

Implementation Government's Internal Control System on the Quality Financial Reporting Which Moderate by Human Resource Competency

Nasrun Naida¹

BPKAD Tojo Una-Una, Indonesia¹

ABSTRACT

This study aims to (1) explain the implementation of Government Internal Control Systems (GICS), and Financial Report Quality; (2) assess the effect of LGIS implementation on Financial Report Quality (FRQ); (3) evaluate the influence of GICS implementation on FRQ; (4) identify how the interaction between LGIS and Human Resource Competence affects FRQ; and (5) analyze the interaction between GICS and Human Resource Competence on FRQ. The study employed Partial Least Square (PLS) method in Structural Equation Modeling (SEM) using WarpPLS 8.0 software, involving 128 respondents. Findings indicate that (1) the majority of Local Government Agencies (LGAs) support the use of LGIS and GICS to enhance FRQ; (2) LGIS has a positive and significant impact on FRQ; (3) GICS similarly has a positive and significant impact on FRQ; (4) Human Resource Competence strengthens the relationship between LGIS and FRQ; and (5) likewise enhances the relationship between GICS and FRQ

Keywords: *Internal Control System of the Government, Human Resource Competence, Financial Statement Quality.*

Corresponding Author:

Nasrun Naida
(nasrunnaida79@gmail.com)

Received: May 31, 2024

Revised: June 21, 2024

Accepted: June 30, 2024

Published: July 15, 2024



This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International License.

1. INTRODUCTION

Undang-Undang (UU) Number 17 of 2003 concerning State Finance regulates the form of accountability in the administration of governance. In this Law, it is explained that Governors/Mayors/District Heads submit draft regional regulations regarding accountability for the implementation of Regional Budgets (APBD) to the Regional People's Representative Council (DPRD) in the form of financial statements that have been audited by the Supreme Audit Board (BPK), at the latest 6 (six) months after the fiscal year ends.

Financial Statements (LK) are prepared based on government accounting standards according to Government Regulation (PP) Number 71 of 2010. Financial Statements provide relevant information about the financial position and all transactions conducted by a reporting entity during one reporting period (SAP, 2010). One requirement in presenting Government Financial Statements (LKPD) is that they must have characteristics to ensure the quality of Financial Statements that can provide accurate and accountable information, including being relevant, reliable, comparable, and understandable. The components of LKPD consist of Budget Realization Report (LRA), Excess Budget Balance Report (LP SAL), Balance Sheet, Operational Report (LO), Cash Flow Statement (LAK), Equity Change Statement (LPE), and Notes to the Financial Statements (CaLK).

According to PP No. 12 of 2019 concerning regional financial management, it is stated that the financial reporting of Regional Governments is the process of preparing and presenting Financial Statements by the reporting entity as a consolidation of the financial statements of Regional Working Units (OPD) as accounting entities. Regional Government Financial Statements (LPKD) are submitted by the Supreme Audit Board (BPK) no later than 3 (three) months after the fiscal year ends as audit materials to determine the level of quality of LPKD information.

As an effort to realize good governance, local governments in preparing financial statements must be transparent and accountable. The parties using these financial statements certainly access the financial statements provided by the local government. Therefore, the information therein must be truly beneficial to its users (Putra, 2018).

Regional Government Financial Statements (LKPD) receive an assessment every year in the form of an Opinion from the Supreme Audit Board (BPK). When BPK provides an Unqualified Opinion (WTP) on Regional Government Financial Statements (LKPD), it means that the financial statements of a regional government entity are presented and disclosed fairly and with quality (Nurillah et al., 2020).

The Tojo Una-Una District Government has achieved a WTP opinion ten times, but BPK still finds some weaknesses in internal control and non-compliance with regulations that need improvement and follow-up. According to Furqan et al. (2020), the higher the level of recommendation from the ongoing audit results is followed up, the better the accountability of regional government financial reporting according to indications by better audit opinions. This shows that BPK audits are not only limited to examining Financial Statements but also evaluate their compliance with the Internal Control System (SPI) applied in each regional government. The Government Internal Control System provides positive results and this condition explains that the better the implementation of SPIP, the better the accountability of the organization (Dharma et al., 2021).

Based on observations by researchers in OPDs within the Tojo Una-Una District Government since 2023, it was found that SPIP has not been running as expected, this is caused by: not all OPDs have human resource capabilities in the field of accounting, thus causing imbalance in regional financial management and reducing the effectiveness of the system in presenting financial statements accurately.

Human resource competence can influence the quality of the financial statements produced. Human resources referred to here are those capable of preparing Financial Statements in accordance with government accounting standards and understanding the cycle of local government accounting, both in terms of regional financial management and local government accounting systems. This is in line with research conducted by Zubaidi et al. (2017) and Nurillah et al. (2014) which found a positive relationship between human resources and the quality of regional government financial statements. However, other research conducted by Aziyah et al. (2022) states that human resource competence cannot moderate the relationship between internal control systems and the quality of Regional Government Financial Statements.

2. METHODS

This research adopts a quantitative approach. Quantitative research emphasizes testing theories through research variables using numerical data and conducting data analysis using statistical procedures. This study is categorized as explanatory research. The population in this study consists of all Organizational Units (OPDs) of Tojo Una-Una District. There are 40 OPDs in Tojo Una-Una District comprising 2 Secretariats, 1 Inspectorate, 17 Offices, 6 Agencies, 1 Unit, 3 Hospitals, and 12 Sub-districts.

The Dependent Variable in this study is the quality of financial reports, where the quality of local government financial reports is assessed based on the qualitative characteristics of financial reports according to Government Regulation No. 71 of 2010 on Government Accounting Standards (SAP), namely: relevance, reliability, comparability, and understandability. The quality of Local Government Financial Statements in this study will be measured using statement items with ordinal scale measurement from 1 to 5.

The Independent Variable in this study is the Government Internal Control System using indicators referring to Government Regulation No. 60 of 2008, consisting of elements: control environment, risk assessment, control activities, information and communication

control, and internal control monitoring. The Government Internal Control System in this study will be measured using statement items with ordinal scale measurement from 1 to 5.

The Moderating Variable in this study is Human Resource Competence, based on the Chief of the National Civil Service Agency's Decision No. 46A of 2003 concerning Guidelines for the Preparation of Competency Standards for Structural Positions of Civil Servants. The indicators used for measuring human resource competence include skills, knowledge, and attitudes/behaviors. Human resource competence in this study will be measured using statement items with ordinal scale measurement from 1 to 5.

3. RESULTS AND DISCUSSION

This study was conducted in the Government of Tojo Una-Una Regency with a total of 128 respondents. A questionnaire was distributed to all Organizational Units (OPDs) within Tojo Una-Una Regency through Google Forms, totaling 128 questionnaires.

Table 1 Questionnaire Distribution

No.	OPD Type	Number of OPDs	Number of Questionnaires
1	Secretariat	2	6
2	Office	15	45
3	Agency	7	26
4	Inspectorate	1	3
5	Satuan Pol. PP	1	3
6	Hospital	3	9
7	Sub-district	12	36
	Total	40	128

Source: Primary Data Processed in 2023

Table 2 Model Fit and Quality Indices

<i>Model fit and quality indices</i>	<i>Indeks</i>	<i>p-value</i>	Kriteria	Keterangan
Average path coefficient (APC)	0.302	P<0.001	P<0.05	Diterima
Average R-squared (ARS)	0.762	P<0.001	P<0.05	Diterima
Average adjusted R-squared (AARS)	0.755	P<0.001	P<0.05	Diterima
Average block VIF (AVIF)	1.819	<= 5, ideally <= 3.3		Diterima
Average full collinearity VIF (AFVIF)	2.602	<= 5, ideally <= 3.3		Diterima
Tenenhaus GoF (GoF)	0.738	small >= 0.1, medium >= 0.25, large >= 0.36		Large
Simpson's paradox ratio (SPR)	1.000	>= 0.7, ideally = 1		Diterima
R-squared contribution ratio (RSCR)	1.000	>= 0.9, ideally = 1		Diterima
Statistical suppression ratio (SSR)	1.000	>= 0.7		Diterima

Source: Primary Data Processed in 2023

Based on the table above, the values obtained from the ten criteria have been fulfilled, indicating that the model meets the fit requirements. Therefore, the inner model can be accepted. Below is the diagram of the estimated model's indirect effects.

Display the table as below:

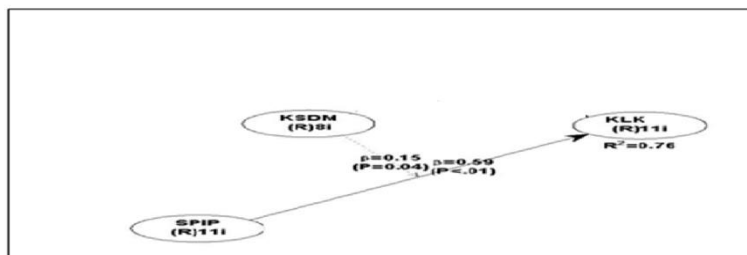


Figure 2: Full Structural Equation Model

After the Combined Loading and Cross-Loadings data have met the criteria, the measurement of Convergent Validity is assessed by looking at the Average Variance Extracted (AVE) values. AVE is used to evaluate convergent validity, with the criterion that AVE should be > 0.50 . The AVE values for each construct can be seen in below:

Table 3. Results of Latent Variable Coefficients Output

Variabel	Avg. Var. Extrac (AVE)
Government Internal Control System (X1)	0.519
Quality of Financial Reports (Y)	0.617
Human Resources Competency (Z)	0.576

Source: Primary Data Processed in 2023

Based on these results, the four constructs have met convergent validity because the Government Internal Control System has a value of $0.519 > 0.50$, Quality of Financial Reports has a value of $0.617 > 0.50$, and Human Resource Competency has a value of $0.576 > 0.50$. The conclusion from all variables has met the convergent validity criteria.

Composite Reliability

The next test is the construct reliability test which can be measured using two criteria, namely composite reliability and Cronbach's alpha. Composite Reliability data that has composite reliability > 0.8 has high reliability. Average Variance Extracted (AVE) is expected to be > 0.5 and the Cronbach's alpha value is declared reliable and is expected to be > 0.6 for all constructs.

Table 4. Composite Reliability dan Cronbach's alpha

Uraian	Composite Reliability	Cronbach's alpha
Government Internal Control System (X1)	0.922	0.906
Quality of Financial Reports (Y)	0.947	0.938
Human Resources Competency (Z)	0.912	0.891

Based on the table above, it is explained that the four constructs have met the reliability criteria because the Government Internal Control System has a composite reliability value of $0.922 > 0.70$ and a Cronbach's alpha value above $0.906 > 0.60$, Quality of Financial Reports has a composite reliability value above $0.947 > 0.70$ and Cronbach's alpha value is above $0.938 > 0.60$, and Human Resource Competency has a composite reliability value above $0.914 > 0.70$ and Cronbach's alpha value is above $0.891 > 0.60$, it can be concluded that all constructs meet the reliable criteria. This is indicated by a composite reliability value above 0.70 and a Cronbach's alpha value above 0.60 as recommended criteria.

Implementation of the Government's Internal Control System has a positive effect on the quality of financial reports.

Testing hypothesis 1 (H1) which shows that the Government Internal Control System has a positive and significant influence on the Quality of Regional Government Financial Reports can be accepted and proven correct, where the results are proven from the Output Path Coefficients and p-values which describe the presentation of the path coefficient

estimation results (path coefficient).) and p value. The test results show a path coefficient value of 0.586 with a p-value of 0.001 or smaller $p < 0.05$ or 5% so that the proposed hypothesis is accepted.

The results of this research are supported by previous research, Indrayani et al. (2020) with research on Internal Control Systems on the Quality of Government Financial Reports. The research results show that the Internal Control System has a positive effect on the quality of Regional Government Financial Reports. In line with the findings of Orlanda et al. (2020), with research on the influence of the Internal Control System on the quality of Financial Reports. The research results show that the Internal Control System simultaneously influences the quality of financial reports.

In this context, the research results show that the implementation of SPIP has an important role in improving the quality of government financial reports, and this is a positive and significant thing.

Human Resource Competency moderates the influence of the Government's Internal Control System on the Quality of Financial Reports.

Testing hypothesis 2 (H2) shows that Human Resource Competence has a positive and significant influence as a moderating variable in the relationship between the Government's Internal Control System and the Quality of Financial Reports, where the path coefficient value is 0.149 with a p-value of 0.042 or smaller than $p < 0, 05$ or 5% so that the proposed hypothesis is accepted.

The results of this research are in line with previous research conducted by Nurillah et al., (2014) with the results of testing research that has been carried out, it can be concluded that HR competency has a significant influence on the quality of government financial reports. According to Indrayani et al. (2020, research results show that HR Competency has a positive effect on the relationship between the implementation of the Internal Control System and the quality of Regional Government Financial Reports.

Based on the research results above, it can be concluded that Human Resource Competency strengthens the positive influence of the relationship between the Government's Internal Control System on the Quality of Financial Reports. In other words, if the human resources involved in implementing SPIP have good competence, the influence of SPIP on the quality of financial reports will be stronger.

4. CONCLUSION

This study obtains empirical evidence regarding several things related to the quality of local government financial reports. The Internal Control System has a positive influence on the quality of financial reports, then human resource competence can strengthen the influence of the relationship between the Internal Control System on the quality of local government financial reports.

Some of the suggestions in this research are to encourage OPD and Regional Government to maximize the Internal Control System, so that they can improve and maintain quality financial reports. Then improve the quality of Human Resources, namely the competence and character of the State Civil Apparatus who work in the OPD environment through guidance and training regarding regional financial management to support the implementation of an effective and efficient Internal Control System.

REFERENCES

Agbenyo, W., Jiang, Y., & Cobblah, P. K. (2018). Assessment of Government Internal Control Systems on Financial Reporting Quality in Ghana : A Case Study of Ghana Revenue Authority Assessment of Government Internal Control Systems on Financial Reporting Quality in Ghana : A Case Study of Ghana Revenue A. *International Journal of Economics and Finance*, 10(11), 40-50. <https://doi.org/10.5539/ijef.v10n11p40>

- Coso. 2002. (<http://www.bursa-investasi.tripod.com.id>),di akses 2 Maret 2011
- Furqan, A. C., Wardhani, R., Martani, D., & Setyaningrum, D. (2020). The effect of audit findings and audit recommendation follow-up on the financial report and public service quality in Indonesia. *International Journal of Public Sector Management*. Vol. 33 No.5, hal. 535-559
- Indrayani & Widiastuti, 2020. Pengaruh Sitem Akuntansi Keuangan Daerah, Pemanfaatan Teknologi Informasi, Komitmen Organisasi Terhadap Kualitas Informasi Laporan Keuangan Pemerintah Daerah Kabupaten Lombok Tengah. *Jurnal Reviu Akuntansi dan Bisnis Indonesia*, Prodi Akuntansi Fakultas Ekonomi dan Bisnis Universitas Muhammadiyah Yogyakarta. Vol 4, No. 1
- Jensen & Meckling. 1976. The Theory of The Firm: Manajerial Behaviour, Agency Cost, and Ownership Structure, *Journal of Financial and Economics*, 3:305-360
- Mardiasmo. (2009). *Akuntansi Sektor Publik edisi kedua*. Yogyakarta: Andi Yogyakarta.
- Nurillah & Muid. 2014. Pengaruh Kompetensi Sumber Daya Manusia, Penerapan Sistem Akuntansi Keuangan Daerah (SAKD), Pemanfaatan Teknologi Informasi, Dan Sistem Pengendalian Intern Terhadap Kualitas Laporan Keuangan Pemerintah Daerah (Studi Empiris Pada SKPD Kota Depok). *Diponegoro Journal of Accounting*, Jurusan Akuntansi Fakultas Ekonomika dan Bisnis Universitas Diponegoro. Vol. 2, No. 3, Hal. 200-212.
- Republik Indonesia, Undang-Undang Nomor 17 Tahun 2003 tentang Keuangan Negara
-----, Undang-Undang Nomor 23 Tahun 2014 tentang Pemerintah Daerah
-----, Peraturan Pemerintah Nomor 60 Tahun 2008 tentang Sistem Pengendalian Intern Pemerintah
-----, Peraturan Pemerintah Nomor 71 Tahun 2010 tentang Standar Akuntansi Pemerintahan
-----, Peraturan Pemerintah Nomor 12 Tahun 2019 tentang Pengelolaan Keuangan Daerah
-----, Peraturan Menteri Dalam Negeri Nomor 77 Tahun 2020 tentang pedoman teknis pengelolaan keuangan daerah
-----, Keputusan Kepala BKN, 2003. Nomor 46A tahun 2013 tentang Pedoman Penyusunan Standar Kompetensi Jabatan Struktural Pegawai Negeri Sipil
- Spencer, Lyle M. & Spencer, Signe M. 1993. *Competence at Work: Models for Superior Performance*. New York.
- Sugiyono, 2015. *Metode Penelitian Kuantitatif, Kualitatif, R dan D*. Bandung: Penerbit Alfabeta
- Wilkinson, J. W., Cerullo, M. J., Raval, V., and Wong-On-Wing, B. 2000. *Accounting Information System: Essential Concepts and Applications*. New York: John Wiley & Sons. Inc.