

CHAPTER I

INTRODUCTION

1.1 Background

In order to realize good governance, the local governments must certainly make efforts to increase transparency and accountability of regional financial management. With a good governance system, it indicates good performance from the management side to be able to produce output that is in accordance with the goals of the institution. Likewise in the government sector, every government agency is required to be able to provide clear and transparent information and accountability reports on the results of performance carried out to stakeholders, namely the community.

Various Government Regulations are made as a reference in managing its financial reports. The financial statements are also the basis for decision-making and show the reporting entity's accountability for the resources entrusted to it. The purpose of financial reporting is to present helpful information in decision-making as a means of public accountability and to provide useful information to evaluate organizational performance. According to the study (Mardiasmo, 2009), accountability is demonstrated to trusted officials by fulfilling responsibilities, as well as presenting and disclosing all responsibilities to parties with rights and authorities.

Based on study (Roviyantie, 2011) "Financial reports are a means for an entity, in this case the government to be accountable for its financial performance to the public". For this reason, local governments must be able and have the ability to present financial reports. Financial statements must present quality and accountable financial information in accordance with applicable regulations. In Government Regulation Number 71 of 2010 concerning Government Accounting Standards, it is explained that government financial reports can be said to be of high quality if the reports are relevant, reliable, understandable and comparable. By applying these

criteria in the financial reports that have been prepared and presented, local governments can realize transparency and accountability in regional financial management.

Regional financial management regulates all technical aspects covering the fields of regulation, institutions, regional financial information systems, control systems and improving the quality of human resources. The form of accountability of local governments for the implementation of development and financial management in their regions is to provide comprehensive financial-related information to the community to achieve clean and transparent government in line with the good governance paradigm.

According to the study (Sebayang, 2018), the more findings there are, the weaker the internal control system. Activities carried out in regional financial management are important to carry out in order to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations. A good internal control system will be able to produce quality financial reports and in accordance with the regulations that have been set by related parties. This is manifested in the form of financial management using the Regional Financial Management Information System (SIPKD). The implementation of SIPKD will certainly help local governments to prepare Local Government Financial Statements (LKPD).

SIPKD is an application developed by the Ministry of Home Affairs' Directorate General of Regional Finance in partnership with PT Inacon Luhur Pertiwi and PT Usadi Sistemindo Intermatika. SIPKD is an integrated application that is used by local governments as a tool to improve the effectiveness of the implementation of various regulations in the area of regional financial management based on the principles of efficiency, economy, effectiveness, transparency, accountability, and auditability. Based on Circular No. SE.900/122/BAKD, SIPKD has been used in 33 provinces and 138 selected districts/cities as attached in the circular letter.

The regional government information system facilitates personnel in performing their duties by reducing errors in the preparation of financial statements compared to those made manually. In the explanation of Government Regulation No. 56 of 2005 regarding the Financial Information System, it is stated that the central government and regional governments are required to develop and utilize information technology advances to improve the ability to manage finances and distribute information Finance to public services. This is done in order to follow up on the implementation of the development process that is in line with the principles of good governance.

The government must make the best use of information technology advancements to create a management information system network and work processes that will enable the government to operate more efficiently by optimizing access between work units. A system called the Regional Financial Management Information System is used by local governments to gather data on financial management. The regional government requires the regional financial management information system as one of its tools for assessing and monitoring the financial management of each regional apparatus organization (OPD) within the regional government. Local governments need a system that can produce financial reports and other financial information more comprehensively, including information on the regional financial position.

The e-rekon application was used by ministries and institutions to prepare financial statements starting in 2006. This application expedites financial statement consolidation, lowers the cost of financial statement preparation, lowers the amount of goods purchased, and produces trustworthy financial statements. Permendagri Number 13 of 2006 Article 225 has made provisions for the use of information technology in regional financial management. This article permits the use of computer applications in managing restricted finances in order to produce effective and efficient regional financial management information systems related to the implementation of an activity, while quality will always be linked to program performance.

During the reform era, regional financial management has evolved significantly, which has favorable implications for the transformation of the national development paradigm. This development is made possible by the decentralization of regional autonomy also known as the transfer of power from the national government to local governments which is outlined in Law Number 32 of 2004 on local governments. Enhancing public welfare is the primary objective of regional autonomy in all Indonesian local administrations. However, because this objective has not been achieved, local and national governments are being held accountable.

Article 23 of Law Number 17 of 2003 states that SAP must be followed in the preparation of the form and financial statements for the revenue and spending budgets for the central government (Anggaran Pendapatan dan Belanja Negara/APBN) and the local government (Anggaran Pendapatan dan Belanja Daerah/APBD). The standard was created by the government accounting standard committee (Committe SAP/KSAP), which also created the accrual-based government accounting standard (Government Regulation Number 71 of 2010), which replaced Government Regulation Number 24 of 2005. A financial report can be said to have an advantage if the financial report is qualitative.

The Internal Control System (SPI) is one of the legislative mandates that has to be guided and carried out in the preparation of the central government's and regional governments' financial statements. SPI gives assurance that all operations have been carried out effectively and efficiently. SPI is a management tool designed to accomplish numerous, broad objectives. The purpose of achieving this objective is to ensure adherence to the law and regulations, ensure the accuracy of financial statements and financial data, and promote the effectiveness and efficiency of government operations. The foundation of good governance and the first line of defence against inaccurate data and information used to prepare LKPD is internal control.

The government's internal control system (SPI Pemerintah/SPIP) could have an effect on the connection between the quality of local governments' financial statements and the application of the government accounting standard. When implementing government accounting standards,

control is required. Internal control procedures for the government should be able to foster an environment where organizations can produce high-quality financial reports. (Udiyanti, 2014) assert that the proficiency of the accounting team, the use of SAP, and the SPIP all affect the quality of financial statements. By adhering to and putting into practice policies in the management of regional finances, regional autonomy and governmental affairs should be fulfilled in an absolute, concurrent, and general way.

In general, cases of SPI weaknesses occur because the accountable officials or implementers did not accurately record and did not follow existing provisions and procedures. Uncertain accounting practices, careless planning, and lack of coordination are all present. Making decisions about and putting into effect policies that are inappropriate, that lack clear procedures for certain actions, and that lack adequate supervision and control. The BPK not only exposed instances of SPI's weaknesses but also local governments' failure to comply, which resulted in losses for the state.

It is stated in the government's internal control system that efficient internal control will be able to give adequate confidence in the accuracy of financial statements. One of the requirements for providing opinions is the assessment of SPI's effectiveness. SPI is deemed acceptable if its components demonstrate an interconnected control and persuade the user that the financial statements are free of material misstatement. The SPI within the entity will have an impact on the BPK's assessments of the financial statements of the concerned local government. This SPI is made to determine whether the SPI has been sufficient and to spot weaknesses. Based on the identification of the constraints above, to improve the quality of local government financial statements (LKPD), the government needs to implement or improve the Government Internal Control System (SPIP) to reduce the findings as above.

The SAP application is the aspect analyzed in this research. The studies by (Wati, 2014) reported that the application of the government accounting standards (SAP) gives a positive effect on the quality of financial statements. However, (Inapty & Martiningsih, 2016) reported the

opposite result. The different results of previous studies triggered the researchers to perform re-evaluation and add a new variable, the SPIP, as moderating variable.

Re-evaluation is necessary because one of the indicators the BPK used to form opinions is the SAP application for government accounting standards. The quality of financial statements can be indirectly impacted by the SAP, and BPK's opinion reflects the quality of the financial statements generated. As a moderating variable, the SPIP variable has been added because it is believed to strengthen the link between the effective use of SAP and the quality of financial statements. If the SPIP is put into place in accordance with Government Regulation Number 60 of 2008, with the achievement of the five elements, the contribution of SAP application to the quality of financial statements will be strengthened (control environment, risk assessment, control activities, information and communication, and monitoring).

Government financial statements are prepared and presented using the government accounting standards (SAP), which serve as the accounting foundation. The presentation of financial statements, budget realization reports, cash flow statements, notes to financial statements, inventory accounting, investment accounting, fixed asset accounting, construction in progress accounting, liability accounting, error correction, and consolidated financial statements are the first components of SAP/government accounting standards statements (Pernyataan SAP/PSAP). Poorer perception will result from financial statement preparation that does not adhere to SAP/PSAP components.

According to Government Accounting Standards, in order for accounting information to achieve its objectives, it is necessary to reflect the qualitative aspects of financial statements as normative measures. In order for government financial statements to achieve the desired level of quality, they must meet the following four normative requirements: they must be relevant, reliable, comparable, and understandable.

These four characteristics are normative requirements for government financial statements to meet the desired level of quality. The Republic of Indonesia Supreme Audit Board (BPK-RI), an external examination body, evaluates the general characteristics of the financial statements to show how well the financial management process produces quality financial statements. The BPK examination is being discussed in the context of providing an opinion as required by Law Number 15 of 2004 regarding Inspection of Management and Responsibility of State Finances. BPK also reported on the results of the Internal Control System (SPI) inspection and non-compliance with the statutory provisions.

Table 1.1 Opinion of Financial Statements

Office / Name of the city	Opinion on The Financial Statements			
	2018	2019	2020	2021
Financial and Asset Management Agency of Padang City	Classified as Unqualified (WTP)	Classified as Unqualified (WTP)	Classified as Unqualified (WTP)	Classified as Unqualified (WTP)

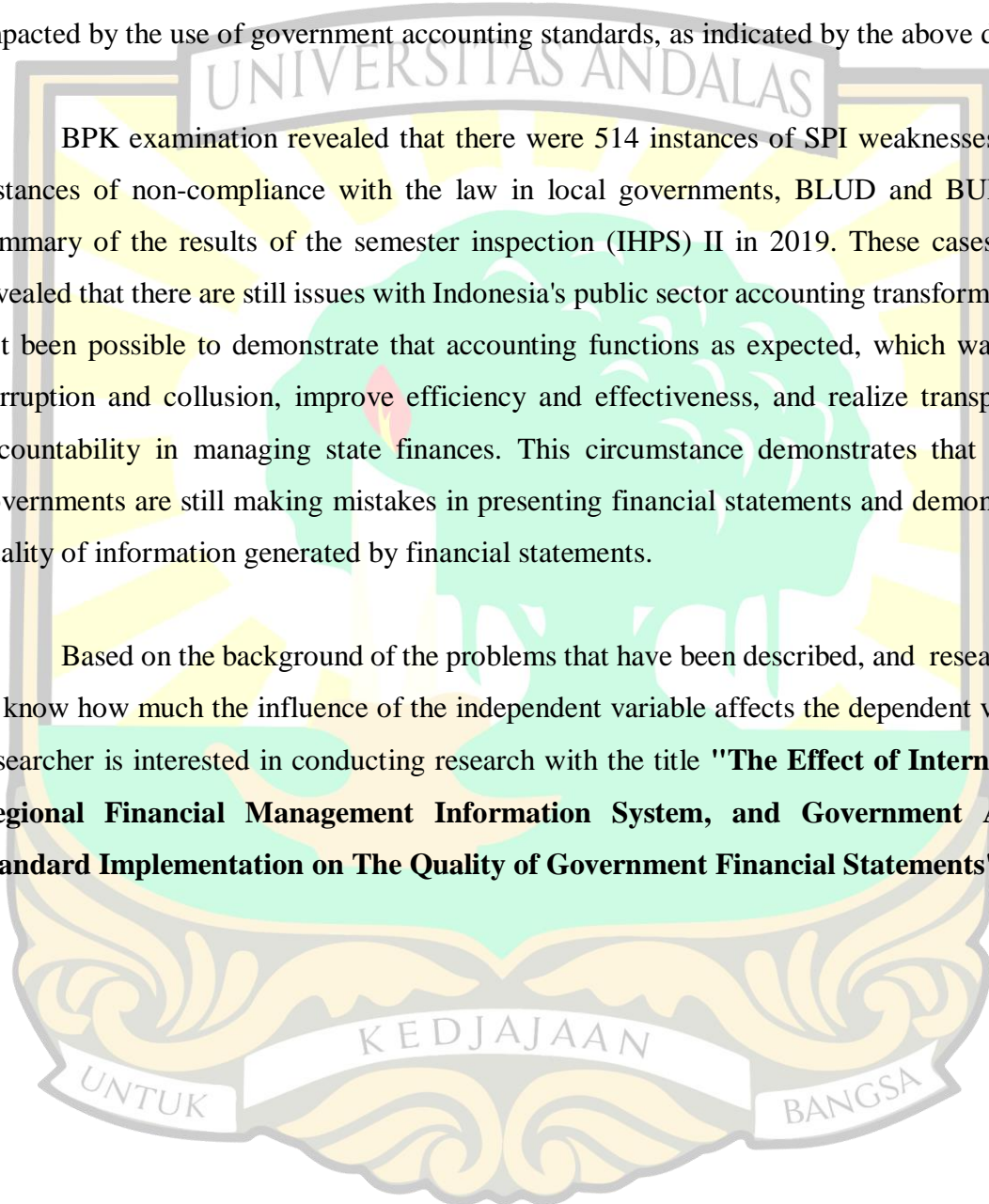
Based on the guiding principle of annual assessment by the government's supreme audit agency (Badan Pemeriksa Keuangan/BPK), which has the authority to audit management and finance and issue an opinion for consideration, a government financial statement is deemed to be of high quality. The opinions are classified as unqualified (wajar tanpa pengecualian/WTP), unqualified with explanatory paragraph (wajar tanpa pengecualian dengan paragraf penjelas/WTP-DPP), qualified (wajar dengan pengecualian/WDP), and adverse (tidak wajar/TW). The benchmarks for the unqualified (WTP) opinion are internal control system (Sistem Pengendalian Intern Pemerintah/SPIP) effectiveness, alignment with SAP, financial statement disclosure density, and compliance with statutory constitutions.

Non-compliance with the SAP is blamed for a worse opinion in the financial statements. The presentation of each financial statement account that does not adhere to SAP is the source of the non-compliance. Aspects of non-compliance in regional governments are described in detail

by BPK, and they include current assets (70), fixed assets (109), other assets (30), long-term investments (12), short-term liabilities (14), income (19), operating expenditures (47), capital expenditures (48), and operating expenditures-OR (40). The quality of financial statements is impacted by the use of government accounting standards, as indicated by the above description.

BPK examination revealed that there were 514 instances of SPI weaknesses and 1,078 instances of non-compliance with the law in local governments, BLUD and BUMD, in the summary of the results of the semester inspection (IHPS) II in 2019. These cases' discovery revealed that there are still issues with Indonesia's public sector accounting transformation. It has not been possible to demonstrate that accounting functions as expected, which was to reduce corruption and collusion, improve efficiency and effectiveness, and realize transparency and accountability in managing state finances. This circumstance demonstrates that many local governments are still making mistakes in presenting financial statements and demonstrating the quality of information generated by financial statements.

Based on the background of the problems that have been described, and researchers want to know how much the influence of the independent variable affects the dependent variable. the researcher is interested in conducting research with the title **"The Effect of Internal Control, Regional Financial Management Information System, and Government Accounting Standard Implementation on The Quality of Government Financial Statements"**.



1.2 Research Problem Formulation

Based on the background of the research above, this study intends to determine the effect of internal control and regional financial management information systems on the quality of financial statements at the Padang City Financial and Asset Management Agency. Therefore, the research problem is formulated as follows:

1. Does implementation of internal control system affect the quality of financial statements?
2. Does implementation of regional financial management information system affect the quality of financial statements?
3. Does implementation of government accounting standard affect the quality of government financial statements?

1.3 Research Objectives

Based on the formulation of the problem above, the objectives to be achieved from this research are:

1. To find out the effect of implementation internal control system on the quality of financial statements
2. To discover the effect of implementation regional financial management information system on the quality of financial statements
3. To test the effect of implementation government accounting standard on the quality of government financial statements

1.4 Research Benefits

Based on the research objectives mentioned above, this research is expected to provide benefits for interested parties. The benefits of this research are as follows:

1. For the government of Padang city

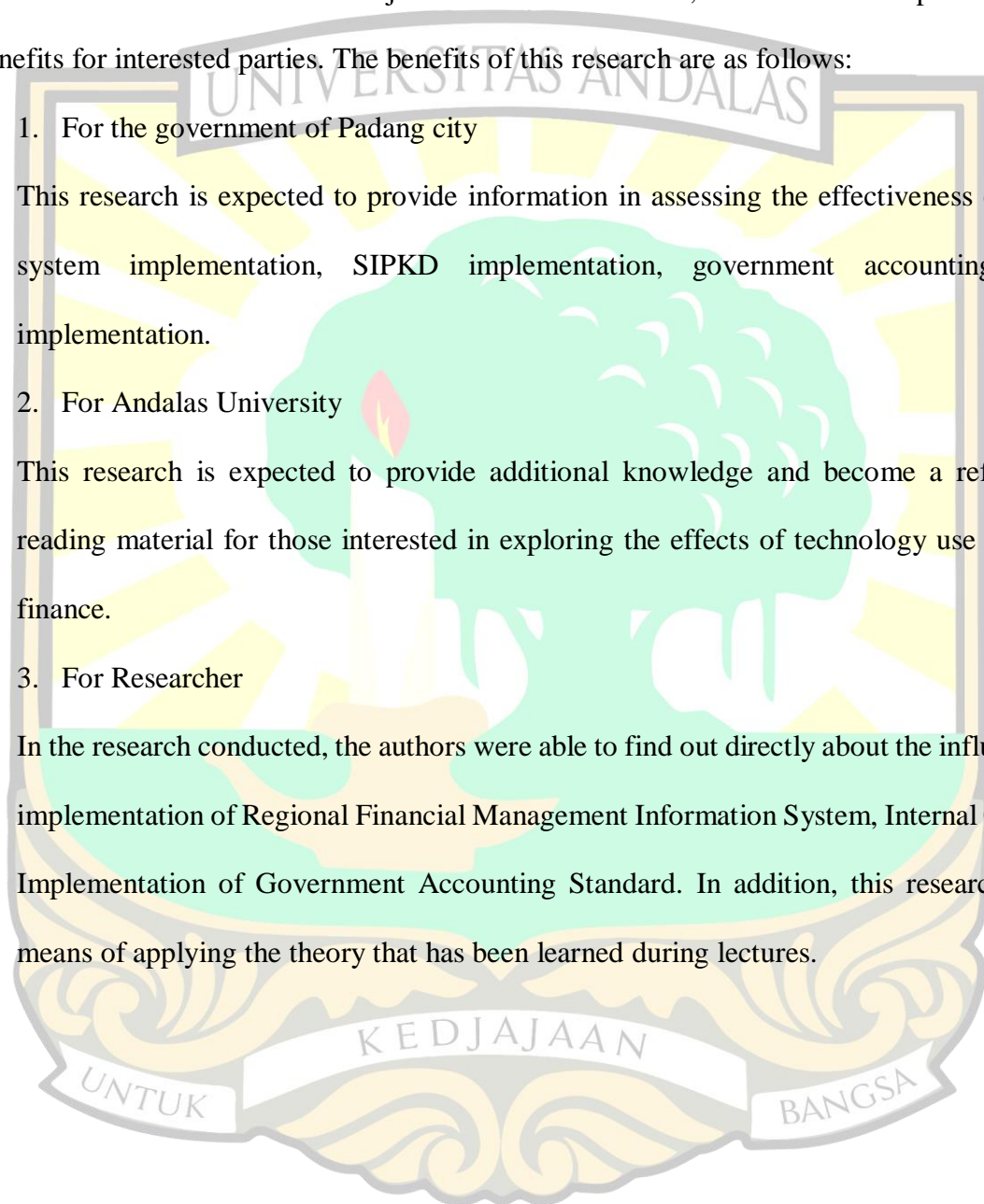
This research is expected to provide information in assessing the effectiveness of the SPIP system implementation, SIPKD implementation, government accounting standard implementation.

2. For Andalas University

This research is expected to provide additional knowledge and become a reference and reading material for those interested in exploring the effects of technology use on regional finance.

3. For Researcher

In the research conducted, the authors were able to find out directly about the influence of the implementation of Regional Financial Management Information System, Internal Control and Implementation of Government Accounting Standard. In addition, this research is also a means of applying the theory that has been learned during lectures.



1.5 Systematic Discussion

In order to provide a comprehensive overview of the contents of this thesis, it is necessary to have a systematic discussion which is classified in the form of chapters as follows:

CHAPTER I: INTRODUCTION. Contains the background of the problem, problem identification, problem definition, problem formulation, research objectives, research benefits, research schedule, and writing systematics.

CHAPTER II: THEORY BASIS. Contains theoretical studies, relevant research results, and frameworks of thinking.

CHAPTER III: RESEARCH METHOD. This chapter contains the time and area of research, research methods, variables, population and samples, data and data sources and data analysis techniques.

CHAPTER IV: RESEARCH RESULTS AND DISCUSSION. This chapter describes the results and discussion of the research conducted. This chapter will describe the general description of the research and analysis of research data calculations.

CHAPTER V: CLOSING. In this chapter which is the last chapter of the whole research which contains a description of the conclusions of the overall discussion of problem analysis and suggestions given by the author on the problems raised in the researcher.

