



AICIF

PROCEEDING 7TH ASEAN UNIVERSITIES

International Conference on Islamic Finance

Revival of Islamic Social Finance To Strengthen Economic
Development Towards A Global Industrial Revolution

Co Host:



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**PROCEEDING OF 7TH ASEAN UNIVERSITIES INTERNATIONAL
CONFERENCE ON ISLAMIC FINANCE (AICIF) 2019
“REVIVAL OF ISLAMIC SOCIAL FINANCE TO STRENGTHEN
ECONOMIC DEVELOPMENT TOWARDS A GLOBAL INDUSTRIAL
REVOLUTION”**

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“REVIVAL OF ISLAMIC SOCIAL FINANCE TO STRENGTHEN ECONOMIC
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FOREWORDS

PROF. DR. AMAL FATHULLAH ZARKASYI, M.A.
Rector of University of Darussalam Gontor

Assalamu'alaikum warahmatullahi wabarakaatuh

As the Rector of University of Darussalam Gontor, it is a great honour for us to welcome our distinguished guests from neighbourhood countries. Hence, I feel very grateful to Allah, I would like to thank you for your kind willingness to attend and participate in our 7th ASEAN Universities International Conference on Islamic Finance (AICIF) 2019.

The development of Islamic economics and finance not only concerns on commercial issues, but also social finance (such as zakah, infaq and waqf). Since the Prophet Muhammad Rasulullah period, Waqf has been developed and played a major role in the socioeconomic of Muslim. On his arrival at Madinah in the first year of Hijrah, he constructed a mosque known as Quba. Subsequently, the Prophet built a new mosque known as Masjid an-Nabawi due to the increasing number of people who converted to Islam. In addition, the example of waqf in practical level when the Prophet encouraged Utsman ibn 'Affan to buy Rumah well of water and finally he declared it as waqf to provide water for all citizens. Currently, this heritage has been extended to accommodate the need of society from across the world.

Based on the historical foundation, it would be extremely necessary supported by education and research related to Islamic social finance in an attempt to increase the welfare of the Ummah. Hopefully this conference will be one of the efforts in providing enlightenment and insight related to Islamic social finance and Islamic economics continues to grow worldwide, and provide benefits and prosperity for all mankind as well as the entire universe (rahmatan lil Alamein).

Therefore we all have a duty and responsibility to develop education and research related to Islamic economics. Let us pray to God for asking His assistance and guidance to carry out this duties and responsibilities together.

Finally, I congratulate all the faculty members in the Faculty of Syariah and Faculty of Economics & Management as well as all members of AICIF for organizing this conference. For the committees who have worked hard in preparing this conference, I suggested them to service all the guests very well. Make them feel like in their own homes. I would like to say good luck in joining the conference until completion. Thank you very much.

Wa'alaikumsalam warahmatullahi wabarakaatuh



INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

All praises due to Allah (swt), the Most Merciful, the Most Compassionate. May His peace and blessings be upon our beloved Prophet Muhammad (saw), his companions, descendants and all those who follow his steps.

On behalf of the IIUM Institute of Islamic Banking and Finance (IiBF), International Islamic University Malaysia, I would like to congratulate the University of Darussalam, UNIDA Gontor, for the successfully organizing and hosting the 7th ASEAN Universities International Conference on Islamic of Islamic Finance (AICIF 2019). IiBF, as the pioneering institution in organizing the AICIF, is indeed, very happy to note that the AICIF has already reached its 7th year of organization, with the consortium of universities joining the conference has increased to seven from only one when the IiBF first hosted it in Kuala Lumpur in 2013.

The theme of the conference “Revival of Islamic Social Finance to Strengthen Economic Development Towards A Global Industrial Revolution” highlights the remarkable contributions and guidance of our beloved Prophet Muhammad (saw) on his various efforts on social welfare and sustainable social development policies. These efforts have led to the remarkable economic development of Islamic societies, which needs to be emulated by our leaders today in the Islamic banking and finance industry. While there is a remarkable growth and expansion of the Islamic finance industry today, a pertinent issue to highlight is the role and contribution of Islamic finance in the achievement of socio-economic goals of the society. Islamic financial institutions need to continuously innovate and go beyond their traditional role in providing financing just to the bankable. Efforts should be intensified to expand their scope of services and aim to achieve better financial inclusion to all levels of the society.

The importance of technology in Islamic social finance could not be over-emphasized. Several important global cases borne out of the synergised approaches involving Islamic social finance with sustainable digital technology. The International Federation of Red Cross and Red Crescent Societies (IFRC) has recently developed an online blockchain technology application providing organizations and individuals with the ability to track and follow up their contributions in highly complex humanitarian settings. This has helped in providing transparency and laying a platform for increased trust between humanitarian organizations and those in Islamic social financing activities. This digital innovation has received universal acceptance and recognition and is the IFRC’s first foray into Islamic finance, advancing their cause to develop Islamic social finance strategies and fundraising tools in support of IFRC’s humanitarian aid programs.

Islamic social finance supported by mobilisation of digital technology has also brought about the effective distribution of zakat contributions from the Malaysian state of Perlis towards a relief project in Kenya. The project became successful and profitable as the cash value of the crop grown exceeded the value of the seeds purchased, which in turn allowed subsistence farmers to acquire a certain amount of disposable income that can be channelled towards other social impact areas focusing on food, healthcare, and education.

I would have to mention, however, that our goal of revitalizing and rejuvenating Islamic social finance and socially responsible finance may not be achieved without well-coordinated inter-countries synergy and cooperation. We are very much aware of the remarkable progress recorded in ASEAN, and especially Malaysia and Indonesia, in terms of Islamic banking and finance innovation and Islamic finance in general, which have proven to be veritable tools for social development of the Ummah. We hope that efforts are made for new inter-countries' cooperation within ASEAN and other destinations across the globe. It is high time that these vast experiences being shared to other parts of the world with more universities to join this consortium in efforts to remain abreast in the dynamic area of Islamic banking and finance.

Thank you. Wabillahi-tawfiq wal-hidayah, Wassalamu alaikum warahmatullahi wabarakatuh.

ASSOC. PROF. DR. SALINA KASSIM

Dean

IIUM Institute of Islamic Banking and Finance



STATE ISLAMIC UNIVERSITY SUNAN KALIJAGA YOGYAKARTA

Assalamualaikum Warahmatullah Wabarakatuh

Welcome to 7th AICIF 2019. We are very happy for the enthusiasm of all colleagues and participant to take part of the 7th ASEAN International Banking & Finance or 7th AICIF 2019. We are wholeheartedly grateful to University of Darusaalam Gontor Indonesia for organizing this event. AICIF has been held seven times in the Southeast Asia region. This event will took theme which highlighted the Revival of Islamic Social Finance to Strengthen Economic Development Toward a Global Industrial Revolution. We expect, this activity will increase the knowledge, abilities and role of stakeholders in facing the 4.0 industrial revolution. By strengthening the knowledge of Islamic social finance, hopefully it will be able to improve analytical skills to improve the welfare of Muslims. The challenges of Muslims today are very diverse, not only eradicating usury but also creating world welfare and hereafter. That's why, it is very important to understand Islamic social finance clearly.

Besides, we also looking for the academic result from this event such as increasing the transfer of knowledge of in Islamic economics, cooperation in the field of research, journal publications, guest lectures, student exchange and etc.

We also would like to thank all co-organizer who were invited to attend this conference and members of the procedural committee. We are deeply grateful for enthusiastic support from all units and individuals, and we appreciate all the participant who undertake preparation and reception services during the conference. We hope you granted benefit from the exchange of ideas and research at 7th AICIF 2019 through discussions with colleagues, participants and conference sessions and activities. We would like to take this opportunity to fulfill our success stepping stone as co-organizers. It is our sincere hope that this collaboration will continue in the future. May Allah SWT bless us and continue to guide us in all our efforts. Aamiin. Wassalamualaikum Warahmatullah Wabarakatuh

DR. H. SYAFIQ M. HANAFLI, S.Ag., M.Ag.
Dean of Faculty Islamic Economics and Business



SULTAN AGUNG ISLAMIC UNIVERSITY, SEMARANG INDONESIA

Assalamu'alaykum warahmatullahi wabarakatuh

A warmest word of welcome to the organizers and participants of the 7th Asian Conference on Islamic Finance (AICIF) 2019. Our honored to the main organizer of the 7th AICIF University of Darussalam (UNIDA) GONTOR, Indonesia.

Economic development in this digital age creates new challenges for Islamic finance especially Islamic social finance institutions in the ASEAN countries. The increase of market competition demanding the Islamic industry to innovate continuously so that it is able to serve customers and create maslahat. Financial technology (Fintech) is also part of the challenges that must be faced. In this case, the Islamic social finance industry must be able to answer the advancement of financial technology while maintaining applicable sharia principles. On this occasion, the 7th AICIF raised the theme of Revival of Islamic Social Finance to Strengthen Economic Development towards a Global Industrial Revolution. This theme is very urgent to be discussed today as in its system, Islamic finance is not only seen from a commercial point of view, but also a social point of view. Contemporary Muslim society in particular is an important subject that must be prepared to support this revival and make Islamic social finance as a milestone in the power of Islam in giving rahmat for everyone in today's era. 7th AICIF is part of an effort to push the Islamic social finance system achieving betterment. I am sure that with the collaboration of experts, researchers, academics and practitioners in this forum, various innovations will emerge. Issues from various national and cultural backgrounds relating to Islamic social finance will be discussed here. Thus, each other can exchange ideas and provide inspiration in order to form decisions and policies that are needed both for educational institutions and government as well as leaders of Islamic institutions. In addition, this forum is also an effort to strengthen good cooperation between various parties who have high concern in order to develop the Islamic social finance system.

Therefore, I do appreciate and thank you for significant contribution of many parties including the main organizer, co-organizers, support organizations and sponsors for the success of the 7th AICIF 2019. To all the speakers and participants, we wish you all the best for your perspective involvement. I hope that you will have pleasant and enjoyable learning experiences in the Forum. Finally, I wish that the participants will put to new journeys of learning, sharing, and growing for a common reason "to make our system, a better one".

We are really honored for your participation and we look forward to meet you again in 8th AICIF 2020. Terima Kasih

Wassalamu'alaykum warahmatullahi wabarakatuh

PROF. OLIVIA FACHRUNNISA, Ph.D
Dean of Faculty of Economics, UNISSULA
Indonesia



First of all, I would like to take this opportunity to welcome you all to the 7th ASEAN Universities International Conference on Islamic Finance (7th AICIF) and to extend out deepest gratitude to Universitas Darussalam Gontor, Indonesia for hosting this year's 7th AICIF held on 3rd and 4th December 2019.

Universiti Islam Sultan Sharif Ali (UNISSA), Brunei Darussalam, realized that this yearly conference served as an important platform with researchers, professionals coming in from all parts of the world in gaining further insights into the frontier of knowledge as well as understanding the broader scope of Islamic Finance.

I sincerely hoped that this conference will continue to play its role as an important platform for all stakeholders to meet and addressed issues related to Islamic Finance especially in this era of globalization where Islamic Finance industries have witnessed a significant growth over the past years. I also hope that this conference will be able to help in promoting and strengthening the networking and collaboration between researchers, academicians and professionals.

On behalf of UNISSA, I would like to extend my sincerest appreciation to the Main Organiser, Co-Organisers, sponsors and many thanks to everyone involved in organizing such a successful conference. To all participants and presenters attending this year's AICIF, I hope you will be able to benefit greatly from this conference and take part in strengthening the role of Islamic Finance so that it can contribute to a more sustainable and well-balanced economic growth in the society.

Sincerely,

DR ABDUL NASIR BIN HAJI ABDUL RANI

Dean

Faculty of Islamic Economics and Finance

Universiti Islam Sultan Sharif Ali, Brunei Darussalam



MINDANAO STATE UNIVERSITY PHILIPPINES

Assalamu Alaykom Warahmatullahi Wa Barakato.

My heartfelt congratulations to the organizers or people behind the 7th ASEAN International Conference on Islamic Finance (AICIF). People see only the finished product and are not likely to have an idea of the enormous behind-the-scene work that preparations for a grand activity like this entails.

The conference theme “Revival of Islamic Social Finance to Strengthen Economic Development Towards a Global Industry Revolution” cannot be more timely and auspicious. Hurting into a future of prodigious and rapid change, the Islamic world should take stock and determine how we are holding up, coping, and keeping apace with the challenges of a global industry revolution. Although Islamic Finance is anchored on principles and core values enshrined in the Holy Qur’an and the Sunnah, which are practically etched in stone, we recognize the fact that failure to adapt to present realities stands to leave us stranded and marooned on the shore, or lagging behind while the rest of the world eagerly sets sails or takes great strides in the march of progress.

On the other hand, the taking of stock seems crucial to ascertain how faithful we have been to the philosophical underpinnings of Islamic Finance, which means we go back to the primary sources. Much as we wish for seamless transitions or smooth passages from where we stand now to a global industry, for example, these do not come easy. In fact, there are issues and gray areas that I hope will be taken up in this Conference like the enforcement of zakah and how, and how it can help in alleviating poverty, the questions of profit, competition and control in business, and the line between halal and haram in investment (when does a halal investment become haram?).

It is my hope, too, that the Conference will be more productive of answers than of questions, and the discourses of the speakers bring greater enlightenment to the participants and all stakeholders.

Finally, the Mindanao State University looks forward to more collaborative efforts of this kind. Meaningful high-level discourse expected to ignite sparks can generate critical ideas for a more stable Islamic Finance and greater economic development.

My best wishes for the success of the Conference.

HABIB W. MACAAYONG
DPA President MSU System



Assalamu'alaikum Warahmatullah Wabarakatuh

It is a privilege for Tazkia University College of Islamic Economics to be co-hosted at the 7th ASEAN Universities International Conference on Islamic Finance that held on December 3rd & 4th 2019 at University of Darussalam Gontor. Tazkia University College of Islamic Economics is a pioneer of the development of Islamic economics and finance in Indonesia. Our joining in this event was a manifestation of our vision to become a world class university in 2025.

Tazkia University College of Islamic Economics has contributed to the development of Islamic Economics and Finance in Indonesia since 2 decades ago. We helped convert the 25 banks and conventional insurance to full fledged Islamic Banking. Besides that, Tazkia University College of Islamic Economics also empowers the grassroot by creating "Tazkia Islamic Village" located in Babakan Madang, Bogor Regency.

In the future, our joining in AICIF will contribute to strengthening Islamic Economic & Financial resilience in ASEAN through collaborative research, so that research is appropriate and supports the advancement of science in ASEAN moreover in the World.

We congratulate University of Darussalam Gontor as a Host from this conference and wish for the smooth running of this event so that the 7th AICIF theme is "Revival of Islamic Social Finance to Strengthen Economic Development Towards a Global Industry Revolution" can be achieved together.

Best Regards,

DR. MURNIATI MUKHLISIN M. ACC

RECTOR OF STEI TAZKIA

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ROLE OF ISLAMIC WORKING ATTITUDE IN MODERATING THE RELATIONSHIP BETWEEN REGIONAL FINANCIAL ACCOUNTING SYSTEM AND INTERNAL SUPERVISION ON LOCAL GOVERNMENT PERFORMANCE

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ABSTRACT

Today, in the era of globalization that is growing rapidly and the era of the industrial revolution 4.0 that spreads in various sectors, local governments either directly or indirectly have an impact from. One of the policies that must be carried out so as not to get a negative impact is by increasing local government performance based on the application of technology in the field of accounting systems and internal supervision. Based on the evaluation of Government Agency Performance Accountability System (Ind: *Sistem Akuntabilitas Kinerja Instansi Pemerintah, SAKIP*), a budget of IDR. 392.37 trillion has not been effectively utilized by local government. This can be interpreted that the government performance is still not optimal because several programs may not be on target. The financial accounting system and internal supervision that already exist and are in accordance with expectations are likely to produce optimal performance, but without the Islamic working attitude by the parties concerned can cause fraud and unethical actions. If a system and supervision of an organization are very good, but it is not balanced with an Islamic working attitude, the performance will not be useful and tends to harm others or even themselves.

JEL Classification: M48, O38, Z12

Keywords: Islamic Working Attitude, Regional Financial Accounting Systems, Internal Supervision, and Local Government Performance

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I. INTRODUCTION

1.1. Background of Study

Measurement of government performance is a systematic process and targets to collect, analyze and use the information, and also determine the efficiency and effectiveness of government tasks along with the achievement of planned targets. According to Mardiasmo (2007, p. 44) in Yusmalizar (2014), performance measurement is a measure of what is considered important and how well the performance of an organization is. The purpose of measuring the performance of the public sector is to assess how the organizational units are led and how is the superior's achievement. Besides, measurement of government performance is also used to assess the accountability of organizations in producing public services and superiors. The enactment of regional autonomy is one thing that becomes the basis of the importance of a performance measurement implemented optimally from the lowest to the highest unit.

The life guide of Muslims, which are the Holy Qur'an and Hadith. Both regulate the behavior of the people from sleeping to waking up for safety in the world and hereafter. Islamic work ethics also comes from the Holy Qur'an and Hadith where Islam guides us to work diligently, honestly and in accordance with existing rules without solely for personal interests but also benefit others. Yousef (2001) revealed that Islamic Work Ethics can be interpreted as a set of values or belief systems that originate from the Holy Qur'an and Hadith regarding work. The concept of Islamic work ethic views that the purpose of work is not just to get work done, but also to foster a balance of personal growth and social relations (Ali, 2001). This is a very important thing because the Islamic work ethic functions not only for individuals who always hold in principle but it is also important for the overall work environment.

Factors influencing the local government performance agencies are, *first*, the regional financial accounting system (SAKD). According to Mardiasmo in Almanda (2013), the local government performance will be achieved if the regional financial accounting system has been applied. Regional financial accounting system is part of public sector accounting whose function starts from recording to reporting all financial transactions that occur in local government. The regional financial accounting system also functions as a tool to support the achievement of local government performance and as a basis for assessing the accountability of local government agencies. Almanda (2013) found that regional financial accounting system significantly influences the local government performance.

Second, internal control systems. The internal control system aims to prevent as early as possible the possibility of a deviation, misuse, abuse, obstacles, errors and failures in achieving the tasks of a government organization (Almanda, 2013). Based on Government Regulation No. 60 of 2008, it states that internal government oversight is carried out in stages, that is, by the Financial and Development Supervisory Agency (BPKP), then the results are reported to the President. The results of research conducted by Almanda (2013) state that internal supervision affects the satisfaction of government performance. This is supported by the results of research conducted by Yusmalizar (2014) that internal control has a significant positive effect on the local government performance. Based on this background, this study tries to examine the role of Islamic work ethics to moderate the relationship between the regional financial accounting system and internal control on the local government performance.

II. LITERATURE REVIEW

2.1. Background Theory

2.1.1. Agency Theory

Agency Theory explains the relationship between principals and agents, one of which is rooted in decision theory, economics, organization, and sociology. Agency theory analyzes a contractual arrangement between two or more individuals, groups, and organizations, where one party (principal) makes a contract that is carried out with another party (agent) either implicitly or explicitly so that the agent does the work as desired by the principal (delegation of authority). Mardiasmo (2002) in Sudarsana (2013) explains that the concept of accountability in the public sector is a form of government obligation (mandate holder) to give responsibility, presents reporting to disclose all activities, such as responsibilities towards the community as trustees. Thus, it can be interpreted that there is an agency relationship in the management of government between the people (principal) and local government (agent).

2.1.2. Islamic Working Attitude

Islamic Working Attitude (IWE) is a multidimensional concept. It links an organization's prosperity and continuity to social welfare (Ali and Al-Owaihan, 2008). Islamic work ethics views work as a way to benefit more than personal interests economically, socially and psychologically, continuing social prestige, increasing social prosperity and strengthening faith (Ali and Owaihan, 2008). Ali and Owaihan (2008) propose four main concepts that build Islamic work ethics. The four concepts are effort, competition, transparency, and moral responsibility. Furthermore, Ali and Owaihan (2008) said that individuals must compete fairly

and honestly and conduct business activities with good intentions. Furthermore, Al-Khayath (2000: 29) explains that work ethics requires good attitude, honesty, and trustworthiness, conformity of wages, and are not allowed to cheat, seize, ignorance, and arbitrarily.

2.1.3. Local government performance

Mardiasmo (2002) states that performance reflects the economic, efficiency and effectiveness of public service. The economic sense is the comparison of inputs with output values expressed in monetary units. Economical is related to the extent to which public sector organizations can minimize the input resources used by avoiding wasteful and unproductive expenditures. The process of operational activities can be said to be efficient if a certain product or work result can be achieved with the lowest use of resources and funds. Operational activities can be said to be effective if the activity process reaches the goals and objectives of the final policy. Meanwhile, according to Bastian (2006, p. 267), indicators of performance are qualitative and quantitative measures of the level of achievement of a target or goal that has been set by taking into account the indicators of input, output, outcome, benefit and impact.

2.1.4. Regional Financial Accounting System

According to Minister of Home Affairs Decree No. 29 of 2002, regional financial accounting system is an accounting system covering the process of recording, classifying, interpreting, summarizing transactions of financial events and financial reporting in the context of implementing the Regional Budget Revenues and Expenditures, carried out in accordance with accounting principles.

According to the Ministry of Home Affairs of the Republic of Indonesia No.29 of 2002, regional financial accounting system procedures consist of Recording, classification and summary and reporting. The classification of accounting is divided based on the subject matter being studied. Accounting is divided into the private sector and public sector. If the subject matter under review is the entity preparing financial statements, then accounting is divided into commercial sector, government sector, and social sector.

2.1.5. Internal Supervision

Nawawi (2002) in Djiloy (2016) stated that Internal control is the activity of supervision by top managers or leaders and/or leaders or managers of units or work units within the organization and/or units or work units respectively. Statement on Auditing Standard (SAS) defines internal supervision as

administrative supervision and accounting supervision. Whereas Abdul Halim (2004: 197) explained that the structure of internal control is a series of processes carried out by the entity, which includes various systematic policies and procedures, varies, and has the main goal such as maintaining the reliability of the entity's financial reporting, maintaining effective and efficient operations, maintaining compliance with applicable laws and regulations.

2.2. Hypotheses Development

2.2.1. Regional Financial Accounting Systems on Local Government Performance

Agency theory states that there is a contractual relationship between the principal (the people) and the agent (the government). In the financial statements, the government (mandate holder) is obliged to present information that is useful for principals as users of government financial information to assess the accountability of government performance. According to research conducted by Annisa (2017) states that the regional financial accounting system has a positive effect on local government performance. This is in line with research conducted by Hidayat (2015) which states that the better the regional financial accounting system, the better the Local government performance. Based on theoretical studies and previous research, the hypothesis can be formulated as follows:

H1: The Regional Financial Accounting System has a positive effect on the local government performance

2.2.2. Internal Supervision on Local Government

Based on the agency theory, local government management must be monitored to ensure that management is carried out in full compliance with various applicable rules and regulations. If monitoring is carried out, the information received by the community will become more balanced with the regional government, which means the information asymmetry can be reduced. With the reduction of information asymmetry, the occurrence of corruption becomes smaller. Yusmalizar (2014) states that internal supervision has a positive effect on the local government performance. This is in line with research conducted by Djiloy (2016) which concluded that the better the internal supervision conducted, the better the performance of the regional financial accounting system. Based on the theoretical studies and previous research, the hypothesis is formulated as follows:

H2: Internal Supervision has a positive effect on the local government performance.

2.2.3. Islamic working attitude moderates the relationship between Regional Financial Accounting System and Local Government Performance

The Islamic working attitude deserves attention because it is ideal where a Muslim strives to make it happen (Yousef, 2000). According to Mahiyaddin (2009), Islamic work ethics prioritizes pure values, such as human honor, attaching importance to obedience, and perseverance at work. Therefore, it can be drawn an understanding that the regional financial accounting system that is made as well as possible to facilitate, provide accurate, transparent, credible information on financial transactions in order to obtain good results/performance will be more ideal, if balanced with Islamic work ethics owned users or executors of the regional financial accounting system. Based on the theoretical explanation, hypothesis is formulated as follows:

H3: Islamic working attitude moderates the relationship between local financial accounting system and the local government performance

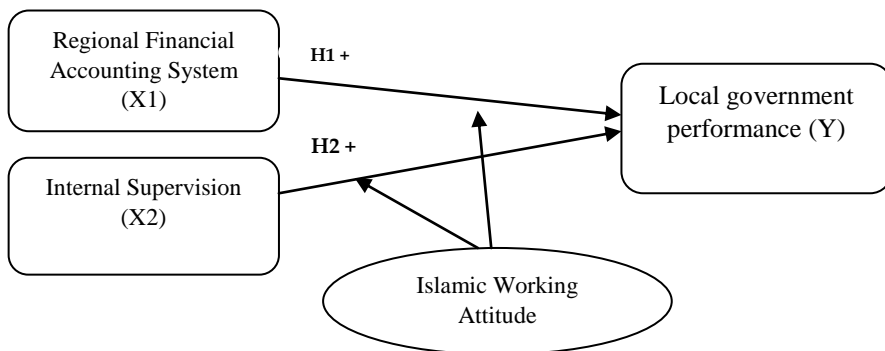
2.2.4. Islamic working attitude moderates the relationship between internal supervision and the local government performance

Islamic working attitude has a special character that is regulating the relationship between humans and God, with fellow human beings, relationships with the environment and society accompanied by adherence to the Holy Qur'an as reflected in acts of truth, justice, honesty, cleanliness, respect for parents, work hard and love science. Internal supervision for a large organization is needed to ensure all actions run according to operational standards and procedures. Chanzanagh & Akbarnejad (2011) explains that there are seven dimensions of Islamic work ethics, that are Work intention, Trusteeship, Work type, Work for Islamic society, Justice & Fairness, Cooperation & Collaboration and Work as the only source of ownership. Indirectly, internal supervision is part of justice & fairness where Islam teaches that truth and justice must be applied so that good performance will be realized. Thus, the hypothesis is formulated as follows:

H4: Islamic Working Attitude moderates the relationship between internal supervision and the local government performance

2.3. Research Model

Based on a theoretical study, the results of previous research and the development of the hypotheses above, the research model in this study can be described as follows:



III. METHODOLOGY

3.1. Population and Sample

This study used quantitative analysis methods with primary data sources in the form of research instruments that are manifested in the form of questions/statements in a questionnaire. The questionnaire in this study is for employees who are directly related to financial management in Regional Work Unit (OPD), while the population in this study is all OPD employees in Ketapang District with a nonprobability sampling technique in which all population members are used as a research sample, that is 25 OPDs.

3.2. Operational Definition of Variables

This study used 4 variables, which are the Regional Financial Accounting System and Internal Control as an independent variable, the performance of the local government as the dependent variable and Islamic working attitude as a moderating variable. The following table summarizes the operational definitions and measurement variables:

Table 3.1
Summary of Operational Definition and Variable Measurement

Variable	Concept	Indicator	Scale
Regional Financial Accounting System (X1)	A series of processes for recording, classifying, interpreting, and reporting a financial transaction / event in the context of implementing the Regional Revenue and Expenditures Budget (APBD).	1. Recording 2. Classification 3. Reporting (The Ministry of Home Affairs of the Republic of Indonesia No. 29 of 2002)	Likert Scale 1-5

Internal Supervision (X2)	Supervision tool from the leadership of an organization that aims to oversee whether the activities of subordinates are in accordance with the plans and policies that have been determined.	1. Control environment 2. Risk assessment 3. Control activities 4. Information and communication 5. Monitoring (Government Regulation No.60 of 2008)	Likert Scale 1-5
Local government performance (Y)	An overview of the achievements of an organization in carrying out all matters related to realizing the goals, objectives, vision and mission of the organization within a certain period.	1. Input 2. Output 3. Outcome 4. Benefits 5. Impact Bastian (2006, p. 267)	Likert Scale 1-5
Islamic Working Attitude	Attitude, character and work habits that emanate from the Islamic faith system to reveal their meaning as servants of God who must subdue the world and place themselves as part of the best society (<i>khaira ummah</i>).	1. Work is a translation of belief 2. Work-based on knowledge 3. Work to emulate the divine nature and follow His instructions. Asifudin (2004)	Likert Scale 1-5

3.3. Data Analysis Method

This research used the PLS (Partial Least Square) equation analysis technique. This method is an analysis method where it is not necessary to assume that the data must be in a certain measurement scale and also a relatively small number of samples (Ghozali and Latan 2015). This research equation model used two equations:

1. Outer Model Equations by conducting several tests: (a) Convergent Validity, (b) Average Variance Extracted (AVE), (c) Discriminant Validity, (e) Composite Reliability.
2. Inner Model Equations by conducting several tests: (a) R-Square (R²), (b) T-test

IV. RESULTS AND ANALYSIS

4.1. Data Analysis

4.1.1. Measurement Model (Outer Model)

4.1.1.1. Convergent Validity Test Results

The recommended AVE value must be greater than 0.5 which means that 50% or more variance of the indicator can be explained (Ghozali, 2014). The loading factor of all indicators used in the research is shown in the following table:

Table 4.1
Value of Average Variance Extracted (AVE)

Variable	Average Variance Extracted (AVE)
Regional Financial Accounting System (X1)	0.865
Internal Supervision (X2)	0.773
Local government performance (Y1)	0.732
Islamic Working Attitude	0.672

4.1.1.2. Discriminant Validity Test Results

Discriminant validity testing is done by looking at the value of the Average Variance Extracted (AVE) in the output correlation among latent variables. If the AVE value is higher than the correlation value between constructs, then it is stated that it meets the discriminant validity criteria (Ghozali, 2014).

Table 4.2
Correlations Among Latent Variables with Square Roots of AVEs

	SAKD	PI	K	IWA
SAKD	0.930	0.124	0.086	0.089
PI	0.124	0.879	0.756	0.583
K	0.086	0.756	0.856	0.615
IWA	0.089	0.583	0.615	0.819

4.1.1.3. Reliability Test Results

The value of Cronbach's alpha or composite reliability must be > 0.7 to have a good reliability value, but a value of 0.6–0.7 is still acceptable for explanatory research (Ghozali and Latan 2015).

Table 4.3
Cronbach's Alpha and Composite Reliability

VARIABLE	<i>Cronbach's Alpha</i>	<i>Composite Reliability</i>
Regional Financial Accounting System (X1)	0.961	0.970
Internal Supervision (X2)	0.926	0.944
Local government performance (Y1)	0.877	0.916
Islamic Working Attitude	0.836	0.891

4.1.2. Structural Model Testing (Inner Model)

Inner model testing is done to see the relationship between variables, significance values, and R-Squares or Adjusted R² of the research model.

Table 4.4
The values of R-Square, Adjusted R-Square, and Q-Square

Endogenous Variables	<i>R-Square</i>	<i>Adjusted R-Square</i>	<i>Q-Square</i>
Local government performance (Y1)	0.627	0.612	0.630

4.1.3. Hypothesis Testing

In this model, the magnitude of the p-value on the index range forms the basis of the significance of the relationship between the exogenous and endogenous latent variables. This study used a significance level of 5% because the type of data processed is primary data and is considered not to have high accuracy. The p-value is used in accepting and rejecting hypotheses, the significance level of p-value > 0.05, then the hypothesis is not supported, while for the p-value < 0.05, the hypothesis is supported at alpha 5% (Ghozali and Latan 2015).

The Path coefficients and P-values for hypothesis 1 to 4 of this study are seen in the WarpPLS 5.0 output Path coefficients and P-values in the following table:

Table 4.5
Partial Least Square (PLS) Test Results

Hypothesis	Path coefficients	P-value	Conclusion
H1: The Regional Financial Accounting System has a positive effect on the local government performance	0.098	0.223	Unsupported
H2: Internal Supervision has a positive effect on the local government performance	0.761	<0.001	Supported
H3: Islamic working attitude moderates the relationship between local financial accounting system and the local government performance	0.092	0.298	Unsupported
H4: Islamic Working Attitude moderates the relationship between internal supervision and the local government performance	0.190	0.031	Supported

4.2. Discussion

4.2.1. Effect of Regional Financial Accounting System on Local government performance

The results of testing the hypothesis in this study are not supported, this means that the utilization of regional financial accounting systems by State Civil Apparatus (ASN) and non-State Civil Apparatus (non-ASN) in the Regional Apparatus Organization (OPD) is not optimal. The possibility arising from this result is the lack of readiness by the local government in implementing systematic accounting records or in other words there is still an accounting process that is still done manually. Supporting facilities such as computers, internet networks and other programs that support still need to be accustomed to always be used even though they have to learn to understand the system from the start, and local governments must more often to facilitate training or assistance in using the accounting information system to be more optimal, because the use of Regional Financial Accounting System is mandatory for local governments as stipulated in Government Regulation No. 56 of 2005 concerning the Regional Financial Information System, it is required for local governments

to immediately make improvements in all lines such as in the form of HR and other supporting facilities so that the optimization of the use of Regional Financial Accounting System is realized. The results of this study are not in line with research conducted by Annisa (2017) but it is supported by the research by Setyowati, Isthika, Pratiwi (2016).

4.2.2. Effects of Internal Supervision on Local Government Performance

The results of hypothesis testing in this variable are stated to be supported, it means that the application of internal supervision in the Regional Apparatus Organization (OPD) has been carried out properly in accordance with existing regulations to support improved local government performance. This also means that the preparation of regional financial statements that have been implemented has been avoided by cheating practices and irregularities. The existence of tiered monitoring carried out by the leadership continuously to review and evaluate information and immediately make improvements to be a key factor to optimize its performance. From these results, it can also be concluded that the local government has been able to apply Government Regulation No. 60 of 2008 concerning the government's internal control system which is mandatory for all related parties. The results of this study are in line with the results of research by Djiloy (2016) and Almanda (2013).

4.2.3. Effect of Islamic Working Attitude (IWA) in moderating Regional Financial Accounting System (SAKD) on Local Government Performance

PLS test results show that IWA is not supported as a moderating variable between SAKD on local government performance. This result is almost in line with the test of the direct effect of SAKD to the local government performances where the existing system has not been used optimally in the Regional Apparatus Organization (OPD). Employees are still not fully running the mandate of the government related to the obligation in using SAKD in preparing financial statements of local governments. This also means that the work ethics possessed by OPD employees in implementing SAKD are still not good, if employees want to run the rules regarding the use of this system, then indirectly they run IWA well.

4.2.4. Effect of IWA in moderating internal supervision on the local government performance

The final test results of the IWA variable as a moderating between internal supervision on the local government performance is supported. These results are

in line with the direct effect between internal supervision on performance. Employees feel very concerned when work carried out both as superiors and subordinates are continuously checked / monitored to produce good performance regardless of work is done online (system) or offline (manual).

V. CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Islamic working attitude is very important for the development of one's character to be applied in daily activities in the workforce. Based on the discussion, it found that IWA does not moderate the relationship between regional financial accounting system and local government performance, but conversely, IWA can be a moderating variable between internal supervision on the local government performance.

5.2. Limitation and Recommendation

1. This research is limited to the questionnaire presented to respondents, considering it is still in the form of definitive answer choices between 1-5 so that the possible answers given are still not convincing for researchers, and the questionnaire given to respondents is entrusted to not be directly met.
2. It is recommended that further researches provide additional alternative answers to the questionnaire in the form of open questions and direct assistance when filling out the questionnaire so that respondents' understanding of questions is more complete so that the answers can be more objective and are based on reality.

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