

CHAPTER I

INTRODUCTION

Research Background:

The growing public demand for effective governance has prompted central and local governments to establish public accountability. The current phenomenon in the development of the Indonesian public sector is poor accountability and demands for transparency of both central and local government (Purnamawati & Hatane, 2020). Since implementing regional autonomy in Indonesia, the central government has authorized province and district/city regions to govern themselves as autonomous entities (Anggraeny, 2020). As a result of the implementation of regional autonomy, which prioritizes performance accountability and public service improvement, local governments have recently been subjected to several internal and external pressures, such as increasing optimal performance and community demands that local governments be able to create prosperous community goals (Sani & Bawono, 2022). The government issued presidential instruction number 7 in 1999 on the Government Institution Performance Accountability Report (LAKIP) to indicate its commitment to supporting bureaucracy and monetary management reform. LAKIP is one of the government accountabilities to the public that contains information about the program's success and activities (Ahyaruddin & Akbar, 2018). However, Farida et al. (2021) state that the Indonesian government institutions' performance measurement system has not been appropriately implemented.

According to Fitriati et al. (2020), AIS implementation in Indonesian central and regional governments is still ineffective. This can be seen from the quality of the financial statements produced by the AIS. According to the first semester of 2019, Audit Board of Indonesia (BPK) reported, out of the 542 local government financial reports (LKPD) that were examined, approximately 16% of the LKPD did not receive an unqualified (WTP) opinion. This issue might be due to the lack of compatibility between LKPD and Government Accounting Standards or the insufficiency of evidence to support the fairness of LKPD. However, in the context of this study, local government organizations in special region of Yogyakarta have a good accountability. The results of this study would be a role model for other local governments. According to Kuh (2006), a quality AIS is essential to elevate and enhance fiscal reporting precision while complementing decision-making procedures in regional governmental bodies. Overall, the evidence indicates that improving the quality of AIS in local government entities is critical for ensuring clarity, accountability, and competent decision-making (Moretti et al., 2019). Implementing an AIS offers advantages to the government by promoting openness and accountability in monetary management. This ensures that program activities are accurately documented. According to Mulyani (2021), the effectiveness and efficiency of AIS can affect an organization's ability to produce accurate financial reports.

Local government accountability has relevance to the following Qur'anic verses: According to QS. Az-Zalzalah Verse 7-8

فَمَنْ يَعْمَلْ مِثْقَالَ ذَرَّةٍ خَيْرًا يَرَهُ ۗ

وَمَنْ يَعْمَلْ مِثْقَالَ ذَرَّةٍ شَرًّا يَرَهُ

The Meaning: "Then, whoever has done an atom's weight of good shall see it, And whoever has done an atom's weight of evil shall see it."

This scripture underlines that every deed, no matter how minor, will be accounted for on the Day of Judgment. Even the most insignificant good deed will be rewarded, while the most insignificant evil deed will be punished. This emphasizes the significance of being conscious of our actions and striving to do good in all our lives.

According to QS Surah An-Nisa, 4:124

وَمَنْ يَعْمَلْ مِنَ الصَّالِحَاتِ مِنْ ذَكَرٍ أَوْ أُنْثَىٰ وَهُوَ مُؤْمِنٌ
فَأُولَٰئِكَ يَدْخُلُونَ الْجَنَّةَ وَلَا يُظْلَمُونَ نَقِيرًا ﴿١٢٤﴾

Meaning: And whoever performs honorable deeds as a believer, male or female, will enter Paradise and will not be wronged even by the size of a speck on a date seed (Surah et al. 124 (4:124 Quran) With Tafsir - My Islam)

This verse highlights the importance of righteousness and faith in God to reach Paradise and that adults are treated equally and capable of accomplishing righteous deeds. It also emphasizes God's love and justice in that those who do well will be rewarded and not be harmed, even by the slightest amount. This verse

encourages us to strive for righteousness in every facet of our lives and to believe in God's mercy and justice. The application of the above paragraph is in the form of an attitude of righteousness (accountability) to the public regarding the government's monetary management system. Based on this paragraph, local governments must be more accountable to the public.

However, to maintain the quality of an AIS and uphold accountability in local government, having a solid understanding of accounting is crucial. Priono et al. (2019) state that a proficient team and internal control are necessary for effective monetary management. This emphasizes the significance of competent individuals overseeing financial operations within local governments. With proper accounting knowledge, local governments can efficiently handle their finances, resulting in better delivery of public services. Nurlis (2018) states that to enhance the quality of financial reporting in local government, it is imperative for government employees, particularly those in accounting roles, to undergo education and training on the implementation of Government Accounting Standards. This will enable them to apply these standards when preparing financial statements effectively. According to Nurlis (2018), the Regional Work Unit (SKPD) shows an inadequate understanding or management of local government finances, leading to the inefficient use of resources, time, and effort.

Almasria et al. (2021) state, "A high-quality accounting information system coupled with a solid foundation of accounting knowledge can lead to improved

financial reporting, enhanced efficiency, and better risk management." For local governments to perform at their peak, they must have an exceptional accounting information system. However, technology alone cannot guarantee improved financial reporting, efficient operations, and risk management. It is equally crucial that professionals in the accounting field possess a sound understanding of the basic principles and knowledge required for achieving these goals. According to Ismail (2009) and Sajjad Hosain (2019), Accounting knowledge (AK) about accounting information systems is defined as employee understanding of computer usage, recordkeeping, internet usage, receiving and sending e-mail, managing databases, spreadsheets, and word processing. According to Alnajjar (2017), accounting knowledge refers to understanding accounting principles, practices, and procedures and how they relate to using accounting information systems. Similarly, He contends that accounting experience can gauge managers' knowledge, level of information technology awareness, information system background, recognition of IT's potential, and capacity to use information systems for strategy development.

Ganyam and Ivungu (2019) define AIS as a system comprising integrated business components and resources that process, manage, and regulate the data for creating and transmitting relevant information to the organization. An AIS tool can help organizational management improve operations control and the firm's performance. AIS integrates accounting with technology, information, and managerial approaches (Akhter, 2022). AIS includes identifying, collecting, processing, and disseminating accounting data to employees and decision-makers

at all organizational levels (Almubaideen, 2021). According to Komala and Al-Attar (2021), AIS quality is the characteristics of accounting information or the rules that must be adopted to assess the quality of accounting information. The quality of AIS significantly impacts the effectiveness and efficiency of decision-making in local government (Mulyani, 2021). AIS quality refers to the ability of the system to provide dependable, relevant, and timely information to decision-makers. The performance and accountability of local governments rely heavily on the quality of their accounting information systems (Ii, 2022). According to Al-Waeli (2020), the successful integration of AIS will primarily depend on how well the performance management is designed to support its operation, as management will significantly impact the effectiveness of the information system.

Almasria et al. (2021) research indicates that using AIS in the input and output of accounting data subjects to audit procedures improves the quality of auditing processes, resulting in better transparency and accountability when presenting financial reports. This demonstrates that having a quality AIS can significantly improve the precision and dependability of financial records, empowering local governments to make informed decisions based on accurate data. Fitriati et al. (2020) State that accounting information system usage can lead to faultless accounting information that is precise, punctual, comprehensive, and applicable to decision-making procedures. Considering the growing emphasis on data accuracy and transparency, it is essential to investigate how AIS quality shapes decision-making processes (Bird et al., 2020).

According to Sofyani, Akbar, and Ferrer (2018), a complex AIS with interdependent elements is crucial for businesses to reach their goals. These components consist of personnel, equipment, and finances. Every constituent is essential in ensuring the mechanism runs smoothly without complications. Employees are responsible for accurately inputting data into the system while following appropriate regulations. Computers and servers enable secure access to information when necessary. Financial resources are vital in supporting infrastructures and advancing developments to improve operational efficiency in local government. The quality of an AIS impacts the accuracy and efficiency of financial reporting. This has significant implications for any organization's overall performance, as stated by (Mulyani, 2021). Setyaningsih (2021) states that to produce relevant, accurate, and reliable financial reports, local governments must have a reliable accounting information system. A weak AIS might result in less dependable and less relevant financial reports, reducing decision-making efficiency. In various settings, higher-quality AIS is associated with enhanced performance and increased accountability, according to (Sow, 2021).

Enhancing the quality of AIS in regional governance is crucial, as per Priono et al. (2019). It can lead to effective monetary management and decision-making, benefiting the local government. This advancement significantly impacts optimum resource allocation within local governments, exemplified by the research study conducted by Haliah and Nirwana (2019). The study emphasized that accurate AIS

plays a significant role in providing immediate data on monetary transactions for developing a budget plan for economic resource allocation. Improving these information systems will enable local authorities to oversee their cash flow seamlessly and monitor expenses effectively while highlighting areas where cost reductions are feasible (Setyaningsih et al., 2021). This strategic approach enables them to make informed decisions, prioritizing more effective resource distribution to benefit their communities' well-being. For example, with better visibility into profit streams and incurred costs, they could channel funds from unnecessary expenditures toward enhancing infrastructure or public services such as healthcare or education.

Research conducted by Almubaidee (2021) found that AIS is adequate for implementing open budgets because it improves the quality and timeliness of information and simplifies work. Wisna et al. (2020) research, namely, User Competency and Its Effect on AIS Implementation, concluded that strengthening skills will contribute positively to accounting information system quality. The research conducted by Purnamawati and Hatane (2020), according to the findings, competency and the quality of local government's financial reports were positively and significantly correlated. The study also found that introducing the regional management information system significantly and positively affects the financial statement presentation standard within the Pangkep Regency Government. Consequently, the quality of the presentation of the local government's financial statements improves as the AIS is implemented more effectively. Moreover, Nahar

et al. (2018) study also found that implementing AIS will significantly impact the financial statements' quality.

According to Onaolapo and Odetayo (2012) and Huy and Phuc (2020), there is insufficient evidence to illustrate the relationship between AIS and accountability in the local government context. However, the relationship between AIS quality and accountability has inconsistencies in the research results. Numerous studies conducted by earlier researchers demonstrate that AIS quality has a positive impact on the accountability and financial reporting of local government (Purnamawati & Hatane, 2020) ; (Nahar et al., 2018) ; (Kareem et al., 2021) ; (Anggraeny, 2020) ;(Laksmi et al., 2019). In contrast, in his research, Gamayuni (2019) found that accounting information systems had no effect on participation, accountability, or transparency in good governance. Nurlis (2018) found that implementing AIS has no significant effect on the quality of financial reporting. Moreover, Sumaryati et al. (2020) study also concluded that applying AIS and internal control systems does not affect the financial reporting quality in the Grobogan Regency's local government.

The inconsistent research findings on the role of AIS quality on local government accountability imply that extra variables influence how AIS and accountability are related, one of which is accounting knowledge. Accounting knowledge may play a mediating role in this relationship. According to Alnajjar (2017), accounting knowledge refers to understanding accounting principles,

practices, and procedures and how they relate to using accounting information systems. Accounting expertise is a person who works in the accounting department and contributes to determining an organization's plans, systems, processes, and goals (Syafaat et al., 2022). Information system users who possess the expertise acquired through training and experience will be more satisfied when using accounting information systems and assist in completing their tasks (Kareem et al., 2021). The effectiveness of the accounting information system depends on how competent its users are; as their proficiency increases, so does the system's performance (Hertati et al., 2021). According to Ermawatiningsih and Kepramareni (2019), the level of education plays a vital role in increasing the effectiveness of the system's use, as those with a higher level of education will have a greater capacity for assimilation when learning the system, thereby enhancing performance when implementing the system. The more education an employee possesses, the more effective their use of a system.

This study aims to examine the role of AIS quality on the accountability of local governments in the Special Region Of Yogyakarta and to what extent accounting knowledge plays a role in mediating this relationship. This study will thoroughly examine the literature on accounting information system quality, accountability, and accounting knowledge.

The results of this study will help us comprehend the significance of accounting information systems quality in local government activities, as well as

how accounting knowledge plays a role in mediating the relationship between accounting information system quality and accountability. This information can guide policymakers and officials in local government organization in Special Region of Yogyakarta, Indonesia, and other local government contexts.

Research Questions:

From the background that has been outlined above, the main problem can be formulated as follows:

1. Does accounting information system quality affect local government accountability in the Special Region of Yogyakarta, Indonesia?
2. Does accounting information system quality affect the accounting knowledge of local government in the special region of Yogyakarta?
3. Does accounting knowledge affect the accountability of local government in the special region of Yogyakarta?
4. Does accounting knowledge mediate the relationship between accounting information system quality and local government accountability in the Special Region of Yogyakarta, Indonesia?

Research Objective

1. To examine empirically accounting information system quality in local government agencies in the Special Region of Yogyakarta, Indonesia.
2. To examine empirically accounting information system quality on the accountability of local government agencies in the Special Region of Yogyakarta, Indonesia.
3. To examine empirically accounting information system quality on the accounting knowledge of local government agencies in the special region of Yogyakarta.
4. To examine empirically accounting knowledge on the accountability of local government agencies in the special region of Yogyakarta.
5. To examine empirically the mediating effect of accounting knowledge on the relationship between accounting information system quality and the accountability of local government agencies in the Special Region of Yogyakarta, Indonesia.

Research Benefits

1. Theoretical Contribution

This study will contribute to the accounting and public sector literature by investigating the role of AIS quality on the accountability of local governments in Indonesia. It also extends the current knowledge on the mediating effect of accounting knowledge on the relationship between AIS quality and accountability.

2. Practical Contributions

a. The findings of this study will provide insights to local government officials in the Special Region of Yogyakarta, Indonesia, on the importance of AIS quality in achieving better performance and accountability. The study will also highlight the importance of accounting knowledge in enhancing the effectiveness of AIS in local governments.

b. The research can help local government officials comprehend the correlation between accounting information system quality, accountability, and accounting knowledge. This helps identify and rectify gaps in their current system, leading to improved accountability.