

THE INTERNATIONAL JOURNAL OF BUSINESS & MANAGEMENT

The Influence of Internal Control, HR Competencies and Follow-up Audit Results on the Quality of Financial Reporting Through Disclosure of Financial Reporting: Empirical Study on PDAM Denpasar City, Indonesia

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Abstract:

The aim of this study was to obtain empirical evidence of the influence of internal control, human resource competencies and follow-up audit results on quality of financial reporting through disclosure of financial reporting. This research was conducted on the administrators and employees of PDAM Denpasar City who have the duties and functions to compile, analyze and/or review and/or evaluate financial statements. The number of respondents is 33 employees selected by the saturated sample method. Data was collected by questionnaire and data analysis using Partial Least Square (PLS) program. The results of hypotheses testing show that internal control, human resource competencies and follow-up audit results have a positive effect on the disclosure of financial reporting. Internal controls and disclosure of financial reporting have a positive effect on quality of financial reporting, while human resource competencies and follow-up audit results have no effect on the quality of financial reporting. Variables disclosure of financial reporting partially mediate the influence of internal control on quality of financial reporting and fully mediate the influence of human resource competencies and follow-up audit results on quality of financial reporting.

Keywords: *Internal control, HR competencies, follow-up audit results, disclosure of financial reporting, quality of financial reporting*

1. Introduction

Regional Owned Enterprises or often abbreviated as BUMDs are public entities with the majority or the total capital owned by the regional government. This BUMD was born along with the implementation of fiscal decentralization policy. Fiscal decentralization was a form of delegation of authority in the field of finance from the central government to regional governments. However, the process of delegating authority to the region often triggers agency conflicts which were generally caused by an information gap between the owner, namely the local government and the agent. The phenomenon that occurs due to agency conflict was the strengthening of public demands related to openness and accountability in the management and accountability of public finances (Agusti et al., 2014). The main mechanism in creating public accountability was with more transparent financial reporting. The importance of financial reporting conducted by BUMD was a form of accountability for the utilization of resources entrusted to management so that BUMDs must also present quality financial reports. But in reality, the financial performance of the public sector, especially BUMD, has recently received negative attention from the public. This was evidenced by the news on the balitribun.co.id website on October 10, 2016 regarding the existence of audit findings on one of the regional drinking water companies (PDAMs) in Bali.

The motivation of this research was done because research on financial reporting quality was mostly carried out in local governments and ministries or institutions. While research on the quality of financial reporting carried out on BUMD which was part of the separated state wealth was still relatively small. The object of this research was PDAM Denpasar City as one of the regional companies that were profitable and gives a substantial contribution to the local revenue (PAD). Contributions given in the last six years were around Rp. 32,976,018,000. PDAM Denpasar City was also one of the PDAMs that always obtain unqualified opinion (WTP) on the financial statements presented. However, the WTP opinion does not mean that the financial statements of PDAM Denpasar City were free from findings and recommendations from the auditor. WTP opinion can be reached when audit findings were immaterial and management carries out follow-up on suggestions provided by the auditor. One of the findings contained in the management letter for auditing the financial statements of PDAM Denpasar City is related to weaknesses in the implementation of internal control activities. So that to address this, the Internal Control Unit (SPI) of PDAM Denpasar City strengthens its function as one of the strategic management partners in improving the management of the company. Currently SPI PDAM Denpasar City has a

relatively new function compared to other functions. One of these functions was to ensure fairness, accountability, transparency and accountability of financial statements as well as the application of risk management in the annual supervisory work program to identify financial risks and determine the priority of management's attention to these risks for analysis and evaluation so that PDAM Denpasar City can present quality financial reports to the public.

2. Literature Review

2.1. Internal Control

The high quality of financial reporting was determined by how well the internal control is owned by the entity. Internal control was the control of all activities carried out by financial management employees based on policies, procedures and regulations that apply in accordance with established standards so that all errors and fraud can be avoided (Kewo&Afiah, 2017). The effectiveness of implementing internal control is to fulfill financial reporting responsibilities (Susilawati& Riana, 2014). The results of the research (Suwanda, 2015), (Sudiarianti et al, 2015), (Kiranayanti&Erawati, 2016), (Siwambudi et al., 2017), and (Mutiana et al., 2017) obtain results that the quality of financial reports is positively influenced by the internal control system. The results of this study are different from (Setiyawati, 2013) and (Nurlis&Yadiati, 2017) which obtain results that the internal control system does not influence the quality of financial statements. Some components of the internal control system that will be the measurement dimensions of internal control in this study are (1). control environment; (2). risk determination; (3). control activities; (4). information and communication and (5). Monitoring.

2.2. Human Resource Competencies

In order to compile and present quality financial statements, human resources (HR) competency are needed. HR competency is the ability to carry out functions effectively and efficiently to achieve goals (Ihsanti, 2014). The quality of financial reporting will be better if the administrative apparatus involved in the process of preparing financial statements has good knowledge, adequate skills, rational and responsible attitude and adequate experience (Nurlis&Yadiati, 2017). Research from (Suwanda, 2015), (Kiranayanti&Erawati, 2016), (Irvan et al., 2017) and (Synthia, 2017) obtained results that HR competencies have a positive influence on the quality of financial statements. Different from research results (Syarifudin, 2014) and (Siwambudi et al., 2017) which states that the quality of financial statements is not influenced by HR competencies. Similarly (Agusti et al., 2014) states that the possibility of high accountability and transparency in public finance is not influenced by the quality of human resources. The dimensions used to measure human resource competencies consist of (1). knowledge; (2). skill; (3). Behavior.

2.3. Follow-Up Audit Results

One of the other determining factors in determining the quality of financial reporting is the implementation of follow-up on recommendations provided by the auditor. (Arifianti et al., 2013) explained that recommendations are relevant suggestions from the examiner based on audit findings that are very important to be followed up to avoid repeated findings. The results of his research stated that the performance of the regional government was influenced by the follow-up of audit findings in a positive and significant manner. Similar results were also obtained in the study (Kustiawan, 2016) that the quality of financial reports was positively influenced by follow-up audit findings, in line with the results of the study (Tresnawati & Apandi, 2016). While (Agusti et al., 2014) get different results, namely the audit opinion that reflects the quality of the financial report is not influenced by the follow-up of the audit results. The indicators used to measure follow-up to audit results are: (1). obligation to follow up on recommendations; (2). follow-up steps; (3). action plan; (4). management commitment; (5). coordination forum; (6). image and authority; (7). settlement of follow up actions on weaknesses of the internal control system; (8). completion of follow-up on non-compliance with laws and regulations; (9). explanation of the development of follow-up; (10). witness.

2.4. Disclosure of Financial Reporting

Many previous researchers have examined factors that directly affect the quality of financial reporting but have inconsistent results. Because there are inconsistencies in the results of previous studies, it is suspected that there are contingency factors that influence. This study will examine the effect of the application of internal control, HR competencies and follow-up audit results on financial reporting quality through disclosure of financial reporting which is an important element in the presentation of financial statements. A high level of disclosure is a reflection of the quality of good financial reports (A. P. Sari et al., 2015). The indicators used to measure financial reporting disclosures are: (1). achievement of targets and constraints; (2). summary of achievement of financial performance; (3) the basis for preparing financial statements and accounting policies; (4). information on financial statement posts; (5). disclosure of additional information.

2.5. Quality of Financial Reporting

The general purpose of financial statements is to provide information about financial position, budget realization, cash flow and financial performance of a reporting entity that is useful for users in making and evaluating decisions (Siwambudi et al., 2017). The quality of financial reporting in this study is the presentation of financial statements that meet the characteristics of quality financial statements, namely: (1). relevant; (2) reliable; (3). can be compared to previous period financial statements. (4). can be understood by its users.

3. Research Methods

The questionnaire was distributed to obtain primary data in this study. The population used is all administrators and employees of PDAM Denpasar City who are involved in the process of preparing and presenting financial statements and administrators and employees who are tasked with reviewing and/or analyzing and/or evaluating financial reports totaling 33 respondents. The sample was taken with the saturated sample method where this study used the entire population to be a sample. Data analysis method in this study uses the Partial Least Square (PLS) program. The use of PLS software refers to several considerations, namely (Utama, 2016: 177): (1). Relatively small sample size between 30-100; (2). Using path analysis and variables with multi indicators; (3) automatically outputs the coefficient of direct effect and indirect effect.

4. Results and Discussion

4.1. Outer Model Evaluation

The validity and reliability that connects indicators with the latent variables is done by evaluating the outer model. The indicators in this study are reflective in which the latent variable influences the indicator. There are four measurement methods used in reflective models, namely:

4.1.1. Convergent Validity

An indicator is declared valid if it has a loading factor > 0.70 against the intended construct. Based on the results of PLS testing, indicators of internal control variables, HR competencies, follow-up audit results, disclosure of financial reporting, and quality of financial reporting provide a value of loading factor greater than 0.70. This means that all indicators in this study are declared valid.

4.2.2. Discriminant Validity

	AVE	Composite Reliability	Cronbach's Alpha	Conclusion
Internal Control	0,650	0,976	0,974	Valid and Reliable
HR Competencies	0,678	0,967	0,964	Valid and Reliable
Follow-up Audit Result	0,675	0,954	0,947	Valid and Reliable
Quality of Financial Reporting	0,705	0,973	0,970	Valid and Reliable
Disclosure of Financial Reporting	0,747	0,936	0,914	Valid and Reliable

Table 1: AVE, Composite Reliability and Cronbach Alpha

Source: Data Processed

The next step is to see and compare the discriminant validity with the square root of average variance extracte (AVE). Table 1 shows that internal control variables, HR competencies, follow-up audit results, disclosure of financial reporting, and quality of financial reporting provide AVE values greater than 0.50. This means that discriminant validity in this study has been achieved.

4.1.3. Composite Reliability

Table 1 shows that internal control variables, HR competencies, follow-up audit results, disclosure of financial reporting, and quality of financial reporting provide a composite reliability value $\rho_c > 0.8$. This means that all variables in this study have met reliable criteria.

4.1.4. Cronbach Alpha

Cronbach alpha is said to be good if it has a value of ≥ 0.50 . Table 1 shows that internal control variables, HR competencies, follow-up audit results, disclosure of financial reporting, and quality of financial reporting have good reliability because they give the cronbach alpha α value ≥ 0.50 .

4.2. Inner Model Evaluation

R-square (R^2) of the dependent construct is used to evaluate the goodness of fit. There are two dependent constructs in this study, namely quality of financial reporting (Y) and disclosure of financial reporting (Z).

	R-Square	Conclusion
Quality of Financial Reporting	0,923	Strong
Disclosure of Financial Reporting	0,923	Strong

Table 2: R-Square

Source: Data Processed

Table 2 shows that the R^2 value of the quality of financial reporting variable is 0.923. This value indicates that the level of goodness of fit in this study is relatively strong, meaning that the variability of financial reporting quality variables

is explained by the constructs of internal control, HR competencies, follow-up of audit results and disclosure of financial reporting of 92.3%, while the remaining 7.7% explained by other variables not examined in the model. The value of R^2 variable disclosure of financial reporting is 0.923. This value indicates that the variability of the financial reporting disclosure variable is explained by the internal control construct, HR competency and follow-up audit by 92.3%, while the remaining 7.7% is explained by other variables outside the research model. From the acquisition of R^2 value can also be calculated and evaluated predictive ability or predictive prevalence of the model made through the Stone-Geiser Q Square Test (Q^2). Q^2 calculations are:

$$Q^2 = 1 - (1 - 0,923) (1 - 0,923)$$

$$Q^2 = 0,994$$

Q^2 value of 0.994 is very large and can be said to have high predictive prevalence. This figure means that 99% of internal control variables, HR competencies, follow-up audit results and disclosure of financial reporting in this study are feasible to explain the financial reporting quality variables so that testing of the research hypothesis can be continued.

4.3. Pengujian Hipotesis

4.3.1. Direct Effect

The path coefficient value is indicated by the t-statistic value used to show the significance of the influence of an independent variable on the dependent variable in the study. The research hypothesis will be accepted if the t-statistic value is greater than the t-table value. In this study for 95% confidence level, the t-table value is 2.04. In addition, the level of significance can also be seen from the p-value which is smaller than the alpha value ($\alpha = 0.05$).

	Original Sample (O)	T Statistics (O/STDEV)	t-Table	P Value	Conclusion
H1: Internal Control ->Disclosure of Financial Reporting	0,2336	2,6731	2.04	0,0078	Significant
H2: HR Competencies ->Disclosure of Financial Reporting	0,2596	4,3556	2.04	0,0000	Significant
H3: Follow-up Audit Result ->Disclosure of Financial Reporting	0,6077	7,3458	2.04	0,0000	Significant
H4: Internal Control ->Quality of Financial Reporting	0,3354	3,9356	2.04	0,0001	Significant
H5: HR Competencies ->Quality of Financial Reporting	0,0083	0,0985	2.04	0,9215	Non-significant
H6: Follow-up Audit Result ->Quality of Financial Reporting	0,0421	0,2844	2.04	0,7763	Non-significant
H7: Disclosure of Financial Reporting ->Quality of Financial Reporting	0,6143	3,3459	2.04	0,0009	Significant

Table 3: The Bootstrapping Output of the Direct Effect Latent Variable
Source: Data Processed

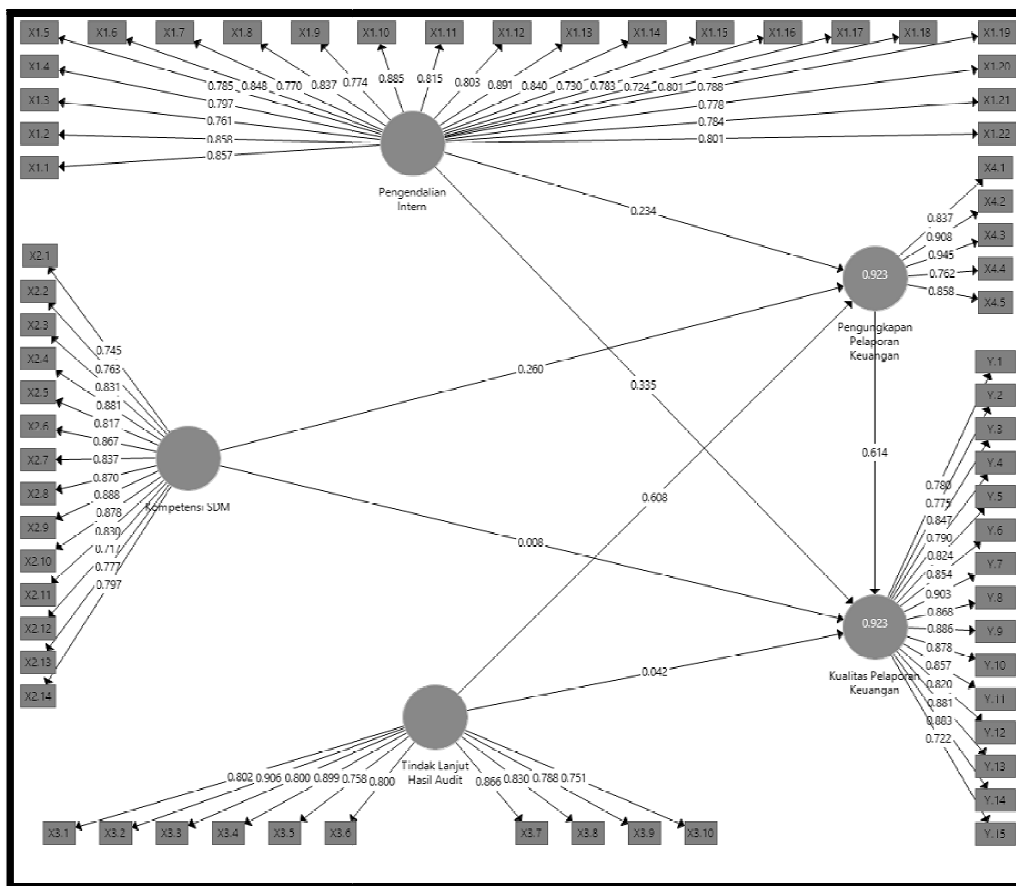


Figure 1: Bootstrapping Output Result
Resource: Data Processed

Notes	
Pengendalian intern	Internal Control
Kompetensi SDM	HR Competencies
Tindak Lanjut Hasil Audit	Follow-up Audit Result
Pengungkapan Pelaporan Keuangan	Disclosure of Financial Reporting
Kualitas Pelaporan Keuangan	Quality of Financial Reporting

Table 4

Table 3 shows that the results of testing the first hypothesis with the path coefficient value of the effect of internal control on disclosure of financial reporting is equal to 0.2336 with a t-statistic value of 2.6731 greater than t-table 2.04 and p-value 0, 0078 less than 0.05. These results indicate that internal control has a positive and significant influence on the disclosure of financial reporting in PDAM Denpasar City, meaning that the more effective the implementation of internal control, the disclosure of financial reporting will be more adequate. The control environment as a basic component of the internal control structure contained in PDAM Denpasar City concerns the management leadership style, ethical values, organizational structure and determination of authority and responsibility. Regarding risk assessment, the PDAM leadership always analyzes the risks of possible violations. Therefore, in controlling activities, management ensures the correctness of the methods used in recording and records that are made to record, process, summarize and report company transactions according to their events and conditions and to safeguard company assets. Information and communication systems are then used to be able to communicate information in accordance with the standards for preparing financial accounting reports and reporting policies and provisions. Monitoring activities are carried out by the PDAM leaders to assess the quality of the implementation of the internal control system and to ensure that control activities are carried out effectively.

Table 3 shows that the results of testing the second hypothesis with the path coefficient value of the influence of HR competence on financial reporting disclosure is 0.2596 with a t-statistic value of 4.3556 greater than t-table 2.04 and p-value 0 0000 is smaller than 0.05. These results indicate that HR competencies have a positive and significant influence on the disclosure of financial reporting in PDAM Denpasar City, meaning that the higher the competence possessed by employees of PDAM Denpasar City, the higher disclosure of financial reporting. High disclosure can be achieved if the employees of PDAM Denpasar City understand that their main tasks are balanced with good work ethics. So that good ethical employees will tend to disclose information that should be in the financial statements. In addition, often reading the

accounting literature, understanding accounting policies and understanding SAK ETAP which is an indicator of knowledge can also increase disclosure of financial reporting.

Table 3 shows that the results of testing the third hypothesis with the path coefficient value of the effect of follow-up audit results on financial reporting disclosure amounted to 0.6077 with a t-statistic value of 7.3458 greater than t-table 2.04 and p-value 0.0000 is smaller than 0.05. These results indicate that follow-up audit results have a positive and significant effect on the disclosure of financial reporting in PDAM Denpasar City, meaning that the higher the implementation of follow-up, the higher the disclosure of financial reporting. Follow-up is done because the management of the PDAM must always maintain the image and authority of the PDAM. This causes management to have an obligation to follow up on any recommendations given by the auditor. This obligation will be realized with an action plan that aims to improve the findings. The action plan will work well if employees have a high commitment to follow up. Recommendations are given regarding the findings obtained during the audit process. This finding can be in the form of insufficient disclosure of mandatory information that must be presented in the financial statements. So that by following up on these recommendations the level of disclosure of financial statements will be even higher.

Table 3 shows that the results of testing the fourth hypothesis with the path coefficient value of the effect of internal control on financial reporting quality is equal to 0.3354 with a t-statistic value of 3.9356 greater than t-table 2.04 and p-value 0,0001er is smaller than 0.05. These results indicate that internal control has a positive and significant influence on the quality of financial reporting in PDAM Denpasar City, meaning that the more effective the implementation of the internal control system, the higher the quality of financial reporting. PDAM Denpasar City's internal control system is all control activities designed in the form of policies and procedures to provide adequate confidence for management that PDAM Denpasar City has achieved its goals and objectives. The granting of authority to the right employees through the formation of an organizational structure will increase confidence because each employee who is authorized has a standard of competence to complete the task properly. The more effective the implementation of internal control, the factors that can increase fraud in misuse of assets can be minimized.

Table 3 shows that the results of testing the fifth hypothesis with the path coefficient value of the influence of HR competence on financial reporting quality is equal to 0.0083 with a t-statistic value of 0.0985 smaller than t-table 2.04 and p-value 0,9215 is greater than 0.05. These results indicate that HR competencies have no effect on the quality of financial reporting in PDAM Denpasar City. This is because support for the application of accounting conservatism principles is not optimal. In accounting, conservatism is a precautionary principle in the recognition of income and assets. This principle is well applied by companies in the face of economic uncertainty in the future. In addition, the application of the principle of conservatism can also prevent manipulation of financial statements and reduce agency costs that must be incurred by the company arising from information asymmetry between management and owners. Thus, in the presentation of quality financial statements, understanding and application of accounting conservatism principles is indispensable.

Table 3 shows that the results of testing the sixth hypothesis with the path coefficient value of the effect of follow-up audit results on financial reporting quality is equal to 0.0421 with a t-statistical value of 0.2844 smaller than the value of t-table 2.04 and p-value 0.7763 greater than 0.05. These results indicate that follow-up to audit results has no effect on the quality of financial reporting in PDAM Denpasar City. This is due to the lack of enforcement of sanctions if the audit findings, whether material or immaterial, are not followed up by the management of PDAM Denpasar City. Lack of explanation on the progress of follow-up and the establishment of a coordination forum with KAP that has not been maximized will also affect the follow-up process of the audit findings.

The table 3 shows that the results of testing the seventh hypothesis with the path coefficient value of the effect of financial reporting disclosure on financial reporting quality is equal to 0.6143 with a t-statistic value of 3.3459 greater than the value of t-table 2.04 and p-value 0,0009. These results indicate that financial reporting disclosure has a positive effect on the quality of financial reporting in PDAM Denpasar City, meaning that the more things disclosed in the financial statements, the better the quality of financial reporting. Quality financial statements must contain complete and adequate information on all material aspects. Mandatory disclosure of the chosen accounting policy will help users of financial statements to compare the financial statements of the current period with the financial statements of the previous period, especially in relation to the consistency of the selection of accounting policies. Presentation of information that supports financial statement posts will also make the financial statements presented clear. In addition to mandatory disclosure, disclosure of additional or non-financial information can also improve the quality of financial reporting. The presentation of information regarding the summary of financial performance achievements and information about achieving targets and the constraints and constraints faced and the provision of other additional information in the context of fair presentation will help users of financial statements to correct decisions in the past period and predict future events. So as to produce quality financial reports that are relevant, reliable, comparable and understandable, PDAM Denpasar City must pay attention to the adequacy of disclosures.

4.3.2 Indirect Effect

	Original Sample (O)	T Statistics (O/STDEV)	t-Table	P Value	Conclusion
H8: Internal Control-> Disclosure of Financial Reporting ->Quality of Financial Reporting	0.1435	2.4419	2.04	0.0150	Significant
H9: HR Competencies -> Disclosure of Financial Reporting ->Quality of Financial Reporting	0.1595	2.3419	2.04	0.0196	Significant
H10: Follow-up Audit Result -> Disclosure of Financial Reporting ->Quality of Financial Reporting	0.3733	3.0678	2.04	0.0023	Significant

Table 5: the Bootstrapping Output of the Indirect Effect Latent Variable
Resource: Data Processed

Table 5 shows that the results of testing the eighth hypothesis with the path coefficient value of the indirect influence of internal control on financial reporting quality is equal to 0.1435 with a t-statistic value of 2.4419 greater than the value of t-table 2.04 and p -value of 0.0150 is smaller than 0.05. These results indicate that there is a positive and significant indirect effect between internal control and the quality of financial reporting in PDAM Denpasar City. Because directly the internal control variables also have a positive and significant effect on the quality of financial reporting with a significance of 0.0078, the role of the variable disclosure of financial reporting is as partial mediation. The disclosure of financial reporting is carried out in order to realize the transparency of financial statements in fulfilling the rights and demands of the public. Disclosure will be adequate if the internal control system is also adequate. The effective implementation of internal control is expected to minimize the risk of errors in the preparation and presentation of financial statements and will improve the quality of financial reporting. Good quality financial reporting will be achieved if the disclosure of information in financial statements is high.

Table 5 shows that the results of testing the ninth hypothesis with the path coefficient value of the indirect influence of HR competence on financial reporting quality is 0.1595 with a t-statistic value of 2.33419 greater than the value of t-table 2.04 and p -value is 0.0196 smaller than 0.05. These results indicate that there is a positive and significant indirect effect between HR competencies and quality of financial reporting in PDAM Denpasar City. Because directly the HR competencies variable has no effect on the quality of financial reporting with a significance of 0.9215, the role of the variable disclosure of financial reporting is as full mediation. High competencies will help employees understand basic tasks, understand technical work, understand SAK ETAP or accounting policies and be able to compile and understand financial statements. This understanding will encourage the disclosure of increasingly high financial reporting. But it is not enough just to have high competence, an employee must also have good ethics. In this case ethics acts as a guideline to behave for an employee to fulfill his professional responsibilities. Good ethics will encourage employees to use their competencies as well as possible, so that employees will work in accordance with the rules and standards that have been set. Financial reports that are presented based on understanding and good ethics will encourage more information disclosure. High disclosure will indirectly affect the quality of financial reporting presented. Financial reports will be more relevant, reliable, comparable and easily understood by users.

Table 5 shows that the results of testing the tenth hypothesis with the path coefficient value of the indirect effect of follow-up audit results on financial reporting quality is 0.3733 with a t-statistic value of 3.0678 greater than the value of t-table 2.04 and the p-value is 0.0023 smaller than 0.05. These results indicate that there is a positive and significant indirect effect between the follow-up of audit results and the quality of financial reporting in PDAM Denpasar City. Because directly the audit follow-up variable has no effect on financial reporting quality with a significance of 0.7763, the role of the variable financial reporting disclosure is as full mediation. Management's obligation and commitment to follow up on recommendations will encourage management to carry out an action plan to follow up on good findings related to weaknesses in implementing internal control activities as well as follow-up on non-compliance with legislation. Follow-up carried out will encourage management to disclose more information in the financial statements presented. Lack of information previously not disclosed in the financial statements will be disclosed later after receiving recommendations from the auditor and following up on the recommendations appropriately. Follow-up on these recommendations will have an impact on a high level of disclosure so that high disclosure of information will indirectly improve the quality of financial reporting.

5. Conclusions and Recommendations

5.1. Conclusions

Internal control, HR competencies and follow-up audit results have a positive and significant effect on the disclosure of financial reporting. This means that the more effective the implementation of internal control, the higher competence of HR and the higher implementation of follow-up audits in PDAM Denpasar City, the disclosure of information in the financial statements will be even higher.

Internal control has a positive and significant influence on the quality of financial reporting. The more effective the internal control of PDAM Denpasar City is the higher the quality of financial reporting. HR competency does not directly affect the quality of financial reporting. This is because support for the application of the accounting conservatism principle is not optimal. Follow-up audit results does not affect the quality of financial reporting. This is due to a lack of enforcement of sanctions when recommendations are not followed up. The disclosure of financial reporting has a positive effect on the quality of financial reporting. The higher the disclosure of information in the financial statements, the higher the quality of financial reporting.

Financial reporting disclosures mediate partially the effect of internal control on the quality of financial reporting. This means that the more effective internal control is, the higher the quality of financial reporting is indicated by the higher level of information disclosure. Financial reporting disclosures fully mediate the influence of HR competencies and follow-up audit results on financial reporting quality. This shows that the higher the competency possessed by PDAM Denpasar city employees and the higher the implementation of follow-up, the higher the quality of financial reporting is indicated by a high level of disclosure.

5.2. Recommendations

Internal control, HR competencies and follow-up audit results are decisive components in improving disclosure of financial reporting which will then affect the quality of financial reporting. Therefore it is recommended for PDAM Denpasar City to form an independent team whose task is to monitor the implementation of internal control to ensure that all internal control activities run effectively to minimize audit findings that are material or not material. PDAM Denpasar City is also expected to put more emphasis on the application of conservatism principles in the preparation of financial statements because it will have an impact on reporting corporate profits. PDAM Denpasar City must further enforce sanctions on employees who do not want to follow up on recommendations given by the auditor. In addition, it is also expected that employees of the financial division of PDAM Denpasar City should increase the disclosure of additional information that is deemed relevant for the presentation of financial statements that are reasonable so that the resulting financial statements are increasingly qualified.

This research has several limitations, so that for further researchers it can be suggested to conduct research in all PDAMs in Bali because the sample used in this study is relatively small. Subsequent researchers can also consider other proxies to measure HR competency variables and follow-up audit results such as proxy for employee education background and materiality level of findings because in this study the proxy used as a measure of human resource competencies and follow-up audit results had no effect on quality of finance reporting.

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