

# Analysis of The Implementation of Internal Control Systems That Influence the Quality of The Government Financial Statements

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**Abstract:** *Government financial statement are one of the tools of accountability in the administration of government, for that the government financial statement must reflect the transparency and accountability of government financial management so as to show quality government financial statement. This study aims to analyze the application of internal control systems, analyze the quality of government financial statements and analyze the effect of the application of internal control systems on the quality of government financial statements. The population in this study is the regional apparatus organization (OPD) in West Bandung Regency which consists of offices and agencies. Based on the results of the study concluded that the implementation of internal control systems in regional apparatus organizations (OPD) in West Bandung Regency is adequate, the financial statements of regional apparatus organization (OPD) in West Bandung Regency are quality and the application of internal control systems have an influence on the quality of government financial statement.*

**Keywords:** *Internal control system and the quality of government financial statement*

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## I. INTRODUCTION

One form of accountability in government management stipulated in Law Number 17 of 2003 concerning state finances, which explains that in creating accountability for the management of government finances and transparency both in regional and central government is to present the financial statements of accountability in the form of financial statements.

Government financial statement are used as a means of accountability in government management and as a decision-making tool, for that the government financial statement must be quality. This is consistent with the study of Van Beest et al (2009) stating the quality of financial statements will influence stakeholders in decision making. Quality government financial statement are financial reports that have specific qualitative financial data which includes a) relevant, b). reliably, c). can be compared and d). can be understood, this is already regulated in PP Number. 71 of 2010.

For three consecutive years the Republic of Indonesia Supreme Audit Board (BPK RI) gave a fair opinion with the exception (WDP) of the financial information of the local government (LKPD) of West Bandung Regency. The results of the 2017 Bandung City LKPD examination, BPK RI noted several findings related to the internal control system (SPI), including maintenance expenditures that are not supported by details and purchases of goods and

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services that are not the same as bookkeeping to vaccine inventory load without details. The existence of a case that occurred in West Bandung Regency shows that the government of West Bandung Regency still has shortcomings to produce quality local government financial reports (LKPD). BPK states that to produce quality local government financial statement, it is necessary to implement an adequate internal control system so that various irregularities, fraud, corruption and errors can be minimized so that the organization's assets are protected and can improve the quality of financial statements. Mahmudi (2016) states that the application of a good internal control system increases the effectiveness and efficiency of the organization and the quality of financial statements will increase. Cecilia et al (2017) concluded that the application of internal control had a positive effect on financial statements.

## **I. LITERATURE REVIEW**

### **2.1 Internal Control System**

According to government regulation number 8 of 2006, the internal control system is a process established by management to provide adequate confidence in achieving the level of efficiency, compliance and effectiveness stipulated by applicable laws and regulations, and the reliability of government financial statements.

The elements of the internal control system based on PP number 60 of 2008 consist of five elements, namely: 1). existence of control activities, 2). the existence of a risk assessment, 3). the control environment, 4). the existence of communication and information and 5). there is supervision

### **2.2 Quality of Government Financial Statements**

Mahmudi (2016) explains the purpose of government financial statements is to present information that is useful for decision making and show the accountability of reporting entities for resources that are trusted to them

According to PP number 71 of 2010, specific qualitative financial data are as follows; a) relation, b). reliably, c). can be compared and d). can be understood.

## **III. RESEARCH METHOD**

The explanatory method used in this study. According to Sekaran (2007) explanatory method is a study with the aim of analyzing the relationships between one variable with another variable or how a variable affects other variables.

### **3.1 Research Sample**

Respondents in this study were 18 regional government organizations (OPD) in West Bandung Regency consisting of offices and agencies with internal control units and financial departments.

The sample used in the study was a census sampling of 32 people.

### **3.2 Data Collection Techniques**

In this research for data collection techniques obtained from:

1. Primary data is a questionnaire
2. Secondary data, namely library research (library research),

## **IV. RESEARCH RESULTS AND DISCUSSION**

### **4.1 Validity Test**

Validity test were performed with the SPSS 19 Software Program (statistical product and service solutions). Validity test conducted on all items of variables X and Y produces valid, because it has a value  $\geq 0.300$  for all items of the variable.

#### **4.2 Reliability Test**

Reliability tests were performed with the SPSS 19 Software Program (statistical product and service solutions). Reliability tests conducted on all items of variables X and Y produce reliable, because it has a value of  $\geq 0.700$

#### **4.3 Implementation of Internal Control Systems**

The implementation of internal control systems in regional apparatus organizations (OPD) in West Bandung Regency is sufficient because of the five elements, namely 1). There are elements of control activities, 2). there is an element of risk assessment, 3). presence of environmental control elements, 4). there are elements of communication and information and 5). there is an element of supervision.

From the distribution of questionnaires given to 32 respondents obtained 82.1% which showed a good category, this shows that the internal control system was good. But from the control activities questionnaire regarding a transaction and an important event only authorized by people who have the authority to obtain high scores for disagreement answers as many as 3 people, this shows that the regional apparatus organization (OPD) in West Bandung Regency for transactions and important events is still not yet fully automated by those who have authority. In addition, there are restrictions on access to resources and the record gets a high score for the disagreement answer of 3 people, this shows that the regional apparatus organization (OPD) in West Bandung Regency still has no restrictions on access to resources and records.

#### **4.4 Quality of Government Financial Statements**

The government financial statement on regional apparatus organizations (OPD) in West Bandung Regency are quality because the government's financial statement include the existence of specific qualitative financial data, namely: 1) relevant, 2). reliably, 3). can be compared and 4). can be understood. This is in accordance with PP number 71 of 2010, namely specific qualitative financial data which includes the existence of; a) relevant, b). reliably, c). can be compared and d). can be understood.

The results of the distribution of questionnaires given to 32 respondents obtained 84.4% which shows a very good category, this shows that this shows that the government financial reports have quality.

#### **4.5 The Effect of the Implementation of Internal Control Systems on the Quality of Government Financial Statements**

Based on the results of the study that the t test results obtained t value of 4.784, this explains that  $t_{count} > t_{table}$  is  $4.784 > 2.0322$  which means that the application of the internal control system has an influence on the quality of government financial statements. This is in line with Mahmudi (2016) which states that the application of a good internal control system increases the effectiveness and efficiency of the organization and the quality of financial statements will increase. Tuti (2014) also Ahmad (2016) concluded in his research results that internal control had an influence on the financial information of the Regional Government.

Thus, the existence of an element of control activities, an element of risk assessment, an element of the control environment, the existence of an element of communication and information as well as the existence of an element of supervision which are indicators of the international control system have an influence on the quality of government financial statements.

## **V. SUMMARY AND SUGGESTIONS**

### **5.1 SUMMARY**

Based on the results of the study, it can be concluded that:

1) The implementation of the internal control system in the regional apparatus organization (OPD) in West Bandung Regency is sufficient because there are five elements in the implementation of the internal control system, although it still obtains high scores for answers that do not agree to control activities. But overall the implementation of the internal control system is in the good category.

2) Government financial statement on regional apparatus organizations (OPD) in West Bandung Regency are quality because they have specific qualitative financial data.

3) The application of internal control systems has an influence on the quality of government financial statement

### **5.2 SUGGESTIONS**

The advice given is as follows:

1) For regional government organizations (OPD) in West Bandung Regency, it is expected that an important transaction and event will be authorized by someone who has the authority, because from the results of the respondents' questionnaire answers, there are those who answer disagree

2) For regional government organizations (OPD) in West Bandung Regency, it is expected that there will be restrictions on access to resources and records, because from the results of the respondents' questionnaire answers there are those who answer disagree

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