

The Influence of the Implementation of Regional Government Information Systems and Internal Government Control Systems on the Quality of Financial Reporting

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Article Info	Abstract
<p>Keywords: Local Government Information System; Internal Control System of the Governmen; Financial Statement Quality</p>	<p>This study aims to (1) explain the implementation of the Regional Government Information System (SIPD), the Government Internal Control System (SPIP), and the Quality of Financial Reports (KLK); (2) assess the impact of the implementation of SIPD on KLK; and (3) assess the impact of SPIP implementation on KLK. This study utilizes the Partial Least Squares (PLS) approach within Structural Equation Modeling (SEM) using WarpPLS 8.0 software, and includes 128 respondents. The research findings show that (1) the majority of Regional Government Work Units support the implementation of SIPD and SPIP to improve KLK; (2) The implementation of SIPD significantly and positively influences KLK; and (3) the implementation of SPIP also has a significant and positive impact on KLK</p>
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1. Introduction

Law Number 17 of 2003 on State Finance establishes guidelines for accountability in government administration. This law mandates that Governors, Mayors, and Regents must submit draft regional regulations on APBD accountability to the Regional House of Representatives (DPRD). These submissions must include audited financial statements from the Supreme Audit Board (BPK) and be provided no later than six months after the end of the fiscal year.

Financial Statements (FS) must be prepared in line with government accounting standards specified in Government Regulation (PP) No. 71 of 2010. These statements provide crucial information regarding the financial position and all transactions carried out by a reporting entity during a specific period (PP 71, 2010). The components of the LKPD consist of (1) the Budget Realization Report, (2) Statement of Changes in Excess Budget Balance, (3) Balance Sheet, (4) Operating Report, (5) Cash Flow Statement, (6) Statement of Changes in Equity, and (7) Notes to the Financial Statements.

PP No. 12 of 2019 on regional financial management stipulates that local government financial reporting involves the preparation and presentation of Financial Statements by the reporting entity.. This involves consolidating financial statements from the Regional Apparatus Organizations (OPD) as the accounting entities. These Local Government Financial Statements (LKPD) must be submitted to the Supreme Audit Board (BPK) within three months after the end of the fiscal year. They serve as audit material for assessing the quality of the information included in the LKPD.

In efforts to achieve good governance, local governments must be transparent and accountable in preparing financial statements. Users of these financial statements access reports

provided by local governments. Therefore, the information contained therein must be genuinely useful to its users (Putra, 2018).

Every year, the Supreme Audit Board (BPK) evaluates the Financial Statements of Local Governments (LKPD) and issues an Opinion. An Unqualified Opinion (WTP) from the BPK signifies that a local government's financial statements are presented and disclosed fairly and with high quality (Nurillah et al., 2020). The Tojo Una-Una Regency Government has received WTP opinions ten times, yet the BPK still identifies areas for improvement, including weaknesses in internal controls and non-compliance with regulations that require attention and follow-up. Furqan et al. (2020) suggest that enhanced follow-up on audit recommendations results in improved accountability in local government financial reporting, which is demonstrated by improved audit opinions. This demonstrates that BPK audits not only review the Financial Statements but also evaluate their adherence to the Internal Control System (SPI) implemented in each local government. Effective implementation of SPI positively impacts organizational accountability (Dharma et al., 2021).

Besides the Internal Control System (SPI), Information Systems are also essential for preparing Financial Statements. Since 2008, the Tojo Una-Una Regency Government has utilized the Local Government Management Information System (SIMDA) to aid in local financial management and improve the quality of Financial Statements. However, SIMDA has been replaced by the Local Government Information System in accordance with the mandate of Law No. 23 of 2014, Article 391, which requires local governments to manage information through a local government information system. This requirement is further outlined in accordance with Minister of Home Affairs Regulation (Permendagri) No. 70 of 2019 regarding Local Government Information Systems, which stipulates that local governments must provide two types of information: Regional Development Information and Regional Financial Information.

Based on the background presented, this research will concentrate on two critical elements that are essential for enhancing the quality of Regional Government Financial Statements. The main aim is to evaluate if the deployment of the Regional Government Information System (SIPD) has a significant effect on the quality of financial statements, acknowledging the essential role that an integrated information system plays in managing regional finances. The second focus is to examine the impact of the Government Internal Control System (SPIP) on financial statement quality, as effective internal controls are deemed crucial for ensuring accountability and transparency in financial reporting. This study aims to thoroughly investigate how the implementation of SIPD and SPIP affects the quality of Regional Government Financial Statements and to provide recommendations that could enhance financial governance at the regional level.

2. Research Method

This research adopts a quantitative approach, focusing on testing theories by analyzing research variables through numerical data and statistical methods. As an explanatory research, its primary objective is to elucidate the causal relationships between the variables under investigation by testing the proposed hypotheses. The sample for this study is chosen using a non-probabilistic sampling method, specifically saturated sampling, where the entire population is used as the research sample, following the method suggested by Sugiyono (2014).

For data analysis, this study employs a verification analysis approach using the SEM (Structural Equation Modeling) statistical tool, executed through the Partial Least Square (PLS) method, with the assistance of WarpPLS 8.0 software. PLS-SEM is utilized to investigate the connections between latent variables, accounting for both linear and nonlinear relationships, using various indicators such as reflective, formative, and MIMIC types.

An information system consists of interconnected components that gather, process, store, and share information to aid in decision-making and oversight within an organization. (Laudon and Laudon, 2000). PP No. 56 of 2005 on Regional Financial Information Systems, referred to as SIKD, is a system designed for recording, managing, and processing data related to local financial

management and other relevant information. It provides data to the public and serves as a basis for decision-making in regional government planning, implementation, and accountability reporting. The Technology Acceptance Model (TAM), based on Davis's (1989) Theory of Reasoned Action, includes two essential factors: perceived usefulness and perceived ease of use, which are pertinent to information systems. These factors indicate that the implementation of an information system can impact an individual's effectiveness in performing their tasks and responsibilities (Jogiyanto, 2007:114).

The Government Internal Control System is a comprehensive control mechanism implemented in central and local government environments to achieve effective, efficient, transparent, and accountable national financial management (Ruchijat, 2010:2). The Committee of Sponsoring Organizations of the Treadway Commission (COSO) also defines internal control as a process implemented by an entity's board of directors, management, and staff. This process is designed to provide reasonable assurance of achieving objectives related to operations, ensuring the reliability of financial reporting, and adhering to relevant laws and regulations. PP No. 60 of 2008 on the Government Internal Control System defines it as an ongoing process involving actions and activities undertaken by leaders and all employees. The objectives of the Internal Control System, according to this regulation, are to offer reasonable assurance regarding the effectiveness and efficiency of national governance, the reliability of financial reporting, the protection of state assets, and adherence to laws and regulations.

Effect of the Local Government Information System on Financial Statement Quality.

According to Mardiasmo (2009:163), although financial statements are not the sole source of decision-making information, they significantly impact the quality of decisions made. This perspective is supported by Wilkinson, Cerullo, Ravaladan, and Wong (2000:18), who argue that the value and reliability of decisions can be affected by the quality of information. Key characteristics of valuable information include relevance, accuracy, timeliness, conciseness, clarity, measurability, and consistency. PP No. 71 of 2010 on Government Accounting Standards outlines the characteristics that ensure the quality of financial statements, providing accurate and accountable information. These attributes include: (1) Relevance (2) Reliability (3) Comparability (4) Understandability.

According to Permendagri No. 70 of 2019, the local government information system efficiently manages local financial data by integrating various related elements. It upholds principles of accountability and transparency in local financial management, addressing all stages from planning and execution to financial accounting and reporting.

A study by Dewi et al. (2014) revealed that the implementation of the Local Financial Management Information System (SIPKD) has a significant impact on the quality of financial statements. Likewise, Dian et al. (2018) found that the Local Government Management Information System (SIMDA) also significantly affects financial statement quality. These results are corroborated by Orlanda et al. (2018), who reported that the implementation of the Local Government Management Information System affects the quality of local government financial statements. Nasrun Naida et al. (2023) conducted a study on the impact of the SIPD on local government financial reporting. The research provided empirical evidence regarding various aspects related to the quality of regional financial reports. It also highlighted that SIPD positively influences the quality of financial statements in local government.

Applying Agency Theory, local governments can establish appropriate incentives and control mechanisms to encourage agents involved in financial statement preparation to act in good faith and provide accurate financial information. Additionally, by understanding the factors influencing the acceptance and use of the local government information system based on TAM, local governments can identify and address barriers to system use, thereby improving the quality of the generated financial statements.

H1: SIPD (X1) affects KLK (Y).

Effect of the Government Internal Control System on Financial Statement Quality

PP No. 60 of 2008 on the Government Internal Control System states that the purpose of SPIP is to offer reasonable assurance regarding the effectiveness and efficiency of national governance, the reliability of financial reporting, the protection of state assets, and adherence to laws and regulations. By applying COSO principles within SPIP, the government can ensure that strong internal controls are in place, supporting high-quality financial statements. Effective SPIP reduces the risk of errors and mismanagement in financial reporting, thereby enhancing stakeholders' trust in the financial information provided by the government.

The Government Internal Control System has a beneficial effect on the quality of local government financial statements (Indrayani et al., 2020). This finding aligns with Orlanda et al. (2020), who also argue that the internal control system influences the quality of financial statements. Additionally, Nurillah et al. (2014) and Agbenyo (2018) have found that the internal control system positively impacts the quality of financial statements.

Local governments are obligated to control activities related to local government financial management by implementing a sound Government Internal Control System. Consequently, local financial management adheres to procedures and regulations, generating financial statements of high quality.

H2: SPIP (X2) influences KLK (Y).

3. Results and Discussions

This research was conducted within the Tojo Una-Una Regency Government with a total of 128 respondents. Questionnaires were distributed to all Organisasi Perangkat Daerah (OPD) within the Tojo Una-Una Regency using Google Forms. Descriptive analysis is calculated by evaluating the percentage of respondents' answers to the research statements, using the average mean value of each indicator to reflect the overall perception of the respondents. For further clarification, it can be detailed as follows:

Table 1. Summary Analysis

Variabel	Obs	Minimum	Maximum	Mean	Std. Deviation
SIPD (X1)	128	4.22	4.52	4.40	0.08
SPIP (X2)	128	4.00	4.37	4.19	0.12
KLK (Y)	128	4.32	4.48	4.38	0.05

After the Combined Loadings and Cross-Loadings data meet the criteria, the next step in evaluating convergent validity is to check the AVE (Average Variance Extracted) values. AVE is used to assess convergent validity, and the requirement is that AVE must be greater than 0.50. The AVE values for each construct are listed in the table below:

Table 2. Latent Coefficients Output

Variabel	Avg. Var.Extrac (AVE)
SIPD (X1)	0.574
SPIP (X2)	0.519
KLK (Y)	0.617

Based on these results, the three constructs have met the criteria for convergent validity. SIPD has an AVE value of 0.574 (> 0.50), SPIP has an AVE value of 0.519 (> 0.50), and KLK has an AVE value of 0.617 (> 0.50). Therefore, all variables have satisfied the convergent validity criteria.

The subsequent step involves testing construct reliability, which can be evaluated using two measures: composite reliability and Cronbach's alpha. A composite reliability value above 0.8 signifies high reliability. Additionally, the Average Variance Extracted (AVE) should exceed 0.5, and Cronbach's alpha must be greater than 0.6 for all constructs to be deemed reliable.

Table 3. Composite Reliability and Cronbach's Alpha

Variabel	<i>Composite Reliability</i>	<i>Cronbach's alpha</i>
SIPD (X1)	0.930	0.915
SPIP (X2)	0.922	0.906
KLK (Y)	0.947	0.938

According to the table above, all three constructs meet the reliability criteria. SIPD shows a composite reliability of 0.930 (exceeding 0.70) and a Cronbach's alpha of 0.915 (above 0.60). SPIP has a composite reliability of 0.922 (greater than 0.70) and a Cronbach's alpha of 0.906 (above 0.60). KLK demonstrates a composite reliability of 0.947 (above 0.70) and a Cronbach's alpha of 0.938 (exceeding 0.60). Therefore, it can be concluded that all constructs meet the reliability standards, with composite reliability values above 0.70 and Cronbach's alpha values above 0.60, which are the recommended benchmarks.

The results of the structural model (Inner Model) evaluation include model fit testing, path coefficients, and R². To determine if a model is considered fit in the Warp PLS 8.0 program, the model must meet the model fit criteria. Thus, the inner model can be accepted. The following is the image of Structural Equation Model.

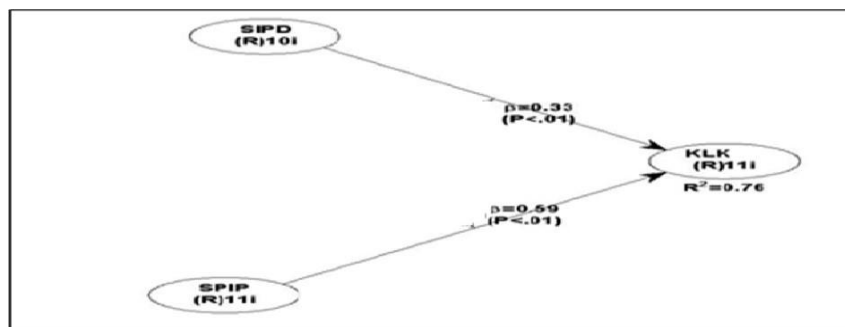


Figure 1. Full Structural Equation Model

Hypothesis testing in this study is designed to validate the research assumptions or hypotheses proposed. To evaluate the relationships between constructs, path coefficients and significance levels are utilized, with a significance level set at 5%. The data output, including path coefficients and p-values, is derived from the analysis for Hypothesis Testing 1 (H1) and Hypothesis Testing 2 (H2). This testing examines direct effects, which are detailed in the table below, depicting the results of the analysis of direct effects between the variables examined.

Table 4. Results of Path Coefficients for the Direct Effect Model

Variabel	Path coefficients	P value	Description
SIPD → KLK	0.328	0.001	Accepted
SPIP → KLK	0.586	0.001	Accepted

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Hypothesis Testing 1 (H1), which proposes that the Regional Government Information System positively and significantly affects the quality of Regional Government Financial Reports,

is confirmed and validated. This conclusion is supported by the output path coefficients and p-values, which provide the estimated results for the path coefficient and p-value. The test results indicate a path coefficient value of 0.328 for the effect of the Regional Government Information System on the quality of Regional Government Financial Reports, with a significance level of 0.001, which is less than the 0.05 threshold. Therefore, the hypothesis is accepted.

These findings are consistent with earlier research by Dewi et al. (2014), which showed that more effective implementation of the Regional Financial Management Information System (SIPKD) improves the quality of financial reports, as evidenced by BPK audit opinions. Similarly, Dian et al. (2018) discovered that the implementation of SIMDA has a significant impact on the quality of regional government financial reports.

In conclusion, the study finds that the implementation of the Regional Financial Information System positively and significantly impacts the quality of financial reports, suggesting that effective implementation of SIPD can improve the quality of financial reporting in regions.

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Hypothesis Testing 2 (H2), The conclusion, which indicates that the Government Internal Control System positively and significantly affects the quality of Regional Government Financial Reports, is both accepted and confirmed. This finding is supported by the path coefficients and p-values, which show an estimated path coefficient of 0.586 and a p-value of 0.001, below the 0.05 threshold, thereby validating the hypothesis.

These findings are consistent with prior research by Indrayani et al. (2020), which examined the impact of the Internal Control System on the quality of Government Financial Reports. Their study showed that the Internal Control System positively affects the quality of Regional Government Financial Reports. Similarly, Orlanda et al. (2020) found that the Internal Control System has a significant effect on financial report quality. Nasrun Naida (2024) found that the implementation of SPIP plays a crucial role in enhancing the quality of government financial reports, and this effect is both positive and significant.

This research underscores the critical role of implementing the Government Internal Control System (SPIP) in improving the quality of government financial reports. The findings clearly demonstrate that SPIP has a significant and positive effect on the accuracy and reliability of these reports. This enhancement in quality is crucial for ensuring transparency and accountability in governmental financial management.

4. Conclusions

This study offers empirical evidence on several factors influencing the quality of local government financial reports. It concludes that the local government information system has a positive and significant effect on the quality of these reports. Additionally, the SPIP also contributes positively and significantly to improving report quality. The study suggests that local government agencies and OPDs should maximize the use of information technology, particularly in implementing the SPD, to improve and maintain high-quality financial reports. Additionally, it is recommended to enhance the quality of human resources by improving the competence and character of State Civil Apparatus through guidance and training in regional financial management to support the effective and efficient implementation of SIPD and SPIP.

For future research, it is recommended to carry out similar case studies that incorporate leadership commitment as a moderating variable. Leadership commitment might affect the effectiveness of SIPD and SPIP implementation, as well as the quality of financial reports. Including this variable in future studies could provide more comprehensive insights.

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