

# Determinants of Regional Government Performance: Islamic Work Ethics as Moderating Variable

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**Abstract.** Recently, performance is still becoming a benchmark of the achievement of a job. Therefore, it is necessary to examine factors that play a role directly or indirectly on performance measurement including the application of the Regional Financial Accounting System, Management Regional Finance and Internal Supervision and Islamic Work ethics as a moderating variable. Researchers consider government performance improvement to be important because of the demands of the community to obtain a better level of welfare. The benchmark of the improvement are the accuracy of target in the local government programs and activities. This study focuses on the employees of regional apparatus organizations (OPD) at regional government unit in the field of accounting and finance in Ketapang regency. The populations were 25 OPD with saturated sampling technique or taking the entire population in this study. As for the data analysis technique in this study used the Partial Least Square (PLS) tool. This study found that Regional Financial Management and Internal Supervision have a significant positive effect on the performance of regional governments, the Regional Financial Accounting System has a positive effect on the performance of regional governments but not significant, and for the moderating variable of the Islamic Work ethics do not affect significantly the performance of regional governments.

**Keywords:** Regional Financial Accounting System, Regional Financial Management, Internal Supervision, Islamic Work Ethics

## 1 Introduction

Performance is a measure of achievement or results in running an organization related to everything that is being, has been, and will be done by an organization within a certain period of time. Performance measurement is needed to assess the accountability of an organization in providing public services and assessing the existing leaders.

The first factor that can affect the performance of a public organization is Regional Financial Accounting System (SAKD). SAKD is part of the public sector accounting which has the function to record and report all financial transaction activities in the region. A good

SAKD is certainly able to give an effect and support good performance achievements. [11], [3] and [19] found that SAKD has positive and significant effect on performance.

The second factor that can affect performance is regional financial management. This is related to the quality of a financial statement by the organization. Financial statement is also a measure of performance achievement regarding good regional financial management. This is supported by [11] and [14] who stated that regional financial management has positive effect on local government performance. The third factor that affects performance is internal supervision. Internal supervision has a close relationship with planning. Without planning as a guideline, a supervision will be difficult. The research by [19] and [6] show that a better internal supervision will give a good impact on local government performance.

Some of these factors have an influence on improving performance in an agency or organization as proven by several previous research. However, researchers currently still think that there are direct or indirect factors that might influence these variables, namely Islamic work ethics. No matter how the system is, if the organizer is still lacking work ethics, the performance of an organization is difficult to achieve. In addition, another consideration for why this research needs to be conducted is the performance of local governments in West Kalimantan Province, one of which is in Ketapang Regency. BPK (the Supreme Audit Agency) found that there are still types of state losses and potential state losses such as excess payment of official travel, expensive unit price for the purchase of goods and the lack of volume of physical work as well as excess payment for work.

## **2 Literature Review**

### **2.1 Agency Teory**

According to Eisenhardt (1989) as quoted by [18] Agency theory uses three assumptions of human nature, they are: (1) humans are generally concerned with their own interests (self interest) by ignoring others' interests, (2) humans have limited thinking power regarding future perceptions (bounded rationality), and (3) humans always avoid risk (risk averse). The relationship of agency theory in this study is to align the goals set by the government and the people. The people then will monitor the behavior of the government. In supervising, the people require the government to be responsible for managing the resources that are mandated by the people through financial reports and report it periodically.

### **2.2 Local Government Performance**

According to Ulum (2012, p. 20) as quoted by [11], performance measurement is a way for the government to maintain the achievements of all services and jobs. The local government performance has a very important meaning also for the local government itself as the executive, especially for DPRD (regional representatives council) who has functional responsibility in legislative implementation, budgeting and supervisory functions. Furthermore, according to [4] as quoted by [11] performance indicators are qualitative and quantitative measures of a goal achievement. The goal is set by considering inputs, outputs, outcomes, benefits, and impacts.

### **2.3 Regional Financial Accounting System**

According to the Minister of Home Affairs Decree number 29 of 2002, Regional Financial Accounting System (SAKD) is an accounting system that includes the process of recording, classifying, interpreting, summarizing transactions for financial events and reporting financial events in the context of implementing APBD (local government budget), in accordance with accounting principles. The reliability of SAKD must be owned by local governments in order to be able to produce reliable financial reports [15]. A weak SAKD will cause the presentation of financial reports to contain unreliable and irrelevant information which ultimately results in bad decisions [3],[11] argued that SAKD has a positive effect on local government performance.

### **2.4 Regional Financial Management**

Chabib (2010, p. 10) as quoted by [11] stated that there are several principles of regional financial management, they are: accountability, value for money, honesty in managing public finances, transparency and control. These principles can be interpreted indirectly as the achievement of performance as the end result. The research conducted by [14],[11] show that local government financial management has a positive effect on local government performance. Good regional financial management will be able to encourage the realization of better local government performance.

### **2.5 Internal Supervision**

There are several types of indicators on internal supervision as put forward by COSO (Committee of Sponsoring Organization). It includes; control environment, risk assessment, control activities, information and communication, also monitoring. In contrast, Ulum (2009) as quoted by [6] stated that internal supervision provides support for government responsibility, responsiveness, and accountability. A better internal supervision will be able to give a better impact on government performance. This is also proven by [19],[6] who concluded that internal supervision has a positive effect on local government performance.

### **2.6 Islamic Work Ethics**

In terminology, Islamic work ethics, is a set of values or belief system derived from Al-Quran and Hadith regarding work and hard work. The Islamic work ethic views work as a way for more than only personal interests economically but also socially and psychologically to continue social achievement, increase social prosperity and strengthen faith [1]. Islamic work ethics is considered important because it relates to a person's behavior. Whether the behavior is good or bad, it will have an impact on every activity he does.

### **2.7 Previous Research**

In the previous sub-chapters, the variable definitions and supporting research results have been explained. The following is a research summary table of each research variable:

**Table 1.** The Summary of Previous Research Result

<b>Reference</b>	<b>Variable</b>	<b>Research Result</b>
[11]	Dependent: local government performance Independent: regional financial accounting system and dan regional financial management.	<ol style="list-style-type: none"><li>1. Regional financial accounting system has a significant positive effect on local government performance</li><li>2. Regional financial management has positive significant effect on local government performance</li></ol>
[19]	Dependent: local government performance Independent: internal supervision and regional financial management	<ol style="list-style-type: none"><li>1. Internal supervision has significant positive effect on local government performance.</li><li>2. Regional financial management has significant negative effect on local government performance.</li></ol>
[5]	Dependent: local government performance Independent: Participation in budgeting, human resource quality, government internal supervision system, functional supervision, and accounting information system	<ol style="list-style-type: none"><li>1. Participation in budgeting has significant positive effect on local government performance.</li><li>2. Human resource quality has significant positive effect on local government performance.</li><li>3. Internal supervision system has significant positive effect on local government performance..</li><li>4. Functional supervision has significant positive effect on local government performance.</li><li>5. Accounting information system has significant positive effect on local government performance.</li></ol>
[6]	Dependent: local government unit (SKPD) performance Independent: internal supervision, planning, and implementation of regional financial accounting system	<ol style="list-style-type: none"><li>1. Internal supervision has significant positive effect on local government unit (SKPD) performance</li><li>2. Regional financial accounting system planning has negative effect on local government unit (SKPD) performance</li><li>3. Regional financial accounting system implementation has positive effect on local government unit (SKPD) performance</li></ol>
[17]	Dependent: local government unit performance Independent: internal supervision, performance based budget system, and regional financial management information system.	<ol style="list-style-type: none"><li>1. Internal supervision has significant effect on local government unit (SKPD) performance.</li><li>2. Performance based budget system has significant effect on local government unit (SKPD) performance.</li><li>3. Regional financial management information system has significant effect on local government unit (SKPD) performance.</li></ol>
[3]	Dependent: local government performance Independent: regional financial accounting system, regional financial management, and good governance	<ol style="list-style-type: none"><li>1. Regional financial accounting system has positive effect on local government performance</li><li>2. Regional financial management has significant positive effect on local government performance.</li><li>3. Good governance has significant positive effect on local government performance.</li></ol>

## 2.8 Research Hypothesis

The theory used as a reference in this study, namely agency theory, explains the contractual relationship between the principal and the agent. Principal is the people while agent is the government. They have a strong reciprocal relationship related to government performance. The government is obliged to provide information and present it to the principals to be used as a basis for evaluating government performance. In addition, Islamic work ethics is also needed to support the people's behavior in order to do the best in accordance with religion and ethics. The results of several previous studies show that regional financial accounting system, regional financial management and internal supervision have an influence on government performance, as stated by [11], [5], and [6]. They argued that the regional financial accounting system has a positive effect on local government performance. Furthermore, [11], [19], and [3] stated that Regional Financial Management has a significant positive effect on local government performance. [6], [5] and [17] suggested that internal supervision has a positive effect on government performance. Islamic work ethic is considered capable in strengthening the relationship among variables based on the study of [12]. He stated that human character and habits related to work are reflected through the Islamic faith / aqidah which becomes the basic life attitude. In addition, Buchori (2004) as quote by [9] explained that Islamic work ethics is as attitudes and views on work, work habits, characteristics or traits a person, a group of people or a nation at work. Based on this explanation, the hypothesis in this study can be described as follows:

H1 : Regional financial accounting system has a significant positive effect on local government performance.

H2 : Regional financial management has a positive effect on local government performance.

H3 : Internal supervision has a positive effect on local government performance.

H4 : Islamic work ethics moderates the relationship between the regional financial system, regional financial management and internal supervision on local government performance.

## 2.9 Research Framework

Based on the theoretical study, the results of previous research and the development of the previously discussed hypotheses, the research model can be described as follows:

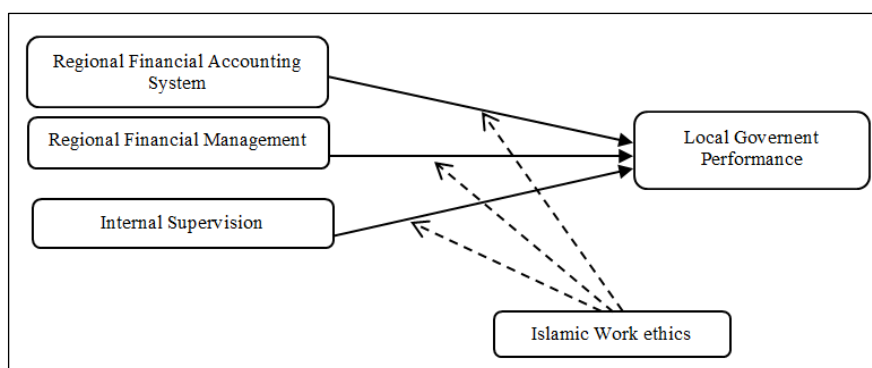


Fig. 1. Research Model

### 3 Research Method

- a) Research Design. This study used quantitative data analysis methods in form of primary data by using questionnaire instrument. The questionnaire was distributed to each respondent, while the analytical tool used in this study is SEM PLS.
- b) Population and Sample. The population of this study were 25 OPDs (regional apparatus organizations) in Ketapang Regency. The sampling technique was saturated with the head of the finance and accounting staff in the OPD.
- c) Variable Operational Definition. The variables are used to identify criteria that can be observed and defined. In this study, several variables were used and summarized in the following table:

**Table 2.** The Summary of Operational and Research Variable

Variable	Concept	Indicator	Scale
Regional Accounting System (X1)	A series of processes for recording, classifying, interpreting, and reporting a financial transaction / event in the context of implementing APBD (local government budget).	1. Recording 2. Management 3. Reporting [13]	Likert Scale 1-5
Regional Financial Management (X2)	A series of activities covering planning, implementation, administration, reporting, accountability and supervision of regional finance.	1. Accountability 2. Value for money 3. Honesty in managing public finance 4. Transparency 5. Control Chabib (2010, p. 10)	Likert Scale 1-5
Internal Supervision (X3)	The supervisory tool of the organization's leader which aims to monitor whether the activities of its members are in accordance with the predetermined plans and policies.	1. Control environment 2. Risk assesment 3. Control activities 4. Information and communication 5. Supervision [16]	Likert Scale 1-5
Local Government Performance (Y)	A description of an organization's achievements in carrying out all matters related to realizing the goals, objectives, vision and mission in certain period of time.	1. Inputs 2. Outputs 3. Outcomes 4. Benefits 5. Impacts [4]	Likert Scale 1-5

### Data Analaysis Method

This research used SEM PLS analysis technique. This is an analysis method that does not need to assume that existing data must be in a certain measurement scale and also with a relatively small sample. [8], in this method, the research equation model uses two equations:

- a) Outer model equation with several tests: (a) Convergent Validity, (b) Average Variance Extracted (AVE), (c) Discriminant Validity, (e) Composite Reliability.
- b) Inner model equation with several tests: (a) R Square (R2), (b) t-test.

## 4 Result and Discussion

Outer Model. In this test, all indicators are used to measure all latent variables in this study. The variables of this study are reflective so that to test the measurement model must meet the convergent validity test and discriminant validity as well as the composite reliability test.

### 4.1 Convergent Validity Test Result

Convergent validity in this study is seen from the AVE value which must be greater than 0.5. The following table presents the overall value of each variable used in this study:

**Table 3.** The Value of Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Regional Financial Accounting System (X1)	0.865
Regional Financial Management (X2)	0.742
Internal Supervision (X3)	0.773
Local Government Performance (Y1)	0.732
Islamic Work Ethics (X4)	0.672

### 4.2 Discriminant Validity Test Result

Discriminant validity was carried out in this study by looking at the square root value of AVE on the output correlation among the latent variables. If the value is higher than the correlation value between constructs, it is declared that it fulfills the criteria for discriminant validity [8]. The results for all variables in this study can be presented in the following table:

**Table 4.** Correlation among Latent Variables with Square Roots of AVEs

	SAKD	PI	K	IWA
SAKD	0.930	0.060	0.124	0.086
PK	0.060	0.862	0.654	0.683
PI	0.124	0.654	0.879	0.756
K	0.086	0.683	0.756	0.856
IWA	0.089	0.663	0.583	0.615

### 4.3 Reliability Test Result

Reliability test in this study was carried out by looking at the results in form of composite reliability value of each construct. It is accepted if the value is greater than 0.7. A summary of the values of all variables is presented in the following table:

**Table 5.** Cronbach's Alpha dan Composite Reliability

Variable	Cronbach's Alpha	Composite Reliability
Regional Financial Accounting System (X1)	0.961	0.970
Regional Financial Management (X2)	0.884	0.920
Internal Supervision (X3)	0.926	0.944
Local Government Performance (Y1)	0.877	0.916
Islamic Work Ethics (X4)	0.836	0.891

#### 4.4 Inner Model

In this test, the inner model was carried out to see the relationship between variables. The significance value and the R-Squares or Adjusted R2 of a research model are presented in the following table:

**Table 6.** R-Squared Value, Adjusted R-Squared, and Q-Squared

Endogenous Variable	R-Squared	Adjusted R-Squared	Q-Squared
Local Government Performance (Y1)	0.739	0.723	0.668

#### 4.5 Hypothesis Test

The hypothesis test in this study is found out by looking at the 5% significance value for rejecting and accepting the research hypothesis. If the p-value is  $\geq 0.05$  then the hypothesis is not supported, while if the p-value is  $< 0.05$ , the hypothesis is supported [8]. The results of this study are summarized in the following figure:

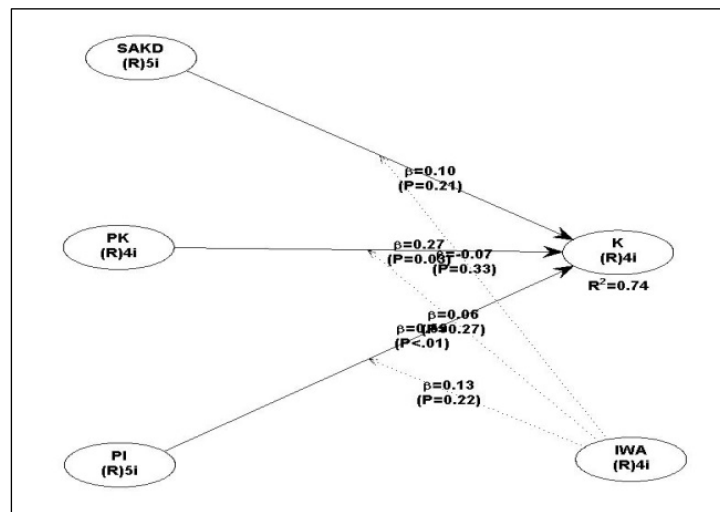


Fig. 2. PLS Test Result

The path coefficients and p-values for the research hypothesis are presented in the following summary table:

**Table 7.** Output Path Coefficients and P-Values

Hypothesis	Path coefficients	P-value	Conclusion
H1: Regional financial accounting system has a significant positive effect on local government performance	0.100	0.212	Not Supported
H2: Regional financial management has a positive effect on local government performance.	0.274	0.027	Supported
H3: Internal supervision has a positive effect on local government performance.	0.594	<0.001	Supported
H4: Islamic work ethics moderates the relationship	-0.069	0.331	Not Supported

between the regional financial system, regional financial management and internal supervision on local government performance			
H5: Islamic work ethics moderates the relationship between the regional financial system and local government performance	0.065	0.267	Not Supported
H6: Islamic work ethics moderates the relationship between internal supervision and local government performance.	0.131	0.218	Not Supported

Based on the test results, there are several things that can be concluded in the relationship of each research variable. First regarding the results of first hypothesis about the local financial accounting system on local government performance. It is stated that the results are not supported, which means the accounting system is better. Regional financial in local government do not have a positive effect on improving local government performance. In other words, there is still a lack of effective understanding on the importance of a system. Therefore, continuous training needs to be conducted. This result is inconsistent with several previous studies by [5], [3] and [14].

Second, the second hypothesis in this study related to regional financial management on local government performance, is stated to be supported. The existence of regional financial management that is planned, reported, monitored and accounted will improve the local government performance. This result is also in accordance with the research of [5], [2], [7] and [14]. Furthermore, the results of the research among the variables of internal supervision on local government performance are stated to be supported. This means that the better the internal supervision, the local government performance will be achieved. These results are consistent with [10], [5], [2] and [7]. This proves that an internal supervision system that is in accordance with the application of existing work regulations will improve the performance of local government.

The results of the latest research regarding Islamic work ethics which are thought to be able to strengthen the influence between the independent and dependent variables are not supported. This also means that the work ethics of OPD employees in implementing SAKD, Regional Financial Management and Internal Supervision are still not good. If employees want to obey the rules on using this system, then indirectly, they apply good work ethics too.

## 5 Conclusion and Suggestion

Government performance is the main measure for the achievement of a job. The results of this study derive several conclusions from the previously established hypotheses. The Regional Financial Accounting System is proven to be unable to support local government performance. However, the regional financial management and internal supervision are proven to have a significant positive effect on local government performance. Another result of this study is that Islamic work ethics is not able to support the direct relationship of each existing variable.

There are several suggestions that the researchers can give related to the results obtained from this study. The Islamic work ethics has not been able to strengthen the performance relationship even though in theory it is able to support a performance. This means that defining the exact term must be considered because not all respondents can be categorized have Islamic belief. Another unsupported result of this research is about the regional financial

accounting system. Specifically, it becomes an evaluation for the human resources in charge of having their knowledge updated frequently and given regular training.

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