

The Effect of Local Government Heads' Commitment and Human Resource Competency on Local Government Accounting Information System, Internal Control System, and Audit Opinion of Local Government Financial Statements in Southeast Sulawesi Indonesia

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Abstract: *This study aims at empirically examining and analyzing the effect of local government heads' commitment and human resource competency in financial management on: (1) local government accounting information system; (2) internal control system directly, and indirectly through accounting information system; and (3) audit opinion of local government financial statements directly, and indirectly through accounting information and internal control systems. The study employs a quantitative method using path analysis techniques applied on data collected from fifteen local government financial statements and 495 respondents from local governments in Southeast Sulawesi, Indonesia. The results of this study indicate that: (1) local government heads' commitment and human resource competency are significantly positive to determine the reliability of local government accounting information system and can explain 83.7% of its variation, while the remaining 16.3% are influenced by other factors outside the model; (2) local government heads' commitment, human resource competency, and local government accounting information system are statistically significant to affect the adequacy of internal control system and can explain 84% of its variation, while the remaining 16% are influenced by other factors outside the model; and (3) local government heads' commitment, human resource competency, local government accounting information system, and internal control system are significantly positive to determine the audit opinion of local government financial statements in Southeast Sulawesi Province, and can explain 73.4% of its variation, while the remaining 26.6% are influenced by other factors outside the model. This study contributes to the development of the theory and concept of state/local government finance accountability and financial audit, particularly at local governments in Indonesia. It can be used as a reference to improve the accountability of local government financial statements.*

Keywords: commitment, competency, Accounting Information System, Internal Control System, and audit opinion

1. Introduction

The demand for regional autonomy is a consequence of growth and development of people preferences as well as government preferences in carrying out government responsibility for people's welfare. The founding fathers also recognized that regional autonomy was essential and it has been explicitly formulated in Indonesia's 1945 Constitution. Article 18 paragraph (2) of the Constitution states that "The regional authorities of the provinces, regencies and municipalities shall administer and manage their own affairs according to the principles of regional autonomy and the duty of assistance". To implement the spirit of decentralization, all regional authorities (provinces, regencies and cities) are given responsibility, authority, and obligation to carry out various government functions, followed by transfer of funds from the State Budget (APBN) to the Regional Budget (APBD). The decentralization aims at providing flexibility for regional governments in empowering their potential resources and in determining development priorities in their respective regions.

As a consequence, all regional authorities of provinces, regencies and cities are obliged to manage and be accountable for the use of their resources. They have to plan all of their programs carefully and accomplish them in accordance with their strategic planning. Accordingly, all regional authorities have to report their programs and activities in accountable and transparent Local Government Financial Statements (LKPD). As argued by Sinclair (1995) and Mulgan (1997), who developed the concept of accountability which synthesizes the accountability framework in public sector, local government heads are obliged to provide high commitment in carrying out their activities. In order to produce high quality LKPD, they have to ensure the availability of competent human resources in managing local government finance and develop reliable accounting information system, which is supported by reasonable internal control system. LKPD are then submitted to the Audit Board (BPK) to be audited in accordance with the State Finance Auditing Standards (SPKN). The objective of the audits is to express opinion on the fairness of the information presented in the financial statements in accordance with generally accepted accounting principles and best practices in managing state finance. LKPD that complies with the principles, criteria and best practices will

be assigned as an unqualified opinion. In contrast, LKPD that is not presented in accordance with the applicable criteria, will be assigned as a disclaimer or adverse opinion.

2. Literature Review

Commitment

Many scholars have studied about commitment, including Becker and Parsons (1960), Sheldon (1971), and Hrebeniak and Alutto (1973). However these researchers have not clearly defined the components of commitment. It is Staw and Salancik (1977) who categorizes commitment by attitudinal commitment and behavioral commitment. Mowday et al. (1979, 1982) defines three components of commitment, namely identification, involvement, and loyalty. Furthermore, Allen and Meyer (1990, 1991) identify three dimensions of organizational commitment, i.e.: affective commitment, continuance commitment, and normative commitment. Schultz and Schultz (1993) argue that commitment comprises three aspects: (1) the acceptance of the organizational values and goals, (2) the willingness to exert considerable effort on behalf of the organization, and (3) the willingness to affiliate with the organization. Gibson, et al (1994) further claims that commitment to an organization involves three attitudes: (1) a sense of identification with the organization's goals, (2) a feeling of involvement in organizational duties, and (3) a feeling of loyalty for the organization. While Mathis and Jackson (2011) define organizational commitment as the degree to which employees believe in and accept organizational goals and desire to remain with the organization".

In conclusion, organizational commitment can be defined as a psychological bond arising from the high impulse of a person that encourages his/her behavior to give and dedicate all his/her potential which is based on solid values to do something that is believed can help achieve the organizational goals.

Competency

Boyatzis (1982) has laid the foundation of defining competency. Subsequent researchers such as Quinn, Faerman, Thompson and McGrath (1990), R.M.Guion (1991), and Paul, Sparrow and Woodruffe (1992) develop the definition of competency. Gonzi et al (1993) has a slightly different view of competency definition. He stated that: "The competence of professionals derived from their possessing a set of relevant attributes such as knowledge, skills and attitudes". Rothwell (1996) defines competency as knowledge, skills, abilities, attitude, or belief. He summarizes that competency is a distinguishing characteristic between an exemplary person and an average person.

According to Training Magazine (1996), a performance-based competency is a current concept in business and government. A comprehensive definition of competency is a cluster of related knowledge, skills, and attitudes that affects a major part of one's job (a role or responsibility). It correlates with performance on the job, which can be measured against well-accepted standards, and can be improved via training and development. Competency is

gained through a multitude of ways: life experience, formal education, apprenticeship, on-the-job experience, self-help programs, and training and development programs. All of these together contribute to job competence in an employee.

Accounting Information System

The definition of accounting information system is initiated by Wilkinson (1990) and is further developed by Wilkinson and Cerullo (1995). It is subsequently refined by Bodnar and Hopwood (1996), Niswonger, Fess and Warren (1995), Boochholdt (1999), Mascovo and Simkin (1998), Romney et al (1997), Riemenschneider and Mykytyn (2000), and Ismail (2007). In general, accounting information system is defined as "a collection of accounting information systems such as human resources and equipment that is set to transform the data into information that is communicated to a variety of decision-making". Whereas, Sanghoon et al (2009), Horngren (1996), and Shaberwal et al (2006) defines accounting information system in terms of reliability, relevance, and timeliness.

Internal Control System

The definition of internal control system is initiated by Bennett (1930), and is developed by Sawyer (2003) and IIA (1949). AICPA (1949) defines internal control as "the plan of organization and all the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies". The definition is further developed by the auditing standard board of AICPA. Statement on auditing standard (SAS) 55 has laid the new foundation of internal control concept, which comprises three main components: (1) control environment, (2) accounting systems, and (3) control procedures. Standards for Internal Control in the Federal Government published by GAO in November 1999 stated that "In short, internal control, which is synonymous with management control, helps government program managers achieve desired results through effective stewardship of public resources". In September 2014, GAO revised the concept by publishing Standard for Internal Control in The Federal Government (Green Book), which incorporates 17 basic principles into five internal control components.

Under PSA No. 69 SA Section 319, paragraph 06, internal control is a process affected by Board of Commissioners, management and other entity's personnel, which is designed to provide reasonable assurance about the achievement of the entity's objective with regard to: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations. Under paragraph 07, internal control consists of five interrelated components:

- 1) Control environment sets the tone of an organization and influences the control consciousness of its people. It is the foundation for all other components of internal control, which provides discipline and structure.
- 2) Entity's risk assessment is the entity's identification and analysis of relevant risks to the achievement of its

objectives, which forms a basis for determining how the risks should be managed.

- 3) Control activities are the policies and procedures that help ensure that management directives are carried out.
- 4) Information and communication systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- 5) Monitoring is a process that assesses the quality of internal control performance over time.

Audit Opinion

Based on Law No.15 of 2004 concerning the Audit of Management and Accountability of State Finance, Decree of BPK Chairman No.4 of 2002, and Technical Bulletin No.1 concerning the Presentation of Local Government Financial Statements, audit opinion is a professional statement of auditor regarding the fairness of financial information presented in the financial statements with respect to: (i) conformity with government accounting standards (SAP), (ii) adequacy of disclosures, (iii) compliance with applicable laws and regulations, and (iv) effectiveness of internal control system. According to the Law, there are four types of the audit opinion on local government financial statements, they are:

1) Unqualified opinion

An unqualified opinion states that the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally-accepted accounting principles in Indonesia.

2) Qualified opinion

A qualified opinion states that, except for the effects of the matter(s) to which the qualification relates, the financial statements present fairly, in all material respects, the financial position, results of operations, and cash flows of the entity in conformity with generally-accepted accounting principles.

3) Adverse opinion

An adverse opinion states that the financial statements do not present fairly the financial position, results of operations, or cash flows of the entity in conformity with generally-accepted accounting principles.

4) Disclaimer opinion

A disclaimer of opinion states that the auditor does not express an opinion on the financial statements.

3. Research Methods

The current study employs an associative research method to investigate the relationship of five variables under consideration. It employs Path Analysis method and performs hypothesis testings to test the significance of the relationship between endogenous and exogenous variables under non-contrived setting. The data collection is from fifteen local government financial statements and from a survey on 495 respondents based on purposive sampling. The selection criteria is to gather information from 33 respondents from each local government of Southwest Province, regencies of Bombana, Buton, North Buton, Wakatobi, Muna, Kolaka, North Kolaka, East Kolaka, Konawe, South Konawe, North Konawe, Konawe Islands, as

well as cities of Kendari dan Baubau. The data are then analyzed using a quantitative method that employs the path analysis techniques and run the SPSS 22 to determine the regression and path coefficients.

4. Results & Discussion

The purpose of the path analysis is to investigate the magnitude of each path coefficient from causal relationship between variables under consideration: local government heads' commitment (X_1), human resource competency (X_2), local governments accounting information system (Y_1), internal control system (Y_2), and the audit opinion of local government financial statements (Z). The investigation is performed after the assurance that the models meet the requirements of path analysis and meet the assumptions of linear regression: the data are in interval scale, homogenous and normally distributed, and no multicollinearity problem.

Sub-structural Model 1

In this model, both local government heads' commitment (X_1) and human resource competency (X_2) are statistically significant to determine the reliability of local governments accounting information system (Y_1). As shown in Table 1, both variables X_1 and X_2 can explain 83.7% of the variation in Y_1 , while the remaining 16.3% is explained by other factors outside the model.

Table 1: Model Summary of STRUCTURAL EQUATION I
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.915 ^a	.837	.837	2,63021
a Predictors: (Constant), HUMAN RESOURCE COMPETENCY_X ₂ , HEAD OF LOCAL GOVERNMENT'S COMMITMENT_X ₁				
b Dependent Variable: LOCAL GOVERNMENT ACCOUNTING INFORMATION SYSTEM_Y ₁				

The analysis of variance (ANOVA) shown in Table 2 suggests that both variables X_1 and X_2 are statistically significant factors of Y_1 with the p-value based on the F test is practically zero.

Table 2: Anova of STRUCTURAL EQUATION I

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	17528,332	2	8764,166	1266,863	.000 ^b
Residual	3403,660	492	6,918		
Total	20931,992	494			
a Predictors: (Constant), HUMAN RESOURCE COMPETENCY_X ₂ , HEAD OF LOCAL GOVERNMENT'S COMMITMENT_X ₁					
b Dependent Variable: LOCAL GOVERNMENT ACCOUNTING INFORMATION SYSTEM_Y ₁					

Based on the model, empirically, the causal relationship among the variables can be described as follows:

$$Y_1 = 0,098 X_1 + 0,834 X_2 + 0,404 \epsilon_1$$

Sub-structural Model 2

In sub-structural Model 2, local government heads' commitment (X_1), human resource competency (X_2), and

local governments accounting information system (Y_1) are statistically significant to determine the adequacy of internal control system (Y_2). Table 3 shows that variables X_1 , X_2 , and Y_1 can explain 84% of the variation in Y_2 , while the remaining 16% is explained by other factors outside the model.

Table 3: Model Summary of STRUCTURAL EQUATION II

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.917 ^a	.840	.839	18,90487
a. Predictors: (Constant), LOCAL GOVERNMENT ACCOUNTING INFORMATION SYSTEM_Y1, HUMAN RESOURCE COMPETENCY_X2, HEAD OF LOCAL GOVERNMENT'S COMMITMENT_X1				
b. Dependent Variable: INTERNAL CONTROL SYSTEM_Y2				

The analysis of variance shown in Table 4 shows that variables X_1 , X_2 , and Y_1 simultaneously are significant to determine Y_2 with the p-value of the F test is practically zero. Further investigation on individual variable using the t test suggests that each variable of X_1 , X_2 , and Y_1 is highly significant to determine Y_2 with the p-value equals to zero. The model indicates that simultaneously and individually, local government heads' commitment, human resource competency, and the reliability of local government accounting information system are highly significant to determine the adequacy of internal control system.

Table 4: Anova of STRUCTURAL EQUATION II

ANOVA ^a					
Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	921611,036	3	307203,679	859,565	,000 ^b
Residual	175480,532	491	357,394		
Total	1097091,568	494			
a. Predictors: (Constant), LOCAL GOVERNMENT ACCOUNTING INFORMATION SYSTEM_Y1, HUMAN RESOURCE COMPETENCY_X2, HEAD OF LOCAL GOVERNMENT'S COMMITMENT_X1					
b. Dependent Variable: INTERNAL CONTROL SYSTEM_Y2					

According to the sub-structural Model 2, the causal relationship among the variables can be expressed as follows:

$$Y_2 = -0,188X_1 + 0,807X_2 + 0,274Y_1 + 0,400\epsilon_2$$

Sub-structural Model 3

In sub-structural Model 3, local government heads' commitment (X_1), human resource competency (X_2), and internal control system (Y_2) are statistically significant to determine the audit opinion of local government financial statements (Z). Table 5 shows that variables X_1 , X_2 , and Y_2 can explain 73.4% of the variation in Z , while the remaining of 26.6% is explained by other factors outside the model.

Table 5: Model Summary of STRUCTURAL EQUATION III

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.857 ^a	.734	.732	3,97864
a. Predictors: (Constant), INTERNAL CONTROL SYSTEM_Y2, HEAD OF LOCAL GOVERNMENT'S COMMITMENT_X1, HUMAN RESOURCE COMPETENCY_X2				
b. Dependent Variable: LKPD OPINION_Z				

Table 6 shows the analysis of variance of sub-structural Model 3. It suggests that variables X_1 , X_2 , and Y_2 simultaneously are highly significant to determine Z with the p-value of the F test equals to zero. The t test in Table 7 shows that each variable of X_1 , X_2 , and Y_2 is also highly significant to determine Z with X_1 and Y_2 are significant at 1% level, while X_2 is significant at 5% level. The sub-structural model 3 suggests that simultaneously and individually, local government heads' commitment, human resource competency, and internal control system can determine the audit opinion of local government financial statements.

Table 6: Anova of STRUCTURAL EQUATION III

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	21414,878	3	7138,293	450,946	,000 ^b
Residual	7772,326	491	15,830		
Total	29187,204	494			
a. Dependent Variable: LKPD OPINION_Z					
b. Predictors: (Constant), INTERNAL CONTROL SYSTEM_Y2, HEAD OF LOCAL GOVERNMENT'S COMMITMENT_X1, HUMAN RESOURCE COMPETENCY_X2					

Table 7: Coefficients of STRUCTURAL EQUATION III

Coefficients ^a					
Model		Unstandardized Coefficients		Standardized Coefficients	t
		B	Std. Error	Beta	
1	(Constant)	-1,882	2,614		-,720
	Head of Local Government's Commitment_X1	,179	,024	,306	7,483
	Human Resource Competency_X2	,111	,053	,148	2,102
	Internal Control System_Y2	,077	,009	,471	8,390
a. Dependent Variable: LKPD OPINION_Z					

The causal relationship among the variables in sub-structural Model 3, therefore, can be described as follows:

$$Z = 0,306X_1 + 0,148X_2 + 0,471Y_2 + 0,516\epsilon_3$$

The summary of the parameter estimates are described in Table 8, while the path diagram of the sub-structural models investigated above is described in Figure 1.

Table 8: The Parameter estimates of the Models

Model	Path coefficients	t	P	R ²
Substructural 1 (X1, X2 ke Y1)				
PX ₃ X ₁	0,098	3,152	0,002	0,837
PX ₃ X ₂	0,834	26,749	0,000	
Substructural 2 (X1, X2 ke Y1)				
PYX ₁	-0,188	-6,016	0,000	0,840
PYX ₂	0,807	16,652	0,000	
PYX ₃	0,274	6,131	0,000	
Substructural 3 (X1, X2 ke Y1)				
PZX ₁	0,306	7,483	0,000	0,734
PZX ₂	0,148	2,102	0,036	
PZY	0,471	8,390	0,000	

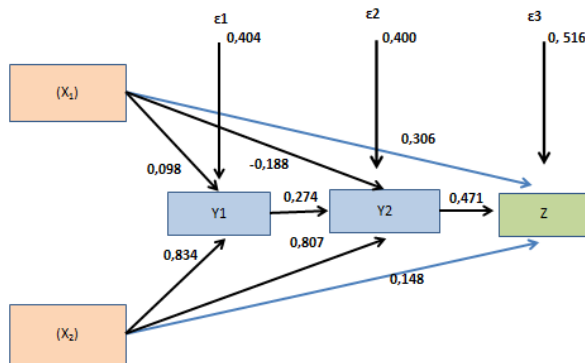


Figure 1: The Path Diagram of the Models

Discussions on the Findings

Empirical findings on the path analysis and the hypothesis testing employed on the available data and information are discussed separately for each sub-structural model in the following sections.

Hypothesis 1 Testing Result

Hypothesis 1 is tested employing the path analysis to investigate whether local government heads' commitment and human resource competency have significant relationship with the reliability of local government accounting information system using SPSS 22. According to Sevilla et al (1997: 280), high or low correlation depends generally on the nature of variables being studied. We may, however, use the following categorization which most specialists in statistics usually agree with. The relationships criteria in detail are as follows:

Indication

between $\pm .80$ to ± 1.00 : High correlation
 between $\pm .60$ to $\pm .79$: moderately high correlation
 between $\pm .40$ to $\pm .59$: Moderately correlation
 between $\pm .20$ to $\pm .39$: Low correlation
 between $\pm .01$ to $\pm .19$: Negligible correlation

Hypothesis 1 is tested through three steps: (1) to test the effect of local government heads' commitment on local government accounting information system; (2) to test the effect of human resource competency in managing local government finance on local government accounting information system; and (3) to test the effect of local government heads' commitment and human resource competency in managing local government on local government accounting information system.

a. The effect of local government heads' commitment (X₁) on local government accounting information system (Y₁)

From the Path Analysis shown in Figure 1, the direct effect of local government heads' commitment (X₁) on local government accounting information system (Y₁) equals to the coefficient of estimate from the regression analysis (0.098). The coefficient is significant at 1% level suggesting that local government heads' commitment have a positive effect to determine the reliability of local government accounting information system. The result is consistent with Sounders and Jones (1992), stating that organizational commitment is a very important factor which determines the effectiveness of accounting information system implementation.

b. The effect of human resource competency in managing local government finance (X₂) on local government accounting information system (Y₁)

The path analysis using SPSS shows a direct effect of human resource competency in managing local government finance (X₂) on local government accounting information system (Y₁), with total path coefficient of 0.834. It can be concluded that human resource competency in managing local government finance have a positive and significant effect on the reliability of local government accounting information system.

c. The effect of both local government heads commitment (X₁) and human resource competency in managing local government finance (X₂) on local government accounting information system (Y₁)

Hypothesis 1 is tested to analyze the effect of local government heads' commitment (X₁) and human resource competency in managing local government finance (X₂) on local government accounting information system (Y₁). Since the R-square of the sub-structural model equals to 0.837 and highly significant (p-value=0.000), the simultaneous effect of both variables of local government heads' commitment (X₁) and human resource competency (X₂) on local government accounting information system (Y₁) is positive and highly significant. Both variables can explain 83.7% of the variation in local government information system.

Hypothesis 2 Testing Result

Hypothesis 2 is tested through four steps: (1) to test the effect of local government heads' commitment on internal control system; (2) to test the effect of human resource competency in managing local government finance on internal control system; (3) to test the effect of local government accounting information system on internal control system; and (4) to test the effect of local government heads' commitment, human resource competency in managing local government finance, and local government accounting information system on internal control system.

a. Effect of local government heads' commitment (X₁) on internal control system (Y₂)

Based on the path analysis, the direct effect of X₁ on Y₂ equals to -0.188, while the indirect effect through Y₁ equals to 0.026852 (0.098 x 0.274). Therefore the total effect of X₁ on Y₂ is -0.188 + 0.026852 = -0.16115. Therefore, local government heads' commitment and internal control is negatively correlated with the coefficient of the correlation equals to -0.16115.

b. Effect of human resources competency in managing local government finance (X_2) on internal control system (Y_2)

The path analysis using SPSS results in a direct effect between human resources competency in managing local government finance (X_2) on internal control system (Y_2) equals to 0.807, while the indirect effect equals to $0.834 \times 0.274 = 0.228516$. Therefore, the total effect of X_2 on Y_2 equals to $0.807 + 0.228516 = 1.035516$. It can be concluded that human resource competency in managing local government finance is highly significant to determine the adequacy of internal control system in Southeast Sulawesi Province.

c. Effect of local government accounting information system (Y_1) on internal control system (Y_2)

The path analysis using SPSS results in a direct effect between local government accounting information system (Y_1) on internal control system (Y_2) equals to 0.274. It can be concluded that local government accounting information system has a positive effect on internal control system in Southeast Sulawesi Province.

d. Effect of local government heads' commitment (X_1), human resources competency in managing local government finance (X_2), and local government accounting information system (Y_1) on internal control system (Y_2)

Hypothesis 2 is tested to analyze the effect of local government heads' commitment (X_1), human resource competency in managing local government finance (X_2), and local government accounting information system (Y_1) on internal control system (Y_2). The simultaneous effect of the three variables equals to the R-square of the regression, which is 0.840 or 84%. Therefore, all the three variables can explain 84% of the variation in internal control system. It can be concluded that local government heads' commitment, human resources competency in managing local government finance and local government accounting information system have a significant effect both partially and simultaneously on internal control system. Other variables outside the model explain only 16% of its variation.

Hypothesis 3 Testing Result

Hypothesis 3 is tested using path analysis to analyze whether local government heads' commitment (X_1), human resources competency in managing local government finance (X_2), and internal control system (Y_2) have an effect on audit opinion of local government financial statements (Z). Hypothesis 3 is tested through four steps: (1) to test the effect of local government heads' commitment on audit opinion; (2) to test the effect of human resource competency in managing local government finance on audit opinion; (3) to test the effect of internal control system on audit opinion; and (4) to test the effect of local government heads' commitment, human resource competency in managing local government finance, and internal control system on audit opinion (Z).

a. Effect of local government heads' commitment (X_1) on audit opinion (Z)

Based on the path analysis, the direct effect of local government heads' commitment on the audit opinion equals to 0.306; while the indirect effect through Y_1 (accounting system) and Y_2 (internal control) equals to $-0.16115 \times 0.471 = -0.0759$.

Therefore, the total effect of X_1 on Z equals to $0.306 - 0.0759 = 0.230099$. Therefore, the total effect of local government heads' commitment on the audit opinion equals to 0.230099 or 23.01%. The result is consistent with Silviana (2012), stating that local government heads' commitment has a significant effect on quality of LKPD in West Java Province.

b. Effect of human resources competency in managing local government finance (X_2) on audit opinion (Z)

The path analysis using SPSS results in a direct effect between human resources competency in managing local government finance (X_2) on audit opinion (Z) equals to 0.148 or 14.8%. The indirect effect through Y_1 (accounting system) and Y_2 (internal control) equals to $1.035516 \times 0.471 = 0.487728$. Therefore, the total effect of human resource competency on the audit opinion is equal to 0.635728 or 63.57%. It can be concluded that human resource competency in managing local government finance (X_2) have a very significant effect on the audit opinion (Z). The result is consistent with Winidyaningrum and Rahmawati (2010), Yosefrinaldi (2013), Fadilla (2013), Delanno and Deviani (2013), stating that human resources have a positive effect on reliability of local government financial reporting. Wati, Herawati and Sinarwati (2014) also states that human resource competency has a positive and significant effect on quality of LKPD.

c. Effect of internal control system (Y_2) on audit opinion (Z)

Sub-hypothesis 3 is tested to analyze the effect of internal control system (Y_2) on audit opinion (Z). The path analysis using SPSS results in total path coefficient = 0.471 or 47.1%. It can be concluded that internal control system (Y_2) has a positive and significant effect on the audit opinion (Z). The result is consistent with Indriasari and Nahartyo (2008), Handrioko (2009), Jannah (2010), Suprayogi (2010), Arifianti (2011), Sukmaningrum (2012), Zuliarti (2012), Yudianta and Erawati (2012), Sari (2012), stating that internal control system have a positive effect on timeliness and reliability of local government financial reporting.

d. Effect of local government heads' commitment (X_1), human resources competency in managing local government finance (X_2), and internal control system (Y_2) on audit opinion (Z)

Sub-hypothesis 3 is tested to analyze the effect of local government heads' commitment (X_1), human resource competency in managing local government finance (X_2), and internal control system (Y_2) simultaneously on audit opinion (Z). The path analysis using SPSS results in total path coefficient = 0.734 or 73.4%. The result is consistent with Handrioko (2009), Zuliarti (2012), Yudianta and Erawati (2012), Yosefrinaldi (2013), Ariesta (2013), Sugandi (2013), Sembiring (2013), Nurilla (2014), Soimah (2014), stating that human resources competency in managing local government finance and accounting internal control have a positive effect on quality of local government financial reporting.

5. Conclusion

Empirical findings from a survey on 495 respondents and fifteen financial statements of local governments in Southeast Sulawesi Indonesia by employing the Path Analysis method conclude that:

- 1) Local government heads' commitment and human resource competency are significant and positively correlated with the reliability of local government accounting system.
- 2) Local government heads' commitment, human resource competency, and local government accounting system have significant effects on internal control system, both partially and simultaneously.
- 3) Local government heads' commitment, human resource competency, and internal control system have significant effects on the audit opinion of local government financial statements, both partially and simultaneously. However, among all the variables, human resource competency has the greatest impact on the audit opinion. It can explain 63.57% of the variation in the audit opinion; while local government heads' commitment can only explain 23.01% of the variation. Internal control system is also positively correlated with the audit opinion with the coefficient of correlation equals to 47.7%, suggesting that adequate or effective internal control can improve the audit opinion of local government financial statements. Local government heads' commitment and human resource competency also contributes the correlation through their effects on local government accounting system and internal control.

6. Research Limitations and Future Research

The current research has some limitations which are left for future research:

- 1) Adding more variables to the model may increase its accuracy, particularly variables that may affect the audit opinion of local government financial statements, such as the quality of internal supervisors (local government inspectorates), the roles of BPKP, and the commitment of each head of the BPK Representative office.
- 2) Expanding the research scope to include other local governments in Sumatera, Java, Kalimantan, and Papua may improve the result so as to represent all local government in Indonesia.

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