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Can Risk Management Improve the Quality of Local Government's Financial Statements?

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The purpose of this study is to analyse the determinants of the quality of financial statements in the government of North Sumatra Province. The population of this study is all Regional Apparatus Organisation (OPD), Inspectorate and BPK RI Representatives of North Sumatra Province. The sample of this study are all Regional Apparatus Organisation (OPD), Inspectorate Level 1 and The State Audit Board of Republic of Indonesia (BPK RI) Representatives of North Sumatra Province which totals 311. This research is a quantitative-qualitative study. The data collection technique is questionnaires. The data analysis technique is path analysis with SmartPLS. The research results show that there was no effect from the application of SPIP on the quality of financial reports, but partially there was an influence on the application of SAP; the application of risk management processes and commitment to the quality of financial report. Other findings show that management commitment can be a moderating variable by strengthening the effect of the application of risk management processes on the quality of a financial report.

Key words: *Implementation of Internal Control Systems (SPIP), Application of Government Accounting Standards (SAP), Application of Risk Management, Management Commitment, Financial Statement Quality.*

Introduction

The Indonesian Supreme Audit Board (BPK RI) audit results in the 2017 fiscal year found as many as 4,430 findings that contained 5,852 problems. Whereas the BPK audit results summarised in the 2018 Semester 1 (IHPS) results show an increase in findings, as many as 9,808 cases, as summarised in Table 1 below.

Table 1: Summary of the 2018 BPK RI Semester Examination Results (IHPS)

Government	Number of LHP	Number of Findings	Number of Recommendations
Central Government	120	1.439	3.637
Regional Government	542	7.913	22.114
National Company and other Bodies	38	456	1.120
Total	700	9.808	26.871

Source: IHPS BPK RI (2018)

In Table 1 it can be seen that the number of audit findings from local government is very high, namely 7,913 findings or 80.67% of the total findings. These significant findings ultimately affect the opinion given by the Indonesian Supreme Audit Board (BPK RI). One of the Regional Governments (Pemda), is the North Sumatra Provincial Government. BPK RI opinion development data of the North Sumatra Province region shows a quite interesting development, where of 34 reporting entities, only 14 entities received Fair Unqualified Opinion (WTP). The North Sumatra Government State Audit Report (LHP) of 2017 shows a good quality improvement, but a good quality improvement does not mean there are no findings that would give rise to recommendations to be immediately accounted for. The LHP for the 2017 fiscal year also shows significant audit findings such as: recording inappropriate cash; assets not being properly recorded; transactions without sufficient documents; inflated revenues; price mark ups; and others (http: //medan.bpk.go .id, 2018).

The considerably high number of recommendations shows that there are still many regional LKPDs or Regional Government Financial Report in North Sumatra Province that need to be improved. Financial reports that cannot be accounted for can be identified as fraud or material misstatement that has an impact on the emergence of fraudulent practices. Rezaee (2002) states that the practice of fraudulent financial reporting has increased substantially in the last two decades and free from misstatements and cheating practices (Mutiana et al., 2017), so as not to result in losses in the decision making process (Ratifah & Ridwan, 2012). Problems with the inefficiencies of budget users, good oversight functions related to inadequate financial reports, data input errors and the low understanding and loyalty of financial managers towards the adoption of government accounting allows for risks to financial reports (Mutiana et al., 2017).

Referring to Government Regulation Number 58, (2005), it is emphasised that in order to improve the performance, transparency and accountability of regional financial management, each regional head is responsible for compiling financial reports in accordance with Government Accounting Standards (SAP) and that the entity implements the Government's Internal Control System (SPIP) adequately. Even though the Regional Government has implemented SPIP based on Government Regulation Number 60, 2008 and has implemented SAP based on Accrual basis in accordance with Government Regulation Number 71, 2010, but if it refers to the findings of the BPK, there is a gap between the reality and the ideal conditions which indicate that there are still financial statements that have not been qualified. This is marked by the acquisition of the Disclaimer opinion and the opinion of the Fair With Exception (WDP) (BPK RI Representative of the Province of North Sumatra, 2018). Thus, it can be said that regional financial management has not been maximised (Erlina et al., 2018), where the resulting LKPDs have not been able to fully obtain WTP opinions that are truly clean without the findings recommended by BPK to be immediately corrected.

The examination conducted by the Indonesian Supreme Audit Board (BPK RI) is basically to: understand the overall internal control system; determine control risks; test accounting records; and test responses to questions and ensure local governments have adequate internal control systems [(Suwanda et al., 2017); (Onyulo, 2017); Sawyer, (2003)]. WTP opinion is realised through the process of good input and good process to produce good output. Thus, it can be said that "All three aspects must be integrated and sustainable as the foundation of a good financial reporting system including the commitment of regional leaders and their staff (Kurniawan, 2011)." The acquisition of WTP opinion by 14 City/Districts from 34 City/Districts in North Sumatra Province illustrates that there is still a lot to be done by the Regional Government that requires strong commitment from the regional head and his staff in the framework of the improvement process.

Risk management is an important process for an entity if it wants to achieve the goals and objectives of the activity (Lark, 2015). One important objective is how the quality of LKPD can be guaranteed, so that it can mitigate material risks that might occur. Risk management is needed so that the risks originating from the four organisational goals which consist of: strategic objectives, operational objectives, reporting goals and compliance goals (COSO, 2004), can be minimised. One of the goals of the organisation is a reporting objective that focuses on the reliability or accuracy of reporting; thus, risk management can minimise the risk of fraudulent financial reporting (Meizaroh & Lucyanda, 2011).

Risk management is not only important for the private sector but it is important to apply to all sectors (Ahmeti & Vladi, 2017) to create good and healthy financial governance (Erlina et al., 2018). In addition, risk management can ensure the organisation achieves its objectives, providing long-term benefits that emphasises control at Sarbanes-Oxley, mainly focused on financial reporting (COSO, 2014). This COSO statement (2014) is reinforced by Erlina et al., (2019) that fraud can be reduced if the government implements risk management. The reduction in fraud will ultimately have an impact on the production of accountable financial reports, thus naturally there is a relationship between risk management and financial reporting improvement and of course increasing transparency (COSO, 2014). Seeing the magnitude of the impact of the implementation of risk management in the private sector, especially banking, and demands for better governance in the public sector makes risk management not only an alternative choice but a necessity especially in local government financial management (Erlina et al., 2019).

The purpose of risk management is to protect the Regional/District Government from known risk factors and to ensure the continuity of the entity is not disturbed (www.nurminenlogistics.com). Benefits of implementing risk management include: reducing capital costs; more accurate financial reporting; competitive advantage; better organisation; better market presence; and for public service organisations , political and community support can be improved (AIRMIC, Alarm, & IRM, 2010). The Enterprise Risk Management (ERM) approach is important to know the relationship between ERM and the financial reporting process, where financial reporting with the ERM approach adequately describes the financial status (for example, valuation and estimation) and related risks of an entity as disclosed in the ERM including also affecting risk misstatement (Cohen, 2016). Song & Kemp (2013) state that public companies with the ERM program report fewer material weaknesses in internal control over financial reporting than public companies without the ERM program. The risk management program is a long-term strategic initiative, which requires all levels of management to commit "without blaming culture", with weaknesses or failures to be identified and managed immediately (Drew, 2007). However, the public sector has not yet fully implemented risk management. Organisations are still in the learning phase of how to integrate risk management with organisational operations (Domokos, Nyéki, & Jakovác, 2015).

Quality financial statements produced by entities (Provincial & Regional/District Government) cannot be separated from the high commitment of management. Management commitment has a significant relationship with financial performance (Kibet, 2016). Commitments of heads of local authorities affect the quality of local government financial reports [Mahlil & Yahya (2017); Silviana (2012)]. The role of top management commitment in improving the quality of financial statements is closely related to the prevention of fraud. In the majority, when fraud can be reduced, it will have an impact on the quality of financial statements. However, if fraud is deliberately committed by top management, it will ultimately cause top management support to have a negative and significant impact because they want to protect their interests (Rahmatika, 2016). The commitment of the top leadership or the regional government, called the head of the region, will strengthen the performance, especially financial performance. When a leader performs well they will have an impact on the integration of all components in the entity (COSO, 2009), because the commitment of the regional head has an impact on the success of risk management and systems or methods applied to the entity (Erlina et al., 2019). Referring to some of the findings it can be concluded that no matter how good SPIP, SAP or risk management, without the support of the management commitment there will be no significant results.

Literature Review

Quality of Financial Statements

The definition of quality according to Mulyana (2010: 96) is: "Quality is defined as conformance to standards, measured based on the degree of non-conformity, and achieved through inspection". The qualitative characteristics of financial reports are normative measures that need to be realised in accounting information so that they can meet their objectives. According to (PP No. 24 of 2005) it states that financial statements are prepared to provide relevant information about the financial position and all transactions carried out by a reporting entity for one reporting period, whereas according to Azlim & Usman, (2012), financial statements are said to be of good quality and useful in decision making, reflected in the qualitative characteristics of financial reports that meet quality.

As for the qualitative characteristics of financial reports, which are normative measures that need to be realised in accounting information in meeting its objectives, they consist of 4 characteristics according to PP No. 71 of 2010 namely "Relevant, Reliable, Comparable, Understandable". In addition to the four characteristics listed in Table 1, company management is carried out in compliance with applicable rules and regulations (Rachmad, 2011) Onyulo (2017) and includes the element of compliance with laws and regulations as one of the criteria that affects the quality of financial reports. Quality financial reports are financial statements that comply with the rules and regulations that have been determined.

Implementation of Internal Control Systems

Internal Control System according to Government Regulation of the Republic of Indonesia Number 60, 2008, namely: "Internal control system is an integral process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organisational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations. The elements of the Internal Control System in Republic of Indonesia Regulation Number 60 Year 2008 include: a) Control Environment; b) Risk Assessment; c) Control Activities; d) Information and Communication; e) Monitoring."

From the results, several reasons were found as the reasons for why financial statements of the government were not sufficiently reliable and of high quality. One was due to the weakness of internal control, whereas the results of the study recognised that the application of internal control plays an important role in preventing and detecting fraud on the entity (Muda et al., 2018). Some research results relating to the application of SPIP and Quality of Financial Reports still found differences in results, where there is no influence of the internal control system on the quality of financial reports (Muda et al., 2018). The results of the study showed that the application of SPIP was found by Julita & Susilatri (2018); Mutiana, Diantimala, & Zuraida (2017); Yunita, Tanjung, & Anggraini (2015); Afiah & Rahmatika, (2014); Upabayu, Mahaputra, & Putra (2014); Syarifudin, Surasni, & Inapty (2016); (S, Taufik, & Hariyani, 2015). These findings indicate that the better the application of internal control, the better the quality of the financial reports produced. Significant influence of the application of SPIP on the quality of financial statements was found by Onyulo (2017); Erviana (2017); Kesuma, Anwar, & Darmansyah (2017); Mailoor, Sondakh, & Gamaliel (2017); Purwati (2016); Susilawati & Riana (2014). Therefore the first hypothesis of this research is:

H1: The implementation of the internal control system has a positive and significant effect on the quality of financial statements.

Application of Government Accounting Standards

Accounting standards are needed to improve the quality of financial reports, namely to increase consistency, comparability, understanding, relevance, and reliability of financial reports (Mahmudi, 2011: 271). Accounting standards become the audit criteria for auditors as a basis for assessing whether the financial reports have been prepared in accordance with applicable accounting standards. (Mahmudi, 2011: 103). One concrete effort to achieve transparency and accountability in the management of state finances according to Bastian, (2010: 137) is the submission of a government financial accountability report, which meets the principles on time and is prepared by following generally accepted government accounting standards. According to Fauziah (2018) to improve the quality of Government financial reporting information and to produce better performance measurements, and to facilitate financial management/assets that are more transparent and accountable, it is necessary to apply accrual-based accounting in accordance with PP Number 71, (2010).

Previous research results found differences in results that explain the effect of applying accounting standards on the quality of financial statements. Julita & Susilatri (2018) found that the application of accounting standards had no effect on the quality of financial statements. Wisdom, Damilola, Inemesit, & Opeyemi (2017), Sako & Lantowa (2018) found a positive relationship between the application of IPSAs-based standards and the quality of financial statements. Abang'a (2017); Onyulo (2017); Ijeoma & Oghoghomeh (2014); Yusniar et al. (2016); Rahman, Hardi, & Diyanto (2015); Nelia K (2015); Upabayu et al. (2014); Suwanda (2015); Abdullah, (2010) found a positive and significant effect of the application of SAP on the quality of financial statements. Therefore, it can be concluded that the preparation of financial statements in accordance with accounting standards will improve the quality of the quality of financial statements. Based on these conclusions, the second hypothesis of this research is:

H2: The application of government accounting standards has a positive and significant effect on the quality of financial reports.

Implementation of the Risk Management Process

According to ISO 31000 management risk is the organisation's directed activities and coordination related to risk management. According to (Permenkeu RI No. 171 /PMK.01 /2016) risk management is a culture, a structure that is directed to the process and provides adequate confidence in achieving organisational goals by managing risk at an acceptable level. The systematic implementation of policies, procedures and management practices for communication and consultation activities, context setting, risk identification, risk analysis, risk evaluation, risk management, and monitoring and review are risk management processes. Kinyua (2016) conducted research related to the application of risk management. This study uses dimensions to measure the effectiveness of risk management through three things namely: (1) risk identification, (2) risk evaluation, and (3) risk mitigation. The three dimensions are described as "Risk identification, risk evaluation, risk mitigation."

Research conducted by Ahmeti & Vladi (2017) on the application of risk management in the public sector recognises that there is a gap in the risk management literature between the private sector and the public sector. However, this research confirms the results which state that the application of risk management in the public sector is not only an option but a necessity for the government to achieve its objectives. While related to the reporting system including financial reports, risk management is a control for a good reporting system (Li & Nadeem, 2010). Good risk management is the identification and treatment of risks that lead to the standardisation of risk care within an organisation (Nichita & Vulpoi, 2016), as well as recommending that entities share entity risks with other entities (Chipa & Wamiori, 2017). The important relevance of risk management to financial statements is revealed by Gao & Hsu (2016) which states that there is a positive relationship between adoption of Enterprise Risk Management (ERM) and accounting quality. In other words it can be concluded that ERM is correlated with improving the quality of financial reports. Therefore, the third hypothesis of this research is:

H3: The application of risk management processes has a positive and significant effect on the quality of financial statements moderated by management commitment.

Management Commitments

Aranya & Ferris (1984) state that management commitment refers to an attachment to do the best for certain entities or groups. Engagement does not mean that the leader works alone, but must cooperate with various parties including his subordinates (Pasaribu, 2009). Commitment is a person's willingness to commit themselves and show loyalty to the organisation because they feel themselves involved in organisational activities (Wibowo, 2015). The quality structure is the responsibility of the manager/leader (Sulistiyani & Rosidah, 2018). Quality planning is very important considering the need to improve performance in personnel management, create an increase in the resulting product and reduce operational budget financing. Organisations that have clear quality planning will assist the organization in achieving goals more efficiently and effectively with optimal output quality (Sulistiyani & Rosidah, 2018).

In the public sector, management commitment is the commitment of regional heads/heads of offices, one of which is commitment to the follow-up of the recommendations (Silviana, 2012). Law Number 15, 2004 concerning the examination of management and State Financial Responsibility article 20 states that:

1. The official is obliged to follow up the recommendations in the inspection report;
2. The official is obliged to provide answers to explanation to BPK about the follow-up to the recommendations in the audit report;
3. The answer or explanation referred to in paragraph (2) shall be submitted to the BPK no later than 60 (sixty) days after the audit report has been received;
4. The BPK monitors the implementation of the follow-up to the inspection results as referred to in paragraph (1).

Officials who are known to not carry out the obligations referred to in paragraph (1) may be subject to administrative sanctions in accordance with the provisions of the legislation in the field of employment. No matter how good a system in the framework of control without a strong commitment to implement it certainly will not fulfill its objectives (Erlina et al., 2019). Success in achieving the entity's goals is influenced by the commitment of the leadership and staff below it (Usman, 2010).

No matter how good the standard, the system will not run well if there is no commitment and support from top management, because managerial factors are one determinant of the quality of financial statements [Purwati (2016); Usman (2010)]. According to BPK RI, one of the factors that influence the quality of financial statements is leadership commitment, especially the commitment to present reliable information in the entity's financial statements. This is manifested by the commitment to follow up on the recommendations of the examiner and the follow-up of the BKP examination results [(Silviana, 2012). Rachmawati (2018)] Sutaryo &

Sinaga (2018) suspect that in addition to factors such as internal auditor characteristics, local external factors such as the commitment of regional heads as local executives, are also suspected to have an influence on the maturity of the implementation of internal control systems.

Management commitment in the public sector is the commitment of regional heads/heads of offices, where one of them is commitment to follow up on the results of audit recommendations. (Silviana, 2012). Silviana (2012); Tambingon, Yadiati, & Kewo (2018); Kibet (2016) found that the commitment of regional heads had a positive effect on the quality of financial statements. The higher commitment of management will increasingly improve the quality of financial statements [Fitriani (2017); Tambingon et al. (2018); Mahlil & Yahya (2017)] Research conducted by Rahmatika (2016) found different results, where top management support had a negative and significant influence on the level of fraud and the level of fraud had a negative and significant effect on the quality of financial statements. The leadership element in the application of the internal control system is one of the elements that is the umbrella that oversees the other elements. Leadership commitment is a determinant of whether or not other elements of the internal control system (Sudarno, 2018). Sudarno (2018) found that an effective internal control system improves the quality of financial statements if the operator has high competence and gets strong leadership commitment. Based on the explanation above, the fourth hypothesis of this research is:

H4: Management's commitment has a positive and significant effect on the quality of financial reports.

Methods

The population of this study were all OPD, Inspectorate and BPK RI Representatives of North Sumatra Province. The sample size of this study was 311 and made up of all OPD, Inspectorate Level 1 and BPK RI Representatives of North Sumatra Province. This research was a quantitative-qualitative study. The data collection technique used was questionnaires. The data analysis techniques used was path analysis with SmartPLS.

Result and Discussion

Result

Table 2 shows the results of the tests that have been conducted to answer the hypotheses that have been proposed.

Table 2: Path Coefficients with Moderation Variables

Hypothesis	Path	Path Coefficients (β)	T_{count} Value	t_{table} Value	P *Value*	Description
H1	X1→ Y	0.137	1.184	1,96	0.237	No Effect
H2	X2→ Y	0.506	4.013	1,96	0.000	Significantly positive effect
H3	X3→ Y	0.172	2.394	1,96	0.017	Significantly positive effect
H4	X4→ Y	0.178	2.184	1,96	0.030	Significantly positive effect
H5	X4*X3→ Y	0.110	2.436	1,96	0.016	Significantly positive effect

Source: SmartPLS Output Attachment

Table 2 shows that:

1) there is a significant positive influence of the internal control system on the quality of the financial reports. The results of this test can be interpreted that the better the application of the internal control system (X1), then it does not affect the quality of the financial reports of the local government (Y).
2) there is a significant positive influence on the application of government accounting standards to the quality of financial statements. From these results it can be interpreted that the better the application of government accounting standards (X2), the better the quality of local government financial reports (Y).
3) there is a significant influence of the risk management process on the quality of financial reports which is moderated by management commitment. Although there are no standards governing the mechanism of risk management in OPD, actions that lead to risk management can improve the quality of financial reports.

Effect of Application of Internal Control Systems on the Quality of Regional Government Financial Reports

The results of this study indicate that the application of management control systems does not affect the quality of financial reports. However, although PP No. 60, 2008 is mandatory it does not have concrete steps in its implementation, so that in the end the entity, that is the local government, does not consider the application of SPIP as an obligation that influences the process of preparing quality financial reports. The results also ultimately corroborated the findings of the audit examination conducted by the Indonesian Supreme Audit Board (BPK RI) where one of the findings of the audit was caused by weak internal control. Even though PP No. 60,2008 concerning the Internal Control System has long been echoed, expectations in the WTO have not been as expected. The research found that the application of internal control plays an important role in preventing and detecting fraud on the entity (Muda et al., 2018) and the Government's Internal Control System supports the production of quality financial reports (Sudarno, 2018), but when implementing the system so far the internal control system has no effect in the direction of the low level of maturity of North Sumatra Province. This maturity level is the level of maturity/perfection of the implementation of the government internal control system in achieving internal control objectives in accordance with Government Regulation Number 60,2008 concerning Government Internal Control System as measured from a range of 0 to 5 (BPKP RI, 2017). Maturity level can be used at least as an evaluation instrument for the implementation of SPIP to increase the maturity of the internal control system. According to BPKP data (2017) the target of maturity achievement to be achieved from 33 Regencies/Cities consists of: 4 Regencies/Cities at level 0 (in structuring), 18 Regencies/Cities are at level 1 (pilot), 11 Regencies/Cities are at level 2 (developing) and 4 Regencies/Cities are at level 3 (developing). However, the results achieved in 2017 show that the North Sumatra provincial government for 2017 is still at level 1 (pilot).

The maturity level target imposed by the central government on the North Sumatra Provincial Government is at level three, but the Provincial Government of North Sumatra for 2018 is working to reach level two (http://www.sumutprov.go.id, 2018). The level of maturity of the Province of North Sumatra based on the report of the Financial and Development Supervisory Agency (BPKP) Number LKIN-21/SU01/2/2018 dated May 17, 2018 shows that of 33 Cities/Districts/Regencies in the Province of North Sumatra, three have indicated that they are at the maturity level of three namely Binjai City, Humbang Hansudutan Regency and Labuhan Batu Utara Regency. This number is still far from the target set as many as 18 regencies/cities in North Sumatra Province are at level 3 (https://fdokumen.com, 2018). BPKP (2018) in the 2018 Quarter 1 performance report stated that the strategic objectives in increasing SPIP maturity can be achieved if 4 performance indicators reach level 3 (Ministries and Institutions).

Effect of Application of Government Accounting Standards on the Quality of Regional Government Financial Reports

Hypothesis test results indicate there is a significant influence on the application of government accounting standards to the quality of financial reports. Based on research conducted by Watts & Zimmerman (1978) there are four things that can affect economic consequences as a result of accounting choices and one of them is government regulations. Government regulations also show the economic consequences as an effect of the regional autonomy policy due to the emergence of various regional regulations (Perda) that allow for a clash of contents between the Central Perda and regional regulations. If the impact is associated with an entity's financial performance, it is not impossible that management will be motivated to choose certain accounting methods that can affect performance (Gumanti, 2002).

If connected with three important mechanisms related to the existence of institutions that are incorporated in the environment, namely: forcing rules, processes to imitate actions and norms according to neo-institutional theory. Then local governments must provide space in determining policies and supporting the achievement of quality of financial performance. Gumanti (2002) found:(1) management has the opportunity to use accounting techniques or methods, where such use can affect performance financial entity (accounting performance); (2) contract and monitoring costs are a means used as a control tool for management's desire to use accounting techniques or methods that can affect an entity's financial performance (performance); and (3) the choice of certain accounting methods by management is closely related to the encouragement owned by management. Gumanti (2002) findings, if related to the public sector, look at how management (local government) is motivated to compile financial reports in accordance with established accounting standards and related to management compliance with applicable laws and regulations and how management implements internal controls sufficient to produce financial reports.

Effect of Application of Risk Management Process on the Quality of Regional Government Financial Reports

The third hypothesis test results found that the risk management process affects the quality of financial reports. Based on neo-institutional theory, the process of risk management is a process that is carried out by the government by observing and then imitating actions (mimetic) and ultimately adopting risk management into the public sector; it is one of the cultural-cognitive pillars that can be explained by new institutional theory. The success of the private sector, especially banks in producing good financial performance, causes the public sector to begin to look and try to imitate risk management as one of the factors that support performance, especially financial performance on public sector. Referring to the statement of the chairman of the North Sumatra Province BPKP which states that risk management is one indicator to improve management control (BPKP, 2019). Though this statement needs to be addressed by starting to plan for socialization and training. Ideally in financial governance, a regional regulation on risk management is prepared so that it must be implemented by the OPD/Regional Apparatus Organisation. This regulation serves as a guideline for the OPD in improving the quality of the financial statements produced. Risks in preparing financial statements manually will be higher considering that not all HR owned by OPD/Regional Apparatus Organisation have an accounting background even though training has been provided. Human resources who do not have a background of accounting education will find it more difficult to understand the flow of reporting and the accounting cycle. Therefore they risk making a wrong note, wrong input or wrong line of budget and will certainly be a risk that overshadows the process of preparing financial statements. The use of applications in preparing financial reports is ultimately one way to reduce the risk of substandard reporting.

Effects of Management Commitments on the Quality of Regional Government Financial Reports

The results of the fourth hypothesis testing indicate that there is an influence of management commitment to the quality of financial reports. The actions taken by top management serve as an example of the appropriateness of its staff so that in the end normatively these management actions support and provide space for the application of relevant government accounting standards and the application of an adequate system of internal control of the government. The normative pillar of institutional theory shows: perceptions and actions of management behavior related to social obligations; existence of binding expectations, bound by norms; and appropriateness of actions. There are endorsements, accreditation and the emergence of shame and honor that is morally regulated. This pillar can explain the role of top management in strengthening the application of rules, standards and systems for the achievement of institutional goals; one of which is to prepare quality financial reports because managerial factors are one of the determinants of the quality of financial reports (Purwati, 2016).

In the public sector, if management is committed to following up on audit results, it will affect the quality of the financial report themselves. However, if management is not committed, errors that occur in past audits will continue to in the current audit even in the future. Management behaviour towards the follow-up of the audit results is clearly regulated in Minister of Domestic Affairs Regulation No. 13, 2010 Guidelines for the Implementation of the Oversight Function of the Regional House of Representatives for Follow-Up Examination Results of the State Audit Board Article 11 and Article 12. It states that regional government follows up on the BPK audit report which is not requested for clarification and/or is not requested for further examination by the House of Representatives DPRD to the BPK by forming a Follow-up Team. Regional government reports the results of the follow-up to the BPK audit report to the State Audit Board (BPK) and the House of Representatives (DPRD). This regulation explicitly states that management is obliged to follow up with TLHP, even though in reality there are still OPDs who do not or are late in responding to the TLHP.

Management Commitment Strengthen the Effects of the Risk Management Process on the Quality of Regional Government Financial Reports

The results of hypothesis testing indicate that management commitment strengthens the effect of risk management on the quality of financial reports. Management commitment is demonstrated by establishing and validating company risk management policies. The relationship between management commitment and risk management can be explained by referring to international risk management standards ISO 31000 (www.apb-group.com) which states that the application of risk management includes "mandates and commitments" as the first element before the PDCA (plan-do-check-act) cycle.

A directive from top management is needed to initiate the application of risk management to public sector entities and then to implement risk management through management commitment. Without the directive and commitment of management, any sophisticated risk management system that is designed would be impossible to be implemented successfully. No matter how good the standard or the system is, it will not run well if there is no support from top management because one of the factors that support the quality of financial reports is determined by managerial factors (Purwati, 2016). What was conveyed above is in line with the statement quoted from www.crmindonesia.org which mentions the thoughts and commitment of the leadership of the organisation to create a single rhythm (top at the top) is an important factor that drives organisations to start the risk management process.

Discussion

These eight mandates can only be carried out by top management. Referring to the explanation above, it can be said that management commitment has an important role in the success of the risk management process. The eight mandates refer to the Awalianti & Isgiyarta (2014) research can be grouped into four terms consisting of: a) leadership commitment; b) risk management culture; c) entity policy regarding risk management; and d) entity risk management organisational structure. The results of the qualitative interviews indicate that management's commitment to the implementation of the risk management process is still weak. This refers to the absence of regional regulations in the North Sumatra provincial government for the implementation of risk management. The impact of this weak management commitment, the risk of the preparation of the quality of financial reports is quite high. Research conducted by Purnama, Topowijono, & Husaini (2014) states that high management support shows that entities have a high commitment in implementing risk management. This commitment is demonstrated by holding meetings such as a regular workshop at the end of each month that discusses the risks or events that occur on and then to find the best solution for the entity. This high management commitment is also shown in the intervention of the leadership in formulating and approving missions, policies and written procedures agreed upon by all levels of the entity as well as imposing sanctions on employees who violate regulations while at the same time giving appreciation to employees who excel and obey the rules of the entity. From this study it can be concluded that management commitment is needed for successful implementation of risk management for the entity.

Conclusion

The results of this study found that: the application of an internal control system had no effect on the quality of financial statements; the application of government accounting standards had a positive and significant effect on the quality of financial statements; and management commitment had a positive and significant effect on the quality of local government financial statements. Other findings show that management commitment can be a moderating variable by strengthening the effect of the application of risk management processes on the quality of financial report.

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