

# **HR COMPETENCY AND QUALITY OF FINANCIAL STATEMENTS: EXAMINING THE MEDIATING ROLES OF INTERNAL AND EXTERNAL RECONCILIATION PROCESS IN BPS-STATISTICS INDONESIA**

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## **Abstract**

This study examines whether the human resource competency in the process of preparing the financial statements affect the quality of financial statements and if so, whether the effect is mediated by an internal reconciliation process and external reconciliation process. Using a sample of 44 financial managers in Statistics of Nusa Tenggara Barat Province, the study found that the human resource competencies positively related to the quality of financial statements. Further analysis arising from the introduction of the internal reconciliation process and external reconciliation process as a mediating variable revealed that the association is significantly mediated by internal reconciliation process. Overall, these findings offer empirical evidence of the importance of internal and external reconciliation process on the relationship between the human resource competency and quality of financial statements.

**Keywords:** external reconciliation, financial statements qualities, human resource competency, internal reconciliation

## **1. Introduction**

The ability and skill of a person in the preparation of financial statements, more particularly, the level of competence in producing quality financial statements, has attracted research over the last decade. The extant literature suggests that the competence of the human resources have positive consequences on the quality of financial statement's presentation (for a recent review, see Gultom, 2016). However, the empirical findings are not always consistent (Roni, 2015), in addition to the competence of human resources associated with the quality of financial statements, there are also other variables that affect the quality of financial statements such as the reconciliation process (Herdianto, 2015).

One motivation of this paper is to reexamine the influence of human resources competencies to the quality of financial statements and if so, whether these effects are mediated by internal and external reconciliation process. Wibowo (2013) found that human resource capacity has a positive effect on the reconciliation process. Pradono and Basukianto (2015) found the competence of human resources and reconciliation have positive influence on the quality of financial statements.

Secondly, when Roni (2015) examined the effects of direct competence of human resources and a reconciliation to the quality of financial statements with the results of no effect, unfortunately not examined whether there is an indirect effect between the competence of human resources to the quality of financial statements through reconciliation. Literature (such as Jensen and Meckling, 1976; Scott, 2009) suggested to reduce the information asymmetry by providing quality financial statements where the information contained in it must be reliable if sufficiently free of errors and irregularities. Therefore, in addition to re-examine the direct effect of human resources competencies to the quality of financial statements, this study will examine the indirect effects of human resource competencies to the quality of the financial statements in the reconciliation process both internally and externally.

Background research is based on the findings and conferment opinions by The Audit Board (BPK) of the Republic of Indonesia on the financial statements of the Statistics Indonesia (BPS), which is found that control over the management and recording of inventory inadequate so there is the potential value of transactions which are not recorded in the Statement of Operations in the form of transaction

Non-tax State Revenue (PNBP) that are specific form of sales revenue information, publishing, movies, survey, mapping and other printed output. BPK recommend the BPS to enhance inventory application that can reconcile between managing inventory and payment.

The process of preparation of the financial statements as mandated by Government Regulation No. 71 Year 2010 concerning the Government Accounting Standards conducted in phases. The process begins from the level of the work unit Accounting Unit Budget Authority (UAKPA) up to the level of the ministry or Budget User Accounting Unit (UAPA). The government devised a system of government accounting and financial statements by issuing the Finance Minister Regulation (PMK) No. 213 / PMK.05 / 2013 on Accounting and Financial Reporting Central Government (SAPP), in which among other things explains in detail that the preparation of the Financial Statements of the Ministry Institutions (LKKL) must go through the verification and reconciliation process in stages and ongoing. Reconciliation is one of the main keys in the effort credible financial statements.

In accordance PMK No. 213 / PMK.05 / 2013 reconciliation process aimed at minimizing the occurrence of differences in the recording of the impact on the validity and accuracy of the data presented in the Financial Statements. In case of divergence of data, reconciliation can detect and determine the causes of the differences. Reconciliation on Accounting and Reporting Unit of the agency divided into two types: (1). Internal reconciliation is done between financial reporting unit and reporting unit of goods (UAKPA with UAKPB) to perform the procedures that exist in the SAIBA application. The aim is to ensure that the value of the assets and all assets related expenditures reported in SIMAK-BMN application in accordance with that reported in the SAIBA application. Internal reconciliation is also performed between UAKPA with treasurer/treasurer-acceptance working unit, in order to ensure the suitability of the amount of cash in the treasurer/ treasurer-acceptance with balance sheet. Internal reconciliation process requires coordination between the operator of the unit's financial reporting, the reporting unit of goods, treasurer and treasurer reception and UAKPA. Accuracy in the data input process is also important that the data in the same reconciliation, valid and accurate. (2). External reconciliation is done electronically using a single data-based integrated applications (single database) and can be done only at the level of UAKPA with UAKBUN-D/KPPN. Stages at the start of the delivery

SAIBA's computer data file (ADK) working unit level directly to the e-rekon-lk application, at this point working units do not need to come to the Treasury Office (KPPN). Reconciliation results can be seen through the same application and, if found differences as a result of errors in the SAI can be instantly improved and re-upload. After all differences resolved, then KPPN did approve the data and publish the Report of Reconciliation (BAR) signed electronically via a barcode that contains information about the number and date of BAR, the name and code working unit, name/identity number signatories of working unit and name/identity number signatories of the KPPN.

The main contribution of this paper is that it (1) a retest study the effects of human resource competencies to the quality of financial statements and (2) expanding our research to examine the internal and external reconciliation variable as a mediating variable. The quality of financial reporting is an important construct in the agency theory and decisions-uefulness which make a more specific postulates, the quality of financial statements, the more beneficial in reducing the asymmetry information and decision making (Jensen and Meckling, 1976; Scott, 2009). However, this effect depends on the competence of human resources constituent (Gultom, 2016; Herdianto, 2015; Pradono and Basukianto, 2015; Wibowo, 2013). In addition, Herdianto (2015) also found a positive correlation between reconciliation with the quality of the financial statements and argues that the better of reconciliation process that is done, the better the quality of the financial reports produced, then attention must also be directed at factors that affect quality of financial statements.

Contributions final is seen in the comprehensive research, while many individual hypotheses being explored to support previous research, but there is no research that combines in one study measuring the direct and indirect influences of human resources competencies to the quality of the financial statements.

The model used in the study is illustrated in Fig. 1.

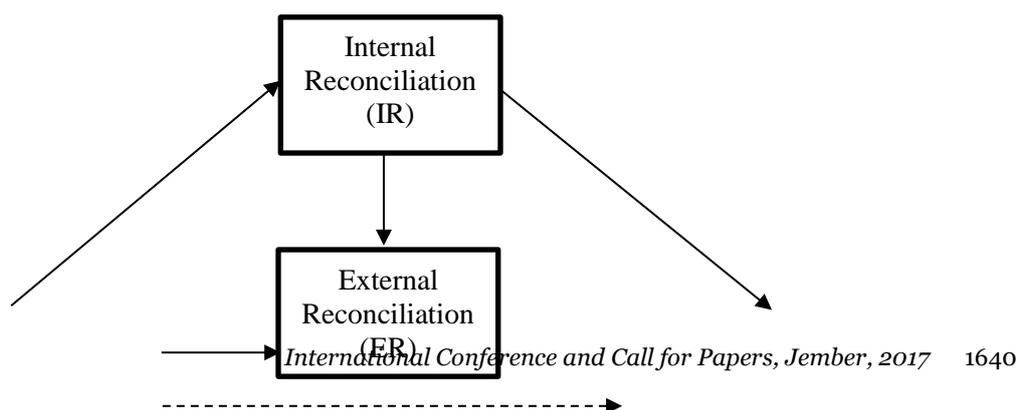




Fig 1. Model of the study : the effect of Human Resource Competency on Quality of Financial Statements

## **2. Theoretical Framework and Hypothesis Development**

### *2.1. Human Resources Competency and Quality of Financial Statements*

In this study, human resource competence refers to the extent to which the characteristics of which include educational background (knowledge), training and skills that is expressed in the implementation of tasks, aspects of self-image, social motives, mindsets, ways of thinking, feeling and action. Competence is a characteristic of the individual and used appropriately through a consistent manner to achieve the desired performance (Dubois, 2004). The quality of financial statements referring to the normative characteristics described in Government Regulation No. 71 Year 2010 concerning the Government Accounting Standards, that is : relevant, reliable, comparable and understandable.

Agency theory suggests that may to reduce information asymmetry between agent and principal (Jensen and Meckling, 1976). One attempt to reduce the information asymmetry is to prepare quality financial statements. Herdianto (2015) found that human resource competencies empirically proven significant effect on the quality of the financial statements and argues that the management should establish policies and strategies are more varied to increase the competence of human resources. Prior empirical human resources competencies studies (for example, Pradono and Basukianto, 2015; Wibowo, 2013; Tambunan, 2012; and Sukmaningrum, 2012) confirm that human resources competencies positively associated with the quality of the financial statements. Therefore, this study expect that competence of human resources positively associated to the quality of the financial statements.

**H1.** *Human resources competency is positively associated with the quality of the financial statements.*

### *2.2. Human Resources Competency and Internal Reconciliation*

The second hypothesis examined the relationship between the competence of human resources and internal reconciliation (Link HRC-IR). Internal Reconciliation conceptualized as a data matching process financial transactions between financial reporting unit and goods reporting unit (UAKPA with UAKPB) to perform the procedures that exist in the SAIBA application. Internal reconciliation is also performed between UAKPA with treasurer/treasurer acceptance, in order to ensure the suitability of the amount of cash in the treasurer/treasurer acceptance with balance sheet.

Internal reconciliation stipulated in Minister of Finance No. 213 / PMK.05 / 2013, in order to minimize the difference in the recording of the impact on the validity and accuracy of the data presented in the Financial Statements. In case of divergence of data, reconciliation can detect and determine the causes of the differences. Internal reconciliation process requires coordination between the operator of the unit's financial reporting, the reporting unit of goods, treasurer and treasurer acceptance and UAKPA. Accuracy in the data input process is also important that the data in the same reconciliation, valid and accurate.

Decision usefulness approach suggests that if in theory can not present the financial statements properly, at least try to make the financial statements more useful (Scott, 2009, p 59). To achieve internal reconciliation process purposes in order to ensure the value of the assets and all assets related expenditure in accordance with the recording financial transactions and ensure compliance with the treasurer's amount of cash on the balance sheet, the necessary internal reconciliation enforcement agents who understand the procurement process as well as the bookkeeping. Syahdan and Amjad (2012) argues that more research needs to be done about the level of competence of human resources involved in the Central Government Accounting System (SAPP) and identify the problem. Therefore, this study hopes competence of human resources positively associated with the internal reconciliation process.

**H2.** *Human resources competency is positively associated with the internal reconciliation.*

### *2.3. Internal Reconciliation and Quality of Financial Statements*

The third hypothesis examines the relationship between internal reconciliation and the quality of financial statements (Link IR-QFS). The financial statements are the responsibility of the agent to the

principal, as Jensen and Meckling (1976) explain in the agency theory. Qualified financial statements should contain complete, accurate and valid information. The information in the complete financial statements to be accurate and valid if all financial transactions recorded are appropriate and presented correctly. Matching between financial transactions with goods as well as matching between reporting units with the treasurer affects the quality of the financial statements presented. Regulation of the Minister of Finance No. 222/PMK.05/2016 on guidelines for the preparation and submission of financial statements regulates the internal reconciliation process in the preparation of financial statements to ensure the quality of financial statements generated, this can be interpreted that internal reconciliation affects the quality of financial statements.

Prior empirical studies that examine the effect of internal reconciliation process on the quality of financial statements are done by Herdianto (2015) which explains that reconciliation has a positive effect on the quality of financial statements, this supports the research conducted by Pradono and Basukianto (2015) and Tambunan (2012). Therefore the following hypotheses will be tested.

**H3.** *Internal reconciliation is positively associated with the quality of the financial statements.*

#### *2.4. Human Resources Competency and External Reconciliation*

The fourth hypothesis examined the relationship between the competence of human resources and external reconciliation (Link HRC-ER). External Reconciliation is the process of data matching between the Accounting Unit Budget Authority (UAKPA) with power accounting unit treasurer countries (UAKBUN) / KPPN. External reconciliation is done electronically using a single data-based integrated applications (single database) and can be done only at the level of UAKPA with UAKBUN-D/KPPN. Stages at the start of the delivery SAIBA's computer data file (ADK) working unit level directly to the e-rekon-lk application, at this point working units do not need to come to the Treasury Office (KPPN). Reconciliation results can be seen through the same application and, if found differences as a result of errors in the SAI can be instantly improved and re-upload. After all differences resolved, then KPPN did approve the data and publish the Report of Reconciliation (BAR) signed electronically via a barcode that contains information about the number and date of BAR, the name and

code working unit, name/identity number signatories of working unit and name/identity number signatories of the KPPN.

Jensen and Meckling (1976) describes the agency theory, that the agency is obliged to carry out the provisions in the legislation as a form of accountability. The state ministries / Institutions as an agent of the government, in preparing the financial statements must perform external reconciliation process between the state ministries / institutions with state general treasurer in accordance with the regulations finance minister No. 210 / PMK.05 / 2013 on Guidelines for Reconciliation in preparing the financial statements scope treasurer general state and the state ministries / agencies. Reconciliation is one of the main keys in the effort to the preparation of financial statements accountable. This is due to the role that is important in order to minimize the difference in the recording of the impact on the validity and accuracy of the data presented in the financial statements. The qualitative characteristics of financial statements are the traits that make information in financial statements useful to users, where one of the characteristics is reliable. Wibowo (2013) found that the competence of human resources has a positive effect on the completion of data reconciliation SAI. Therefore, this study hopes competence of human resources positively associated with external reconciliation process.

**H4.** *Human resources competency is positively associated with the external reconciliation.*

#### *2.5. External Reconciliation and Quality of Financial Statements*

Regulation of the Minister of Finance 210 / PMK.05 / 2013 regulates the external reconciliation guidelines for the preparation of the financial statements of the general treasury of state and Ministries of state / institutions. Reconciliation is one of the main keys in the preparation of accountable financial statements. This is due to its important role in order to minimize the occurrence of recording differences that impact on the validity and accuracy of the data presented in the financial statements. The financial statements will have a benefit value if the information in it does not contain misstatements so it can be relied upon for evaluation and planning materials. As mentioned earlier, the need to pay attention to the needs of users in making decisions so that financial statements can become more useful (Scott, 2009).

The positive relationship between reconciliation and the quality of financial statements is also reported in public sector accounting studies (Herdianto, 2015, Pradono and Basukianto, 2015 and Tambunan, 2012). Herdianto (2015) found that positive reconciliation relates to the quality of financial statements and states the better the reconciliation process is performed, the better the quality of the resulting financial statements. Drawing on research in Central Java Provincial Government, Pradono and Basukianto (2015) found that routine reconciliation practices positively affected the quality of financial statements. Tambunan (2012) also found a positive relationship between data reconciliation and the quality of financial statements. Therefore, this research expect external reconciliation to be positively related to the quality of the financial statements.

**H5.** *External reconciliation is positively associated with the quality of the financial statements.*

#### *2.6. Internal Reconciliation and External Reconciliation*

The mechanism of preparing and delivering the financial statements of state ministries/institutions refers to the regulation of the Minister of Finance number 222/PMK.05/2016. The regulation requires the implementation of internal reconciliation before implementing an external reconciliation process. The internal reconciliation process assists the implementation of external reconciliation between the work unit and the Treasury Office as well as the consolidation process of financial reporting of state ministries/institutions.

Research conducted by Ningrum (2014) through its analysis states that the external reconciliation process is influenced by the lack of coordination between the treasurer of the expenditure of the work unit and the financial reporting staff where this coordination activity is an internal reconciliation process. Decision usefulness approach explains the need to pay attention to the needs of users in making decisions in order to become more useful (Scott, 2009). Therefore, the sixth hypothesis of this study will examine the relationship between internal reconciliation to external reconciliation (Link IR-ER) and hope that internal reconciliation is positively associated with external reconciliation processes.

**H6.** *Internal reconciliation is positively associated with the external reconciliation.*

### **3. Research Method (TNR 12, Bold, Capitalize Each Word)**

### *3.1. Research Setting and Sample*

To test the hypothesis, the sample was taken from the financial management of BPS in West Nusa Tenggara Province which was directly involved in the process of reconciliation and the preparation of financial statements. BPS-Statistics Indonesia is a non-ministerial government agency directly responsible to the President. Based on Article 55 paragraph (2) of Law Number 1 of 2004 concerning State Treasury and Regulation the Minister of Finance No. 171/PMK.05/2007 as amended by 233/PMK.05/2007 concerning Government Accounting and Reporting System, Minister/Head of Institution as User of Budget/User of Goods shall prepare and submit Financial Report of State Ministry/Institution (LKKL) covering Budget Realization Report, Balance Sheet and Notes to Financial Statement to Minister of Finance as fiscal manager in order to prepare Government Financial Statement (LKPP). The Financial Statements of the BPS-Statistics Indonesia are prepared and presented in accordance with Government Regulation Number 71 Year 2010 concerning Government Accounting Standards (SAP). The research objectives of this study is very relevant to BPS relating to the implementation of external reconciliation process using web-based application (e-rekon). The background of competence of human resources in BPS which also tends to be focused to handle technical related to statistics rather than the administration is worthy to be tested in this research.

The questionnaire was distributed to 44 respondents with a covering page explaining the research objectives and assuring data confidentiality. Survey instruments are sent to respondents directly and get responses from all respondents in full. In addition to the survey, interviews were also conducted with several former BPS financial managers to ensure the reliability of the survey responses and to gain a better understanding of financial managers' perceptions related to the reconciliation process in the preparation of financial statements.

A related analysis of respondents revealed that financial managers in the BPS West Nusa Tenggara Province were predominantly male (63.64%); They had worked in BPS, on average, for 10.41 years (range 1-34 years), been in their current position on average for 3.6 years (range 0-10 years), and education levels are predominantly bachelor's degree (around 52.27%). Financial managers who have an accounting education background of only 4.55%.

### *3.2. Instruments*

To enhance the validity and reliability of the construct, all variables were measured by instruments that had been previously conceptualized in order to be operationalized in data processing (see discussion below). To ensure the reliability and validity of the measures, all of the instruments were pilot-tested on the accounting master's student who was once a financial manager.

#### *3.2.1. Human Resources Competency*

To measure this variable, respondents were asked to answer the extent to which the respondent's perception/assessment of a particular subject, object or event of a natural phenomenon uses a semantic differential scale, that is a set of bipolar scale 7-poin steps from one end to the other in a series of unity. Perception/assessment of respondents tend to lead to negative poles or tend to lead to positive pole on the following items: (1) Education manager financial (low - high) (min bachelor degree); (2) Background of education (non-administration - administration); (3) Experience as a financial manager (inexperienced - experienced); (4) Layman - trained; (5) Understanding of the task (confused - understand); (6) Mastery of computer equipment (not mastered - skilled); (7) Mastery of financial applications (not mastering - mastering); (8) Motivation to the assignment (forced - enthusiastic). The above question items are adapted and modified from Roni's research (2015) and developed from the competency characteristics described by Dubois et al (2004, p.16).

#### *3.2.2. Internal Reconciliation*

Internal reconciliation refers to the regulation of the Minister of Finance number 222 / PMK.05 / 2016 which regulates guidelines for the preparation and submission of financial statements of state ministries / institutions. This variable is measured using the adjustment and development of the above ministerial finance regulation. Respondents were asked to provide perceptions of internal reconciliation processes in the preparation of financial statements in accordance with the above provisions using a bipolar scale 7-point through the following items: (1) the routine reconciliation of State Assets (BMN)

and finance (irregular - regular/routine); (2) timeliness of reconciliation between BMN and finance (late - on time/faster); (3) suitability reconciliation between BMN and finance (different – no different); (4) reconciliation routine between UAKPA and treasurer (irregular - regular / routine); (5) the timeliness of reconciliation between UAKPA and treasurer ((late - on time/faster); (6) suitability reconciliation between UAKPA and treasurer (different); (7) ease of coordination (difficult - easy); (8) speed of correction (slow - fast), (9) application benefits (complicate - simplify).

### *3.2.3. External Reconciliation*

External reconciliation refers to the regulation of the Minister of Finance number 210/PMK.05/2013 on guidelines for reconciliation in the framework of preparing the financial statements of the general treasury of state and state / institutional ministries. This variable is measured using the adjustment and development of the above ministerial finance regulation. Respondents were asked to provide perceptions of internal reconciliation processes in the preparation of financial statements in accordance with the above provisions using a bipolar scale 7-point through the following items: (1) reconciliation routine between UAKPA and KPPN (irregular - regular/routine) ; (2) timeliness of reconciliation between UAKPA and KPPN (late - on time/faster); (3) suitability reconciliation between UAKPA and KPPN (different – no different); (4) the benefits of e-recon application (complicate - simplify); (5) an independent reconciliation process between UAKPA and KPPN (slow-speeding); (6) speed of correction (slow - fast).

### *3.2.4. Quality of Financial Statemenet*

Government Regulation No. 71 of 2010 explains that the qualitative characteristics of government financial statements are normative measures that need to be manifested in financial statement information so as to meet the desired quality, namely: relevant, reliable, comparable, and understandable. This variable is measured using the adjustment and development of the government regulation. Respondents were asked to provide a perception of the quality of financial statements using a bipolar scale 7-point through the following items: (1) timeliness of presentation (late - on time); (2)

completeness of presentation (incomplete - complete); (3) benefits of feedback (useless - useful); (4) predictive benefits (useless - useful); (5) honesty of presentation (there is manipulation - as is); (6) verification capabilities (can not be verified - verifiable); (7) neutrality (take sides – neutral); (8) comparison (incommensurable - comparable); (9) the ability to be understood (elusive - easily understood).

Table 1.

Deskriptive statistics of variables studied.

Variable	Min	Max	Mean	SD
Human resources competency	2.63	6.25	4.74	0.99
Internal reconciliation	3.78	7.00	5.74	0.73
External reconciliation	4.33	7.00	6.00	0.62
Quality of Financial Statements	4.67	7.00	5.94	0.51

Table 1 presents the descriptive statistical results of the variables studied which cover minimum and maximum values, mean, and standard deviations. The table shows that while there is a wide range of responses, the means shows that financial managers have compiled financial statements that have good qualities (5.94). The reconciliation process tends to be well implemented, both for the internal reconciliation process (5.74) and the external reconciliation process (6.00). The lower rating indicates the competence of human resources that revealed that human resources executing reconciliation process and financial report compilers have upper-middle competencies. This is consistent with the condition of financial managers who have an accounting education background of only 4.55%.

#### **4. Results**

To test the hypotheses, a structural equation modeling with partial least squares (PLS) approach was employed because it is able to deal with multiple dependent and independent variables simultaneously. In addition, PLS is considered suitable because it can handle relatively small sample sizes and multicollinearity among independent variables. Another important reason for using PLS is that it does not require the assumption of normal distribution (Hair et al, 2014 p.16). This research uses WarpPLS 5.0 software.

The purpose of the structural model using the PLS approach is to maximize the variance described by the variables in the model using R-Square as a goodness-of-fit measure (Chin & Newsted, 1999). PLS is a component-based modeling technique which simultaneously examines both measurement and structural models. The measurement model specifies the relationship between the manifest items (indicators) and the latent variables (constructs) they represent. In other words, the measurement model assesses the reliability and validity of measures (indicators) relating to specific constructs. The structural model identifies the relationships among constructs. Hence, PLS is able to assess the validity of constructs within the total model (Chenhall, 2005).

#### *4.1. Measurement model analysis*

Reliability assessing of latent variable indicator is measured based on composite reliability value, because according to Hair et al (2014, p. 101) cronbach alpha tends to underestimate in measuring internal consistency reliability. The coefficient of composite reliability of test result to the construct is all above the received level of 0.70, which means it has qualified reliability. Evaluation of the validity of indicators of latent variables includes convergent validity and discriminant validity. The Outer model qualifies for convergent validity for reflective constructs when loading values are above 0.70 and statistically significant, but for certain conditions, loading between 0.40 - 0.70 should still be considered to be maintained with respect to its contribution to validity (Hair et al 2014 pp. 102). Convergence validity evaluation results for each variable can be seen in table 2.

Table 2.  
Reliability and convergent validity

Latent variable	Loading	p	Validity
HR competency (composite reliability = 0.867)			
HR Competency 1	0.430	<0.001	valid
HR Competency 2	0.544	<0.001	valid
HR Competency 3	0.858	<0.001	valid
HR Competency 4	0.848	<0.001	valid
HR Competency 5	0.827	<0.001	valid
HR Competency 6	0.401	<0.001	valid
HR Competency 7	0.78	<0.001	valid
HR Competency 8	0.587	<0.001	valid
Internal Reconciliation (composite reliability = 0.881)			
Internal Reconciliation 1	0.77	<0.001	valid
Internal Reconciliation 2	0.818	<0.001	valid
Internal Reconciliation 3	0.586	<0.001	valid
Internal Reconciliation 4	0.805	<0.001	valid
Internal Reconciliation 5	0.749	<0.001	valid

Internal Reconciliation 6	0.702	<0.001	valid
Internal Reconciliation 7	0.43	<0.001	valid
Internal Reconciliation 8	0.627	<0.001	valid
Internal Reconciliation 9	0.509	<0.001	valid
External Reconciliation (composite reliability = 0.822)			
External Reconciliation 1	0.673	<0.001	valid
External Reconciliation 2	0.643	<0.001	valid
External Reconciliation 3	0.75	<0.001	valid
External Reconciliation 4	0.672	<0.001	valid
External Reconciliation 5	0.593	<0.001	valid
External Reconciliation 6	0.624	<0.001	valid
Quality of Financial Statement (composite reliability = 0.848)			
Quality of Financial Statement 1	0.676	<0.001	valid
Quality of Financial Statement 2	0.8	<0.001	valid
Quality of Financial Statement 3	0.614	<0.001	valid
Quality of Financial Statement 4	0.451	<0.001	valid
Quality of Financial Statement 5	0.541	<0.001	valid
Quality of Financial Statement 6	0.656	<0.001	valid
Quality of Financial Statement 7	0.512	<0.001	valid
Quality of Financial Statement 8	0.643	<0.001	valid
Quality of Financial Statement 9	0.645	<0.001	valid

Discriminant validity assesses whether a construct shares more variance with its measures than with other constructs. It is evaluated by comparing the square roots of AVEs to the correlation between constructs. When the square root of AVE of a construct is greater than the correlation between the construct with another construct, it is deemed valid (Sholihin and Ratmono, 2013). The results are shown in Table 3 which include correlation among constructs in the off-diagonal and the square root of AVE in the diagonal. The diagonal elements are all greater than their respective off-diagonal elements, indicating adequate discriminant validity. Overall, the analysis demonstrates that the measurement model is reliable and valid.

Table 3.

Discriminant validity

	HRC	IR	ER	QFS
Human resources competency (HRC)	<b>0.683</b>			
Internal reconciliation (IR)	0.583*	<b>0.679</b>		
External reconciliation (ER)	0.450*	0.454*	<b>0.661</b>	
Quality of Financial Statements (QFS)	0.416*	0.458*	0.451*	<b>0.623</b>

Diagonal elemen : square root of AVE; off-diagonal : correlation between construct

\* significant at  $p < 0.01$

Table 3 illustrates a significant positive correlation between human resource competence and the quality of financial statements ( $r = 0.416$ ;  $p < 0.01$ ), internal reconciliation ( $r = 0.583$ ;  $p < 0.01$ ) and external reconciliation ( $r = 0.450$ ;  $p < 0.01$ ) suggesting that the competence of human resources is an important variable in improving the quality of financial statements, internal reconciliation and external reconciliation. In addition, the table indicates that the quality of the financial statements is positively associated with internal reconciliation ( $r = 0.458$ ;  $p < 0.01$ ) and with external reconciliation ( $r = 0.451$ ;  $p < 0.01$ ) indicates that the quality of the financial statements can be enhanced by the good implementation of internal reconciliation and reconciliation External. Finally, the table shows that internal reconciliation is positively correlated with external reconciliation ( $r = 0.454$ ;  $p < 0.01$ ) indicating that a good internal reconciliation process can support the external reconciliation process for the better.

#### *4.2. Structural model analysis*

The structural model is used to examine the relationship of hypotheses, especially to test whether the influence of human resource competence on the quality of financial statements is direct or indirect (ie mediated by internal reconciliation and external reconciliation). First, examine whether the competence of human resources affects the quality of financial reports directly to test the hypothesis H1. Secondly, run the PLS by introducing external reconciliation as a mediation variable. And thirdly, run the PLS by incorporating internal reconciliation and external reconciliation as a mediating variable, as illustrated in Figure 1 to test other hypotheses.

The results (see Table 4, section A) show that competence of human resources has a positive associated with the quality of financial statements (coefficient: 0.53,  $p < 0.01$ ). Hence the hypothesis H1 which states that the competence of human resources positively affect the quality of financial statements in support. Further analysis by introducing external reconciliation as a mediating variable indicates that human resource competence positively associated with external reconciliation (coefficient: 0.48;  $p < 0.01$ ) and external reconciliation also positively associated with the quality of financial statements (coefficient: 0.48;  $p < 0.01$ ). However, the direct influence of human resource competence on the quality of financial statements remains significant (coefficient: 0.32;  $p < 0.01$ ) (see Table 4, section B). The coefficient fell from 0.53 to 0.32. This means that external reconciliation mediates only partial

relationships between human resource competence and quality of financial statements. In other words, although there is an indirect influence of the competence of human resources on the quality of financial statements through external reconciliation, there is still a direct influence on the quality of financial statements.

Next perform structural analysis by incorporating internal reconciliation and external reconciliation into the model as the mediating variable as shown in Figure 2. The results show that the competence of human resources positively associated with internal reconciliation (coefficient: 0.58;  $p < 0.01$ ) and internal reconciliation also positively associated with the quality of financial statements (coefficient: 0.26;  $p < 0.01$ ). Hence, the hypothesis H2 (human resource competence positively associated with internal reconciliation) and H3 (internal reconciliation has a positive associated with the quality of financial statements) is supported. In other words, it can be stated that internal reconciliation mediates the relationship between human resource competence and the quality of financial statements.

Table 4.

PLS result (path coefficient,  $p$ ,  $R^2$ )

Section A. Direct Effect			
Variabel	Path to		
	QFS		
HRC	0.526 ( $p < 0.001$ )		
$R^2$	0.277		
Section B. Testing the mediating effect of external reconciliation			
Variabel	Path to		
	ER	QFS	
HRC	0.480 ( $p < 0.001$ )	0.321 ( $p < 0.001$ )	
ER		0.483 ( $p < 0.001$ )	
$R^2$	0.230	0.468	
Section C. Full Model			
Variabel	Path to		
	IR	ER	QFS
HRC	0.583 ( $p < 0.001$ )	0.169 ( $p = 0.043$ )	0.209 ( $p = 0.018$ )
IR		0.568 ( $p < 0.001$ )	0.255 ( $p = 0.006$ )
ER			0.432 ( $p < 0.001$ )
$R^2$	0.340	0.456	0.514

Second, the test results also show that the competence of human resources positively associated with external reconciliation (coefficient: 0.17,  $p = 0.04$ ) and external reconciliation have positive associated with the quality of financial statements (coefficient: 0.43;  $p < 0.001$ ). These results support the H4 hypothesis (human resource competence positively associated with external reconciliation) and H5 (external reconciliation positively associated with the quality of financial statements). Third, the relationship between internal reconciliation and external reconciliation is significant (coefficient: 0.57;  $p < 0.001$ ). Thus, the hypothesis H6 (internal reconciliation has a positive associated with external reconciliation) is supported. Finally, when internal reconciliation and external reconciliation are incorporated into the model as a mediating variable, the direct impact of human resource competence on the quality of financial statements remains significant (coefficient: 0.21;  $p = 0.02$ ). Summary of path coefficients and R<sup>2</sup> from endogenous constructs for complete models are presented in Table 4, section C and figure 2.

Overall, the results show that internal reconciliation and external reconciliation mediate partially the relationship between human resource competence and the quality of financial statements. Sholihin and Ratmono (2013) argue that if the influence of independent variables on the dependent variable after the included variable of mediation remains significant means there is partial mediation. In this study, the total indirect effect was 0.365 with significant value ( $p < 0.001$ ) which mostly indirect effect caused by internal reconciliation.

To assess the practical significance of this study and to estimate the extent to which statistical findings are in the population, an effect size test as suggested by Hair et al (2014). The effect size ( $f^2$ ) of this study, based on R<sup>2</sup> 0.514, is 0.302. According to Cohen (1988) this figure shows a fairly large effect; Therefore, it is suggested practical significance. Based on the test results, it is important for BPS to carry out a process of internal and external reconciliation well to improve the quality of financial statements. Finally, the results of three fit model indicator tests show that the APC and ARS values are significant ( $p < 0.001$ ) and AVIF less than 5. This indicates that the proposed model is supported by the data.

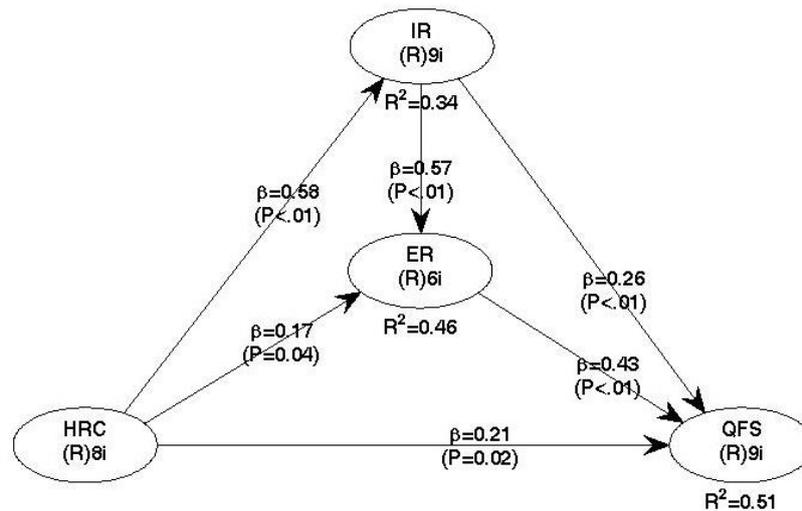


Fig 2. PLS results

## 5. Conclusion, Implication and Limitation

This study investigates whether the competence of human resources affects the quality of financial statements and if so, whether the effect is mediated by internal reconciliation and external reconciliation. Using a sample of 44 financial managers at BPS in West Nusa Tenggara Province, the study found that human resource competency is positively associated with the quality of financial statements. Further analysis arising from the introduction of internal reconciliation and external reconciliation as a mediating variable indicates that the association is mediated by both variables. This suggests that at BPS, internal reconciliation and external reconciliation play an important role in the relationship between human resource competence and the quality of financial statements.

This study shows that the competence of human resources can positively affect to the internal reconciliation process, external reconciliation process and the quality of financial statements. These findings support Herdianto's (2015) findings in improving human resource competence and implementing reconciliation positively related to the quality of financial statements. This is also consistent with Pradono and Basukianto's findings (2015); Wibowo (2013); Syahdan and Amjad (2012) and Tambunan (2012) stating that human resource competencies are positively related to reconciliation and reconciliation are also positively related to the quality of financial statements. In contrast to previous research, this study is not limited to the context of direct relationships between variables.

However it introduces internal and external reconciliation variables as a mediating variable and provides empirical evidence that internal reconciliation variables and external reconciliations mediate the relationship between human resource competence and the quality of financial statements.

From a practical perspective, this research implies that in preparing financial statements, the quality of financial statements is enhance when the competence of human resources is enhanced, the implementation of internal and external reconciliation processes run well according to the regulations. From a theoretical perspective, this study supports the agency theory argument that human resource competence can improve the quality of financial statements (Jensen and Meckling, 1976), and the theory of the usefulness of decisions that internal and external reconciliation processes improve the reliability of financial statements so as to be more useful in decision making (Scott, 2009).

This study is not without limitations. First, the exogenous variables studied focus on only one variable, which is the competence of human resources. However, there may be other factors that may affect the quality of financial statements through internal and external reconciliation variables, such as government regulations, controlling factors and supporting facilities and infrastructure (Pradono and Basukianto, 2015). Secondly, there are some indicators that have a loading below 0.70, although according to Hair et al (2014) still need to be considered to be maintained, but it is worth noting whether there are errors in the measurement where the response obtained is different from that expected by the researcher. Other limitations of this study are related to the scope of the research which is conducted on the vertical agency of BPS, so it is still necessary to test for this research to be generalized both for vertical agencies and local government.

With regard to the limitations encountered, there are three very relevant points to mention. First, it concerns other factors that affect the quality of financial statements through both internal and external reconciliation variables. Future study needs to consider including some variables such as the rules governing them, the controlling factors and the supporting facilities and infrastructure. The second concern is the evaluation of measurement of variables through research instruments in order to obtain more accurate answers according to field conditions. Final limitations, the following research needs to

do testing in the local government environment so that similar research results can be used as a generalization reference for both vertical agencies and local government.

Notwithstanding the above limitations, this study is believed to provide additional evidence on the importance of improving human resource competence and internal reconciliation as well as external reconciliation in an effort to enhance the quality of the financial statements.

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