

# The Effect of Internal Controlling System, Government Accounting Standard and the Accomplishment of Audit Findings on the Quality of Financial Statement

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**Abstract:** *This research is aimed at obtaining empirical proofs regarding the effect of Internal Controlling System, Government Accounting Standard and the accomplishment of audit findings on The Quality of Financial Statement. The research population is all of The Head of Finance Sub Office of The Regional Apparatus at The Government of Bekasi City. The sample method used is census sample technique. The research result shows that the application of the Internal Controlling System has an effect on the quality of Financial Statement, the application of the Government Accounting Standard has an effect on the quality of the Financial Statement while the accomplishment of audit findings doesn't have any effect on the quality of the Financial Statement.*

**Keywords:** Internal Controlling System, Government Accounting Standard, The Accomplishment of Audit Findings, The Quality of Financial Statement

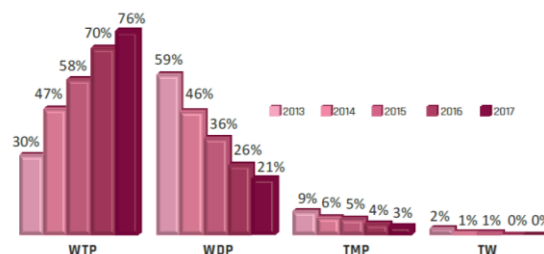
## 1. Introduction

Law Number 17 Year 2003 regarding State Finance states that one of the real efforts to realize the transparency and accountability in managing state finance shall be the submittance of the Government Financial Accountability Statement meeting the principle of punctuality and arranged according to the Government Accounting Standard. As the consequences, the government shall be required to arrange a financial statement as a responsibility of the implementation of APBN/APBD. Law Number 1 Year 2004 regarding State Treasury states that a government financial statement shall be generated by accounting processes. The financial statement shall be submitted to DPR/DPRD no later than 6 (six) months after the concerned budgeting year terminates and previously verified by Financial Verification Board (BPK).

The verification of the financial statement results in the form of opinion. The opinion is a professional statement given by the verifactor concerning the reasonable information provided in the financial statement based on the suitability of the Government Accounting Standard, adequate disclosure, obedience of the law regulation and the effectiveness of the Internal Controlling System. There are 4 (four) opinions given by BPK, namely unqualified opinion, qualified opinion, adversed opinion, and disclaimer of opinion.

The presentation of the reasonable financial statement is a result of the better financial management. The BPK audit's result towards LKPD shows the quality of its financial statement. The BPK publication in IHPS I Year 2018 states that until LKPD Year 2017, the number of the regional government who had qualified opinion reached 411 (76%) out of 542 regional government of provinces/ regencies/ cities who were required to arrange financial statements Year 2017.

Seeing that the phenomenon of LKPD's opinion had improved within the past 5 years and concerning that since 2015 all of the statement entities are required to apply accruals basis, it is interesting to further review the factors influencing the quality of financial statement. Within the past 5 years (2013-2017), the LKPD's opinion had improved. In such period, LKPD which had qualified opinion increased as much as 46 point percent, namely from 30% of LKPD 2013 to 76% of LKPD 2017. The improvement for the past 5 years can be seen on picture 1.



**Picture 1:** The Improvement of LKPD's Opinions Year 2013-2017

Based on the BPK publication in IHPS I Year 2018, it is stated that LKPD which hasn't had qualified opinion, it is because there were some account presented in the financial statement wasn't in line with the Government Accounting Standard. BPK also found cases of the weakness of the Internal Controlling System as one of the causing factors of not having the qualified opinion. Furthermore, the accomplishment of the follow up under the recommendation of the BPK's verification result hasn't been optimal yet.

LKPD of Bekasi City in 2010 had a disclaimer opinion, WDP's opinion had been obtained from 2011 to 2014, in the meantime, within the past 3 (three) years namely 2015, 2016, and 2017, LKPD of Bekasi City had qualified opinion. On 30<sup>th</sup> May 2017, the government of Bekasi City got a reward of the accomplishment in implementing SPIP of level two

maturity on the scale of one until five since Bekasi City got the first rank based on the assessment result of maturity level of the SPIP implementation in Regency/City of West Java Province in 2017 so that Bekasi City becomes the destination to do a comparative study for other regional government. However, based on the review of the monitoring result of the follow up of the BPK's verification at the Bekasi City Government from 2005 to 2018, it was found that there was 20,71 % of unfollowed up recommendation in accordance with the recommendation, this indicated that there were problems in accomplishing audit findings.

In relation to the effect of the implementation of the Internal Controlling System on the quality of financial statements, the research result conducted by Lakis and Giriunas (2012), Indriasih and Koeswayo (2014), Yusniyar et al. (2016), Kewo and Afiah (2017), Chodijah and Hidayah (2018), Agung and Gayatri (2018) stated that the implementation of the Internal Controlling System had an effect on the quality of financial statement. Meanwhile, the research result conducted by Setiyawati (2013), Budiawan and Purnomo (2014), Marsdenia (2016), Arfan et al. (2016), Nurlis and Yadiati (2017) proved that the implementation of the Internal Controlling System didn't have any affect on the quality of financial statement.

The research conducted by Juwita (2013), Saputra (2015), Nugraeni and Budiantara (2015), Arfan et al. (2016), Oktarina et al. (2016), Djalil et al. (2017) showed that the implementation of Government Accounting Standard had an effect on the quality of financial statement. However, the research result conducted by Inapty and Martiningsih (2016) and Sari et al. (2016) stated that the implementation of Government Accounting Standard didn't have any effect on the quality of financial statement.

The research conducted by Sari (2012), Wulandari and Bandi (2015), Tresnawati and Apandi (2016) showed that the accomplishment of audit findings had an effect on the quality of financial statement. Meanwhile, different results shown by Nurdiono et al. (2015) empirically proved that the accomplishment of audit findings didn't have any effect on the quality of financial statement.

The previous inconsistent research results encourage the researcher to conduct the same research of those variables with different condition, time, and object research. Based on the aforementioned background, the researcher is going to review the effect of the implementation of the Internal Controlling System on the quality of financial statement, the effect of the implementation of the Government Accounting Standard on the quality of the financial statement, and the effect of the accomplishment of the audit findings on the quality of financial statement.

## 2. Literature Review

### Internal Controlling System

Definition of internal control according to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal control-integrated framework: the

"2013 framework" quoted by Yadiati and Mubarak (2017: 106), Internal control is a process, effected by entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives for operations, reporting and compliance. According to the Government Regulation Number 60 Year 2008 regarding the Government Internal Controlling System (SPIP), the Internal Controlling System is an integrated process of actions and activities continuously conducted by a leader and all employees to give adequate assurance of the accomplished goal of the organization through effective and efficient activities, accountable financial statement, state assets safety, and compliance of the law regulation.

### Government Accounting Standard

According to Mahmudi (2016: 271-272) Government Accounting Standard contains accounting principles implemented in arranging and presenting financial statement at government organization. The Government Regulation Number 71 Year 2010 states that accounting principles and financial statement are intended as a provision understood and obeyed by standard makers in arranging accounting standard by accounting administrators and financial statement in conducting their activities, as well as by financial statement users in understanding the presented financial statement.

### Accomplishment of Audit Findings

Bastian (2014: 15) explains that the great benefits taken from the verification isn't laid on the reported verification findings or the recommendation given, but it lies on the effectiveness of the accomplishment used by the verified entity. The verified management shall be responsible to follow up the recommendation as well as creating and maintaining a process and information system to monitor the follow up status of the recommendation of the intended verification result.

### Quality of Financial Statement

Siregar (2017: 112) states that the qualitative characteristics of a financial statement is normative measurement that is necessary to be realized in accounting information so that a purpose can be reached. There are four qualitative characteristics of financial statement: (a) relevant, namely information that has benefits of feedback, prediction, punctually presented, and complete; (b) reliable, namely information that is honestly presented, able to be verified, and neutral; (c) comparable, namely financial statement can be presented among periods and among government units; and (d) understandable, namely information stated in the form and terms understood by users.

### Hypothesis

#### The Effect of the Implementation of Internal Controlling System on the Quality of Financial Statement

The implementation of good internal control can give adequate assurance that a particular purpose such as financial statement accountability can be reached as well as can reduce fraud risks and remove.

H1: There is an effect of the implementation of Internal Controlling System on the quality of financial statement.

### The Effect of the Implementation of Government Accounting Standard on the Quality of Financial Statement

Government Accounting Standard is a requirement that has a legal stand in the effort to improve the quality of government financial statement in Indonesia.

H2: There is an effect of the implementation of Government Accounting Standard on the quality of financial statement.

### The Effect of the Accomplishment of Audit Findings on the Quality of Financial Statement

Monitoring of follow-up of recommendation of a verification result is a part of BPK's effort to encourage improvement of management and responsibility for State Finance.

H3: There is an effect of the accomplishment of audit findings on the quality of financial statement.

### Research Metodology

The research population is all of The Head of Finance Sub Office of The Regional Apparatus at The Government of Bekasi City. The sample method used is census sample technique.

## 3. Result

### Description of the Implementation of Internal Controlling System

The implementation of Internal Controlling System consists of 5 dimensions the average score of the lowest dimension lies on information and communication namely 4.10 with deviation standard of 0.39 meaning that based on the perception of ASN (State Civil Apparatus), it can be said that they on average pretty understand that communication about information is required to be used effectively in the right form and time as well as be updated continuously, meanwhile the average score of the highest dimension lies on the controlling activities namely 4.37 with deviation standard of 0.58 meaning that based on ASN's perception, it can be said that they have understood that the controlling activities is conducted in order to reach organization goals started from planning, implementing, supervising to responsibility as well as orderly conducted.

**Table 1:** Description of The Implementation of Internal Controlling System

No	Dimension	Average	Deviation Standard
1	Control Environment	4.36	0.57
2	Risk Assessment	4.15	0.48
3	Control Activities	4.37	0.58
4	Information And Communication	4.10	0.39
5	Monitoring of Internal Controls	4.14	0.45
Average Score		4.28	0.52

### Description of the Implementation of Government Accounting Standard

The implementation of Government Accounting Standard consists of 8 dimensions with the average score of lowest dimension lies on complete disclosure namely as much as 4.32 with deviation standard of 0.47 meaning that based on the ASN's perception, they on average pretty understand that financial statement has completely presented information

required by its users to make a decision, meanwhile the average score of the highest dimension lies on accounting basis namely 4.60 with deviation standard of 0.49 meaning that based on ASN's perception, it can be said that they have understood that accrual basis is accounting basis used in the government financial statement for the recognition of LO-income, LO-expenses, assets, liabilities, and equity meanwhile the recognition of income, expense and financing were arranged based on cash basis.

**Table 2:** Description of Implementation of Government Accounting Standard

No	Dimension	Average	Deviation Standard
1	Accounting Basis	4.60	0.49
2	Historical Value	4.40	0.49
3	Realization	4.47	0.50
4	Substance over form	4.36	0.52
5	Periodicity	4.38	0.49
6	Consistency	4.34	0.47
7	Full Disclosure	4.32	0.47
8	Reasonable Presentation	4.45	0.50
Average Score		4.41	0.49

### Description of the Accomplishment of Audit Findings

The accomplishment of audit findings consists of 2 dimensions with the average score of the lowest dimension of verification results towards a compliance of law regulation namely 4.29 with deviation standard of 0.57 meaning that entities' perception or State Civil Apparatus (ASN) verified mostly haven't followed up completely the BPK's recommendation comprising of regional loss, a potential of regional loss, lack of revenue, as well as administrative distortion while the average score of the highest dimension of Internal Controlling System is 4.35 with deviation standard of 0.51 meaning that entities' perception or ASN verified mostly have finished the follow up of BPK's verification results particularly regarding the weakness of Regional Expenditure Budget (APBD)'s implementation and the weakness of internal controlling structure.

**Table 3:** Description of The Accomplishment of Audit Findings

No	Dimension	Average	Deviation Standard
1	The follow-up of the verification result of the Internal Controlling System	4.35	0.51
2	The follow-up of the verification result of the compliance of law regulation	4.29	0.57
Average Score		4.32	0.55

### Description of the Quality of the Financial Statement

The quality of financial statement consists of 4 dimensions with the with the average score of the lowest dimension of relevant namely 4.29 with deviation standard of 0.47, meaning that entities' perception or State Civil Apparatus (ASN) is sufficient to understand that the information contained in financial statements can influence users in decision making, predict the future, and help him to evaluate past events while while the average score of the highest dimension of 4.56 with deviation standard of 0.46 meaning that entities' perception or State Civil Apparatus (ASN) is has understood that the information in the financial statement

has presented each transaction honest, verifiable and not in favor of the needs of certain parties.

**Table 4:** Description of The Quality of Financial Statement

No	Dimension	Average	Deviation Standard
1	Relevant	4.39	0.47
2	Reliable	4.56	0.46
3	Comparable	4.45	0.50
4	Understandable	4.40	0.49
Average Score		4.43	0.47

### Validity Test

Based on output from the SmartPLS, the score of loading factor for all indicators has fulfilled convergent validity namely more than 0.5 so that it can be said that those indicators are valid.

### Reliability Test

Based on output from SmartPLS, all off research variables have composite reliability above 0.6 and cronbach's alpha above 0.6 so that it can be concluded that indicators used in the respective variable have a good reliability or can measure its construct.

### Evaluation of Goodness of Fit (Inner Model)

Evaluation of goodness of fit of structural model was measured by using predictive-relevance ( $Q^2$ ) scores.  $R^2$  is a determination coefficient which is a part of a total variation in a dependent variable explained by a variation in the independent variable. Score  $R^2$  for the variable of the quality of financial statement is 0.582 meaning that the variable of the quality of financial statement can be explained by a variable of the implementation of Internal Controlling System, the implementation of Government Accounting Standard, the accomplishment of audit findings as much as 58,2% while the rest is 41,8% is influenced by other variables excluded in the research model. Score  $Q^2$  of 0.582 means that this research model has a good predictive score so that it can be used for testing hypothesis.

**Table 5:** R-Square

Variable	R Square
The Quality of Financial Statement (Y)	0.582
Predictive-Relevance ( $Q^2$ )	0.582

### Hypothesis Testing

**Table 6:** Path Coefficient Score

Relationship among Variables	Parameter Coefficient	T Statistic	P Value
PSPI -> KLK	0.356	3.153	0.001
PSAP -> KLK	0.598	4.834	0.000
PTA -> KLK	-0.138	1.219	0.112

Path parameter coefficient obtained from the effect of the variable of the implementation of Internal Controlling System on the quality of financial statement in the amount of 0.356 with the  $T_{statistics}$  score of 3.153 > 1.660 at significance level of  $\alpha = 0.05$  states that there is an effect of the implementation of the Internal Controlling System on the quality of financial statement. The research results support the first hypothesis (H1) that there is an effect of the

implementation of the Internal Controlling System on the quality of financial statement. The implementation of Internal Controlling System significantly effects the quality of financial statement. The effect direction is positive, meaning that the more effective the implementation of Internal Controlling System at a government institution, the better the quality of financial statement. The implementation of Internal Controlling System in the activities of government institutions can give adequate assurance to reach determined goals, that is, generating accountable financial statement.

Path parameter coefficient obtained from the effect of the variable of the implementation of Government Accounting Standard on the quality of financial statement in the amount of 0.598 with  $T_{statistics}$  score of 4.834 > 1.660 at significance level of  $\alpha = 0.05$  states that there is an effect of the implementation of Government Accounting Standard on the quality of financial statement. This research result supports the second hypothesis (H2) that there is an effect of the implementation of Government Accounting Standard on the quality of financial statement. The implementation of Government Accounting Standard significantly effects the quality of financial statement. The effect direction is positive, meaning that the more optimal the implementation of Government Accounting Standard at a government institution, the better the quality of financial statement. Government Accounting Standard is a guidance required to be applied in arranging and presenting government financial statement, both central government and regional government in order to improve the quality of financial statement since Government Accounting Standard manages time to recognize, measure, report, and reveal a transaction or an account in the financial statement so that the understanding and implementation of Government Accounting Standard in accordance with the fulfillment of the requirement to submit financial accountability statement become a determinant of the quality of the generated financial statement.

Path parameter coefficient obtained from the effect of the variable of the accomplishment of audit findings on the quality of financial statement in the amount of -0.138 with  $T_{statistics}$  score of 1.219 < 1.660 at the significance level of  $\alpha = 0.05$  states that there is no effect of the accomplishment of audit findings on the quality of financial statement. This research result doesn't support the third hypothesis (H3) that there is no effect of the accomplishment of audit findings on the quality of financial statement. This means that the higher the accomplishment of audit findings at a government institution may not make the quality of financial statement gets better. BPK's initiative regarding recommendation in the effort of improving financial management and accountability hasn't evidently been followed up factually and thoroughly by the verified authorities in accordance with BPK's recommendation. If the old BPK's recommendation hasn't been followed up, there will be new recommendation of the following verification result so that the number of unfollowed up BPK's recommendation is high. The effort to accomplish the audit findings take a very long time particularly the findings that hasn't immediately been followed up. It is suggested that the verified entities or ASN immediately give good responses by giving fast and right

answers or explanations of every BPK's recommendation. The weaknesses of the accomplishment of the audit findings won't merely make BPK assume that the quality of the entities's financial report isn't good as long as the entities are able to show the progress of the follow up of BPK's verification even though weaknesses are still found in the process of the accomplishment of audit findings.

4. Conclusion

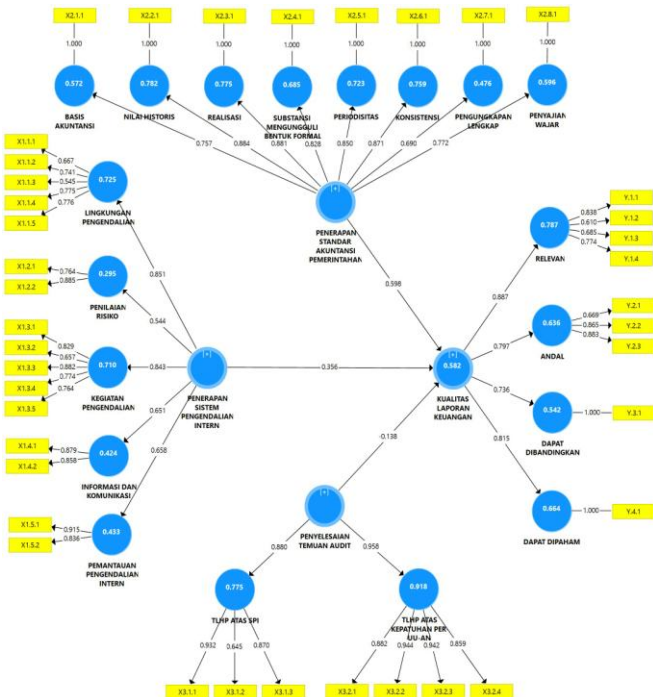
Based on the aforementioned discussion, it can be concluded that:

- 1) The implementation of Internal Controlling System has an effect on the quality of financial statement. The effectiveness of the implementation of Internal Controlling System can prevent disobedience towards law regulations resulting in minimizing the deviation risks in the management and accountability of state finance so that the quality of financial statement is improved.
- 2) The implementation of Government Accounting Standard has an effect on the quality of financial statement. Government Accounting Standard is standard of the quality of financial statement to keep the information reasonable and accountable to present so that its implementation must be conducted optimally.
- 3) The accomplishment of audit findings doesn't have any effect on the quality of financial statement. This is because there is lack of commitment to follow up the recommendation of BPK's verification result by entities' leader and/or parties having authority to implement the recommendation of BPK's verification result. The improvement of the quality of financial statement must be followed by real action plan and commitment of concerned authority/ASN to follow up the BPK's recommendation thoroughly.

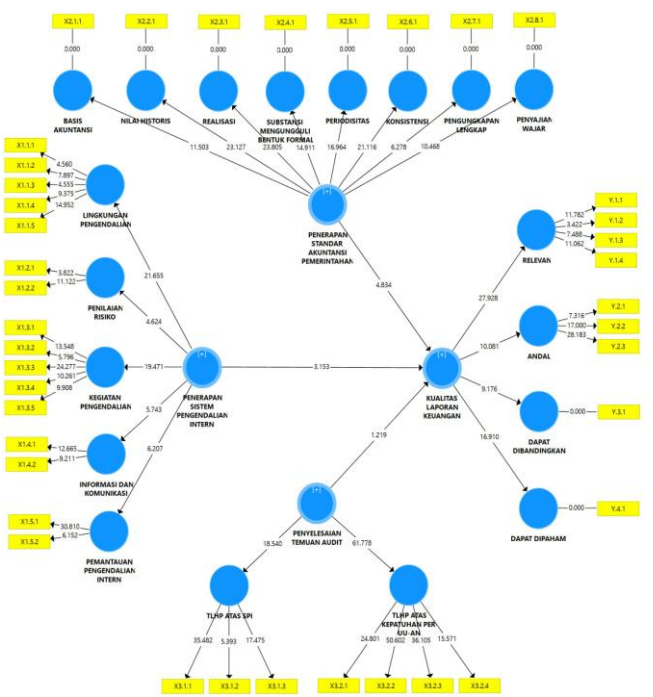
5. Suggestion

Based on the results of the aforementioned discussion and conclusion, the researcher gives the following suggestions:

- 1) All leaders of Regional Apparatus at Bekasi City Government must implement accountable and adequate Internal Controlling System in order to create accountable state financial management by evaluating and improving the implementation of SPIP.
- 2) The authority of Regional Financial Manager at Bekasi City Government must establish and facilitate the issue of regulations related to regional financial management as well as technical consultation related to the implementation of accrual based Government Accounting Standard. In order to support such things, the implementation of help desk based Government Accounting Standard must be accompanied by the efforts to synchronize various regulations both at central government and at regional government.
- 3) All leaders of Regional Apparatus at Bekasi City Government must have high commitment as well as have intensive communication with Inspectorate and BPK in following up the report of BPK's verification result, conducts a research on findings especially related to the causes of problems stated in the report of BPK's verification result, as well as makes sure all audit findings have been followed up in accordance with BPK's recommendation.



Picture 2: Research Loading Result



Picture 3: Inner Model Result

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