

# **MANAGEMENT & ACCOUNTING REVIEW**

Volume 18 No. 2  
August 2019

# CONTENTS

- 1 Assessing the Relationship between Information Transparency through Social Media Disclosure and Firm Value  
*Abdalmuttaleb M.A Musleh Al-Sartawi*
- 21 Ownership Structures and Dividend Policy: Evidence from Listed Plantation Companies in Malaysia  
*Sami RM Musallam and Coral Choo Pei Lin*
- 47 People and Audit Process Attributes of Audit Quality: Evidence from Malaysia  
*Noor Adwa Sulaiman, Suhaily Shahimi and Ranjit Kaur Nashtar Singh*
- 81 Human Development, Unemployment and Indonesian Migrant Workers  
*Fariastuti Djafar*
- 99 Determinants of Reliability of Financial Statements of School Operational Grants in Indonesian: The Mediating Role of Contextual Variables  
*Ari Kuncara Widagdo, Payamta and Dhony Prastyo Nugroho*
- 131 Investigating the Impact of Hedge Horizon Upon Hedging Effectiveness: Evidence from the National Stock Exchange of India  
*Mandeep Kaur and Kapil Gupta*
- 163 Implications of Employees Workload in the Banking Industry: A Case of BIMB Branches in the Central 3 Region  
*Mohd Herry Bahador, Norsaadah Isahak and Nuraini Abd Razak*
- 193 The Relationship between Audit Committee, Political Influence and Financial Reporting Quality: Malaysian Evidence  
*Aziatul Waznah Ghazali and Nur Aima Shafie*
- 245 Ceo's Gender, Power, Ownership: Roles on Audit Report Lag  
*Sarini Azizan*

# Determinants of Reliability of Financial Statements of School Operational Grants in Indonesian: The Mediating Role of Contextual Variables

Ari Kuncara Widagdo<sup>a</sup>, Payamta<sup>a</sup>  
and Dhony Prastyo Nugroho<sup>b</sup>

<sup>a</sup>Sebelas Maret University, Indonesia

<sup>b</sup>Inspectorate of Ponorogo District, Indonesia

## ABSTRACT

*This study aimed to examine the effect of principal support on the reliability of financial statements of School Operational Grants (Bantuan Operasional Sekolah or BOS) and to examine the mediation role of quality human resource, governance and internal control. The sample of this study consisted of 120 treasurers of BOS in Ponorogo District. This study employed the structural equation model, namely the Partial Least Square (PLS), to analyse the data. The results indicate that principal support affects the reliability of the financial statements of the BOS. Besides, quality human resource, governance and internal control partially mediate the relation between principal support and the reliability of the financial statements of the BOS.*

**Keywords:** *Principal support, the reliability of financial statements, quality human resource, good governance and internal control system*

---

## ARTICLE INFO

### Article History:

Received: 5 July 2018

Accepted: 31 October 2018

Available online: 31 August 2019

## INTRODUCTION

Decentralisation in the field of education in Indonesia was noted through the launching of School-Based Management (SBM). This program started in 2003, in accordance with the National Education Act of 2003, in which the responsibility of school governance was delegated to principals, who were expected to cooperate with the school committee consisting of representatives of teachers, representatives of the trustee students and local community representatives (Bandur 2009; Leer, 2016). The Education Law also mandates that every citizen has the right to get a primary education free of charge. To carry out the mandate of the Education Law, the central government had launched a program called “School Operational Assistance or School Operational Support Grants”, or “Bantuan Operasional Sekolah” (BOS) (Leer, 2016). BOS funds were first implemented in July 2005. The fund, generally, based on the accountability reports of BOS funds, are used to pay salaries of teachers, teaching and learning activities, the purchase of stationery and schoolbooks (Leer, 2016).

The implementation of the funds’ management by the school has faced several problems. Chen (2011) states that, in the community of primary education in Indonesia, more than eighty percent of parents are not involved in school development and planning activities of the school budget. This is due to the lack of awareness of parents about the SBM policy, the uncertainty of regulation of the central government on the decentralization of education, and the low capacity of principals to implement decentralization, especially in the financial management of the school (Syafi’i and Welch et al., 2008; Bandur 2012a; Chen 2011; Kristiansen and Pratikno 2006; Yeom 2002). Besides, the Indonesian Corruption Watch (ICW), in a report to eradicate corruption in education funds for the period 2003-2013, reveals that there were 296 cases of corruption in education fund management indicating losses of about 619 billion. This is in line with the results of the first semester of the Supreme Audit Board in 2015 that found several problems related to the management of the BOS funds including the inappropriate use of the funds, the balance of funds not refunded, and inaccuracies in the data of students who received the BOS. Another evidence of regulatory violation in the BOS fund occurred in the Ponorogo District in 2015. Based on the examination of the Inspectorate of Ponorogo, the financial statements of the BOS funds in some schools were due to the presentation not fully complying

with public sector accounting standards. In short, granting autonomy for the financial management of the BOS funds for a school is not followed by a reliable and accountable report.

In the extant literature, there are some prior studies both in the private and public sector that examine determinants of the quality of financial statements. Those determinants include ownership type (Mohmoud et al., 2018), accounting method (Holthausen, 2009; Elisa et al., 2011; Stephen et al., 2013; Andrain et al., 2018), legal framework (Holthausen, 2009; Stephen et al. 2013), corporate governance (Husam and Keith, 2016), internal audit function (Shireenjit et al. 2013), audit opinion (Sri Ningsih, 2016), board characteristic (Shireenjit et al. 2013; Chinedu and Augustine, 2018), reputation of company (Iman and Dewi, 2017), personal factor and system administrative factor (Nirwana, 2018). However, there only few prior studies that discuss financial report quality in the context of the school level. For example, Frank and Elza (2014) examined whether schools in South Africa in preparing financial statements, comply with legislative prescripts and accounting standards. Tooley and Guthrie (2007) examined the school budgeting process in New Zealand while financial management is changed. They revealed that accounting and management technology is a tool of rhetoric and serve as a political purpose and not in the way intended by the reform.

The problem of reliability of the financial statements of the management of the BOS funds on educational institutions in Indonesia and lack of prior studies in such issues provide justification for this research. This study extends the literature by examining the role of the principal as a main factor. Based on, Government Regulation No. 19/2017, one of the principal tasks is managerial duties. Thus, the principal is a manager in the context of the school, and he is responsible for the management of the BOS fund. A principal might influence the quality of governance and management of the school (Masci et al. 2016). Furthermore, bureaucracy in Indonesia is strongly influenced by the paternalism culture (Agus and Bivaola, 2001). Paternalism is a system that places leadership as the most dominant party. Thus, in the context of school financial management, a principal has a dominant role that might influence other factors.

## LITERATURE REVIEW

### Agency Theory

The Agency Theory governs the relationship between individuals (principal) with another individual (agent) for their delegation of work (Monks and Minow, 2004) delegating their work following the devolution of power based on the mechanism of a contract between individuals (principal) and another individual (the agent). Thus, the agency relationship can occur in the whole entity that is based on the contract as the basis of a participant's behaviour (Jensen and Meckling 1976). Their habit of contracting mechanisms (Adnan, Chatterjee and Nankervis 2003) raises an alignment between principal and agent to achieve a common goal (Shleifer and Vishny, 1986) in the formal legal ties (Biondi, Canziani and Kirat, 2007). Formally, all government organisations are run by legal regulations governing the duties, powers and responsibilities of participants.

In accordance with the Circular of the Minister of Interior No. 910/2017, the mechanism before the disbursement of School Operational Assistance (BOS) from the general account provinces into account of the BOS funds of each educational unit, the Head Provincial Education Department and all principals receiving BOS funds need to sign a letter of agreement for a grant. Based on Permendikbud No. 8/2017 on Technical Guidelines of BOS and the Minister of Home Affairs No. 910/2017, the principal is fully responsible for the financial management of the BOS funds and involves the school committee in preparing the work plan for the school budget (RKAS). Thus, in the context of the management of the BOS fund, the principal is an agent who has a contract with the principle, namely the Head of the Provincial Education Department as a representative of the central government and the public. The principal, as agent, must be accountable for its performance by using financial statements.

### School-Based Management (SBM)

The School-Based Management (SBM) is an education reform strategy throughout the world, especially, to expand the authority and responsibilities of the school board or the school (Bandur 2012). The school board in the concept of the MBS in Anglo-Saxon countries including the

United States, Britain, Australia and New Zealand is mandatory, so that they can participate in all financial and non-financial aspects decision-making processes. However, in New South Wales (Australia), school boards act only as an adviser, which does not have a decision-making authority in the policy environment of the school (Boyland and Bittar 2001; Gamage 2002; Pang, 2008).

In contrast to the concept of the MBS in NSW and Anglo-Saxon countries, the concept of MBS policy in Indonesia is based on the collaboration between the school board and the principal in school environment policy making (Bandur 2012). The school board in the concept of the MBS in Indonesia is based on the National Education Act of 2003 referred to as the School Committee. Some of the duties and functions of the Committee in the policy concepts MBS school in Indonesia, under the National Education Act of 2003, among others, are not only to formulate and to approve school policies, including the school's annual budget, but also delves school resources both financial and non-financial. Under the technical guidance of the BOS funds management, representatives of the school committee are elected by the principal to be involved the BOS fund management team.

## **Reliability of Financial Reporting**

*The International Public Sector Accounting Standards (IPSAS)* (2013) states that in accountability and decision-making in government organisations, the necessary financial information is accurate, comprehensive and reliable. In generally accepted accounting practices, the reliability of financial reports is a necessary condition that must be met (Gras-Gil et al. 2012). The reliability of financial reporting is one of the qualitative characteristics of financial statements. Government Regulation (PP) No. 71/2010 classifies that the qualitative characteristics of financial statements, among others, are relevant, reliable, comparability and understandable. The characteristics of the reliability of financial statements, under Government Regulation No. 71/2010, consists of fair presentation, are verifiable and neutral.

## **Government Internal Control System**

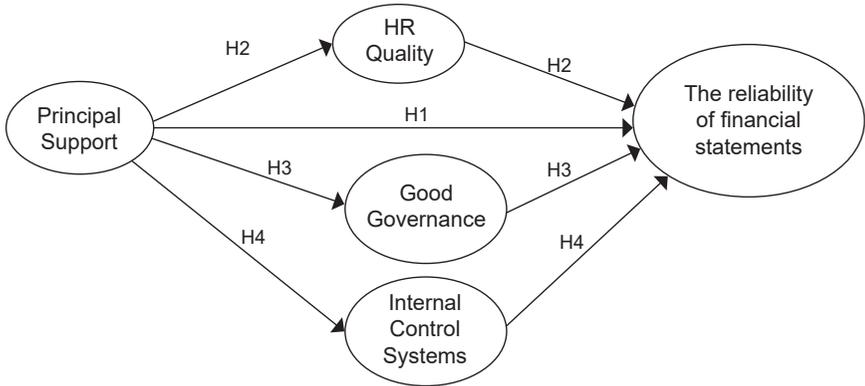
Internal control is a continuous process designed by the overall organisational management entity to provide a reasonable assurance regarding the achievement of organisational goals related to the effectiveness and efficiency of operations, reliability of financial reporting and compliance (COSO 2013). According to the AICPA (American Institute of Certified Public Accountant), internal controls consist of organisational plans and methods and coordinating measures - adopted in the business to protect its assets, check the accuracy and reliability of data calculation, increase operational efficiency, and encourage adherence to the managerial policies specified. For the corporate sector the internal control system guarantees the reliability of the financial statements, which can be used as information for investors in their investment decisions. Meanwhile, in the government sector, internal controls provide reasonable assurance on the financial management of the state and delivery performance of the government (Arifianti et al.2013).

## **RESEARCH MODEL**

This study argues that a principal has a significant role in managing the BOS fund. The role of leadership, namely principal support, has an impact or influence on various aspects of the organisation. As paternalism in a bureaucrat culture, policies made by the principle both written and verbal must be implemented in the school. Thus, this study assumes that principal support is a main determinant of financial statement reliability and its strong role might affect other determinants.

In the extant literature, prior studies on the relationship between management support and the quality of financial statements indicate mixed results. Some prior studies (i.e. Habib et al. 2011) prove that management support has a significant influence on the quality of financial statements. In contrast, Al-Hiyari et al. (2013) state that top management support does not affect the quality of financial reporting. The inconsistent finding might indicate the presence of other factors (mediation or moderating) that influence the relationship between management support and the quality of financial statements. Therefore, this study attempted to examine the

mediating role of some variables, namely the quality of human resource, good governance, and internal control systems. This study assumes that principal support will affect these factors and, finally, will affect the quality of financial statements.



**Figure 1: Research Model**

## HYPOTHESES DEVELOPMENT

### Principal Support and Reliability of Financial Statements

Within the scope of the school, under Government Regulation No. 8/2017 on technical guidelines BOS fund management, the principal has the responsibility for the management of BOS. In the concept of the MBS, the principal of a school is the top manager who has authority in policy making in the management of the BOS, which will undoubtedly affect the financial statements of the BOS. School autonomy in this MBS concept gives great authority to the principal in the form of good governance following the vision and mission which is owned by the principal (Leer 2016). Besides, bureaucracy in Indonesia is strongly influenced by the paternalism culture (Agus and Bivaola, 2001). Paternalism is a system that places leadership as the most dominant party. Paternalism grows in Indonesia because it is influenced by a feudal culture which has a system of values, norms and customs that always upholds and glorifies the ruler as a person who must be respected because they have given life and shelter for the people.

Some prior studies reveal that management support affects the quality of financial statements (i.e. Komala, 2012; Johl et al. 2013; Rahayu, 2012). Therefore, the proposed hypothesis is as follows:

**H1:** Principal support affects the reliability of financial statements

### **Influence of Principal Support on Financial Statements through the Quality of Human Resources**

The financial statements quality is influenced by the quality of human resources (Komala 2012; Johl et al., 2013). However, research carried out by Al-Hiyari et al. (2013) state that the quality of human resources does not affect the quality of financial statements. The results of the two studies were not consistent. It is possible that other factors mediate the quality of human resources and the quality of the financial statements. This study argues that the principal as the top leader in a school has the authority to improve the quality of human resources at the school level. Therefore, this study proposes a hypothesis as follows:

**H2:** The quality of human resources mediates the relation between principal support and the reliability of financial statements.

### **Influence of Principal Support on Financial Statements through Good Governance**

In the implementation of the SBM, the principal is the highest responsible person in the school with the aim of improving the quality of school governance (Chiara, 2016). School autonomy in the MBS concept gives a great authority to the principal to develop good governance following the vision and mission, which is owned by the principal (Leer 2016). Krismiaji et al. (2016) state that governance has a positive impact on the quality of accounting information. In contrast, Wu and Chris Patel (2015) state that governance has little impact on the quality of financial statements. Therefore, the hypothesis proposed in this research is as follows:

**H3:** Good governance mediates the relationship between principal support and the reliability of financial statements.

## **Influence of Principal Support to Financial Statements through the Internal Control System**

Decentralisation of education grants autonomy to school principals to manage independently the quality of service in the education sector. However, along with the greater authority possessed, it will tend to be abused. To prevent the abuse of authority, proper internal control systems are required. Modlin (2012) states that the problems in government financial reporting are related to weak internal controls. Lenard et al. (2016) state that weak internal controls will cause manipulation activities that impact on the quality of financial reporting. Some studies in Indonesia regarding internal control systems of government agencies find that the quality of financial reporting is influenced by government internal control systems (Herath, 2014). Therefore, this study proposes the following hypothesis.

**H4:** The internal control system mediates the relationship between principal support and the reliability of financial statements.

## **RESEARCH METHOD**

### **Population and Sample**

This study examined the factors that affect the reliability of financial statements of the BOS. The dependent variable is the reliability of the financial statements of the BOS, while the independent variable is principal support. Besides, this study also attempted to examine the mediating role of some variables that consists of quality human resources, governance, and internal control systems. This study, therefore, can be categorised as research explanations (explanatory research), as it aims to examine the relationship between variables through hypothesis testing.

This study was a quantitative research using primary data. Sekaran and Bougie (2016) state that primary data is information obtained by investigators from the first party using surveys, interviews, focus group discussions, and or observations. The survey method was used to determine the respondent's perception of the problem or situation presented by the researchers. Data in the study was obtained through a questionnaire

distributed to the treasurers of BOS. The treasurers are from junior high school, senior high school, and senior vocational school in the Ponorogo District. This study was done in the Ponorogo district because there are many regulation violations in the district that indicate corruption.

The research was carried out in Ponorogo district, because there was a regulatory violation in the education BOS fund in 2015. The Regional Inspectorate of Ponorogo, revealed that the financial statements of the BOS funds in some schools were not entirely reliable due to the presentation not fully complying with public sector accounting standards.

The population for this study were all the treasurers of the BOS in junior high schools, senior high schools, and vocational high schools in Ponorogo, amounting to 159 schools. This study used the census techniques, which is a technique that determines the sample based on the entire population (Kothari 2004). In this study, questionnaires were sent to 159 treasurers of the BOS. Of the 159 questionnaires sent, 120 questionnaires were returned and used for analysis.

### **Variables Measurement**

The following Table 1 provides details of variable measurement. Except for the internal control system, other variables are first order.

**Table 1: Variable Measurements**

No.	Latent Variable	Indicator	Reference
1.	Principal support	Five indicators (MS1-MS5) 5 Likert scale Reflective	Masci <i>et al.</i> (2016),
2	Quality of human resource	Two indicators (HRQ1- HRQ2) 5 Likert scale Reflective	Delone dan Mclean (2003); Rameshwar <i>et al.</i> (2015)
3	Internal control system	Five indicators (ICS1-ICS18) 5 Likert scale Reflective Second order (5 dimensions, 18 indicators)	COSO (2013)
4	Governance	Five indicators (GV1-GV5) 5 Likert scale Reflective	Alexandre Di Miceli da <i>et al.</i> (2010)
5	Reliability of Financial Statement	Four indicators (RFS1- RFS4) 5 Likert scale Reflective	Government Rule No. 71/2010

Note: MS: principal support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance

Before distributing to the respondents, the questionnaire was pilot tested with 32 treasurers of the BOS, who were the unit of analysis. The purpose of pilot testing of an instrument of research is to gain confidence that the items in the questionnaire are understandable, reliable and validity (Hair et al. 2016). Therefore, pilot testing gave an opportunity to the respondents to provide comments and suggestions on the clarity, ambiguity or difficulty in answering the questionnaire items (Bandur, 2012). The results of pilot testing showed that the questionnaire items were valid and reliable so that it can be used further. The questionnaire is presented in the appendix.

## Method of Analysis

As can be seen in Figure 1, the research model consisted of one main independent variable and several mediations variables. This study was an exploratory study that tried to explore the relationships between several variables. As the model is a structural equation model, this study employed the Partial Least Square (PLS) to test the hypotheses. Hair et al. (2016)

argue that the PLS is a potent method because it is not based on many assumptions, such as normality distribution multivariate, and large sample.

## RESULTS AND DISCUSSION

### Demographics of Respondents

The sample consisted of treasures of the BOS Junior High School, Senior High School, and Vocational High School in Ponorogo regency owned by the government and private as well. In total, there were 159 questionnaires distributed to respondents using two ways, that is, disseminated through the principal forum and submitted directly to the BOS treasurer of each school from 25 April-31 May 2017. There were 70 questionnaires returned from 25 April-13 May 2017. Because the response rate was low, some principals and treasures were contacted for returning the questionnaires. As a result, 15 questionnaires returned from 14-31 May 2017.

Meanwhile, questionnaires were sent directly to treasures of school owned by private owners from 1-27 May 2017. Thus, in total, the returned questionnaires were 121 (response rate was 76.10 percent), but one questionnaire was incomplete. Therefore, there were 120 usable questionnaires. The first part of the questionnaire was related to profile of respondents consisting of gender, age, education, occupation, experience and training and education/training. The summary of the respondent profile can be seen in the following Table 2.

**Table 2: Summary of Respondent Profile**

Demographic Variables	Categories	Frequency	Percentage (%)
Gender	Male	33	27.5
	Female	87	72.5
Age	<30	8	6.7
	30-40	31	25.8
	41-50	54	45
	> 50	27	22.5
Education	Senior High School	21	17.5
	Diploma Degree	2	1.7
	Bachelor's Degree	88	73.3

*DETERMINANTS OF RELIABILITY OF FINANCIAL STATEMENTS*

	Masters Degree	9	7.5
Position	Teacher	67	55.8
	Administration	53	44.2
Experience as Treasurer of BOS	<1	4	3.3
	1-3	37	30.8
	4-6	68	56.7
	> 7	11	9.2
Training experience	Never	4	3.3
	1-3	37	30.8
	4-6	68	56.7
	> 7	11	9.2

---

Based on the above table, females were higher than males. Regarding education, the majority of the respondents have a bachelor's degree. Surprisingly, most of the treasures hold a position as a teacher. It means that they have a second position, namely teacher and treasurer as well. Based on the experience as the treasurer of the BOS, a majority of the respondents had 4-6 years. Based on training experience, most of them had 1-3 times.

### **Non-Response Bias Test (T-Test)**

As explained in the above section, the collection of the questionnaires consisted of two periods, that is 25 April-13 May 2017 and 14-31 May 2017. Thus, this study did not perform a non-response bias test in order to examine whether the responses of the respondents on such periods were different. Non-response bias testing can be performed by independent samples t-test. The value of the Levene's Test for Equality of Variance will show a significant difference between the two samples of the population variance based on the delivery mechanism of a questionnaire to respondents. As can be seen in Table 3, there is no difference between the methods of distribution of the questionnaires.

**Table 3: Testing of Non-Response Bias**

Variable	Period of distribution	N	Mean	LevenTest		Assumption	T-test		Conclusion
				F	Sig.		t	Sig. (2-tailed)	
MS	Period 1	70	1.53	0.356	0.552	Equal variance assumed	0.607	0.545	There is no difference
	Period 2	50	1.46						
HRQ	Period 1	70	4.50	0,113	0.737	Equal variance assumed	1,282	0.202	There is no difference
	Period 2	50	4.36						
GV	Period 1	70	4.57	1,024	0.314	Equal variance assumed	0.770	0.443	There is no difference
	Period 2	50	4.50						
ICS	Period 1	70	4.24	0.360	0.549	Equal variance assumed	0.894	0.373	There is no difference
	Period 2	50	4.16						

Note MS: principal support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance; Period 1= 25 April-13May 2017; Period 2: 14-31 May 2017.

## Measurement Model (Outer Model)

### Convergent Validity

Convergent validity testing was done by looking at the value of the loading factor indicators that should be above 0.7. However, for an exploratory study, loading factor in the range 0.5-0.6 is considered sufficient (Chin Ghozali and Latan, 2015). Therefore, this study used the minimum value of 0.5 as a criteria. Based on the result in Table A2 in the appendix, it can be seen that all indicators had a loading factor of above 0.5. It can be concluded that the indicators are valid and able to represent each latent variable.

Regarding internal control systems, the variable is second order (reflective-reflective); thus the test was in two stages. First, the convergent validity test was done on the relation between the dimensions with its indicators (first order). Second, the validity test was done concerning the latent construct with its dimensions (second order) (Mackenzi et al., 2005). The results of the convergent validity test are presented in Table A3 and A4 in the appendix. All the relations had loading factors  $\geq 0.5$ . Overall, both the first order and second order were valid.

### **Discriminant Validity**

The objective of discriminant validity is to prove that a reflective construct has the most robust relation with its indicators (e.g., in comparison with than any other construct) in the PLS path model (Hair et al. 2016). This study employed cross loading to assess discriminant validity. The result is presented in Table A5 in the Appendix. As can be seen all reflective constructs had the most robust relations with its indicators.

### **Reliability Analysis**

A reliability test aims to prove accuracy, and consistency of instruments to measure the construct. Measuring the reliability of a construct with reflective indicators can be done in two ways, namely by the Cronbach's alpha and composite reliability or often called Dillon-Goldstein's. However, the use of Cronbach's alpha to test the reliability of the construct will provide a lower value (underestimate), so it is more advisable to use composite reliability (Hair et al. 2016). Reliability is useful if the value of the Cronbach's alpha and composite reliability is higher than 0.70. However, in an exploratory study, a value of 0.60 - 0.70 is still acceptable. The result of the analysis is presented in Table A6 in the Appendix. All values of Cronbach's alpha and composite reliability of latent variables had a value  $> 0.70$ .

### **Structural Model (Inner Model)**

The central criterion for the structural model's assessment, is the coefficient of determination  $R^2$  (Hair et al. 2016). The *R-square* parameter ( $R^2$ ) is used to measure the variation level of the independent variable changes to the dependent variable and the path coefficients for the significance test between the constructs in the structural model is shown by the t-statistic value. The higher the  $R^2$  means, the better the predicted model. The following table presents the  $R^2$  value of each of the endogenous variable.

**Table 4: Inner Model Evaluation**

<b>Endogenous variables</b>	<b>R-square</b>
HRQ	0.072
RFS	0.850
ICS	0.183
GV	0.151

Note: MS: principal support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance

The mediator variables had a relatively low  $R^2$  value. Among the mediator variables, the human resource quality had the lowest  $R^2$  (0.072), which is categorised as weak. On the other hand, the reliability of financial statements had the highest value of  $R^2$  (0.850) and that was categorised as active.

**Hypothesis Testing**

This study employed a step-by-step analysis of the structural model to provide a detailed picture of the results and to test H1 to H4 comprehensibly. As suggested by Hair et al. (2016), mediation analysis could be done by the bootstrapping method. Using such a method, does not rely on the assumption of normality, and fit for small sample size (Hair et al. 2016). There are two steps. First, bootstrapping is done without the presence of mediation (direct path). In this step, the relationship between principal support and reliability of financial statements must be significant (support H1). The result of the examination of this direct relation indicates that t-statistic is 2.016 (> 1.96). This significant relation enabled the second step. In the second step, bootstrapping was done by adding all mediators (H2 to H4). Table 5 provides the results of total effect analysis. Based on Table 5, there are two insignificant relations, namely human resource quality to the reliability of financial statements and governance to the reliability of financial statements.

**Table 5: Total Effect**

Exp.	Original Sample (O)	T Statistics (  O / STDEV )	P-Value	Conclusion
MS-> RFS	0.421	4.330	0.000	Significant
MS-> HRQ	0.269	2.349	0.019	Significant
MS -> ICS	0.427	4.334	0.000	Significant
MS -> GV	0.388	3.876	0.000	Significant
HRQ -> RFS	0.299	3.549	0.000	Not Significant
ICS -> RFS	0.304	2.674	0.008	Significant
GV-> RFS	0.356	3.074	0.002	Not Significant

Note: MS: principal support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance

In this study, the type of mediation was determined based on the *variance account for* (VAF). VAF is calculated by indirect effect/total effect. The total effect is direct influence plus indirect influence. VAF values above 80 per cent were categorised as full mediation, VAF between 20-80 percent was categorised as partial mediation, and VAF of less than 20 percent was concluded as almost no mediation effect (Hair et al. 2016). Based on Table 6, all the VAF values were categorised as partial mediation.

Table 6: VAF

Path	VAF value	Interpretation
MS -> HRQ->RFS	$VAF = \frac{\text{indirect effect}}{\text{indirect effect} + \text{direct effect}}$ $VAF = \frac{2,349 \times 3,549}{(2,349 \times 3,549) + 4,330}$ $VAF = 0,6582$ $VAF = 65,82\%$	Partial mediation
MS ->GV->RFS	$VAF = \frac{3,876 \times 3,074}{(3,876 \times 3,074) + 4,330}$ $VAF = 0,7335$ $VAF = 73,35\%$	Partial mediation
MS->ICS->RFS	$VAF = \frac{4,334 \times 2,674}{(4,334 \times 2,674) + 4,330}$ $VAF = 0,728$ $VAF = 72,8\%$	Partial mediation

Note: MS: principal support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: internal control system; GV: governance

## DISCUSSION

Based on the above analysis, the result of hypotheses testing can be summarised in the following table.

**Table 7: Hypothesis Testing Summary**

	<b>Hypothesis Statement</b>	<b>Conclusion</b>
H1	Principal support affects the reliability of financial statements	Supported
H2	Quality of human resource mediates the relationship between principal support and the reliability of financial statements	Supported
H3	Good governance mediates the relationship between principal support and the reliability of financial statements	Supported
H4	Internal control system mediates the relationship between principal support and the reliability of financial statements	Supported

As discussed in the prior section, H1 is supported. This result implies that principal support has a vital role to improve the reliability of financial statements of the BOS. The result is consistent with several previous studies (i.e. Cooper, 2006; Rahayu, 2012; Johl et al., 2013; Salehi and Shirazi 2016). This result also supports the argument that bureaucracy in Indonesia is strongly influenced by the paternalism culture that always upholds and glorifies the ruler as a person who must be respected because they have given life and shelter for the people.

Regarding the mediator variables, the result provides empirical evidence that the four variables partially mediate the relationship between principal support and the reliability of financial statements. The partial mediation implies that the role of the principal still has a significant effect on the reliability of financial statements. There are some plausible explanations. Regarding human resource quality, most of the treasurers in this study are the teacher that might not serve as well as the administrative staff. This second position held by the teacher is also not following good governance as it might weaken internal controls.

## CONCLUSION

This study provided empirical evidence that principal support directly affects the reliability of financial statements in the management of the BOS. Some prior studies reveal the low capacity of principals to implement decentralisation, especially in the financial management of the school (Syafi'i and Welch et al., 2008; Bandur 2012a; Chen 2011; Kristiansen and Pratikno 2006; Yeom 2002). Thus, to improve the quality financial statements of the BOS, the government needs to increase the capacity of the principal by training, and technical guidance. Besides, the Ponorogo local government should clearly emphasise the separation of the functions of teachers with the treasurer of the BOS. More administrative staff should be trained to be treasurers. This study has several limitations that should be considered in interpreting the results. First, in answering the questionnaire, treasurers might be intervened by their principals. Second, the sample of this study consisted of treasurers in public and private schools. Public schools might have some difference related to governance and working culture compared to private schools. Based on such limitations, suggestions for the next research are: (1) researcher needs to directly supervise the respondent in answering the questionnaire, (2) need to compare between private and public schools in managing the BOS.

## REFERENCES

- Adnan, Z., Chatterjee, S. and Nankervis, A. (2003). *Understanding Asian management: Transition and transformation*. Perth: Vineyard Publishing
- Agus Dwiyanto and Bivaola Kusumasari (2001). Budaya paternalisme dalam birokrasi pelayanan public. *Policy Brief*, 02(PB), 1-4.
- Al-Hiyari, A., AL-Mashre, M. H. H., and Mat, N. K. N. (2013). Factors that affect accounting information system implementation and accounting information quality: A survey in University Utara Malaysia. *American Journal of Economics*, 3(1), 27-31.
- American Institute of Certified Public Accountants (AICPA). (2007). *Consideration of fraud in a financial statement audit*. PCAOB AU

*section 316. Standards and related rules as of December 2006.* New York, NY: AICPA

- Andrain Hadiyanto, Evita Puspitasari, Erlane K. Ghani, (2018). The effect of accounting methods on financial reporting quality. *International Journal of Law and Management*, 60(6),1401-1411
- Arifianti, Hermin, Payamta, and Sutaryo. (2013). Effects of regional financial control and monitoring of the performance of the regional administration. *Proceeding of the National Symposium on Accounting XVI*, Manado.
- Asian Development Bank and OECD (2015). *Education in Indonesia*. Paris: OECD Publishing.
- Bandur, A. (2009). The implementation of school-based management in Indonesia: Creating conflicts at regional levels. *Journal of NTT Study*. 1, 16-27.
- Bandur, A., and Gamage, D. T. (2009). SBM policies and programs: Improving teaching-learning environments and student achievements in Indonesia. *Education and Society*, 27(1), 51-75.
- Bandur, A. (2012a). School-based management developments: Challenges and impacts. *Journal of educational administration*, 50(6), 845-873.
- Bandur, A. (2012b). School-based management developments and partnership: Evidence from Indonesia. *International Journal of Educational Development*, 32(2), 316-328.
- Biondi, Y., Canziani, A. and Kirat, T. (2007). *The Firm as an entity: Implications for economics, accounting and the law*. London: Routledge.
- Boylan, C., and Bittar, L. (2001). *School Councils in New South Wales: A Report to the New South Wales Department of Education and Training*.
- Cooper, BJ, P. Leung, and G. Wong. (2006). The Asia Pacific literature review on internal auditing. *Managerial Auditing Journal* 19(5), 822-834.

- Chen, D. (2011). *School-based management, school decision-making and education outcomes in Indonesia primary schools*. World Bank: Policy Research Working Paper
- Chinedu Francis Egbunike, and Augustine N. Odum, (2018). Board leadership structure and earnings quality: Evidence from quoted manufacturing firms in Nigeria. *Asian Journal of Accounting Research*, 3(1), 82-111
- COSO (2013). *Internal control-integrated framework: Executive summary*. Durham, North Carolina.
- Elisa García Jara, Amparo Cuadrado Ebrero, and Rolando Eslava Zapata, (2011). Effect of international financial reporting standards on financial information quality. *Journal of Financial Reporting and Accounting*, 9(2), 176-196
- Gamage, DT (2002). A comparative study of the models of school-based management in New South Wales and Hong Kong. *Curriculum and Teaching* 17(1), 55-73.
- Government Regulation No. 60/2008 on The internal control system of government
- Government Regulation No. 71/2010 on Guidelines for the government accounting standards
- Government Regulation No. 19/2017 on the Amendment of government regulation No. 74/2008 on a teacher.
- Gras-Gil, Esther, Salvador Marin-Hernandez, and Domimngi Garcia-Perez de Lema. (2012). Internal audit and financial reporting in the Spanish banking industry. *Managerial Auditing Journal*, 27(8), 728-753
- Ghozali, I and Latan, H. (2015). *Partial least squares: Concepts, methods and applications using SmartPLS program 3.2.1 for empirical research*. (ed.2). Semarang: Badan Penerbit Diponegoro.

Habib, A., Hossain, M., and Jiang, H. (2011). Environmental uncertainty and the market pricing of earnings smoothness. *Advances in Accounting*, 27(2), 256-265.

Hair Jr., JF, GTM Hult, C. Ringle, and M. Sarstedt. (2016). *A Primer on Partial Least Squares Structural Equation Modeling (PLS-SEM)*. Thousand Oaks: Sage.

Husam Aldamen, and Keith Duncan, (2016). Does good corporate governance enhance accruals quality during financial crises?. *Managerial Auditing Journal*, 31(4/5), 434-457.

Holthausen, R. W. (2009). Accounting standards, financial reporting outcomes, and enforcement. *Journal of Accounting Research*, 47(2), 447-458.

Iman Harymawan, and Dewi Nurillah, (2017). Do reputable companies produce a high quality of Financial Statements?. *Asian Journal of Accounting Research*, 2(2), 1-7.

International Public Sector Accounting Standards Board. (2011). *Transition to the Accrual Basis of Accounting: Guidance for Public Sector Entities-Third Edition*, International Federation of Accountants, New York. (Accessed from [www.ifac.org](http://www.ifac.org)).

Inspektorat Ponorogo. (2016). *Annual Report of Examination Ponorogo District*. Ponorogo.

Jensen, M. C., and Meckling, W. H. (1976). Theory of the firm: Managerial behaviour, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.

Johl, K., S., Kaur Johl, S., Subramaniam, N., and Cooper, B. (2013). Internal audit function, board quality and financial reporting quality: evidence from Malaysia. *Managerial Auditing Journal*, 28(9), 780-814.

Kothari, C.R. (2004). *Research Methodology: Methods and techniques*. (2nd Eds) New Delhi: New Age International Publishers.

- Komala, A. R. (2012). The influence of the accounting managers' knowledge AND the top managements' support on the accounting information system and its impact on the quality of accounting information: A case of zakat institutions in Bandung. *Journal of Global Management*, 4(1), 53-73.
- Kristiansen, S. (2006). Decentralising education in Indonesia. *International Journal of Educational Development*, 26(5), 513-531.
- Krismiaji, et al. (2016). International financial reporting standards, board governance, and accounting quality: Indonesian preliminary evidence. *Asian Review of Accounting* 24 (4): 474-497.
- Law Number 20 the Year 2003 on National Education System.
- Lenard, M. J., Petruska, K. A., Alam, P., and Yu, B. (2016). Internal control weaknesses and evidence of real activities manipulation. *Advances in Accounting*, 33, 47-58.
- Leer, J. (2016). After the Big Bang: Estimating the effects of decentralisation on educational outcomes in Indonesia through a difference-in-differences analysis. *International Journal of Educational Development*, 49, 80-90.
- Masci C., De Witte, K., Agasisti, T. (2016). The influence of school size, characteristics and school principal on educational performance management practices: An efficiency analysis of Italian students attending middle schools. *Socio-Economic Planning Sciences*, 1-45.
- Minister of the Interior Circular Letter No. 910/2017 on Technical guidelines for budgeting, execution and administration and accountability block grants state school education unit organised by Regency/city in the local budget revenue and expenditure.
- Monks, R. A. G and Minow, N. (2004). *Corporate governance*. Oxford: Blackwell Publishing.
- Modlin, S. (2012). County government finance practices: What independent auditors are finding and what makes local government susceptible.

*Journal of Public Budgeting, Accounting & Financial Management*, 24(4), 558-578.

Mahmoud Mousavi Shiri, Mahdi Salehi, Fatemeh Abbasi, and Shayan Farhangdoust, (2018). Family ownership and financial reporting quality: Iranian evidence. *Journal of Family Business Management*, 8(3), 339-356.

Nirwana, Haliah, (2018). Determinant factor of the quality of financial statements and performance of the government by adding contextual factors: Personal factor, system/administrative factor. *Asian Journal of Accounting Research*, 3(1), 28-40.

Rahayu, S. K. (2012). The factors that support the implementation of the accounting information system: a survey In Bandung and Jakarta's taxpayer offices. *Journal of global management*, 4(1), 25-52.

Regulation of the Minister of Education and Culture No. 8 of 2017 on Technical guidelines for school operational assistance.

Salehi, M., and Shirazi, M. (2016). Audit committee impact on the quality of financial reporting and disclosure: Evidence from the Tehran stock exchange. *Management Research Review*, 39(12), 1639-1662.

Sekaran, U., and Bougie, R. (2016). *Research methods for business: A skill building approach*. John Wiley & Sons.

Shleifer, A., and Vishny, R. W. (1986). Large shareholders and corporate control. *Journal of Political economy*, 94(3, Part 1), 461-488.

Shireenjit K. Johl, Satirenjit Kaur Johl, Nava Subramaniam, Barry Cooper. (2013). Internal audit function, board quality and financial reporting quality: evidence from Malaysia. *Managerial Auditing Journal*, 28I(9):780-814.

Stephen Korutaro Nkundabanyanga, Venancio Tauringana, Waswa Balunywa, and Stephen Naigo Emitu, (2013). The association between accounting standards, legal framework and the quality of financial

- reporting by a government ministry in Uganda. *Journal of Accounting in Emerging Economies*, 3(1), 65-81.
- Syafi'i, S., and Welch, A. (2008). Decentralising Indonesian education: the promise and the price. *World Studies in Education*, 9(1), 31-53.
- World Bank (2015). *World Bank and education in Indonesia: an International bank for reconstruction and development*. Indonesia: The World Bank.
- Wu, H., and Patel, C. (2014). *Adoption of Anglo-American models of corporate governance and financial reporting in China*. Emerald Group Publishing
- Yeom, M., Acedo, C., and Utomo, E. (2002). The reform of secondary education in Indonesia during the 1990s: Basic education expansion and quality improvement through curriculum decentralisation. *Asia Pacific Education Review*, 3(1), 56-68.

## APPENDIX

**Table A1: Questionnaire**

SNA= Strongly Not Agree NA=Not Agree A=Agree N= Neutral  
SA=Strongly Agree

No.	Statement	SNA	NA	N	A	SA
<b>Management Support</b>						
1.	I feel that the school principal where I work does not provide support as I expected					
2.	The principal, in which I work, does not yet have enough awareness of the importance of improving the quality of human resources					
3.	The principal, in which I work, does not have enough awareness of the importance of the School Budget Activity Plan.					
4.	The principal, in which I work, does not include the school board and school committee in managing BOS.					
5.	The principal, in which I work, does not provide support and encouragement for training.					
<b>Human Resource Quality</b>						
No.	Statement	SNA	NA	N	A	SA
1	I work following the technical guidelines/management guidelines for BOS.					
2	The training I have participated in is useful for my job as treasurer of BOS					
1	All team members BOS School, where I work, know the duties and their responsibility					
2	The Basic Education Data, where, I work is always updated					
3	I periodically submit BOS financial reports to the principal according to the rules					
4	The BOS fund team coordinates periodically with the school committee					
5	Financing of BOS activities is following school activities plan					

DETERMINANTS OF RELIABILITY OF FINANCIAL STATEMENTS

<b>Government Internal Control System</b>						
<b>Control Environment</b>						
No.	Statement	SNA	NA	N	A	SA
1	The principal has set the standard rules of employee behaviour					
2	Each employee works following the primary task and function					
3	School budget plan and revenue and expense budget plan are prepared following technical guidelines					
4	Members of the BOS management team are selected according to their competence					
5	All BOS activities are regularly reported to the principal					
<b>Penilaian Resiko</b>						
No.	Statement	SNA	NA	N	A	SA
1	Activities funded BOS, where I work, are following school activity budget plan and revenue and expense budget plan					
2	Preparation of school budget activity plan and revenue and expense budget plan in my school are following the technical guidelines of BOS.					
3	Preparation of school budget plan in my school is following the revenue and expense budget plan					
4	The BOS team periodically evaluates the activities					
5	The school, where I work, has operational standards of activities					
6	Expenditures of BOS is to the knowledge of the principal					
<b>Control Activities</b>						
1	The physical security procedure of the asset is well implemented					
2	The recording of all assets has been well executed					
3	All employees have understood the function of the main task					
<b>Information and Communication</b>						
1	The leadership has socialised school budget activity plan and revenue and expense budget plan to all employees					
2	The principal has conducted ongoing communication with the school committee and the inspectorate					

No.	Statement	SNA	NA	N	A	SA
<b>Aktivitas Pemantauan</b>						
1	Principal follows up the findings of the Inspectorate					
2	Principal evaluates the overall school's internal control mechanism					
<b>Reliability of Financial Report of BOS</b>						
1	The information presented in the BOS financial statements is following financial transactions					
2	The information presented in the BOS financial statement is valid					
3	The information presented in the BOS financial statements is following the technical guidance of BOS funds					
4	The information presented in the BOS financial statements is not for the benefit of certain parties					

**Table A2: Summary Convergent Validity**

Construct	Items	Loading factor	AVE
Management Support	MS1	.783	.619
	MS2	0.805	
	MS3	.789	
	MS4	0.763	
	MS5	.793	
Quality Human Resources	HRQ1	.882	0.527
	HRQ2	0,745	
Governance	GV1	0.728	0.562
	GV2	0.676	
	GV3	.789	
	GV4	0.735	
	GV5	.814	
Reliability of financial statements	RFS1	0,929	0,794
	RFS2	0.931	
	RFS3	.910	
	RFS4	.787	

Note: MS: management support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance

**Table A3: Outer Loading Internal Control Systems**

	Variable (Preliminary)			Variable (End)		
	Order 1	Order 2	Expl.	Order 1	Order 2	Expl.
ICS_AP1	0.870	0.788	valid	0.916	0.797	valid
ICS_AP2	0.813	0.727	valid	0.771	0.726	valid
ICS_AP3	0.707	0.609	valid	0.841	0.677	valid
ICS_IK1	0.866	0.681	valid	0.812	0.675	valid
ICS_IK2	0,877	0.736	valid	0.841	0.735	valid
ICS_LP1	0.821	0.739	valid	0.808	0.740	valid
ICS_LP2	0.892	0.771	valid	0.889	0.770	valid
ICS_LP3	0.802	0.728	valid	0.783	0.726	valid
ICS_LP4	0.778	0.728	valid	0.773	0.714	valid
ICS_LP5	0.761	0.754	valid	0.757	0.743	valid
ICS_Monit1	0.905	0.666	valid	0.910	0.681	valid
ICS_Monit2	0.916	0.707	valid	0,844	0.717	valid
ICS_PR1	0.787	0.717	valid	0.771	0.708	valid
ICS_PR2	0.847	0,702	valid	0.822	0.683	valid
ICS_PR3	0.791	0,782	valid	0.805	0.778	valid
ICS_PR4	0.861	0.759	valid	0,844	0.756	valid
ICS_PR5	0.755	0.686	valid	0.733	0.701	valid
ICS_PR6	0.804	0.764	valid	0.790	0.766	valid

Note: MS: management support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: internal control system; GV: governance

**Table A4: Path Coefficients and p-Value**

	<b>Original Sample (O)</b>	<b>T Statistics (  O / STDEV )</b>	<b>P Values</b>	<b>Conclusion</b>
Internal Control System -> Control Activities	0.890	42.129	0.000	significant
Internal Control System -> Information Communication	0.809	26.139	0.000x	significant
Internal Control System -> Environmental Control	0.917	48.608	0.000	significant
Internal Control System -> Monitoring	0.755	12.519	0.000	significant
Internal Control System -> Risk Assessment	0.912	50.819	0.000	significant

**Table A5: Loading Cross Value Measurements With Constructs**

<b>Indicator</b>	<b>Management Support</b>	<b>HR Quality</b>	<b>Reliability of Financial Statements</b>	<b>Internal Control Systems</b>	<b>Governance</b>
MS1	.783	0.457	.356	0,467	0.431
<b>MS2</b>	0.805	0,544	.441	0.562	0.555
<b>MS3</b>	.790	.545	0.464	0.599	0.602
<b>MS4</b>	0.763	0.537	0.522	0.676	0.617
MS5	0.792	0.502	0,496	0,579	.669
HRQ1	0.626	0.822	0.502	0,496	0.661
<b>HRQ2</b>	0,488	0,745	.450	0.468	0.615
RFS1	.294	0.327	0,929	0.431	0,478
<b>RFS2</b>	.420	0.433	0.931	.421	0,564
<b>RFS3</b>	.330	0.499	.910	.450	0,548
<b>RFS4</b>	.466	0.391	.787	0.541	0,526
ICS_AP1	.553	0.445	.571	0.796	0.647
<b>ICS_AP2</b>	.589	.460	.561	0.715	0.611
<b>ICS_AP3</b>	.510	0.433	.514	0.666	0,559
<b>ICS_IK1</b>	.628	0,482	.516	.650	.538
ICS_IK2	.560	0.797	0.587	.674	0.529
<b>ICS_LP1</b>	.420	0,447	0.593	0.728	0.588
<b>ICS_LP2</b>	0.511	.542	0,556	.760	.528
<b>ICS_LP3</b>	0.555	.460	.598	0,711	.631

DETERMINANTS OF RELIABILITY OF FINANCIAL STATEMENTS

ICS_LP4	0.651	0.464	0.504	0.714	.636
ICS_LP5	0.665	.490	.479	0.725	.669
ICS_Monit1	0.699	.560	0.513	.684	0.597
ICS_Monit2	.610	.546	0.427	0.717	.601
ICS_PR1	.677	.536	0.533	0.707	.612
ICS_PR2	0.635	0.641	.649	.771	.738
ICS_PR3	0.523	.545	0.513	0.762	0.597
ICS_PR4	0.682	0.593	0.579	0.683	0.519
ICS_PR5	0.651	0.597	.530	0.704	.663
ICS_PR6	.638	0.624	.545	0.759	0.606
GV1	0.662	0.602	.561	0.611	0.728
GV2	.690	0.624	.570	0.695	0.676
GV3	.639	.643	0.524	.643	.789
GV4	0.608	0.588	0.511	0.659	0.735
GV5	0.615	0.497	.501	.569	.814

Note: MS: management support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance

**Table A6: Reliability Test**

Variable	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
MS	0.848	0890
HRQ	0.755	0767
RFS	0.913	0939
ICS	0.955	0959
GV	0.805	0865

Note: MS: management support; HRQ: human resource quality; RFS: reliability of financial statements; ICS: an internal control system; GV: governance

