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

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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*

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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.

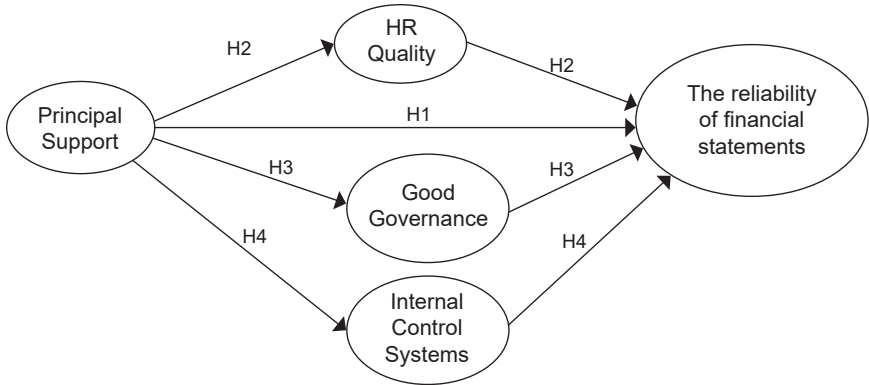


Figure 1: Research Model

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

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Position	Masters Degree	9	7.5
	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 ≥ 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

Endogenous variables	R-square
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 R² value. Among the mediator variables, the human resource quality had the lowest R² (0.072), which is categorised as weak. On the other hand, the reliability of financial statements had the highest value of R² (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

	Hypothesis Statement	Conclusion
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.

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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
Management Support						
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.					
Human Resource Quality						
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					

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Government Internal Control System						
Control Environment						
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					
Penilaian Resiko						
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					
Control Activities						
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					
Information and Communication						
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
Aktivitas Pemantauan						
1	Principal follows up the findings of the Inspectorate					
2	Principal evaluates the overall school's internal control mechanism					
Reliability of Financial Report of BOS						
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

	Original Sample (O)	T Statistics (O / STDEV)	P Values	Conclusion
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

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

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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

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

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

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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.

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

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INTRODUCTION

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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

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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.

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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.

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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

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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.

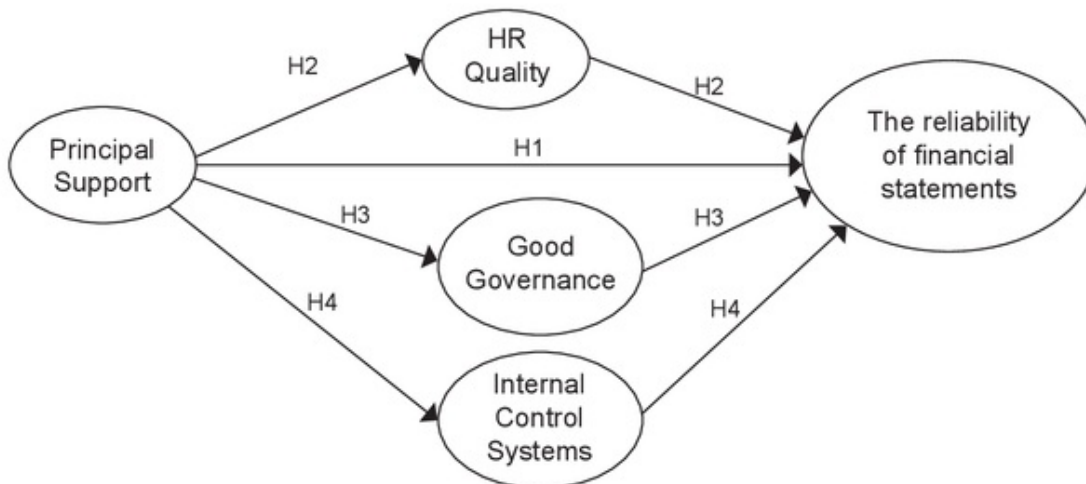


Figure 1: Research Model

HYPOTHESES DEVELOPMENT

55 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.

29 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.

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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

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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.

1

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

	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.

1 Measurement Model (Outer Model)

1 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 ≥ 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

Endogenous variables	R-square
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 R² value. Among the mediator variables, the human resource quality had the lowest R² (0.072), which is categorised as weak. On the other hand, the reliability of financial statements had the highest value of R² (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.

22 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

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

Table 7: Hypothesis Testing Summary

	Hypothesis Statement	Conclusion
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.

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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
Management Support						
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.					
Human Resource Quality						
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					

Government Internal Control System							
Control Environment							
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						
Penilaian Resiko							
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						
Control Activities							
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						
Information and Communication							
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
Aktivitas Pemantauan						
1	Principal follows up the findings of the Inspectorate					
2	Principal evaluates the overall school's internal control mechanism					
62 Reliability of Financial Report of BOS						
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

	Original Sample (O)	T Statistics (O / STDEV)	P Values	Conclusion
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

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

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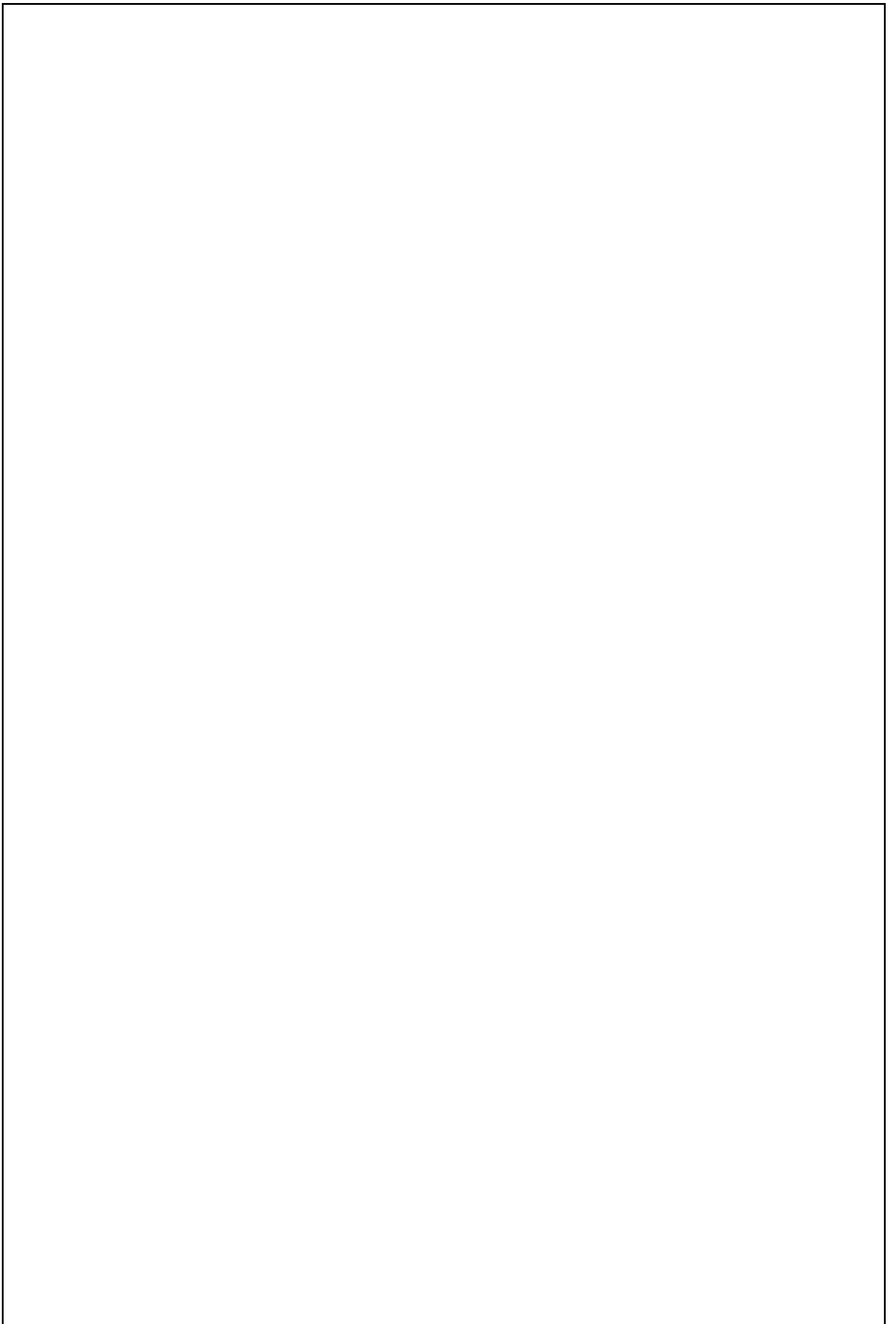
ICS_LP4	0.651	0.464	0.504	0.714	.636
ICS_LP5	0.665	.490	.479	0.725	.669
ICS_Monit1	0.699	.560	0.513	.684	0.597
ICS_Monit2	.610	.546	0.427	0.717	.601
ICS_PR1	.677	.536	0.533	0.707	.612
ICS_PR2	0.635	0.641	.649	.771	.738
ICS_PR3	0.523	.545	0.513	0.762	0.597
ICS_PR4	0.682	0.593	0.579	0.683	0.519
ICS_PR5	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

²
Table A6: Reliability Test

Variable	Cronbach's Alpha	Composite Reliability
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



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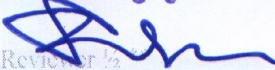
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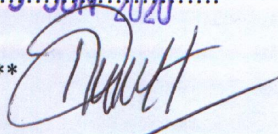
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Surakarta, 05 JUN 2020

Reviewer 1/2 **



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*Dinilai oleh dua Reviewer secara terpisah