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THE EFFECT OF BUDGET MANAGEMENT QUALITY AND INTERNAL AUDIT TO FINANCIAL STATEMENT QUALITY IN THE MINISTRIES AND AGENCIES

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A B S T R A C T

The government's financial statement represents the state's financial management accountability. This research aims to analyze the factors that influence the quality of the state's financial statement using the variables of the state's budget management quality and internal audit. This research observed 52 data that covered the period of 2015 – 2017 using the multiple linear regression analysis based on the data panel. The variable also uses control variable to analyze data properly such as size and work unit. The results of the research suggest that budget management quality and internal audit have a positive effect on the central government's financial statement quality. This is also supported by correlation test of Pearson. Each ministry and agency should be empowered the budget management quality and internal audit to support the financial statement quality in ministries and agencies. As public sector institution control of budget should be the main concern to create good financial statement quality. This may the first paper which analyzes factors of budget management quality and internal audit to financial statement quality in ministries and agencies. Research in the public sector, especially for the government, is rare as the data may not be available.
***Keywords :** budget, internal audit, ministry, quality, financial statement*

Laporan keuangan pemerintah merupakan wujud akuntabilitas pengelolaan keuangan negara. Penelitian ini bertujuan menganalisis faktor yang mempengaruhi kualitas laporan keuangan pemerintah dengan menggunakan variabel kualitas pengelolaan anggaran dan pengendalian internal pemerintah. Penelitian ini mengobservasi 52 data yang meliputi periode tahun 2015 – 2017 menggunakan analisis regresi linier berganda. Hasil penelitian ini menunjukkan bahwa kualitas pengelolaan anggaran dan pengendalian internal berpengaruh positif terhadap kualitas laporan keuangan pemerintah pusat.
Kata kunci: anggaran, audit internal. Kementrian, kualitas, laporan keuangan

INTRODUCTION

The Central Government's Financial Statements of 2017 was granted the Unqualified Opinion or "Wajar Tanpa Pengecualian" (WTP) by the The Audit Board of The Republic of Indonesia or Badan Pemeriksa Keuangan (BPK, 2018). The audit opinion granted by BPK is an indicator of the quality of the Government's Financial Statements (LKP) (Asmoko, 2015). This indicates the improved quality of the State Budget (APBN) reporting.

The Government Regulation (PP) of 71/2010 concerning the Government Accounting Standards replace Regulation Number 24 of 2005 suggests that the government's financial statement aims to provide the information useful for the stakeholders in the evaluation of accountability and economic, social, and political decision -making. To be applicable and effective in decision making, a financial statement will have to have some qualitative characteristics (Hasan, Nahar and Hossain, 2014).

The government's report quality is usually assessed using the primary data collected with questionnaires (Onyulo, 2017; Afiah & Rahmatika, 2014; Setyowati, Isthika & Pratiwi, 2016; and Latjandu, Kalangi & Tinangon 2016). Van Beest, Braam and Boelens (2009) tested 21 indexes to measure the quality of annual report to IFRS. The results of their research revealed that the indexes are valid and reliable for the assessment of financial statement quality. The indexes applied in the measurement include the qualitative characteristics of the government's financial statement required by the Government Accounting Standards/SAP (2010).

The government's financial statement represents the state's accountability of financial management (SAP, 2010). The state's financial management, required by the Act of 17/2003 concerning on State Finance, is the APBN. This indicates the correlation between the quality of the government's financial statement quality and the budget management quality both of which represent the accountability of the state's financial management.

This reveals the correlation between the quality of the government's financial statement and the quality of budget management representing the accountability of the state's financial management. This paper argues that there is a correlation between the quality of budget management and the government's financial statement quality. In addition, internal audit is a very influential factor that may have an effect on financial statement quality (Xu, Nord, Nord & Lin, 2003; Onyulo, 2017; Afiah & Rahmatika, 2014; Setyowati *et al.*, 2016; and Latjandu *et al.*, 2016). An effective internal audit system will serve as an applicable mechanism to develop the financial statement quality (Altamuro and Beatty, 2009). This research aims to identify the effect of management and internal audit on the government's financial statement quality.

This research contributes to the improvement of previous researches in two ways. First, this research assesses the government's financial statement quality using the index developed by Van Beest *et al.* (2009) which has been adapted and adjusted to the financial characteristics of the financial reports required by the SAP (2010). The adjustment is necessary to ensure that the index has accommodated the qualitative characteristics of the government's financial statement as required by the SAP (2010). In addition, the application of the index developed by Van Beest *et al.* (2009) is expected to provide a consistent assessment of the government's financial statement quality. Second, this research has an additional variable of budget management as one of the factors that affect the government's financial statement quality. This is in line with the provision stipulated in the Government Accounting Standard defining the government's financial statements as an accountable statement of the budget management. This research provides a different result as it assessed the government's financial statement quality using the adjusted Van Beest *et al.* (2009) indexes. Measurement of the quality of government financial statements in previous studies generally use primary data that reflects respondents' perceptions so that the use of secondary data to measure the quality of government financial statements is expected to provide more objective results. Furthermore, this research studied how budget management quality affects the government's financial statement quality.

This paper is arranged in the following systematics: theoretical review, theoretical analysis, and hypothesis development, research method, discussion, and conclusion. It is limited to financial statements of ministry or agency in Indonesia.

LITERATURE REVIEW

The Agency Theory

Jensen and Meckling (1976) defined the agency relationship as a relationship between a party (principal) who employs another party (manager) to accomplish a particular work that includes the delegated authority of decision making based on a particular contract. Therefore, guarantee that the manager will act on the interest of the principal is absent (Godfrey, Hodgson, Tarca, Hamilton & Holmes, 2010).

The agency concept applies to the assessment of public policy commitments (Bergman and Lane, 1990). This is explicitly stipulated in the Government Regulation of 71/2010 on Governmental Accounting Standard, that in the Unitary State of the Republic of Indonesia with its principle of Pancasila, the power is in the hand of the people and is delegated to the public officers. Budiardjo (1994) argued that accountability is necessary as a form of accountability of the manager to the principal. Accordingly, Mardiasmo (2002) explained that managers are held accountable to provide reports and disclose all authoritatively delegated actions to the principal. This reveals that the quality of budget management and financial statement quality is a good way to overcome the agency problem in the public sector.

Agency theory explained in this study because this theory assumes accountability as one of the tools to overcome agency problems in the public sector. The accountability studied in this study consisted of the quality of government financial reports and the quality of budget management.

The Government's Financial Statement Quality

Previous researches have generally measured the government's financial statement quality using the primary data. Onyulo (2017) measured the financial statement quality in public sector entities in Kenya using five-point Likert's scale from the questionnaires that measured the aspects of completeness, neutrality, freedom from material error, verifiability, transparency, and relevance. Afiah and Rahmatika (2014) have researched the financial statement quality in the Indonesian public sector. They employed the estimation method of Partial Least Square for the questionnaires collecting the relevant, reliable, comparable, and understandable data. The respondents of the research consist of the Local Government's Apparatus Units (SKPD) in the Province of Central Java. Setyowati *et al.* (2016) and Latjandu *et al.* (2016) studied the quality of the financial statements disclosed by the SKPD Kota Semarang and Kabupaten Talaud. They distributed some questionnaires with the purposive-sampling method.

Van Beest, *et al.* (2009) assessed financial statement quality with secondary data. They tested 21 indexes to measure the quality of annual reports against the IFRS. The results of the research reveal that the indexes were valid and reliable to assess the financial statement quality. The indexes include the qualitative characteristics of the government's financial statement as specified in SAP (2010).

SAP (2010) required four qualitative characteristics of the normative index so that the government's financial statement satisfies the required quality. The first characteristic is relevance. It requires that the information influences the decision of the users in the evaluation of the past and present events as well as predict future events, in addition to the correction of the past evaluation. The relevant information has to be reciprocal, predictive, timely, and complete. The second requirement is reliability, meaning that the presented information is free of material mistakes and misleading content. The government's financial statement has to present honest and verifiable facts. Reliable information is verifiable, neutral, and honestly presented. The third feature is that the current financial report is comparable to the financial report in the previous period or other entities' financial reports. The fourth condition is understandability. The financial statement has to be understood by the users. It has to be adjusted to the users' understanding of the forms and terms in the assumption that the users have adequate knowledge of the operational activities and environments of the reporting entities. Of equal importance, users will have to be willing to learn the presented information.

Factor of Government's Financial Statement Quality

The government's financial statement represents the accountability of the state's financial management (SAP, 2010). The state's financial management, under the Act of 17/2003 concerning the State Finance, is represented in the APBN. One of the principles of the state's budget management is outcome-oriented accountability. The public sector accountability theory introduced by Hopwood and Tomkins (1984) suggests that the public sector would have to develop a financial report to describe the state's budget management. Public entities are held accountable for the decisions and policies, including the execution of the public funds and the performance (IFAC, 2001). Furthermore, Purnama & Purwatiningsih (2013) suggest that a budget is an auxiliary organ to implement public accountability.

Erlina, Tarigan, Mulyani, Maksum & Muda (2018) have studied the quality of the Indonesian government's budget to identify the performance in producing the Budget Action Plan (RKA). The budget quality is quantitatively measured by the criteria of RKA. The absorption of the budget and the achievement of the target required in the RKA is a determinant of the quality of budget management. The absorption of the budget reveals the capacity of resource utilization in achieving the objectives. A low absorption rate indicates the fund idle and accordingly will result in less optimal state's expenditures (Putri, Yuniarta & Prayudi, 2017). A high rate of budget absorption is an indicator of a good quality of budget management.

Internal audit has a significant effect on the achievement of organizational goals and financial performance (Onyulo, 2017 and Latjandu *et al.*, 2016). Spitzer (2005) suggests that internal audit ensures the accountability and accuracy of financial reporting. In line with them, Elbannan (2008) argued that a good internal audit would significantly build the capacity to provide high-quality financial information. Furthermore, Altamuro and Beatty (2009) suggest that an effective internal audit system is an appropriate mechanism for the improvement of financial statement quality. Likewise, Muda, Harahap, Erlina, Ginting, Maksum and Abubakar (2018) state that internal audit affects the government's financial statement quality since an internal audit is an instrument to lead, control, and assess organizational resources. Equally important, it plays an important role in preventing and detecting fraud. Effective internal audit will improve the reliability of the financial report and ensure that the financial report has met the expected objectives (AICPA, 2014).

HYPOTHESIS DEVELOPMENT

Quality of State's Budget Management and Financial Statement

Based on The governmental accounting standard (SAP 2010) in Indonesia, the government's financial statement represents the government's accountability for the budget execution. It is indicated that a good state's budget management will lead to high-quality financial reporting. One of the principles in the state's budget management is outcome-oriented accountability. Accountability is represented in the state's budget and state's financial statement, which is in line with Hopwood and Tomkins' theory (1984), which claims that one of the dimensions of public sector accountability is the financial report reflecting the spending of the state budget. According to Erlina *et al.* (2018), budgetary reform shall improve the state's budget quality. Principally, the government's financial statement represents the report on budget execution. This research studied the relationship between good budget management and good financial reporting which had not highlighted in previous researches.

The quality of budget management is measured using the budget performance score referring to the Finance Minister's Regulation of 214/PMK.02/2017 concerning the Assessment and Evaluation of the Budget performance of the Execution of the Work Plan and Budget of the state ministries or agencies. The measurement indicators include the output achievement, budget absorption, efficiency, and consistency of the budget. The achievement of the expected output represents the performance of the state ministries/agencies in achieving the medium-term strategic goals defined in the financial report. The information shall improve the relevance of the financial report, and shall especially provide feedback concerning the congruence between the realization and the target. Budget absorption represents the relevance between the planned budget and the realized budget of state ministries or agencies. It equally can serve as the predictor for further allocation of funds. Also, budget absorption shall verify the information contained in the financial report. In general, the rate of budget absorption represents the relevance and reliability of the financial report. The efficiency rate represents information compared to the particular periods and particular inefficient entities. Consistent budget absorption represents the deviation of budget realization and planned budget in ministries or agencies. Accordingly, this will improve financial statement quality. Therefore, it is hypothesized that the quality of the state's budget management has a positive correlation with the government's financial statement quality.

H1: Quality of the state's budget management has a positive effect on the government's financial statement quality.

Internal Audit and The Government's Financial Statement Quality

Internal audit has a significant effect on the achievement of organizational goals and financial performance (Onyulo, 2017 and Latjandu *et al*., 2016). Spitzer (2005), suggests that internal audit ensures the accountability and accuracy of financial reporting. Similarly, Elbannan (2008) argued that the implementation of a good internal audit would significantly build the capacity to provide high-quality financial information. Furthermore, Altamuro and Beatty (2009) suggest that an effective internal audit system is a mechanism to improve the quality of the financial statement. Likewise Muda *et al*. (2018), internal audit has an effect on the government's financial statement quality since an internal audit is an instrument to lead, control, and measure the organizational resources as well as significantly prevent and detect fraud. An effective internal audit will improve the reliability of the financial report to ensure that the financial report has achieved the expected goals (AICPA, 2014).

Internal audit is measured using the level of maturity of the state ministries/agencies' (SPIP) describing the extent of the application of internal audit in a ministry/agency. A higher level of maturity will lead to a better internal audit function and more reliable financial information. Accordingly, it is hypothesized that internal audit will have a positive correlation with the government's financial statement quality.

H2: Internal audit has a positive effect on ministries/agencies' financial statement quality.

RESEARCH METHOD

This research takes the central government's financial statement represented by the financial reports of state ministries/agencies during the period of 2015-2017 as the research population. Some 52 financial reports of the state ministries/agencies constitute the sample of this study. This sample represented financial reports of state ministries/agencies that fulfill two criteria, first the budget performance score according to the Finance Minister's Regulation of 214/PMK.02/2017 concerning the Assessment and Evaluation of Budget Performance on the Implementation of Work and Action Plan of State Ministries/Agencies and the level of SPIP maturity are available. The financial reports have been audited and fully published at the official websites and the portal of the Information and Documentation Management Officer (PPID) of the state ministries/agencies.

The data include the financial reports published from 2015-2017. The rationale is that in 2015 the state ministries/agencies underwent organizational restructuring. The organizational restructuring has an impact on changing the number and type of ministries/agencies so that the organizational structure before 2015 and below can no longer be compared.

Operational Variable

The dependent variable of this research is the central government's financial statement quality represented by the financial report of the state ministries/agencies (LKKL). SAP (2010) defines the qualitative characteristics of financial reports as normative indexes to be presented in effective accounting information. The government's effective high-quality financial statement will have to meet four characteristics, namely relevance, reliability, comparability, and understandability. The measurement of the quality of government financial reports was carried out using five indexes that were modified from Van Beest *et al*. (2009). Each index has a score of 1 - 5 so that the lowest score on the quality of government financial reports is 5 and the highest is 25. The first index is reliable (A), the index used to measure the reliability of the financial statement which adjusted from the F4 index of Van Beest *et al.* (2009) which includes the concept of neutral, verification, complete, and fair presentation. The F4 index on the measurement of Van Beest *et al.* (2009) was assessed based on audit opinions in the annual report. As for this study, the index was measured using BPK's audit opinion on LKKL. The second is comparable (B), the index used to measure the comparability of the financial statement which refers to the C2 index on the measurement of Van Beest *et al.* (2009) which includes comparable concepts. In this study, the index was measured using an explanatory level of differences of estimation used in the Budget Realization Report (LRA) and the Operational Report (LO). The third is understandable (P), the index used to measure the understandability of the financial statement which adjusted from the U3 index on the measurement of Van Beest *et al.* (2009) which includes concepts that can be understood. This study measures understandability through the number of graphic presentations in helping to explain the information in LKKL. Fourthly relevant (R), there are two indexes used to measure the relevance of the financial statement. First, the benefits of feedback and predictive (R1) are assessed from the level of explanation in the LRA and LO in providing feedback and building predictions. This measurement refers to the F1 and R1 indexes of Van Beest *et al.* (2009) measurements which include the concept of predictive and verifiable values. Second, relevance is also measured based on timeliness (R2) using the natural logarithm of the number of days from the end of the financial year to the signing of an audit report which refers to the T1 index on Van Beest *et al.* (2009) measurements that include the concept of timeliness. This study uses the Audit Result Report (LHP) submission date for LKKL by BPK.

The first independent variable of this research is the quality of the state's budget management represented by the score of the budget performance of the state ministries/agencies. The performance is indicated by the realized budget of the state ministries/agencies. The quality of budget management is measured using the score of budget performance required by the Finance Minister's Regulation of 214/ PMK.02/2017 concerning the Assessment and Evaluation of Budget Performance on the Implementation of Work and Action Plan of State Ministries/Agencies. The performance comprises of such components as output achievement, budget absorption rate, efficiency rate, and consistency between the budget absorption and the budget plan. Data on budget performance scores were obtained from the Finance Ministry.

The second independent variable of this research is internal audit measured using the level of SPIP maturity. SPIP maturity is the level of maturity /perfectness of SPIP implementation. Data on the SPIP maturity level was obtained from BPKP.

The first control variable of this research is organization size obtained from natural logarithm over the total assets of the state ministries/agencies. This refers to the studies conducted by Arifin and Fitriasari (2014) and Khasanah and Raharjo (2014), Setyaningrum and Syafitri (2012), Waliyyani and Mahmud (2015), Putri (2016) and Mulyani and Wibowo (2017). The second control variable of this research is the number of work units calculated using natural logarithm over the number of work units of the state ministries/agencies. This refers to the research conducted by Arifin and Fitriasari (2014).

Research Model

This research employs a quantitative approach to identify the relationship between the quality of government's financial statement, the quality of the state's budget management quality, and internal audit of the state ministries/agencies using the multiple linear regression analysis. This analysis is performed by Onyulo (2017), Setyowati *et al.* (2016), and Latjandu *et al.* (2016) but with budget performance scores as additional factors. This research employs the following equation:

$$LKKL_{it} = \alpha + \beta_1 Budget_{it} + \beta_2\ PI_{it} + \beta_3 Size_{it} + \beta_4 Work\ unit_{it} + \varepsilon \quad (1)$$

Where :

LKKL : The value of the government's financial statement quality in the state ministries/agencies for the period t (score from 1 to 24).

α : Constant describing the value of the government's financial statement quality in the absence of other variables.

Budget : The value of the state's budget management quality in the state ministry/agency i in period t (score from 1 to 100).

PI : The value of internal audit in the state ministry/agency i in period t (score from 1 to 4)

Size : The value of the size of the state ministry/agency i in period t

Work unit : The value of a number of work units of the state ministry/ agency i in period t

ε : error term in the regression

ANALYSIS

The analysis starts with descriptive statistics to see the characteristics of each variable (see table 1). The average of LKKL score is 17.4 from the maximum value of 25. The highest component value for this variable is reliability (4.8), followed by relevance (feedback and predictive (4.2 R1) and timeliness (3.8 R2)), comparability (2.6) and understandability (2.3). From this fact, we can see that the financial statement important issue is reliability which users can utilize the financial information.

The budget management score average is 79.4 out of 100. There are four components for this variable, they are output achievement (90.4), budget absorption (88.3), consistency of the budget (84.6) and efficiency (8.9). The lowest score efficiency is caused by planned expenditure is lower than actual expenditure. Internal audit average value is 1.8, this is quite low with the maximum value 5. In this case, the value of two means that internal audit has been conducted but not documented properly and subjective basis. Therefore, each institution and agency should develop an internal audit well based on the related standards. The control variables are the size and the work unit is varied as each institution or agency has specific and different scope characteristics.

The statistical test uses the Random Effect Model (REM) as the result of the Chow test reveals the value of Prob > F below the value of α (0.05). BP-LM test result reveals the value of Prob > chibar2 below α (0.05). The Hausman test results reveal the value of Prob > chi2 above α (0.05). Thus, the results of the test of the research will be analyzed by REM.

The result of the regression reveals the value of Prob > Chi2, describing the simultaneous effect of independent variables on the dependent variable below the value of α (0.05). This implies that as a whole, the adopted model can significantly explain the dependent variable. In other words, all independent variables simultaneously and significantly can explain the dependent variable. Therefore, the model can serve as a predictor. The values illustrate a high confidence interval of 99.99%. The determinant coefficient reflected in the value of R-squared (R2) representing the percentage of contribution of the effect of the independent variables on the dependent variable is 0.5308. This value describes that the percentage of the independent variables in representing the dependent variable is 53.08%. Putri (2016) suggests that the value of R-squared (R^2) is debatable. Meanwhile, Connor (1999) suggests that the value of R-

Table 1.
Descriptive Statistic

Variable	Mean	Dev. Standard	Min	Max
LKKL	17.4	1.95	14	22
Budget	79.4	17.18	22.33	100
PI	1.8	0.86	1	4
Size (in Rupiah mn)	22,381,365.1	50,438,422.9	32,871.6	229,936,091.5
Work Unit	582.13	1,613.03	1	7,026

squared (R^2) below 0.3 is statistically insignificant. Therefore, the independent variables can reliably represent the dependent variable of this research. The summary of the results is shown in table 2.

Quality of the state's budget management has a positive effect on financial statement quality at the significance level of 0.004. Meanwhile, the coefficient of the variable of the state's budget management quality is 0.0286. The results imply that any increase in the state's budget management quality value will increase the financial statement quality value accordingly. Therefore, it can be concluded that Hypothesis 1 of this research is accepted. The result supports the theory which claims that good budget management leads to high-quality information on a financial report. Also, there is a positive correlation between the quality of budget management and the quality of the financial statement (see table 3). The finding is also supported by the theory introduced by Hopwood and Tomkins (1984) suggesting that state budget management in the represented in the financial report represents public accountability. Based on these results, ministries/ agencies in Indonesia need to improve the quality of budget management to increase accountability.

The variable of the internal audit reveals a significantly positive effect on financial statement quality at the significance level of 0.003. The coefficient of the internal audit variable is 0.674. It implies that an increase in internal audit will increase the financial statement quality value proportionally. Therefore, it can be concluded that Hypothesis 2 of this research is accepted. The results find that the correlation exists as it has been expected and thus confirming the studies conducted by Onyulo (2017), Afiah and Rahmatika (2014), Setyowati *et al.* (2016), and Latjandu *et al.* (2016). The studies suggest that a good internal audit in government can lead to a high-quality financial report and reliable financial information. The results of this research also support the study conducted by Altamuro and Beatty (2009). They suggest that an effective internal audit system is a mechanism to develop a high-quality financial statement of the Indonesian Government.

Organization size has a significantly negative effect on financial statement quality at the significance level of 0.0865. Organization size has a coefficient of -0.4215 meaning that any increase of organization size value will decrease the financial statement quality value. The correlation indicated by the regression analysis suggests the expected direction. The results of this research confirm the studies conducted by Putri (2016) and Mulyani and Wibowo (2017). Their studies find that the higher the size of an organization, the more likely the qualitative indexes of the financial report cannot be met. The findings are different from the findings of the researches conducted by Arifin and Fitriasari (2014) and Khasanah and Raharjo (2014) who found that the government's organization size has a positive effect on the disclosure of the financial report. It implies that larger organizations will be engaged in more disclosures. The finding is also different from

Table 2.
Regression Result

Variable	Predict.	Coeff.	Sig.
Constant	N/A	24.6011	0.000***
Budget	+	0.0286	0.004***
PI	+	0.6740	0.003***
Size	-	-0.4215	0.0865*
Work Unit	+	0.3539	0.088*
Prob > Chi2	0.0000		
R^2 (Overall)	0.5308		

***Sig 1%, **Sig 5%, *Sig 10%,

Table 3.
Correlation test

Var.	LKKL	Budg.	PI	Size	Work Unit
LKKL	1,000				
Budg	0,325	1,000			
PI	0,395	0,395	1,000		
Size	-0,195	-0,180	0,194	1,000	
Work Unit	-0,008	-0,143	0,213	0,771	1,000

the results of the researches conducted by Setyaningrum and Syafitri (2012) and Waliyyani and Mahmud (2015) who found that government size doesn't affect financial reporting.

The number of work unit has a significantly positive effect on financial statement quality at the significance level of 0.088. The coefficient of work unit variable is 0.3539 implying that an increase of the value of the work unit will increase the financial statement quality value. The correlation is in a different direction (see table 3). This confirms Arifin and Fitriasari's research (2014), which finds that the more work units will result in an increasingly complicated disclosure of the financial report.

CONCLUSION

Based on the analysis of the research results, it can be concluded that the quality of the state's budget management has a positive effect on financial statement quality. An increase in budgeting performance value has empirically increased the value of financial statement quality. In addition, internal audit has a significantly positive effect on financial statement quality. An internal audit in government will result in a high-quality financial report and reliable financial information. These two factors should be concerned by the government to create a high quality of the financial statements of the institution and agency.

This research enriches the public sector literature at least in two ways, first, this research proposes the use of measuring instruments for the quality of government financial reports using secondary data. Second, this research suggests that the government take policies related to strengthening internal control and improving the quality of budget management.

There may be deficiencies in the process of adjusting the measuring instrument, especially in determining the accuracy of the index used to assess the qualitative characteristics of LKKL against SAP. After all, Van Beest *et al.* (2009) indexes are considered valid to assess the quality of financial statements against IFRS. Besides, the use of only 5 indexes in assessing the quality of financial statements can provide less comprehensive results. Further research is needed to specifically formulate a valid index for use in assessing the quality of LKKL against SAP.

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