the implementation of financial statements review has positive and significant impact on quality of financial statements of Directorate General of Highway. Furthermore, each of independent variable partially has positive and significant impact on quality of financial statements Directorate General of Highways.

Keywords: follow-up of audit findings, accounting information system, financial statements review, quality of financial statements

1. Introduction

The era of reform in the implementation of government programs in all ministries/institutions (K/L), demanding the K/L to improve services in each field. To achieve the goals, each institution should be able to manage its resources, the most important one is finance.

The Enforcement Act Number 17 of 2003 on State Finances requires form and content of accountability reports of the State Budget and Expenditure (APBN) is prepared and formed by Government Accounting Standards (SAP) established by Government Regulation of the Republic of Indonesia Number 71 Year 2010. Under government regulations, K/L is preparing the Financial Statements as a form of government responsibility towards the public/society. The financial statements are also the primary mechanism in creating public accountability (Rutherford, 2000).

The government has set five priority development sectors in the 2017 APBN namely infrastructure, food and energy, education, health and social protection (Tempo, 2017). Infrastructure development sector received great attention from President Joko Widodo due to the low level of infrastructure development in Indonesia and the importance of infrastructure for a country. By looking at the realization of projects on the acceleration of infrastructure development which includes the construction of land, sea, and air in 2015-2016, the road infrastructure development projects has the most number which is 52 projects, while port projects as many as 13, airport projects as many as 17, and 19 railway projects (Center for Economic and Business Data, 2016). Road construction aims to improve connectivity. Connectivity can support economic growth and minimize inequality. Ministry PUPR has a role to support the Indonesian economy, especially in the provision of road and bridge infrastructure implemented by the Directorate General of Highways. Implementation of the road and bridge infrastructure need an environmental management and good accounting system, because both of them are supporting an accountable financial management, in order to account state finances in a transparent, efficient, effective, and accountable.

In order to guarantee the quality of the financial statements, the Financial Supervisory Agency (BPK) of the Republic of Indonesia will examine the state financial management and

responsibility to the financial statements of the Central Government including the Ministry PUPR. Audit of financial statements aims to provide an opinion on the fairness of financial information presented in the financial statements based on (a) compliance with generally accepted accounting standards; (b) the adequacy of disclosure; (c) compliance with laws and regulations; and (d) the effectiveness of the internal control system. One indicator to realize the quality of financial statements is to encourage K/L to obtain an unqualified audit opinion (WTP) annually (Djalil, 2014).

The results of BPK audit to the Ministry PUPR show quality of the financial statements annually as follows:

Table 1

Financial Statement Opinion of the Ministry PUPR Year 2012-2016

Year	2012	2013	2014	2015	2016
Opinion	WTP-DPP	WTP	WTP-DPP	WDP	WTP

Source: Audit Reports of Ministry PUPR

This fact shows that the opinion of BPK on the financial statements of the Ministry PUPR has increased/decreased from year to year, while the expected opinion is WTP every year.

At the time of examination, BPK monitors follow-up of the audit findings, especially related to the corrections submitted by BPK for the financial statements presented in accordance with government accounting standards and recommendations to correct weaknesses in internal control systems and compliance with laws and regulations. The completion of the follow-up on audit findings at the Directorate General of Highway 2012-2016 has not been 100% completed. Delays in completion of the audit findings due to the many constraints experienced in the process of follow-up on the audit findings, as such has not keel refund some money to the state treasury on the findings of an overpayment to the contractor and the delayed completion of the follow up of the audit findings as a result of their work units were liquidated, and the constraints others.

Fera dan Nelly (2016) found that follow-up of audit findings improve the quality of financial statements. More recommendations that are implemented to follow-up of audit findings, will improve quality of financial statements. Further research that strengthen the opinion of quality of financial statements is affected by completion of audit findings is Adelia et al (2015). They indicated that follow-up of audit findings has positive impact on audit opinion through level of disclosure of financial statements.

In addition to completion of audit findings, other factor affecting the quality of financial statements is the utilization of accounting information system. The process of preparation of financial statements from journal entries, general ledger to the financial statements and its delivery in stages cannot be separated from the use of accounting information system. The Government in this case the Ministry of Finance has made an application to facilitate the preparation of financial statements. The history of government financial applications started in 2005 using Accounting System Institutions (SAI) based on cash basis accounting. Beginning in 2010, the accounting base used is the cash basis to accrual with the presentation of the budget realization report using the cash basis, and the presentation of the balance sheet using the accrual basis. However, since January 2015 all K/L must use accrual basis accounting. This means there is a change in the application of the preparation of financial statements, it was using the application of Budget Authority Accounting System (SAKPA), change to Accrual Based Agency Accounting System (SAIBA).

It turns out in practice, found a variety of problems in the system, such as unbalance assets and equity, unrecorded depreciation expense but already perform internal reconciliation with the data from the application of Accounting Information Systems and Management of State Property (SIMAK-BMN), and other issues.

Research related to utilization of accounting information system had been done by Safrida et al (2010). They found that if there is an improvement of utilization of accounting information system, quality of financial statements increase 5%. The other researcher that has the same opinion is Zakaria et al (2017), their research implemented in Malaysia public sector.

Review of the financial statements is one of the government's efforts to improve the quality of financial statements. This is indicated by the issuance of Presidential Decree No. 4

of 2011 on Accelerating the Improvement of Country Financial Accountability Quality, which one instruction, Indonesia's National Government Internal Auditor (BPKP) was given the task of making assistance to ministries/agencies/local governments to increase the knowledge of state financial management for the central/local government officials, improve compliance with laws and regulations, as well as improve the quality of financial reporting and good governance. Internal supervisor that is monitoring financial management in the Ministry PUPR is the Inspector General and BPKP. But the limitations of quality and quantity of internal auditors are still a constraint in performing their duties, so that the implementation of financial statements review will not be optimal.

Anda (2010) showed that financial statement review is not improve audit opinion of BPK, it is caused by limitation of ability of internal auditor.

Based on phenomenon that has been described previously, the research was conducted with the aim to:

- 1) Analyze the effect of completion of audit findings partially on quality of financial statements of Directorate General of Highways Ministry PUPR.
- 2) Analyze the effect of utilization of accounting information system partially on quality of financial statements of Directorate General of Highways Ministry PUPR.
- 3) Analyze the effect of implementation of financial statements review partially on quality of financial statements of Directorate General of Highways Ministry PUPR.
- 4) Analyze the effect of completion of the audit findings, utilization of accounting information system and implementation of financial statements review simultaneously on quality of the financial statements of Directorate General of Highways Ministry PUPR.

2. Research Methodology

The object of this study is the quality of the financial statements as an endogenous variable, and completion of the audit findings, utilization of accounting

information system and implementation of financial statements review as an exogenous variables. The method used in this study is descriptive with explanatory.

Ta
ble
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Operationalization
Variables

Operationalization	Dimensions	Indicator
Completion of Audit Findings (X ₁)	1. Stage of follow-up planning	a. Significant observations b. Possible risks
	2. Stage of data collection	a. Ensure that recommendations are implemented b. Know the progress of follow-up
	3. Stage of report preparation	Identify the status of audit findings
Utilization of Accounting Information System (X ₂)	1. Personnel resources, equipment, and rules of law	a. The availability of capable human resources b. The feasibility of equipment used for the accounting process
	2. Tasks	a. Implementation of accurate data processing b. Controlled data c. Implementation of on time information
	3. Goals	Fulfillment of information needs for decision making in the process of planning and controlling operations
Implementation of Financial Statements Review (X ₃) PMK No.	1. Stage of planning review	a. Determination of the review object b. Selection of review procedure
	2. Stage of implementing review	a. Identify the problem
	3. Stage of reporting review	Reporting the results of review in stages
Quality of Financial Statements (Y)	1. Relevance	a. Have the benefit of information feedback b. Have a predictive benefit of information c. On time

Operationalization Variables	Dimensions	Indicator
	2. Reliability	a. Fair presentation b. Can be verified
	3. Comparability	Can be compared with previous period
	4. Understandability	a. Can be understood by external b. Use of standard guidelines

The population was all work units of Directorate General of Highway scattered throughout the provinces in Indonesia with a total 193 work units. This study employs a questionnaire-based survey for the data collection. A total of 193 were distributed and 135 were collected, resulting in a response rate of 69,95% which involved all provinces in Indonesia. Respondents in this study are the head of work units for variables of completion of audit findings (X_1), utilization of accounting information system (X_2), and quality of financial statements (Y). While the financial accounting officer for the variables of utilization of accounting information system (X_2) and implementation of financial statements review (X_3).

In this research the data is analyzed by using quantitative method, where the questionnaires that have been collected are processed in tabulation form by giving the answer weight on each statement. From the data tabulation generated outputs of number that is analyzed by SPSS (*Statistical Package for Social Science*). After the questionnaire collected to perform data analysis, it is necessary to test the validity and reliability test. Both tests are conducted to determine whether the measuring instrument used is in accordance with the measured and consistency with the data collected.

This research is conducted to produce a conclusion of the effect of independent variables to dependent variable. The analytical method used in this research is Multiple Linear Regression. Multiple regression analysis is used to test the effect of two or more independent variables with dependent variable and no correlation between independent variables. In the form of structural equations, the model of influence under study can be expressed as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \epsilon$$

Informa
tion:

Y = Quality of financial
statements

X₁ = Completion of the audit
findings

X₂ = Utilization of accounting information
system

X₃ = Implementation of financial statements review

α = Constants

β = Regression Coefficient

ϵ = *Error Estimation*

In testing the research hypothesis, Multiple Linear Regression Analysis tested are coefficient of determination test (R^2), Simultaneous Test (*F-test*), and t Statistics Test (*t-test*).

3. Research Results and Discussion

Results of Validity and Reliability Test

The validity test was conducted by using product moment correlation. The results of validity test showed that the value for all variables are 0.426 up to 0.970, larger than the critical value of 0,30. Thus, it can be concluded that the entire item statement that is used to measure the four variables are valid and can be used for further analysis.

By using *Cronbach Alpha* reliability test, the results showed that the value of reliability coefficient ranges from 0.915 up to 0.948, greater than the value of 0,70. These results indicate that all statement items proposed is declared reliable so it can be used for further analysis.

Multiple Linear Regression Analysis

The effect of completion of audit findings (X_1), utilization of accounting information system (X_2) and implementation of financial statements review (X_3) on quality of financial statements (Y), can be seen by using multiple linear regression analysis with the following equation:

$$Y = 1,832 + 0,192 X_1 + 0,182 X_2 + 0,174 X_3 + \epsilon$$

From the multiple linear regression equation obtained above constant value of 1.832. That means if the variable of quality of the financial statements (Y) is not affected by the three independent variables which is completion of audit findings (X_1), utilization of accounting information system (X_2) and implementation of financial statements review (X_3) is zero, then the magnitude of the average of quality of financial statements will be worth 1.832.

Hypothesis testing

The value of R^2 for the coefficient of determination (simultaneously) yields a value of 0.180. The figure shows that 18.0% of quality of financial statements (Y) can be explained by completion of audit findings (X_1), utilization of accounting information system (X_2) and implementation of financial statements review (X_3). The rest of the variation, at 82.0% is explained by other factors that are not examined in this study.

The result of F-test based on SPSS, the value of F equal to 9.608. Because of the value of $F_{hitung} (9,608) > F_{tabel} (2,674)$, then H_0 is rejected. It can be concluded that there is simultaneously a significant positive effect on the completion of audit findings (X_1),

utilization of accounting information system (X_2) and implementation of financial statements review (X_3) on the quality of financial statements (Y).

The coefficient of each independent variable was tested by using t-test where the value t_{hitung} is compared with the value t_{tabel} at the error rate $\alpha = 5\%$. The result showed that $t_{hitung} = 1,978$. Based on that, it can be seen the following results:

1. Variable of completion of audit findings (X_1) has a value of t_{hitung} is greater than nilai t_{tabel} , which is $t_{hitung} (2,917) > t_{tabel} (1,978)$. Thus, H_0 is rejected. Therefore it can be concluded that partially there is a significant and positive effect of the completion of audit findings on quality of financial statements.
2. Variable of utilization of accounting information system (X_2) has a value of t_{hitung} is greater than nilai t_{tabel} , which is $t_{hitung} (2,631) > t_{tabel} (1,978)$. Thus, H_0 is rejected. Therefore it can be concluded that partially there is a significant and positive effect of utilization of accounting information system on quality of financial statements.
3. Variable implementation of financial statements review (X_3) has a value of t_{hitung} is greater than nilai t_{tabel} , which is $t_{hitung} (2,943) > t_{tabel} (1,978)$. Thus, H_0 is rejected. Therefore it can be concluded that partially there is a significant and positive effect of implementation of financial statements review on quality of financial statements.

Discussion

1. The Effect of Completion of Audit Findings (X_1), Utilization of Accounting Information System (X_2) and Implementation of Financial Statements Review (X_3) on Quality of Financial Statement

Based on the results of hypothesis testing can be concluded that the variables of completion of the audit findings, utilization of accounting information system and

implementation of financial statements review simultaneously effect significantly on quality of financial statements. It can be seen from multiple linear regression equation which is positive (0.192), indicating a directional relationship between the completion of the audit findings with the quality of financial reporting.

The magnitude of the effect of completion of the audit findings, utilization of accounting information system and implementation of financial statements review on the quality of financial statements is seen from the calculation coefficient of determination (R^2) that is equal to 0.180. This means that 18% change in the quality of financial statements of work units in Directorate General of Highway can be explained by the completion of the audit findings, utilization of accounting information system and implementation of financial statements review.

2. The Effect of Completion of Audit Findings Partially on the Quality of Financial Statements

Based on respondents, generally completion of audit findings conducted by the work units in Directorate General of Highway have been good. It can be seen by the total answers of respondents that almost all items are in the category of very good. Leadership roles are considered optimal in following up on audit findings, evidence of follow-up as completion of audit findings in accordance with recommendations provided by BPK, and supervision of the follow-up process of audit findings conducted periodically by the Directorate General of Highways. Some of the things that need to be done optimally are the completion of audit findings within the specified time period and provide a statement in writing if there are obstacles in the settlement. When this is done optimally, then completion of audit findings will be implemented better.

3. The Effect of Utilization of Accounting Information System Partially on Quality of Financial Statements

Based on responses of respondents, the utilization of accounting information systems by work units in Directorate General of Highways have been good. It can be seen by the respondents answers were almost entirely categorized as good. For example, the head of work units and financial accounting officer are able to implement a system of accounting information in the financial statements, the equipment that is used to run the preparation of financial statements are adequate, there are accounting policies/rules that can be used to overcome problems in transaction recording activity, the tasks in preparing the financial statements are well implemented, and the financial statements information helps decision-making in planning process.

4. The Effect of Implementation of Financial Report Review Partially on Quality of Financial Statement

Based on the respondents responses, the implementation of financial statements review at work units in Directorate General of Highway have been good. It can be seen by the answers of respondents that almost all items are good. The review team provides information on planning the review implementation, identifies issues related to the preparation of the financial statements, provides suggestions for improvements or assistance in accordance with applicable policies and reports them on the Review Results Notes (CHR) as the basis of the work units in making improvements.

4. Conclusions and recommendations

Conclusion

This study aims to analyze the effect of completion of audit findings, utilization of accounting information system and implementation of financial statement review on quality of financial statements. Based on the results of research and test the hypothesis that has been done, the results of the study can be summarized as follows:

1. The completion of audit findings, utilization of accounting information system and implementation of financial statement review simultaneously has a positive and significant impact on the quality of financial statements.
2. The completion of audit findings partially has a positive and significant impact on the quality of financial statements. This means that the better completion of the audit findings, it will improve the quality of financial statements.
3. The utilization of accounting information system partially has a positive and significant impact on the quality of financial statements. This means that the better utilization of accounting information system, the better the quality of financial statements.
4. The implementation of financial statement review partially has positive and significant effect on the quality of financial statements. That means the better implementation of financial statements review, it will improve the quality of financial statements.

Suggestion

Referring to research result, discussion and research conclusion, it can be submitted some suggestions as follows:

1. For agency leaders it is advisable to do the following suggestions:

Optimize completion of audit findings in accordance with recommendations within the shortest time periods.

Monitoring progress of follow-up audit findings.

Coordinate with all parties concerned (Head of Work Units, staff, Secretariate Directorate General, Inspectorate, BPK and external) in the completion of audit findings.

Placing employees with an appropriate background to financial management.

Empowering auditors who have knowledge of government accounting especially SAP and can run accounting application programs of computer to implement the review more intensive and broader.

2. Directorate General of Highway make efforts to increase the competence of personnel financial manager (head of the work unit for managerial and financial accounting officers for operational) through the improvement of education and training materials related to the financial accountability of the government and to consider educational background in placing staff of financial statements preparation.
3. Suggested for further researcher to develop research, by expanding the population as well as research studies by adding another variable that theoretically be expected to affect the quality of financial statements such as: internal control systems, internal audit role, committed leadership, policies and accounting standards. This study has limitations such as the research method used. This study used survey method that prioritizes questionnaires without being equipped with interviews or oral questions. Weaknesses in the preparation of the questionnaire in this study should be strengthened by conducting interviews to collect data.

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