



# Style of Leadership and Organizational Culture as Moderator of Influence of Competence and Internal Control System towards Report Quality



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## Abstract

The study was intended to obtain an empirical evidence of competence influence of Human Resources and Internal Control System on quality of Local Government Financial Statements (LKPD) with leadership style and organizational culture as moderating variables. There was 39 local structure organization in Denpasar city became a research population. Data were collected through survey method and questionnaire technique. The sample was taken using the non-probability method and purposive sampling technique. There were 152 respondents. Data analysis is used Moderated Regression Analysis (MRA). The result was obtained that the leadership style weakens the influence of human resource competence on LKPD quality in Denpasar. Organizational culture strengthens the influence of human resources competencies in LKPD Denpasar. The leadership style did not moderate the influence of Internal Control System on LKPD quality in Denpasar. Organizational culture strengthens the influence of internal control system on quality in LKPD Denpasar.

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## 1. Introduction

The global economic development creates accountability demands for public sector organizations in the center as well as in the region. It is related to decentralization system implementation and financial reform in each region in Indonesia. The phenomenon is marked by the regulation issuance of the government. It is one of accountability form set forth in the regulations. An organization towards the public sector is to serve for providing/producing public goods. The business entities whose majority ownership is on the government side is responsible for performing public services to meet the social welfare in various field of life. A good governance is what implements the obligation and perform its functions with optimal. It is applied a principle of good governance.

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Strengthening of government management system is to change the bureaucratic mindset. It seems slow to a system that emphasizes on *bureaucratic entrepreneurship*. The change in each government is one way of shifting government accountability goal from accountability to input-based accountability to the results. The goal is to improve government management performance. Therefore, it is to provide a positive impact on government services generally to the society. This government accountability change is conducted by strengthening government management in improving the management, accountability, and strategic priority of government in accordance with the society needs.

Accountability is one part of the accountable obligations realization through a periodic media on accountability for the organization mission implementation to achieve predetermined goals and objectives (Stanbury, 2003 in Mardiasmo, 2006). The real effort in local financial management is to achieve transparency and financial accountability. It is in the central and local governments to submit accountability reports of the financial statements. The resulting government financial reports must meet the principles on time. It is prepared in accordance with government accounting standards.

The financial statements for general purposes are aimed at meeting the common needs of the most users of the report including legislative as set out in the legislation provisions (IAI, 2015). Government Regulation No. 71 in 2010 has been regulated by Government Accounting Standards wherein government financial statements should meet the qualitative characteristics included relevant, reliable, comparable, and understandable. The compilers must be in accordance with the existing regulations.

The research was conducted by Zeyn (2011) stated that the reporting content and accuracy of the figures consisted in the financial statements are generated by an adequate accounting system for accountability reporting itself. The qualified financial reports require adequate facilities and infrastructure *i.e.*, human resource competence that is also accompanied by an internal control system. It is owned by the government itself. Thus, it can later understand and implement the management and accountability in the financial reporting area itself. Internal controlling is one thing that has a direct influence on financial statements quality (Sari, 2014). Internal control has a function in helping human resources to know the limits and scope of work and rights in their duty and information technology *e.g.*, what can be utilized to assist in carrying out the duty, principal, and function in working. Jones (2008) suggested that internal control is wrong unlike the most important mechanism provides accountability and enables organizations to monitor and control their operations.

Internal control system and human resource competencies are expected to help the financial reporting process. It is hoped to produce financial statements that can be understood, relevant, comparable, reliable, and on time. The other human resources and internal control system, there are other things that become conscientious in producing quality reports. It is the style of leadership and organizational culture. Wicaksono (2013) stated that positive leadership style and significant influence on the effectiveness of internal control systems as well as have influenced to the employee performance. Bass and Avolio (1994) argued that the style of transformational leadership is defined as a leader who wants to develop the full potential included subordinates, higher needs, good value systems, morality, and motivation.

The transformational leadership styles implementation in the public sector is expected to foster employee confidence, admiration, loyalty and respect for leaders. They, later on, are motivated to perform better than expected (Yukl, 2009). The relationship between transformational leadership styles and subordinate work motivation is stronger or more intimate than the relationship between transactional leadership style and subordinate work motivation (Wagimo and Ancok, 2005). Another factor that has an important role in the process of producing quality financial reports is the organizational culture. It is a bureaucracy closely linked to the public service. Since the public apparatus activities must be guided by the normative regulations that have been set by the public organization. The organizational culture has become a way of doing work and responding to environmental conditions organizations, in this case, is the finance report preparation.

Organizational culture is closely related to good governance. Due to the lack of good governance is lacking government attention itself. It has implications for lacking successful administrative reforms to support the implementation of the *good and trustworthy governance*. The impact in term of this is how the effort in improving the quality of financial report can be achieved by the leadership style implementation that transformative and organizational culture. It is expected later able to improve the competence of human resources and effectiveness of internal control system in the local government. The one issue is faced by the local government is how to improve the quality of financial statements with limited human resources who have the competence and professional and internal control system that has not been effectively maximized. In this case is an effective leadership style that adjusts to the employee circumstances further make employees seriously in their work and will affect the employee

performance in the quality financial reports preparation. The transformational leadership styles are the kind of leadership that gives a way to positive changes for employees. In general, the transformational leaders have enthusiastic, energetic, and passionate character. The leaders unlike is very suitable for the leadership in local institutions that have a state of organizational culture. Therefore. It is strong, there is no inequality and misunderstanding of employees in working at the organization.

The studies were conducted by [Roviyantie \(2011\)](#), [Sukmaningrum \(2012\)](#), [Nurillah \(2014\)](#) showed a positive result wherein the quality of human resources influence the financial statements quality. However, the study was conducted by [Zuliarti \(2012\)](#) found that a different result wherein the human resources have no significant influence on financial reporting information. As well as, the study was conducted by [Indriasari \(2008\)](#) also found that inconsistencies in outcomes wherein the capacity of human resources negatively influence the reliability of the local government financial information.

The *stewardship theory* studies explained how the middle manager in the organization is more acting as a *steward* than as an *agent*. It has an impact on improving the organization performance. In term of this is the management of the regional finance currently can not be separated from the competence of human resources owned by each organization of the structure areas. The human resource is an important factor in the preparation and reporting of the financial statements.

The competent human resource that often follows educators who certainly already have an education background in accounting and mastering certification and experience in the accounting field. Accounting systems application regarding the competent human resources can understand well of the logical accounting. An inability in the understanding of the logical accounting by human resources can obtain an errors report and inconsistencies with standards established by the government ([Warisno, 2008](#)). Output resulting from competent human resources is related to the agency theory wherein the society/public, unlike principal, requires. The government as an agent is to provide the good results and qualified financial statements in accordance with applicable regulations.

A leading role in the organization is not only influencing the employee's performance, but also provides the motivation spirit in performing duties, principal, and function in running and managing an organization. If the human resources implementation of accounting system does not have the required competencies. It will due to obstacles in the implementation of the accounting function and ultimately accounting information quality becomes low. [Xu et al. \(2003\)](#) stated that the system reliability must be supported by the human resources reliability and must be controlled in order to run properly. Based on the research that was conducted by [Winidyaningrum \(2010\)](#), [Mahaputra \(2014\)](#), [Nurillah \(2014\)](#) proved that human resources have positive and significant to the financial statements quality. In different research studies were shown by [Ponamon \(2014\)](#) *i.e.*, the human resources capacity has no influence on the financial statements quality. [Indriasari \(2008\)](#) proved that human resources have no significant influence on the reliability for the local government financial reporting. [Zuliarti \(2012\)](#) stated that human resource does not influence the value of the financial reporting information. Based on the above description, the researchers tried hypothesized as follows:

H<sub>1</sub>: The transformational leadership style strengthens the influence of human resource competencies on financial statements quality.

Based on the *stewardship* theory, it is explained that management is not motivated by individual objectives. However, it is rather aimed at their main outcome goal that is for the organization benefit. An organizational culture is a psychological tool in carrying out organizational activities to achieve vision and organization mission. It influences the behavior and the way individuals act in organizations. It is also one of the most important things for a leader in leading an organization. [Arumsari \(2014\)](#) stated that a positive relationship between organizational culture and performance.

The competence possessed of the human resources is very influential on organizational culture condition in the workplace. It sometimes is difficult to develop their skills or abilities. Due to the culture that exists within the organization itself. The organizational culture within an organization for its implementation is expected to have a positive influence the good quality of financial statements in accordance with the rules. As well as in the organizational culture is very strong with the work culture attitude is expected to have a positive impact on the organization. It becomes an organization identity. Thus, the organization members in its activity are influenced by the existing organizational culture ([Ancok, 2012](#)). Regarding, the description above can be developed a hypothesis as follows:

H<sub>2</sub>: Organizational culture strengthens the influence of human resource competencies on financial statements quality.

*Grand theory* exploration in the present research *i.e.*, the government is unlike *steward*, viewing as a trustworthy institution and act in the public interest. Carrying out its duties and functions appropriately in planning and realizing activities in accordance with procedures and rules that apply either at the center or local. The internal control system is a process which is structured in the behavior of management (executive) along with its staff in providing adequate confidence in organizational goals achievement through an effective and efficient action.

Internal control system aims to stipulate in Government Regulation No. 60 in 2008 stated that is to improve the financial statements reliability, *i.e.*, meets the qualitative characteristics of financial statements included relevant, reliable, comparable, and understandable. It is corroborated by the research that was conducted by Mahaputra and Putra (2014), Nurillah and Muid (2014) stated that the internal control system government shows a positive influence on the quality of local government financial statements. Indriasih (2014) stated that ineffective government internal control system is one of the main causes of weak quality of financial reporting in all local government units. The leadership of institutions as regulated in Article 47 section 1, Government Regulation No. 60 in 2008 is responsible for the effective implementation of an internal control system in each environment. The leadership is an ability to influence a group to achieve the goals/targets in the organization. Based on the above explanation can be developed the following hypothesis:

H<sub>3</sub>: Transformational leadership style strengthens the influence of internal control systems on financial reports quality.

Based on *stewardship theory* in term of the management is not motivated for individual interest which is more importance of organization interest to achieve organization vision and mission influenced by psychology factor in organization *e.g.*, organizational culture and how individual in carrying out their duty, principal, and function well according to rule applicable within the organization or applicable in central or regional legislation. Conceptually, Susanto (2008: 7) described the organizational culture definition as a value for human resources to solve external problems and efforts to adopt integration into the organization. Therefore, organization members must absorb these values and how they should behave and act. It can be stated that organizational culture is inseparable from an internal control system in an organization.

A good organizational culture is an organizational culture that will form the organizers to have a *sense of identity* and *sense of belonging* (Sulistiyowati, 2007). The research was conducted by Soeharjono (2013) stated that bureaucratic culture proved to endanger the existence of the good governance. Due to it raises the risk of irregularities and abuse authorized by officials. Based on the explanation than the hypothesis that can be developed as follows:

H<sub>4</sub>: Organizational culture strengthens the influence of the internal control system on financial reports quality.

## 2. Research Methods

The quantitative approach in the present is used as a method. It is conducted to know the transformational leadership style and organizational culture as a moderator of the influence of human resource competence on financial statements quality. The research is designed as follows.

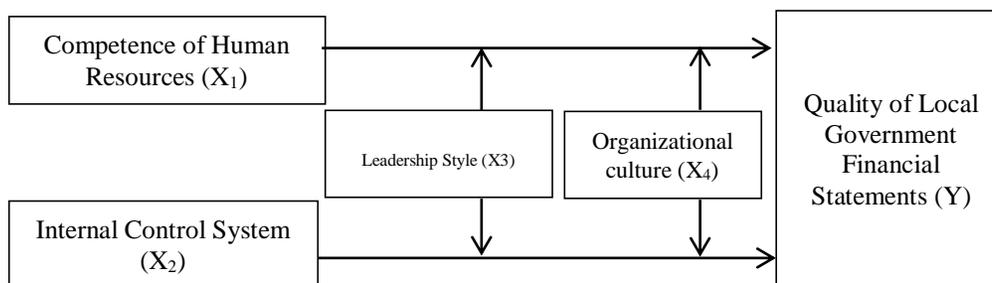


Figure 1. Research Design

This research was conducted at *Local Device Organization (OPD in Indonesia)* in Denpasar City. *Local Government Financial Reports (LKPD in Indonesia)* in 2010/2010 Denpasar, BPK gave exceptions opinion for LKPD fiscal in 2013 and 2015. BPK gave *Unqualified Opinion (WTP in Indonesia)* for four years progressively. The research object in the present research is transformational leadership style, organizational culture, human resource competence, internal control system and financial report quality.

The dependent variable in the present study is financial statements quality. Financial statements quality is an information ability to improve user knowledge and belief in decision making. The measurement component of financial statements quality in this study is adopted the research instrument by Kusumah (2013). The indicators of financial statements quality are financial statements characteristics that are relevant, reliable, comparable, and understandable.

Independent variables in the present study are human resources competence and internal control system. The human resources competence in this research is technical capability and operational attached to employee as knowledge and skill for someone in financial management and Government Regulation No. 60 in 2008 stated internal control system is a way to direct, monitor, and measure the organization resources, and play an important role in the prevention and embezzlement detection.

Moderate variables in this research are transformational leadership style and organizational culture. The transformational leadership style is a leadership style that inspires its followers to put aside their personal interests and mastering tremendous influence on their followers (Robbins and Judge, 2008). An organizational culture is the belief and embraced values individually in an organization. It is behavior norm for individual or group in the organization.

Quantitative data is used in this research *i.e.*, the result of the respondent answer through a questionnaire which measured using *Likert* scale. Qualitative data is in the form of OPD list names in Denpasar city. The research population is governmental apparatus working on 39 OPD in Denpasar. The sample 152 respondents consist of Head of finance Sub-Division and financial administration staffs of each SKPD. The analysis calculation used is an analysis technique of multiple linear and the analysis of *Moderated Regression Analysis (MRA)*. The equation model of regression analysis is as follows.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 GK + \beta_4 BO + \beta_5 X_1 GK + \beta_6 X_1 BO + \beta_7 X_2 GK + \beta_8 X_2 BO + e \dots (1)$$

Description:

Y : Financial Statement Quality

A : Constants

$\beta_1$ - $\beta_4$  : Regression coefficients

$\beta_5$  : Coefficient of the interaction of human resource competence variable with GK

$\beta_6$  : Coefficient of the interaction of human resource competence variable with BO

$\beta_7$  : Coefficient of the interaction of internal control system with GK

$\beta_8$  : Coefficient of internal control system interaction with BO

X<sub>1</sub> : Competence of human resources

X<sub>2</sub> : Internal Control System

GK : Leadership Style

BO : Organizational Culture

e : Error

### 3. Results and Analysis

Table 1 is presented the results of the descriptive statistical test:

Table 1  
Descriptive statistical test results

	N	Minimum	Maximum	Mean	Std. Deviation
X <sub>1</sub>	152	6	20	16,546	2,940
X <sub>2</sub>	152	12	45	39,013	5,804
X <sub>3</sub>	152	14	64	50,717	8,806
X <sub>4</sub>	152	27	100	81	13,991

Y	152	31	65	54,828	7,152
Valid N	152				

Source: primary data processed, 2018

Based on Table 1 is known the number of respondents (N) 152. The minimum score for the human resource competency variable is six and the maximum value is 20. The average score for human resource competence is 16.546. It defines the respondent gives a high tendency rating towards the human resource competence supported the education background, technical training, experience, and education level can support financial statements quality. The standard deviation is 2.940. It defines that there is a deviation of human resource competence to the average value is 2,940. For internal control system, variable with a minimum value is 12 and the maximum value is 45. The average value of the internal control system is 39.013. it means the respondent gives responses tend to be very high and fully support the effectiveness of internal control system in helping the preparation of financial statements quality. The standard deviation is 5.804. It means there is a deviation of the internal control system to the average value is 5.804.

The variable of the transformational leadership of the lowest value is 14. The highest value is 64. The average score for leadership style variables is 50,717. It means the respondent responds highly to the leadership style. It defines that respondents agree with the leadership involvement in motivating the employee performance in producing financial reports quality. Standard deviation is 8,806. It means a deviation from leadership style to the average value is 8,806. The lowest value of the organizational culture variable is 27. The highest value is 100. For average values of organizational culture, variables are 81. It indicates a high response from respondents to organizational culture. This means the respondents provide an assessment that tends to agree that organizational culture application together can increase the work motivation in producing financial statements quality. Standard deviation is 13.991. It indicates a deviation of organizational culture to the average value is 13,991.

A financial statements quality variable of the lowest value is 31. The highest value is 65 for the average value is equal to 54.828. It indicates the respondent's response to the quality of government financial statements tends to be high. It means financial statements quality must meet the financial statements characteristics in accordance with the rules that are reliable, relevant, it can be understood and can be compared. Standard deviation is 7.152. It indicates, there has been distortion quality of the financial statements on average value is 7,152. Validity test result is conducted in this research is obtained *Pearson Correlation* value. All the instrument variables are positive and higher than R-value table (0.1593). It means the whole statement can be stated valid. The questionnaire can be stated reliably if the one's answer to the question is consistent or stable from time to time. The variable is stated to be reliable if it has been *Cronbach's Alpha* > 0,60 value.

Table 2  
Research reliability test results

No	Variable	<i>Cronbach's alpha</i>	Result
1	Human resource competence	0,832	Reliable
2	Internal Control System	0,911	Reliable
3	Transformational leadership style	0,923	Reliable
4	Organizational cultural	0,947	Reliable
5	Financial statements quality	0,878	Reliable

Source: Primary data processed, 2018

Based on Table 2, it can be concluded that all variable statements used in this study are reliable and can be used. Due to it shows the alpha value is > 0,60. Based on the reliability test result for all research instrument, *Cronbach's alpha* value for all variables higher than 0.60. It can be stated that all the instruments used in this variable are reliable. Normality testing is conducted using *Kolmogorov-Smirnov* method. If *Asymp. Sig (2-Tailed)* > (0,05) thus, data is distributed normal. The normality test results in this study are presented in Table 3.

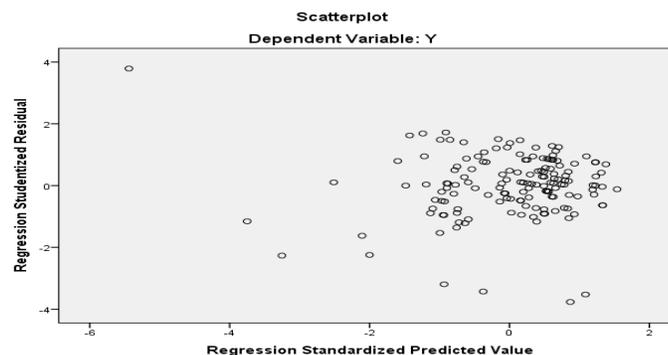
Table 3  
Normality test results

Model	N	Asymp. Sig. (2-tailed)
Equation 1	152	0,053

Source: Primary data processed, 2018

Based on Table 3, it can be concluded that regression model in this study is normally distributed due to *Asymp. Sig (2-Tailed)* > (0.05). Heteroscedasticity test aims to test whether in the regression model there is a uniformity of residual observations to other observations. The research is used a graphical method that is *scatterplot* test. Based on the *scatterplot* chart avoiding heteroskedasticity disturbance seen spots spread either above or below axis 0. Therefore, it can be concluded heteroskedasticity does not happen.

Chart 1  
Scatterplot test results



Source: Primary data processed, 2018

Regarding the regression analysis result based on Table 4 can be made a regression equation model is as follows:

$$Y = 77,368 + 0,419 X_1 - 1,218 X_2 + 0,973 X_3 - 0,978 X_4 - 0,049 X_1 \cdot X_3 + 0,027 X_1 \cdot X_4 + 0,001 X_2 \cdot X_3 + 0,016 X_2 \cdot X_4$$

Table 4  
Regression analysis test result

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1) Constant	77,368	12,853		6,019	0,000
X <sub>1</sub>	0,419	1,240	0,172	0,338	0,736
X <sub>2</sub>	-1,218	0,537	-0,989	-2,270	0,025
X <sub>3</sub>	0,973	0,360	1,197	2,704	0,008
X <sub>4</sub>	-0,978	0,262	-1,913	-3,734	0,000
(X <sub>1</sub> )*(X <sub>3</sub> )	-0,049	0,022	-1,548	-2,203	0,029
(X <sub>1</sub> )*(X <sub>4</sub> )	0,027	0,013	1,360	2,111	0,036
(X <sub>2</sub> )*(X <sub>3</sub> )	0,001	0,013	0,065	0,072	0,943
(X <sub>2</sub> )*(X <sub>4</sub> )	0,016	0,008	1,737	1,995	0,048
2 F <sub>count</sub>	6,667				
Sig <sub>count</sub>	0,000				
3 R <sup>2</sup>	0,272				
Adjusted R <sup>2</sup>	0,231				

Constant value ( $\alpha$ ) is 77,368. The value has a positive value, if human resource competence (X1), internal control system (X2), transformational leadership style (X3), organizational culture (X4) interaction between human resource competency with transformational leadership style (X1\*X3) and interaction between human resource competence with organizational culture (X2\*X4) and internal control system with transformational leadership style (X2\*X3) and internal control system with organizational culture (X2\*X4) each value is zero (0), then the the financial report quality (Y) will increase amounted to 77,368 units.

Based on Table 4, the determination coefficient (*Adjusted R<sup>2</sup>*) is 0.231. *Adjusted R<sup>2</sup>* value is 0.231. It means that 23.1 variations of the quality of financial statements are explained by the HR competence variable, internal control system as well as the Transformational leadership style and organizational culture as moderator. The rest is 76.9. It is explained by other variables outside the model. Based on Table 4, it appears that F or P-value significant is 0,000 less than 0.05. A significant value for F or P value is 0,000 lower than 0.05. It means that all variables are able to predict or explain the phenomenon of individual performance and regression models used to be considered feasible to be tested.

The t-test is used to find out whether each variable has a partial influence on the dependent variable, looking at the significant value in this study using 0.05 significance level. The first hypothesis (H<sub>1</sub>) stated that the leadership style moderates the influence of human resource competencies on LKPD quality in Denpasar. Regression analysis results in Table 4 shows the beta coefficient is -0.049 with a significant level is 0.029 < 0.05. It means that the interaction of leadership style and human resources competence have an influential but show significant results on LKPD quality in Denpasar. The result of this hypothetical leadership moderates the influence of human resource competence. It means the first hypothesis (H<sub>1</sub>) is rejected. The second hypothesis (H<sub>2</sub>) stated that the organizational culture moderates the influence of human competency on LKPD quality in Denpasar. The regression analysis result on Table 4 shows that the beta coefficient is 0,027 with significance level equal to 0,036 < 0,05. It defines that the interaction of organizational culture and human resource competence have an influence positively and show the significant result of LKPD quality in Denpasar. It proves the organizational culture to moderate the influence of human resource competence on LKPD quality in Denpasar. It means the second hypothesis (H<sub>2</sub>) is accepted. The third hypothesis (H<sub>3</sub>) stated the leadership style moderate the influence of internal control system on LKPD quality in Denpasar. Regression analysis results in Table 4 shows that the coefficient of beta is 0.001 with significance level is 0.943 > 0.05. It means the interaction between the internal control system and leadership style have a positive influence but show insignificant results on LKPD quality in Denpasar. This result proves that the leadership style does not moderate the influence of the internal control system on LKPD quality in Denpasar. It means the third hypothesis (H<sub>3</sub>) is rejected. The fourth hypothesis (H<sub>4</sub>) stated the organizational culture moderate the influence of internal control system on LKPD quality in Denpasar. The regression analysis results in Table 4 shows beta coefficient is 0,016 with significance level is 0,048 < 0,05. It means that the interaction of organizational culture and internal control system have a positive influence and show a significant result on LKPD quality in Denpasar. It means the fourth hypothesis (H<sub>4</sub>) is accepted.

The first hypothesis test (H<sub>1</sub>) tested the leadership style as a moderator between the influence of human resource competence on LKPD quality in Denpasar, local government financial report, the test result showed the interaction between the leadership style and the human resource competence has a negative influence but showed a significant result on LKPD quality in Denpasar. It means that the leadership style weakens the influence of human resource competencies on LKPD quality in Denpasar. Conceptually, if the leader who acts as a public servant in the concept of stewardship theory has a different leadership style in each organization will certainly be able to influence the actions and performance of subordinates. It is in using their ability to lead producing financial reports quality.

Based on the result of a hypothesis test (H<sub>2</sub>), it is seen that organizational culture has a positive influence and show a significant result. It means that organizational culture strengthens the influence of human resource competence in producing financial report quality. In stewardship theory how management is not motivated in the interests of the individual but rather prioritize the achievement of organization goals. It is proof that something inherent in an organization wherein a work culture. It is innovative and employees who have positive thinking is often a positive part organization in producing financial reports quality.

The results show the third hypothesis (H<sub>3</sub>) that the interaction between the leadership style and internal control system does not moderate on LKPD quality in Denpasar. Thus, these results indicate a person's leadership style is not able to give influence to the internal control system in producing the expected quality report. It means that leadership style is a trait. It exists within each of the leaders themselves, the development of technology and information makes an internal control system designed according to the rules, regulations and central government policies. Therefore, when the system is formed a leader cannot change the system subjectively for the self-sakes.

Due to this is a public organization that has a legal law regulated in Law No.32 in 2004 on Local Government in Article 25 which regulates Duties, Powers, and Duties of Head of Region. The results of this study are not in accordance with the study that was conducted by Wicaksono (2013) stated that leadership has a significant influence on the effectiveness of internal control system. The research was conducted by Akbar (2015) also shows the outcomes that are not aligned. Wherein, the transformational leadership style has a dominant influence on employee performance than organizational communication.

The results show for the fourth hypothesis ( $H_4$ ) is accepted, in this case, the interaction relationship of organizational culture and internal control system shows that organizational culture strengthens the influence of internal control system on LKPD quality in Denpasar. It is to show that when organizational culture is integrated into an organization. It tends every employee will work in accordance with the culture. It has been set together. Therefore, the culture is attached to them can be ruled out that impact on the effectiveness of internal control system that exists in the organization tend to run in accordance with the rules and existing regulations. Effendi (2009) stated that the application of corporate culture especially on the SPI unit useful to improve the effectiveness of the company, manage cultural changes, and improve the company performance. The resulting research is also in accordance with Soeharjono (2013) stated that a culture in bureaucracy proved to harm the existing good governance. It raises deviation risk of the organizational goals.

#### 4. Conclusion

Based on the results of the analysis and discussion that has been conducted. It can be concluded the style of transformational leadership weakens the influence of human resource competencies on LKPD quality in Denpasar City. This implies the application of the transformational leadership style that has not been proven to strengthen human resources competence in improving the financial reports quality. It shows that a leader has different authority and leadership style in leading an organization, in this case, transformational leadership style is not suitable applied in order to improve the financial statements quality. An organizational culture strengthens the influence of human resource competencies on LKPD quality in Denpasar City. This defines that organizational culture in every organization gives a positive strength and impact for employees in improving financial statements quality. Due to the culture formed based on mutual commitment will give more motivation to employees in working. Transformational leadership style is not moderating the influence of Internal Control System on LKPD Quality in Denpasar City. This defines that one's leadership style is not capable of impacting an internal control system in public sector organizations. Due to the system established based on existing regulations and legislation but not from the thinkers themselves as an organization leader. An organizational culture strengthens the influence of Internal Control System on LKPD quality in Denpasar City. This defines that organizational culture is able to give a positive impact on the internal control system in improving financial statements quality. Due to a culture that exists within the organization is able to support the effectiveness of existing internal control system will make it easier for employees to perform a job in accordance with their duties. It is principal and function in the organization.

#### Recommendations

The research has been conducted. There are some suggestions need to be conveyed to the leadership style that is not moderated the influence of Internal Control System on the Quality of Local Government Financial Statement in Denpasar. The further research is suggested to use other variables as moderating variables such as organizational commitment. The leadership style in the research does not moderate the internal control system. Due to the leadership style is a personal leader character can not influence an existing system and is formed based on regulations that are in accordance with applicable regulations. *Adjusted R<sup>2</sup>* value is 0,231 indicates that there is 76.9% variability. The financial statements quality is explained by variables outside the model. It makes the subsequent investigation for other variables that allegedly influence the quality of local government financial statements *e.g.*, the progress of information systems and the utilization of technology or organizational commitment capability. The researcher is then expected to broaden the research scope. Therefore, it can be generalized more broadly.

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