



THE EFFECT OF THE GOVERNMENT OF INTERNAL CONTROL SYSTEM ON THE QUALITY OF FINANCIAL STATEMENTS IN THE COAL REGENCY VILLAGE OFFICE

Maya Sari

*Faculty of Economics and Business
University of Muhammadiyah Sumatra Utara
Jalan Kapten Muchtar Basri No. 3 Medan-Indonesia
E-mail: mayasari@umsu.ac.id*

This study aims to Determine the effect of the Government Internal Control System on the Quality of Financial Statements at the Village Office. This study uses an associative approach. The population in this study were village office employees with a sample of 35 respondents. Data collection techniques used with media questionnaire (questionnaires), interview methods, and documentation methods. The technique of data analysis in this study uses simple linear regression. The results of this study indicate that the government's internal control system (SPIP) does not Affect the Quality of Financial Statements.

Keywords: government internal control systems, quality of financial reports.

PRELIMINARY

The village government is the smallest government level who deal directly with the people, the village government could assist the central government in implementing development, public services and empowering the communities directly. The village is a geographical embodiment posed by elements of physiographic, social, economic, political, as well as local cultural relations and mutual influence with other regions (R. Bintarto in Indra Bastian, 2015: 6), for it is in the implementation of activities required escort, then the government together with the legislature approved Law 6 of 2014 on the village and Permendagri 113 of 2014 on General Guidelines for Reporting and Accountability Procedures for the Implementation of the Village Government,

In line with the authority of the village government is expected to organize and manage the household in accordance with the authority given by the central government. The authority of the government to implement the village has penererimaan sources used to finance the activities carried out. Village governments need to do accountability for activities that have been carried out with preparing financial statements. The financial statements are presented should contain quality information that can be useful for the wearer. Quality information is information that is relevant, reliable, comparable,

The financial statements are records a company's financial information in the accounting period that can be used to describe the performance of the company (SAK, 2009). According to the Financial Accounting Standards issued by the Indonesian Institute of Accountants 2009, the objective of financial statements is to provide information regarding



the financial position, performance and changes in financial position of an enterprise that will benefit a large number of users in making decisions.

Factors affecting the reliability of the financial statements is the Quality of Human Resources, Information Technology Utilization Control

Intern, according Organizational Commitment Accounting (Faristina Rosalind and Warsito Kawedar 2011) . Many phenomena of government financial statements that have not been present the data in accordance with the rules and still many irregularities have been found by the Supreme Audit Agency (BPK) in the audit government financial reports made public demand for good governance (good governance government) increases.

According to Government Regulation No. 71 of 2010 on SAP paragraph 35 The quality of the financial statements can be measured by several elements, namely the Relevant (It is relevant if the information contained therein can affect user decisions by evaluating the past and predict the future. Andal (It reliably if the information in the financial statements are free of understanding misleading and material errors, presenting any facts in an honest and verifiable. can be compared (Information contained in the financial statements would be more useful if it can be compared to the prior year financial statements. Then understandably (the information presented in the financial statements can be understood by user and expressed in the form and terms that are adjusted to limit the users understanding.

The phenomenon of financial reporting on the financial statements of local government is something that is interesting to study further. In fact in the government's financial statements are still a lot of data is not presented in accordance with the realization and an error in reporting. As happened in August 2018 in the District Sei Coal County Hall. Three auditors allegedly asked money amounting Rp.3 million against Chief Durian on behalf Hariadi in resolving cases of ADD and DD being experienced Kadesh Durian. In this case the Chief of Coal securing evidence in the form of cash amounting to Rp 3,000,000 along with 7 pieces Minutes village KAS examination.

In general, the problems that occur due to the weakness of internal control systems are found in the management of revenue and expenditure account. On the weaknesses, then to achieve the quality of financial reporting countries / regions that are effective, efficient, transparent and accountable, governors and regents / mayors shall exercise control over the implementation of the activities of the government. Internal Control at the central and local governments based on the Government Regulation No. 60 Year 2008 concerning the Government Internal Control System (SPIP).

Government Regulation No. 60 of 2008 also explains that the internal control system of government there are 5 ie control environment, risk assessment, control activities, information and communication, as well as the monitoring of internal control.

Through the strengthening of SPIP, the expected improvement of quality preparation of financial statements can be driven so that the financial statements made by the central and local governments to obtain the opinion the better. Because with increasing CPCs opinions given on a financial statement, means the report can be trusted as a tool for decision making by the stakeholders (stakeholders). In addition, SPIP can prevent implementation of activities that are not in accordance with the applicable provisions so as to obtain the efficiency, effectiveness, and prevent loss of state finances (BPK, 2014).



Moreover, started in 2019 will be issued a rule that the Village Office will be immediately examined by the CPC no longer Inspectorate. So it is very important to the village office in Sei Suka to implement the Internal Control System pemerintah especially there are not applying the regulation.

From the results of research by the author in the district sei like, based on interviews and observations then this was a list of offices that have implemented SPI village and SPIP yet to adopt, among others, as follows:

Table 1.

List Application SPIP

| No. | Village office | Implementation SPIP |
|-----|----------------------|---------------------|
| 1 | Desa Sei Suka Deras | already applied |
| 2 | Desa Simpang Kopi | already applied |
| 3 | Desa Tanjung Gading | Not implemented |
| 4 | Desa Brohol | already applied |
| 5 | Desa Simodong | Not implemented |
| 6 | Desa Pematang Jering | It has been set |
| 7 | Desa Pematang Kuing | Not implemented |
| 8 | Desa Kuala Tanjung | already applied |
| 9 | Desa Kuala Indah | already applied |

Based on the above background, the authors are interested in doing a study where this research is the development on research conducted by Kartika and Budiono (2015), Wati, Herath, and Sinarwati (2014).

Theoretical review

1. Quality of Financial Statements

The financial report is a record of financial information of a company or institution in the accounting period that could be used for the performance of the company or agency performance. The financial statements part of the financial reporting process. The following explanation of understanding financial statements:

According to Fahmi (2014: 2) states that the definition of the financial statements is a information describing the financial condition of a company, and further information can be used as an overview of the company's financial performance. Understanding financial statements according to the Indonesian Institute of Accountants in Financial Accounting Standards (IAS) in 2012 1 paragraph 10, states that "Financial statements are a structured representation of the financial position and financial performance of an entity. Meanwhile, according to Government Regulation No. 71 of 2010 concerning the Government Accounting Standards, argues that: "The financial statements are structured reports regarding the financial position and transactions undertaken by a reporting entity during the reporting period.

According to Regulation No. 71 Year 2010 concerning the Government Accounting Standards purpose financial statements provide information that is useful and beneficial for the wearer in order for decision-making. The following financial reporting purposes are:

1. Provide information about the position of economic resources, liabilities, and equity of government.



2. Provides information about changes in the position of economic resources, liabilities, and equity of government.
3. Provides information about the source, allocation and use of economic resources.
4. Provides information on the observance of the realization of the budget.
5. Provides information on how the reporting entity to fund its activities and meet its cash needs.
6. Provide information about the potential of governments to finance implementation of the activities of government.
7. Provide useful information to evaluate the reporting entity's ability to fund its activities.

According to the Indonesian Institute of Accountants in Financial Accounting Standards (IAS) in 2012 1 paragraph 10, explains that: "The purpose of financial statements is to provide information regarding the financial position, financial performance and cash flows of the entity that will benefit the majority of users of financial statements in the making economic decisions. The financial statements also show the results of management accountability on the resources entrusted to them. "

According Harahap (2013: 146), states that the quality of the financial statements are the eligibility criteria of financial accounting reports that are considered to meet the desires of the users or readers of the financial statements. Meanwhile, according Fraser and Ormiston which (2008: 7), suggests that the quality of financial reporting is: " The quality of the financial statements are the financial statements should ideally reflect an accurate picture of the financial condition and performance of the company. The information should be useful to assess the past and the future. The sharper and clearer images that are presented through the financial data, and getting closer to the truth. "

According Mursyidi (2013: 47), describes the qualitative characteristics of financial statements is a normative measures that need to be realized in the accounting information so that it can fulfill its purpose. The following four characteristics is a normative preconditions necessary for the government's financial statements to meet the desired quality, namely:

1. Relevant
2. Reliable
3. Can be compared
4. Understandably

2. Government Internal Control System

Internal Control System a process that is integral to the actions and activities that are carried out continuously by the management and all employees to provide reasonable assurance for the achievement of organizational goals through effective and efficient, the quality of financial reporting, the security state assets, and obedience terhadap legislation. Internal control system is attached to all the activities, influenced by human resources, and only provide reasonable assurance, not absolute confidence, resulting in the development and penerapannya needs to be comprehensive and must consider the aspect of cost benefit (cost and benefits), fairness and compliance, development of information and communication



technology as well as considering the size, complexity and nature of the duties and functions of Government Agencies.

Definition of internal control by the Committee of Sponsoring Organizations Treadway Commission, which is cited by Susanto (2010: 103) is as follows: "Internal control is defined as a process that is influenced by the board of directors, management and employees are designed to provide assurance that ensure that organizational goals can be achieved, adherence to applicable laws ".

The purpose of the Internal Control System is designed to provide assurance that organizational goals can be achieved through the efficiency and effectiveness of operations, the presentation of the financial statements are to be believed, and compliance with laws and regulations as stated in the sense of control by COSO (Committee of Sponsoring Organization Treadway Commission).

According to Susanto (2013: 95) internal control objectives, namely:

1. The efficiency and effectiveness of operations
2. Presentation of the financial statements are to be believed
3. Compliance with laws and regulations. "

According Mardiasmo (2009: 59) internal control objectives, namely:

1. Keeping the owner of the company
2. Check the accuracy and correctness of accounting information
3. Improving the operational efficiency of the company, and
4. Help keep the management policies that have been established.

The purpose hinted that if executed properly and true, the Internal Control System (SPI) will give guarantees which all state officials, from the leadership to employees in government agencies, will carry out their duties honestly and obey the rules. As a result, there will be no irregularities that may cause losses to the state. This can be evidenced, for example, through government financial reporting is reliable and gets unqualified predicate.

Government Internal Control System set out in Article 58 paragraph (1) and (2) of Law No. 1 of 2004 on the state treasury ordered arrangement further provisions regarding the internal control system of the government's overall with government regulations. Internal Control Systems in Government Regulation should be based on the premise that the Internal Control System attached to all the activities, influenced by human resources, and only provide reasonable assurance, not absolute assurance. The main understanding of internal control systems of government according to Government Regulation No. 60 of 2008 is as follows: "The government's internal control system, hereinafter abbreviated as SPIP,

During this time the reference implementation of the Internal Control System to government agencies are monitoring the inherent regulated in Presidential Instruction No. 15 of 1983 on guidelines for the implementation and supervision, a presidential instruction No. 01 of 1989 on guidelines for the implementation of supervision attached, which has been enhanced by the decision of the Minister of PAN No. 30 of 1994 on the instructions attached to the renewed supervision by the Minister of PAN No. KEP / 46 / M.PAN / 2004.

Definition of inherent supervision by the Minister of PAN No. KEP / 46 / M.PAN / 2004 on the implementation guidelines Inherent in the administration of government is as follows: "Supervision is attached which is equivalent term management control or internal control and is hereinafter referred waskat all efforts made in an organization for directing an activity for the purpose the organization can be achieved effectively, efficiently and economically, all the resources utilized and protected, data and reports are reliable and fairly presented, as well as compliance with all applicable regulations ".



Terminology is inherent in the rule supervision commensurate with management control or internal control. Elements of control inherent in question is organizing personnel, policies, plans, procedures, record keeping, reporting, supervision and internal review.

The understanding of the internal control system in accordance with Government Regulation No. 08 of 2006 on Financial Reporting and Agency Performance Pemerintah is as follows: "The system of internal control is a process that created the management that was created to provide sufficient confidence in the achievement of effectiveness, efisiensi, compliance with the legislation in force, and the reliability of the presentation government financial reports ".

In line with Government Regulations 2006, Regulation of the Minister of the Interior No. 04 Year 2008 on Guidelines for Review of Financial Statements of Local Government, defines the control system as follows: "The system of internal control is a process that is influenced by the management that was created to provide sufficient confidence in the achievement, effectiveness, efficiency, reliability of financial reporting, the safeguarding of assets state, and compliance with laws and regulations ".

While the internal control system in accordance with Government Regulation No. 60 of 2008 on the Internal Control System of the Government are as follows: "The system of internal control is a process that is integral to the actions and activities carried out continuously by the management and all employees to provide reasonable assurance for the achievement of organizational goals through effective and efficient, the reliability of financial reporting, security of state assets, and compliance with laws and regulations ".

In order to achieve an adequate internal control would require some components of internal control as disclosed COSO (Committee of Sponsoring Organizations Treadway), research COSO (Committee of Sponsoring Organizations Treadway) said that internal control as a process implemented by the board of directors, management, and they who, under the direction of both to provide reasonable assurance that the control objectives can be achieved. Internal controls provide reasonable assurance, not absolute, because of the possibility of human error, collusion and denial management control processes make this process is not perfect.

Research Methodology

This type of research used in this research is associative, ie research that describes how much influence the independent variable on the dependent variable (Situmorang and Ginter, 2008: 57). This study was conducted to elucidate the influence Government Internal Control System (SPIP) on the Quality of Financial Statements On Regional Office in the village of Sei Suka District Coal.

The population in this study were all village offices / sub-Sei Suka District Coal totaling 9 Village Office.

Table 2.

Total Population Village Office Sei Suka

| No. | Office / District Village |
|-----|---------------------------|
| 1 | Sei Suka Deras |
| 2 | Simpang Village Coffee |
| 3 | Tanjung Gading |
| 4 | Village Brohol |
| 5 | Village Simodong |
| 6 | Causeway Village Jering |
| 7 | Desa Kuala Beautiful |



| | |
|---|------------------------|
| 8 | Desa Kuala Tanjung |
| 9 | Causeway Village Kuing |

Methods of sample selection in this study, the method of simple random sampling. Simple random sampling is a sampling technique that is directly carried out on the sampling unit (Margono, 2010: 126). Margono (2007: 123) also states that the establishment of large-small sample there is a determination that it is not absolute, meaning there is no provision what percent of a sample to be taken. Samples of this study were taken from the village that gives the completeness of data as the basis of this study.

Table 3.

Total Sample Village Office Sei Suka

| No. | Village office | completeness of data |
|-----|----------------------|----------------------|
| 1 | Desa Sei Suka Deras | Complete |
| 2 | Desa Simpang Kopi | Incomplete |
| 3 | Desa Tanjung Gading | Incomplete |
| 4 | Desa Brohol | Incomplete |
| 5 | Desa Simodong | Incomplete |
| 6 | Desa Pematang Jering | Incomplete |
| 7 | Desa Pematang Kuing | Complete |
| 8 | Desa Kuala Tanjung | Incomplete |
| 9 | Desa Kuala Indah | Incomplete |

Samples authors take is a village offices that provide complete data which financial statement data. So the office sampled in this study are Sei Suka Deras Office, and the Office of the village of Kuala Indah.

Data collection techniques used in this research are:

1. Questionnaires that is by spreading the questionnaire containing questions to all respondents in this research that the users of financial statements.
2. Observation, conducted the study with direct observations by approaching the object to be examined.
3. Interviewing, conducting research by question and answer directly to the related parties and competent with the problems that the authors carefully.
4. Documentation, conducting research to see data being owned financial statements every village office.

The technique of data analysis in this study uses simple linear regression. Simple linear regression is a method used to measure the influence of independent variables on the dependent variable and the dependent variable predicted by using independent variables.

RESEARCH RESULT

Simple Linear Regression Analysis

Simple linear regression equation used to determine whether there is influence between the independent variables (the internal control system of government) on the dependent variable (the quality of the financial statements).

Table 4

Simple Linear Regression Test

| Coefficients ^a | | | | | |
|---------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | 23,940 | 2,238 | | 10,696 | ,000 |
| SPIP | -,026 | ,046 | -,097 | -,563 | ,577 |

a. Dependent Variable: Kualitas Laporan Keuangan

Sumber: Output SPSS,2018.

Based on Table 4 above, shows that the constant value of 23.940. The regression analysis of the results can be known simple linear regression equation as follows:

$$Y = a + bX$$

$$Y = 23.940 + (-0.026) X$$

The simple linear regression equation shows the value of α is 23.940 and the value of β is -0,026X. Based on these results concluded that the internal control systems of government have a negative influence on the quality of financial statements amounting to -0.026.

Hypothesis testing

The t-test was used to test whether the independent variable partial or no significant relationship to the dependent variable. Here are the results output t test using SPSS version 24 as follows:

Tabel 5. Uj- t

| Coefficients ^a | | | | | |
|---------------------------|-----------------------------|------------|---------------------------|--------|------|
| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| | B | Std. Error | Beta | | |
| (Constant) | 23,940 | 2,238 | | 10,696 | 000 |
| SPIP | -,026 | ,046 | -,097 | -,563 | 577 |

a. Dependent Variable: Kualitas Laporan Keuangan

Sumber: Output SPSS,2018.



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Based on the output results of t-test showed that tcount of -0.563 , which means $t - 0.563 < t_{table} 2.0345$, and generate significant value $0.577 > 0.05$, it can be concluded that H_0 accepted and H_1 rejected, which means that the internal control system of government not to be significantly influential to the quality of the financial statements.

DISCUSSION

The internal control system of government is integral process on the actions and activities carried out continuously by the management and all employees to provide reasonable assurance for the achievement of organizational goals through the effective and efficient. According to Rosalind and Warsito Faristina Kawedar (2011) states that the factors affecting the reliability of the financial statements is the Quality of Human Resources, Information Technology Utilization, Internal Control, Accounting Organizational Commitment.

The results of this study stated that the internal control system of government does not affect the quality of financial reporting. This can be evidenced by the value of $t > t_{table}$ by generating a significance value of $0.577 > 0.05$, which means there is no effect on the quality of the internal control system of financial reporting. The value of the regression coefficient menunjukkan negative way relationship that is equal $-0,026X$ with constant number 43.391. The equation regression line is $Y = 23.940 + (-0.026) X$. This means that the internal control system of government may not be able to produce quality financial statements effective and efficient.

In addition the value of the coefficient of determination or R square obtained amounted to 0,010, or 1%, which means that the independent variable (the internal control system of government) does not affect the dependent variable (quality of financial reporting) by 1% while the remaining 99% is influenced by other variables not examined in this study. Internal control system of government does not have a significant influence but dominant on the quality of financial statements because of the internal control system of government.

Answers from respondents for several indicators of each dimension there is the conclusion that not all the indicators had no effect. From the results of the average percentage indicator on the lowest variable X is the respondents' answers on the dimensions of risk assessment with the statement no. 4. So the only dimension of risk assessment that not only affects the quality of financial statements that caused at least respondents who answered strongly agree.

Answers from respondents for several indicators of each dimension there is the conclusion that not all indicators were affected. From the results of the average percentage of variable Y indicator on the lowest is in the dimension of respondents can be compared with the statement no. 4. So only four dimensions comparable indicators that are not affected by the government's internal control systems caused at least respondents who answered strongly agree.

CONCLUSIONS AND RECOMMENDATIONS



Conclusion

Based on the analysis and formulation of the problem discussed above, it can be concluded that there is a positive and significant effect of Government Internal Control System on the Quality of Financial Statements in Sei Suka Village Office Coal County. Based on the R square obtained for 0,010, or 1%, which means that there is no internal control system of government influence on the quality of the financial statements, while the remaining 99% is influenced by other variables not examined in this study.

From the results of the study also showed that only the dimensions of risk assessment contained in the internal control system of government alone which does not affect the quality of financial reporting, and the only dimension of reliability are not affected by the internal control system of government because at least the respondents who answered strongly agree and more dominant the answers agree.

Suggestion

Based on the conclusions described above, then the advice that can be given is as follows:

1. Sei village office like swift and beautiful estuary should perform re-socialization of the internal control system of government primarily on risk assessment so that the resulting financial statements reliable, comparable and effective and efficient.
2. For subsequent researchers who want to use the title of this study should add to the number of variables, as well as samples so that the answers generated by further research is more accurate and expand the research object in order to obtain comparative results of the study.

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