



Government Internal Control System and Quality of Financial Statements in West Aceh Regency, Indonesia

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ABSTRACT: The purpose of this study was to analyze the effect of the Government's Internal Control System (SPIP) on the quality of presentation of Financial Statements in West Aceh Regency. The sample in this study were employees at the Regional Financial Management Agency (BPKD) of West Aceh Regency, totaling 25 respondents. The data used in this study were obtained by distributing questionnaires. The data analysis used in this study was simple linear regression analysis using SPSS 25. The results showed that the government's internal control system affected the quality of the presentation of financial statements at BPKD of West Aceh Regency. The better the internal control system implemented by the authorized apparatus, the better the quality of the presentation of financial reports and government accountability in budget management.

KEYWORDS: Internal Control System, Local Government, Quality of Financial Statements.

INTRODUCTION

The increasing public demand for good government governance has encouraged central and local governments to implement public accountability (Rahmawati et al., 2018). Accountability can be interpreted as a form of obligation to account for the success or failure of the implementation of the organization's mission in achieving predetermined goals and objectives through an accountability medium that is carried out periodically (Mardiasmo, 2009). The implementation of a well-run government can be seen through the success of carrying out tasks to develop the region according to the predetermined targets. So to be able to realize good governance, the government forms a system that can control all government administration activities (Gustina, 2021). One form of accountability in government administration is regulated in Law Number 17 of 2003 concerning State Finance; Law Number 32 of 2004 concerning Regional Government; Government Regulation Number 60 of 2008 concerning Government Internal Control System (SPIP); and Government Regulation Number 71 of 2010 concerning Government Accounting Standards (SAP).

The implementation of regional autonomy and fiscal decentralization provides greater delegation of authority to the regions to manage their resources according to the region's interests, priorities, and potential (Faishol, 2016). In the process of achieving the planned goals, local governments are required to be able to manage well the resources contained in the regions, including regional financial management. The government, as the manager of public funds, is expected to be able to provide accountability to the community, one of which is through the presentation of financial reports as a form of accountability obligations (Yendrawati, 2013) through an accountability medium that is carried out periodically (Siahaan & Simanjuntak, 2020). In presenting financial statements, of course, reasonable internal control is needed so that the financial statements produced follow government accounting standards and can also fulfill the qualitative characteristics of financial statements, namely relevant, reliable, comparable, and understandable (PP Nomor 71 Tahun 2010).

In PP Number 71 of 2010, it is stated that the reliability of financial statements will be fulfilled if the financial statement information is free from misleading notions and material errors and presents each fact honestly and can be verified. The information in the financial statements may be relevant, but if the presentation is unreliable, information users will not trust the information presented. For this reason, an adequate internal control system is needed. The Government Internal Control System (SPIP) related to financial statements is a process designed to provide reasonable assurance of the reliability of financial statements following Government Accounting Standards, which will produce financial statements with informational value. SPIP is a necessary process of actions and activities carried out continuously by leaders and all employees to provide adequate assurance of the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations (PP Nomor 60 Tahun 2008).



PP No. 60 of 2008 states that internal control includes various policies, namely, (1) related to financial records, (2) providing reasonable assurance that financial statements have been prepared following government accounting standards, and receipts and expenditures are by adequate authorization, (3) providing reasonable assurance over the security of assets that have a material impact on government financial statements. If the implementation of SPIP goes well, the resulting financial statements will have good information value and vice versa. If the implementation of SPIP does not go well, it will allow the resulting financial statements not to have good information value. Some of the most common problems faced by the government are related to weak internal control systems, such as corruption, administrative errors, and poor financial management (Mokoginta et al., 2017). Therefore, the quality of financial statements is measured by compliance with SAP and the internal control system (SPIP), so local governments must design, operate and maintain a sound internal control system to produce reliable financial information (Aditya & Surjono, 2017).

Several previous studies have discussed the relationship between the internal control system and the quality of financial statements in some local governments in various regions in Indonesia, including; Yendrawati (2013) in Yogyakarta Province, Herawati (2014) in Cianjur Regency, Faishol (2016) in Lamongan Regency, Pujiono et al. (2016) in North Maluku Province, Aditya & Surjono (2017) in Sukabumi Regency, Mokoginta et al. (2017) in North Bolaang Mongondow Regency, Rahmawati et al. (2018) in South Tangerang City, Ikyarti & Aprila (2019) in Seluma Regency, Sweetenia et al. (2019) in Magelang Regency, Siahaan & Simanjuntak (2020) in North Labuhan Batu Regency, and Gustina (2021) in Indragiri Hilir Regency. In general, the findings show a positive influence between the internal control system and the quality of financial statements, although several other studies have stated that they did not find a relationship between the internal control system and the quality of financial statements. From the various descriptions above, it can be concluded that the internal control system has an influence on the quality of financial statements.

This study aims to analyze the effect of the internal control system on the quality of the presentation of financial reports, a case study on the Regional Wealth Management Agency (BPKD) of West Aceh Regency. In carrying out the regional financial management, even though the internal control system has been implemented, there are still often deficiencies in the process of presenting regional financial reports, including the lack of timeliness in reporting so that the application of SPIP is considered still not optimal. In contrast, timeliness in financial reporting is one of the qualitative indicators of the presentation of financial statements (Yendrawati, 2013; Ikyarti & Aprila, 2019). Therefore, further research to again prove the extent of the role of SPIP on the quality of presentation of financial statements is still interesting.

LITERATURE REVIEW

Financial Statements

Financial statements are structured reports on the financial position and transactions carried out by a reporting entity. The general purpose of financial statements is to present information about the financial position, budget realization, cash flow, and financial performance of a reporting entity that is useful for users in making and evaluating decisions about resource allocation (PP Number 71, 2010). Meanwhile, local financial statements are prepared to provide relevant information about the financial position and all transactions carried out by local governments during one reporting period (Permendagri Number 13, 2006). According to PP Number 71/2010, the government's primary financial statements consist of; Budget Realisation Report (LRA), Statement of Changes in Excess Budget Balance (Statement of Changes in SAL), Balance Sheet, Statement of Operations (LO), Statement of Cash Flows (LAK), Statement of Changes in Equity (LPE), and Notes to Financial Statements (CaLK).

Objectives of Government Financial Reporting

Specifically, the objectives of government financial reporting are to provide information that is useful for decision-making and to demonstrate the accountability of the reporting entity for the resources entrusted to it by (a) providing information about the position of economic resources, liabilities, and equity of government funds; (b) providing information about changes in the position of economic resources, liabilities, and equity of government funds; (c) providing information about the sources, allocations, and uses of economic resources; (d) providing information about the compliance of realizations with the budget; (e) providing information about how the reporting entity finances its activities and meets its cash needs; (f) providing information about the government's potential to finance the implementation of government activities; and (g) providing information that is useful for evaluating the reporting entity's ability to fund its activities (PP Number 71, 2010).



Qualitative Characteristics of Financial Statements

Qualitative characteristics of financial statements are normative measures that need to be embodied in accounting information so that it can fulfill its purpose. There are four qualitative characteristics and are normative prerequisites necessary for government financial statements to fulfill the desired quality: (a) Relevant; (b) Reliable; (c) Comparable; and (d) Understandable (Permendagri Number 13, 2006) and (PP Number 71, 2010).

- a) **Relevance.** Financial statements can be relevant if the information in them can influence users' decisions by helping them evaluate past or present events, predict the future, and confirm or correct the results of their past evaluations.
- b) **Reliable.** Information in the financial statements is free from misleading notions and material errors, presents each fact fairly and can be verified. Information may be relevant, but its nature or presentation is unreliable, and its use could be misleading.
- c) **Comparability.** Information in the financial statements will be more useful if it can be compared with the financial statements of the previous period or the financial statements of other reporting entities. Comparisons can be made internally and externally.
- d) **Understandable.** Information presented in the financial statements can be understood by users and is expressed in forms and terms that are adjusted to the limits of understanding of the users. For this reason, users are assumed to have sufficient knowledge of the activities and operating environment of the reporting entity, as well as the willingness of users to study the information in question.

The Government Internal Control System

The Government Internal Control System (SPIP) is a necessary process of actions and activities carried out continuously by leaders and all employees to provide adequate assurance of the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets and compliance with laws and regulations (PP Number 60, 2008); and (Permendagri Number 13, 2006). (PP No. 60 of 2008); and (Permendagri No. 13 of 2006). Meanwhile, according to Permendagri Number 4/2008, the internal control system is a process influenced by management that is created to provide adequate assurance in the creation of effectiveness, efficiency, compliance with applicable laws and regulations, and the reliability of regional financial presentation.

According to Mulyadi (2013), the internal control system includes organizational structures, methods, and measures that are coordinated to safeguard organizational assets, check the accuracy and reliability of accounting data, encourage efficiency, and encourage compliance with management policies. Based on the two definitions above, it can be concluded that internal control is a method, process, and policy designed by the board of commissioners, management, and other personnel to provide adequate assurance of the achievement of efficiency and effectiveness of operations, reliability of financial statements, and compliance with applicable laws and regulations. Meanwhile, the internal control process at the regional level (provincial/regency/city) is carried out by a supervisory apparatus called the Inspectorate or APIP (Government Internal Supervisory Apparatus), which is tasked with supervising all activities of local government administration funded through the Regional Revenue and Expenditure Budget (APBD) Provincial/Regency/City.

Indicators of Internal Control System

According to COSO, the components of internal control consist of; 1) Control environment, 2) Risk assessment, 3) Information and communication, 4) Control activities, and 5) Monitoring. Then, government regulation (PP Number 60, 2008) concerning SPIP also adopted the COSO standard into the government internal control system indicators, which also consist of five, namely; 1) Control environment, 2) Risk assessment, 3) Control activities, 4) Information and communication, and 5) Internal control monitoring. Where each component/indicator also has its elements. The explanation of each SPIP element based on PP Number 60 of 2008 is as follows:

- 1) **Control Environment.** Leaders of Government Agencies and all employees must create and maintain an environment that creates positive and supportive behavior toward internal control and sound management.
- 2) **Risk Assessment.** Internal control must provide an assessment of the risks faced by the organizational unit both from outside and from within.
- 3) **Control Activities.** Control activities help ensure that the direction of the leadership of the Government Agency is carried out. Control activities must be efficient and effective in achieving organizational objectives.



- 4) Information and Communication. Information must be recorded and reported to the head of the Government Agency and other specified parties. Information is presented in a specific form and means and promptly to enable the head of the Government Agency to carry out its control and responsibilities.
- 5) Monitoring. Monitoring must be able to assess the quality of performance over time and ensure that recommendations from audits and other reviews can be followed up immediately.

Hypothesis

Based on the explanation above, the hypotheses built in the study are “The Government Internal Control System (SPIP) positively affects the Quality of Local Government Financial Reports at BPKD West Aceh Regency, Indonesia.”

METHOD

This study uses primary data (questionnaires) from the Regional Financial Management Agency (BPKD) of West Aceh Regency, the research location. Respondents used are BPKD West Aceh Regency employees, with sample criteria being financial management employees. The number of respondents in this study was 25 (twenty-five) people. The data measurement technique uses a Likert scale. Research data collection was carried out through interviews and distributing questionnaires (field research) and literature studies (library research). The data analysis method uses simple linear regression with the help of SPSS software.

The independent variable in this study is the Government's Internal Control System (X), while the dependent variable is the Quality of Financial Statements (Y). This study's stages of data analysis are; tabulating data (respondent characteristics), validity testing, reliability testing, and hypothesis testing. The level of significance used is 0.05 (5%), with the criteria for acceptance/rejection of the hypothesis being: If $t_{count} < t_{table}$, H_a is rejected, then H_0 is accepted, while if $t_{count} > t_{table}$, H_a is accepted, and H_0 is rejected.

RESULTS AND DISCUSSION

Characteristics of Respondents

Respondents in the study were viewed from various characteristics, including gender, age, latest education, and length of service. Regarding gender, most respondents were male, namely, eighteen people (60%), while twelve were women (40%) of the total respondents. Furthermore, it is known from the age level that respondents are primarily between 30-40 years old, as many as twenty-two people (67%). Furthermore, five people (17%) were between 40-50 years old, 20-30 years old, as many as three people (10%), and two people (6%) were over 50 years old. Judging from their latest education, most respondents, or as many as twenty-two people (73%), have a bachelor's degree education level. Five people (17%) have a master's degree education, and the remaining three people (10%) have a diploma education. Then seen from the working period, most respondents have worked for 10-15 years as many as twenty people (67%), 6-10 years as many as five people (17%), above 15 years as many as three people (10%), and the remaining 2-6 years as many as two people (6%).

Table 1. Respondent Characteristics

No	Description	Frequent	Percent
1	Gender:		
	1. Male	18	60
	2. Women	12	40
2	Age:		
	1. < 20 years	-	-
	2. 20 - 30 years	3	10
	3. 30 - 40 years	20	67
	4. 40 - 50 years	5	17
	5. > 50 years	2	6
3	Education:		
	1. SLTA	-	-
	2. Diploma	3	10



	3. S-1	22	73
	4. S-2	5	17
4	Working Period:		
	1. 0 - 2 years	-	-
	2. 2 - 6 years	2	6
	3. 6 - 10 years	5	17
	4. 10 - 15 years	20	67
	5. > 15 years	3	10

Validity Test Results

Testing the validity of the data in this study was carried out statistically using the Pearson Product-Moment Coefficient of Correlation test with the help of software through SPSS. Each statement item is declared valid if the calculated correlation value > the critical value of product-moment correlation. Based on the results of data processing, all statement items are declared valid because they have a significant value above 5%. So that all statements in this study (SPIP and Quality of Financial Statements) are significant and have construct validity. Table 2 below shows the validity test of respondents' answers to statement items related to SPIP.

Table 2. Validity Test Results (The Government Internal Control System)

Question Item	Correlation Coefficient	Critical Value r N=14	Description
X1	0.993	0,396	Valid
X2	0.981	0,396	Valid
X3	0.982	0,396	Valid
X4	0.986	0,396	Valid
X5	0.825	0,396	Valid
X6	0.993	0,396	Valid
X7	0.853	0,396	Valid
X8	0.863	0,396	Valid
X9	0.985	0,396	Valid
X10	0.883	0,396	Valid
X11	0.985	0,396	Valid
X12	0.885	0,396	Valid
X13	0.910	0,396	Valid
X14	0.982	0,396	Valid

For statements related to the Government Internal Control System (SPIP), the correlation coefficient of respondents' answers to the lowest statement item is 0.825 (X5), and the highest is 0.993 (X1 and X6). Meanwhile, the table correlation value with n = 14 shows a figure of 0.396. Thus, it can be interpreted that the data concerned is declared valid. Furthermore, Table 3 below is the result of the validity test of respondents' answers to statement items related to the Quality of Financial Statements.

Table 3. Validity Test Results (Quality of Financial Statements)

Question Item	Correlation Coefficient	Critical Value r N=10	Description
Y1	0,969	0,396	Valid
Y2	0,916	0,396	Valid
Y3	0,913	0,396	Valid
Y4	0,855	0,396	Valid



Y5	0,865	0,396	Valid
Y6	0,907	0,396	Valid
Y7	0,964	0,396	Valid
Y8	0,853	0,396	Valid
Y9	0,857	0,396	Valid
Y10	0,565	0,396	Valid

For statements related to the Quality of Financial Statements, the correlation coefficient of respondents' answers to the lowest statement item is 0.565 (Y10), and the highest is 0.969 (Y1). Meanwhile, the table correlation value with $n = 10$ shows a figure of 0.396. Thus it can be interpreted that the data concerned is declared valid.

Reliability Test Results

This study used a reliability test to test the reliability of the questionnaire. The analysis is used to interpret the correlation between the scale created and the existing variable scale. The reliability test results for the dependent and independent variables as indicators also show reliable results. The resulting Cronbach Alpha value is > 0.5 , so all variables used are declared trustworthy. The data processing results show the Cronbach Alpha value for each variable, namely 0.985 for the Government Internal Control System (SPIP) variable and 0.963 for the Quality of Financial Statements variable.

Table 4. Reliability Test Results

Variable	Total Item	Cronbach alpha	Description
X. Government Internal Control System	14	0,995	Reliable
Y. Quality of Financial Statements	10	0,963	Reliable

Hypothesis Testing

After testing the validity and reliability of each statement and respondent's answers, the final step is to test the regression hypothesis to ascertain whether the independent variable (government internal control system) affects the dependent variable (quality of financial statements). The results of hypothesis testing are presented in the following table.

Table 5. Hypothesis Testing

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	17,969	3.268		5,498	,000
	Government Internal Control System (X)	,412	,057	,835	7,269	,000

The statistical test results show a t-count value of 7.269, while the t-table value is 2.068 at the 95% confidence level. Because the t-count value $>$ t-table ($7.269 > 2.068$) with a significance value smaller than 0.05. This shows the effect of the government's internal control system on the presentation of local government financial reports, so the hypothesis is accepted. The final step is to test the determination to see how much influence the independent variable has on the dependent variable. The value of the decision is seen from the R-square coefficient.

The results of testing the coefficient of determination are presented in the following table 6. Based on the table 6, the coefficient of determination R-Square is 0.697 (69.7%). This value means that the effect of the independent variable (government internal control system) on the dependent variable (quality of regional financial statement) is 69.7%. Meanwhile, the rest (30.3%) is influenced by other factors that are not included as variables in this study.



Table 6. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,835 ^a	,697	,684	2,537

DISCUSSION

Based on the results of hypothesis testing, this study's findings indicate a significant influence between the government's internal control system on the presentation of local government financial reports, and the relationship is positive. The impact of the government's internal control system on the quality of local government financial reports is that the better the government's internal control system, the better the quality of the presentation of financial statements produced by the local government. The government's internal control system is a way to direct, monitor and measure an organization's resources. It is also essential in preventing and detecting fraud and protecting organizational resources. One of the general objectives of management in designing an effective government internal control system is to make financial reports reliable (Arens & Elder, 2004). The internal control system will run well if there is supervision that ensures that the system runs according to plan to support the quality of good financial reports. Therefore, it is necessary to supervise the regional budget management so that all processes run well and produce good-quality financial reports (Mardiasmo, 2009).

The results of this study are in line with the research of Faishol (2016), Aditya & Surjono (2017), Rahmawati et al. (2018), Ikyarti & Aprilia (2019), Sweetenia et al. (2019), and Siahaan & Simanjuntak (2020). The findings in the study also state that the internal control system has a positive effect on the quality of local government financial reports. The results of research by Sweetenia et al. (2019) state that a better internal control system implemented by authorized officials will increase government accountability in budget management. This finding also supports the research of Pujiono et al. (2016) which states that the internal control system has a positive effect on regional financial management. Based on the results of this study, it can be concluded that the local government internal control system in West Aceh Regency is running well.

However, these findings contradict the results of research by Yendrawati (2013), and Mokoginta et al. (2017), which state that the internal control system has a significant negative effect on the quality of local government financial reports. The findings conclude that even though the internal control system implemented is good, if it has not been implemented effectively and efficiently, it can cause a lack of quality in the resulting financial statements. Likewise, Gustina (2021) did not find a significant influence between the internal control system and the quality of local government financial reports.

CONCLUSION

This study aims to empirically test whether the government's internal control system (SPIP) affects the quality of local government financial reports at BPKD West Aceh Regency. Based on the study's results, it can be concluded that the application of SPIP has a positive effect on the quality of local government financial reports. The better the implementation of the internal control system carried out by authorized officials, the more it will improve the quality of the presentation of financial statements and government accountability in budget management. Limitations in this study include the low number of respondents and the use of independent variables only internal control system. Future research can increase the number of samples (respondents) and add other variables such as; human resource competence, utilization of regional financial information systems, and understanding of government accounting standards.

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