

The Effect of Understanding of Government Accounting Standard and Internal Control System on Quality of Financial Statement from Local Government through Review Process of Financial Statement by Inspectorate Agency (A Study at Inspectorate Agencies in the Regencies and Cities of the Province of Aceh, Indonesia)

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Abstract

This study is aimed to examine the effect of understanding of the government accounting standard and internal control system on quality of financial statement from local government through review process of financial statement by inspectorate. The population of this study are officers at inspectorate doing review of government financial statement from districts and municipals in Aceh province. Total population are 160 respondents and sample are 72 respondents in 18 districts and 5 municipals. The data source is the primary data obtained from the respondents by distributing questionnaires to respondents. Analysis method used is path analysis. Results of this study show that (1) understanding of the government accounting standard, both directly and indirectly through review process of financial statement by inspectorate, has a significant effect on quality of financial statement from districts and municipals in Aceh province. (2) understanding of the internal control system directly does not have significant effect on quality of financial statement, but it has significant effect on review process of financial statement by inspectorate, and then review process of financial statement by inspectorate has significant effect on quality of financial statement. The results also can be described that (1) review process of financial statement by inspectorate can mediate the effect of understanding of government accounting standard and internal control system on quality of financial statement (2) the effect of understanding of the government accounting standard on quality of financial statement is partially mediation, whereas the effect of understanding of internal control system on quality of financial statement is fully mediation.

Keywords: Government Accounting Standard, Internal Control System, Review Process of Financial Statement, Quality of Financial Statement.

Introduction

Reforms in Indonesia has issued two laws that are very important in the constitutional system of central and local government. Both of these laws is Law No. 22 of 1999 which is now converted into Law No. 32 of 2004 on Regional Government and Law No. 25 of 1999 were converted into Law No. 33 of 2004 on the balance between the Financial Central government and Local Finance. Both of these laws were then set on regional autonomy. According to Law No. 32 of 2004, regional autonomy is the rights, powers and obligations of the autonomous regions to organize and manage the affairs of government and public interests in accordance with the legislation. With regional autonomy, the government is also required to report their public financial accountability to assess whether the local government managed to carry out their duties properly or not. Accountability for financial management embodied in the form of financial statements such as balance sheet, budget realization, cash flow statement and notes to the financial statements must be presented in accordance with SAP (Government Accounting Standards), as stated in Article 5 of the Indonesian Government Regulation No. 8 of 2006 About Financial Reporting and performance Government Agencies.

The financial statements are the result of the accounting process that contains financial information that is used by the parties concerned both internal and external (Mahsun, Sulistiyowati and Purwanugraha 2011, 115). Based on Government Regulation No. 8 of 2006, the financial statements are a form of financial management accountability countries / regions during the period. Therefore, the financial statements must meet the qualitative characteristics as stipulated in Government Regulation No. 71 Year 2010 that is relevant, reliable, comparable, and understandable. However, in practice not all local governments (LGs) in Indonesia presents its financial statements as expected in accordance with Regulation No. 71 The Year 2010. This can be seen in the financial statements of the district and town in the province of Aceh as a representation of the counties and cities in Indonesia. Based on data obtained from the BPK (Supreme Audit Board of the Republic of Indonesia) Representative Aceh (2014), since the beginning of the preparation of financial statements (in 2007) until 2013, the opinion given by the CPC to the local government districts and cities in Aceh province are still many in the form of WDP, very little

in the form of WTP. This indicates that there are still variations in the quality of financial statements presented by county and city governments in the province.

According Bauwhede (2001), one of the factors which affect the quality of financial reporting is a process of the Review of local government financial reports by the inspectorate. Based on the Regulation No. 4 of 2008 reviews the financial statements of local government do to provide assurance on the quality of local government financial reports. By STAN (2007, 14), the better the Review conducted by the inspectorate will affect the assessment of the financial statements CPC. The purpose of Review for local government financial statements based on Regulation No. 4 of 2008 is to provide limited assurance that the financial statements are prepared on the local government SPI (Internal Control System) adequate and presented in accordance with SAP. Therefore, in conducting the Review of financial statements required an understanding of SAP and the SPI. Damanik research results (2010) showed that the higher/lower understanding of SAP, the higher/lower inspectorate's role in reviewing the financial statements of the area. Therefore, in order that the financial statements of the Review process can be done well, it would require the pereviu (in this case the inspectorate) that understands SAP, so that it can be said that the higher the inspectorate understanding of SAP, the better the process of the Review of financial statements conducted by the inspectorate.

As has been mentioned earlier that in addition to the understanding of SAP, the financial statements of the Review process, the inspectorate should also have an adequate understanding of SPI. Understanding on SPI will facilitate the detection and disclosure problems found in the implementation of Review. That understanding will allow pereviu make appropriate recommendations in order that the problem is not reoccur in the future (STAN 2007, 65). Assessment of the SPI is useful to identify the systems and procedures of internal control of financial management are at risk for the occurrence of a material misstatement in the financial statements. Thus it can be said that the higher level of understanding about SPI inspectorate better the financial statements of the Review process undertaken by the inspectorate.

In addition to affecting the Review process financial statements, understanding of SAP and the SPI is also expected to affect the quality of financial reporting. Susilawati and Riana (2014) states that in order to achieve a higher quality of financial statements required a strong understanding of SAP. Likewise, the understanding of the SPI, As stated by Krishnan (2005) "the emphasis on good internal control of course arises Because It is Considered to be an important factor in Achieving good quality financial reporting". Furthermore, the results of research Syamsuar (2013) showed that with the implementation of SPI will improve the reliability of financial statements is one of the normative preconditions necessary for the financial statements of local government can meet the desired quality. Based on this background, the problem can be formulated as follows: "whether the understanding of SAP and the SPI by the inspectorate can affect the quality of the financial statements of local government in Aceh province, either directly or indirectly through the Review process of financial statements". To answer these questions further research is needed to lose a few hypotheses for the next, based on empirical data, hypothesis testing. This study propose a new model to test the effect of an understanding of SAP and the SPI by the inspectorate on the quality of financial statements, financial statements in which the Review process undertaken by the inspectorate serve as a mediating variable (intervening variable). With this model, the results of future research can show whether the Review process may mediate the effect of the financial statements of understanding of SAP and the SPI by the inspectorate on the quality of financial statements. If the answer can mediate, then this model will also be able to answer whether mediation partially or fully.

Literature Review and Hypothesis

According to Government Regulation No. 71 Year 2010, SAP is the accounting principles applied in preparing and presenting the financial statements of the government. Results of previous studies such as that conducted by Damanik (2010) who did research at the inspectorate Bedagai Serdang in North Sumatra shows that an understanding of SAP affect the role of the Inspectorate in the review of financial statements regions, where the higher/lower understanding of SAP, the higher/low inspectorate's role in the review of financial statements. It required pereviu competent in it as the result of research Amirullah, Darwanis and Yahya (2010) at the Inspectorate Aceh indicate that the competence of auditors positive effect on the implementation of Review of financial statements. According Kuntadi (2009), one of the general competencies that need to be owned by implementing the Review includes understanding of SAP (SAP). Therefore, an understanding of SAP is believed to affect the Review process of local government financial reports by the inspectorate.

Hypothesis 1: Understanding of SAP positive effect on the financial statements of the Review process by the inspectorate.

At the Review process, SPI assessment carried out for the creation of a healthy control environment, risk assessment implementation, implementation of control activities, the implementation of information and communication systems, and monitoring the implementation of control activities (Regulation No. 13 of 2006). Understanding (inspectorate) on SPI will facilitate the detection and disclosure problems found in the implementation of Review. That understanding will allow pereviu make appropriate recommendations in order

that the problem is not reoccur in the future, so understanding SPI is something that is absolutely necessary to get the quality of the Review (STAN 2007, 65-68). Thus it can be said that the higher level of understanding about SPI inspectorate increasingly well qualified financial report 'Review process does. Therefore, an understanding of SPI could be expected to affect the financial statements of the Review process by the local government inspectorate. Hypothesis 2: Understanding of SPI positive effect on the financial statements of the Review process by the inspectorate.

To produce quality financial statements, required an understanding of SAP that has been set by the government. According to Government Regulation No. 71 Year 2010, SAP is the accounting principles applied in preparing and presenting the financial statements of the government. Shahwan (2008) stated that the quality of financial reporting can be met if the level of proficiency and the preparation of financial reporting is based entirely on SAP. Results of previous studies such as that conducted by Syamsuar (2013) who did research on SKPK (Work Unit District) Aceh Besar shows that an understanding of SAP affect the quality of financial reporting area, where every increase understanding of SAP will be followed by the increase in the quality of financial statements area. The results of the same study also occurred in research conducted by Susilawati and Riana (2014) which concluded that SAP has positive influence on the quality of local government financial statements, so it requires a strong understanding of SAP to achieve a higher quality of financial statements. Therefore, an understanding of the SAP could be expected to affect the quality of local government financial reports.

Hypothesis 3: Understanding of SAP positive effect on the quality of local government financial reports.

According to Government Regulation No. 60 of 2008, SPIP is a process that is integral to the 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, the reliability of financial reporting, asset security state and adherence to legislation. SPI via the control environment can improve the quality of financial statements in terms of reducing the error reporting (Gordon and Smith 1992). Susilawati research results and Riana (2014) and Hidayat (2014) showed that SPI affect the quality of financial reporting. Similarly, the results of research Syamsuar (2013) showed that with the implementation of SPI will improve the reliability of financial statements is one of the normative preconditions necessary for the financial statements of local government can meet the desired quality. Previous Yunidar (2011) and Suhaili (2012) have also been doing the same research with the result that the SPI positive effect on the quality of financial statements. Furthermore, the results Irmawati (2013) showed that the factors affecting the quality of financial reporting SPIP. Therefore, an understanding of SPI could be expected to affect the quality of local government financial reports.

Hypothesis 4: Understanding SPI positive effect on the quality of local government financial reports.

The financial statements of the form of government responsibility on its performance. So that the financial statements presented deserve to be called a liability, it must qualify are free of material misstatement and are prepared in accordance with SAKD (the area of financial accounting system). Therefore, according STAN (2007, 2) required other parties to conduct independent and objective assessment of the feasibility. Independent party in question is the auditors who audit the financial statements of the BPK (Supreme Audit Agency). Before the CPC examination, the financial statements will direviu advance by the inspectorate, the goal is to produce financial reports that more quality so that it can influence the opinion of CPC, reviews the financial statements of local government is basically to improve the quality of financial reports of local government (STAN 2007, 131).

Kesuma research results, Nadirsyah and Darwanis (2014) suggest that to improve the information value of the local government financial reporting by the internal auditor's role in particular in terms of the implementation of Review of financial statements very huge impact in terms of improvement and presentation of financial statements. By STAN (2007, 14), the better the Review conducted by the Inspectorate will affect the assessment made on the accountability reports CPC regional head. Therefore, the Review process of local government financial reports by the inspectorate could be expected to affect the quality of local government financial reports.

Hypothesis 5: The process of the Review of financial statements by the inspectorate could be expected to affect the quality of local government financial reports.

Research Methodology

This study is hypothesis testing (hypothesis testing) and the nature of causality. Based on this study environmental conditions using field experiment, with minimal intervention level but still in a natural setting (not set). Time horizon used in data collection is one-short study with individual level of analysis units, which each individual employee inspectorate who reviews the financial statements. Thus, the population in this study were employees of inspectorates involved in the Review process of government financial reports of each inspectorate districts and cities in the province as many as 160 people. By using the formula Yamane (Sarjono and Julianita 2011, 30), a total sample of 72 employees inspectorate in 18 districts and 5 cities. Sample selection technique using proportionate stratified random sampling method, namely the method of taking a random sample from a population members and berstratum/terraced proportionally. This method was chosen because members of the population is heterogeneous (Sarjono and Julianita 2011, 24).

The data used in this research is the primary data is the source of data obtained directly from the original source (Indriantoro and Supomo, 1999, 146-147), with data collection using questionnaires given directly to respondents intended that the inspectorate employees involved in the process 'Review of financial statements. This research used path analysis (path analysis) is a method used to analyze the pattern of relationships between variables (Sarjono and Julianita 2011, 117). The questionnaire has been filled out by respondents, will be processed by using SPSS version 20. Prior to testing the hypothesis, first tested the quality of the data that test the validity and reliability testing. Testing the hypothesis in this study was conducted using a model substructures. According to Baron and Kenny (1986), the main advantage of structural modeling techniques are first, although these techniques were developed for the analysis of non experimental data (e.g., field-correlational studies), the experimental context actually strengthens the use of the techniques. Second, all the relevant paths are directly tested and none are omitted as in ANOVA. Third, complications of measurement error, correlated measurement error, and even feedback are incorporated directly into the model. The third advantage can be explained as follows: First, although the technique is developed for non-experimental data analysis (eg, correlational field studies), the actual context can also be used to analyze experimental data. Second, all of the variables that are interconnected directly tested and nothing is omitted. Thirdly, a complication of measurement error langsungke can be entered in the model.

Research Results and Discussion

To test the hypothesis substructures one effect of each independent variable is the understanding of SAP and the SPI to the mediating variables (the 'Review of financial statements) can be viewed by using the coefficient of each independent variable in the "standardized coefficients" as presented in Table 2.

Table 1
 Coefficients Sub Structure 1

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.542	.289		1.880	.064
1 Understanding of SAP	.521	.085	.570	6.144	.000
Understanding of SPI	.318	.102	.289	3.112	.003

Source: the data processing 2015

Based on Table 2 equation $Y = 0,570X_1 + 0,289X_2$, and can be explained as follows:

The probability value (sig.) For the variable X1 (understanding of SAP) = 0.000 < 0.05. Thus Ha accepted. That is the understanding of SAP significantly affect the financial statements of the Review process by the inspectorate. Furthermore, the probability value (sig.) For X2 (the understanding of SPI) = 0.003 < 0.05. Thus Ha accepted. That is the understanding of SPI significantly affect the financial statements of the Review process by the inspectorate.

To see the huge direct and indirect influence of the independent variables (X1 and X2) to the mediating variable (Y) is presented in Table 2.

Table 2
 Effect of X1, X2 to Y in Direct and Indirect

No	Variable	path coefficient	Effect			Description
			Direct	indirect	Total	
1	X ₁ to Y	0,570	0,325	-	0,325	strong ³⁾
2	X ₂ to Y	0,289	0,083	-	0,083	weak ³⁾
3	X ₁ to Y through X ₂	0,556 ¹⁾	-	2 (0,570 x 0,289 x 0,556)	0,183	Moderate ³⁾
	Influence simultaneously (R ² 1)				0,591 ²⁾	Very strong ³⁾
	The influence of other variables (ε1)				0,409	

Source : Results of data processing 2015

- 1) value was obtained from Pearson Correlation table in Appendix 3
- 2) The value of R Square = value Substructure Model Summary Table 1 in Appendix 3
- 3) Check the criteria on the previous page (Bungin 2014)

Based on Table 3 shows that the X1 is directly significant effect on Y in the amount of (0.570) 2, or 32.5% (strong influence) and the indirect effect through X2 is equal to 18.3% (moderate effect), while the influence of X2 to Y only worth (0.289) 2 or 8.3% (effect is weak). to test the hypothesis substructures 2 influence of each independent variable is the understanding of SAP and the SPI and mediating variables (the 'Review of financial statements) on the quality of financial statements can be viewed using the coefficient of each independent variable and mediating in the "standardized coefficients" as presented in Table 3.

Table 3

Coefficients Sub Structure 2

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	.961	.292		3.293	.002
1 Understanding of SAP	.227	.104	.280	2.180	.033
Understanding of SPI	.086	.108	.088	.802	.425
Review Process of LKPD	.367	.119	.414	3.089	.003

Source: Results of data processing 2015

Based on Table 4 obtained by the equation $Z = 0,280X_1 + 0,088X_2 + 0,414Y$, and can be explained as follows: the probability value (sig.) Variable X1 (understanding of SAP) = 0.033 < 0.05. Thus Ha accepted. That is the understanding of SAP significantly affect the quality of financial reporting. The probability value (sig.) X2 (understanding SPI) = 0.425 > 0.05. Thus Ha rejected. That is the understanding of the SPI does not significantly affect the quality of financial reporting. Furthermore, the probability value (sig.) Variable Y (the 'Review of financial statements) = 0.003 < 0.05, so that Ha is accepted. This means that the Review process financial reports by the inspectorate significantly affect the quality of financial reporting. to see the huge direct and indirect influence of the independent variables (X1 and X2) and the mediating variable (Y) to the dependent variable (Z) are presented in Table 4.

Table 4
 Effect of X1, X2 to Y in Direct and Indirect Through Y

No	Variable	path coefficient	Effect			Description
			Direct	indirect	Total	
1	X ₁ to Z	0,280	0,078		0,078	Weak ³⁾
2	X ₂ to Z	0,088	0,008		0,008	No effect ³⁾
3	Y to Z	0,414	0,171	-	0,171	Moderate ³⁾
4	X ₁ to Z through X ₂	0,556 ¹⁾		2 (0,280 x 0,088 x 0,556)	0,027	Weak ³⁾
5	X ₁ to Z through Y	0,730 ¹⁾		2 (0,280 x 0,414 x 0,730)	0,169	Moderate ³⁾
6	X ₂ to Z through Y	0,605 ¹⁾		2 (0,088 x 0,414 x 0,605)	0,044	Weak ^{**)}
	Effect of simultaneous or together (R ²)				0,499 ²⁾	Very Strong ³⁾
	The influence of other variables (ε ₂)				0,501	

Source: Results of data processing 2015

- 1) value was obtained from Pearson Correlation table in Appendix 3
- 2) The value of R Square = value Substructure Model Summary Table 2 in Appendix 3
- 3) Check the criteria on the previous page (Bungin 2014)

Based on Table 5 obtained a direct influence on Y X1 is equal to (0.280) 2 or 7.8% (weak influence) and the direct effect of Y to Z is 17.1% (moderate effect). The influence of the Z X1 through X2 by 2.7% (effect is weak). These results indicate that the effect of an understanding of SAP to the quality of financial reporting is partially mediation, which is a state where the independent variables affect the dependent variable either directly or indirectly through the mediating variable. On the other hand, the variable X2 directly does not affect the Z, but it does not directly affect the Z over Y by 4.4% (effect is weak). The results of this study indicate that an understanding of the effect of SPI on the quality of financial reporting is fully mediation, which is a state where in which the independent variable was not directly affect the dependent variable, but influential through mediating variables (intervening). In other words, a state where the independent variable can affect the dependent variable only through the mediating variable.

Discussion

The results showed that an understanding of SAP significantly influence the financial statements of the Review process by the inspectorate. That is, high and low quality of financial reporting by the Review process inspectorate influenced by the ability to understand more about SAP and SAP's understanding of the magnitude of the effect on the financial statements of the Review process by the inspectorate amounted to 32.5% (strong effect). Positive directional coefficient means that higher levels of employee understanding of inspectorates to SAP, the higher the quality of the financial statements of the Review process undertaken by the inspectorate. It can be interpreted that an understanding of SAP were able to improve the quality of the Review process financial reports by the inspectorate. Therefore, to optimize the process of the Review of financial statements by inspectorates, agencies need to pay attention perevui ability to understand more about SAP. Kuntadi (2009) states that one should be owned by the government's financial statements perevui is an understanding of SAP.

The results are consistent with results of previous studies conducted by Damanik (2010) which shows that the understanding of SAP affect the role of the inspectorate in the review of financial statements, where the

higher/lower understanding of SAP, the higher/lower the role of the inspectorate in the review of financial statements. The results showed that the understanding of the SPI has a significant effect on the financial statements of the Review process by the inspectorate. That is, high and low quality of financial reporting by the Review process inspectorate influenced by the ability to understand the magnitude of the effect of SPI and SPI understanding of the financial statements by the Review process inspectorate amounted to 8.3% (effect is weak). Positive directional path coefficient means that the higher the level of understanding of the inspectorate of the SPI, the higher the quality of the Review process financial reports by the inspectorate. This result is consistent with that required by STAN (2007, 11) that the information submitted in the review of financial statements that have added value, then one process of the Review to be done is to examine and assess whether or not, adequately whether or not the application of controls conducted on implementation of accounting, finance and operations.

Based on the Regulation No. 4 of 2008, one of the goals of local governments' Review of financial statements is to provide limited assurance that the financial statements are prepared on the local government SPI adequate. Therefore, understanding the SPI is absolutely necessary to produce the Review process more optimal financial statements (STAN 2007: 68). The test results substructure path coefficient 2 shows that an understanding of SAP directly affect weak (7.8%), but indirectly through the Review process has the effect that the financial statements were (16.9%) on the quality of financial reporting. This means that the level of quality of financial reports may be affected by the ability of the inspectorate in understanding SAP employees, either directly or indirectly through the Review process of the financial statements. Therefore, to improve the quality of financial reporting, agencies need to improve perview in understanding the SAP, which will improve the quality of financial statements of the Review process which will ultimately improve the quality of local government financial reports. SAP is the accounting principles applied in preparing and presenting the financial statements of the government, where one of the benefits is to improve the quality of financial statements (PP No. 71 Year 2010). Inspectorate as perview financial statements of local government requires an understanding of SAP to be able to determine that the financial statements meet accounting standards already set. Therefore, the higher the level of understanding perview of SAP, it will be the quality of financial statements presented.

The results are consistent with results of previous studies conducted by Syamsuar (2013) which concluded that the understanding of SAP affect the quality of financial reporting area, where every increase understanding of SAP will be followed by the increase in the quality of financial reporting area. The results of the same study also occurred in research conducted by Hidayat (2014); Sari, Adiputra and Sujana (2014); and Susilawati and Riana (2014) which concluded that SAP has positive influence on the quality of local government financial statements, so it requires a strong understanding of SAP to achieve a higher quality of financial statements. The test results substructure path coefficient 2 shows that understanding employee about SPI inspectorate directly not significantly affect the quality of financial reporting. That is, high and low quality of financial statements are not directly affected by the ability of the inspectorate in understanding the SPI, but indirectly through the Review process of the financial statements, the level of understanding of the SPI inspectorate significant effect on the quality of financial statements although its influence is still weak. It can be interpreted that the Review process of the financial statements by the inspectorate is essential to bridge the comprehension level of the SPI inspectorate in an effort to improve the quality of local government financial reports. The results of this study are not consistent with the results of research Yunidar (2011); Suhaili (2012); Syamsuar (2013); Irmawati (2013); Susilawati and Riana (2014); Hidayat (2014); and Herath (2014) in which SPI affects the quality of financial statements, but is consistent with the results of research Munteh (2013) which showed that there was no significant effect of SPI on the quality of local government financial reports.

SPI is not influential understanding of the quality of financial reports may be caused by the respondent taken is perview financial statements. Therefore, an understanding of the SPI does not have significant impact on the quality of financial statements. This proves that in conducting the Review of local government financial statements, understanding of SPI is not to improve the quality of financial reports and city district governments in Aceh province, but to improve the quality of the Review process financial reports by the inspectorate. Moreover, the cause is not influential understanding of SPI on the quality of financial reports due by Regulation No. 4 of 2008 perview only provide limited confidence that the financial statements presented by local governments has been prepared based SPI adequate, did not have the authority to audit or examine the five elements of SPI in detail so as not to affect the quality of the financial reports of local government districts and cities in the province. However, an understanding of SPI affect the quality of financial reporting through the Review process financial reports by the inspectorate of 4.4% (effect is weak). This shows that the understanding of the SPI has no direct influence on the quality of financial statements, but may affect indirectly ie through the Review process financial reports by the inspectorate thus indirectly understanding of SPI can also affect the quality of local government financial statements (fully mediation).

The results showed that the Review process of local government financial reports by the inspectorate has a significant influence on the quality of the report keuangandengan rising power that is equal to the level of 17.1%. This means that the level of quality of financial reporting is influenced by the Review process financial reports by

the inspectorate. Therefore, to improve the quality of financial reporting, agencies need to improve the quality of the Review process financial reports by the inspectorate. The results are consistent with the results of research Kesuma, Nadirsyah and Darwanis (2014) which shows that to increase the value of reporting information of local government finance it with the role of internal auditors in particular in terms of the implementation of Review of financial statements very huge impact in terms of improvement and presentation of financial statements. Based on the Regulation No. 4 of 2008 states that reviews the financial statements of local government do to provide assurance on the quality of local government financial reports. Therefore, the better the Review conducted by the inspectorate will affect the assessment of the financial statements CPC (STAN 2007, 14).

Conclusion

Based on the results of research and discussion, we can conclude some of the following: an understanding of SAP, either directly or indirectly through the Review process financial reports by the inspectorate, affect the quality of the financial statements of the district and town in the province of Aceh. This shows that the understanding of the effect of SAP on the quality of financial reporting through the Review process financial reports by the inspectorate and the district governments in Aceh province is partially mediation. Further understanding of the SPI does not directly affect the quality of the financial statements, but indirectly through the Review process financial reports by the inspectorate affect the quality of the financial statements of the district and town in the province of Aceh. This shows that the understanding of the effect of SPI on the quality of financial reporting through the Review process financial reports by the inspectorate and the district governments in Aceh province with a fully mediation.

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