

THE EFFECT OF GOVERNMENT INTERNAL CONTROL SYSTEM IMPLEMENTATION AND THE ROLE OF THE GOVERNMENT INTERNAL CONTROL APPARATUS ON FINANCIAL STATEMENTS QUALITY OF AUDIT BOARD OF INDONESIA

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Abstract – This research analyzes the influence of the implementation of the Government Internal Control System and the Role of the Government Internal Control Apparatus on the quality of financial statements of The Audit Board of Indonesia. The research method uses SEM analysis to determine the magnitude of the influence of the implementation of GICS and the role of Internal Control Apparatus in the Audit Board of Indonesia on the quality of financial statements. The results of the analysis show that the influence of each GICS implementation and the role of Internal Control Apparatus are positive and significant to the quality of financial statements of Audit Board of Indonesia.

Purpose – This study aims to measure the effect of GICS implementation and the Role of the Government Internal Control Apparatus on the quality of financial statements of The Audit Board of Indonesia.

Design / Methodology / Approach – Empirical study. The study subjects were Audit Board of Indonesia, Primary Data obtained through questionnaire, while Secondary Data through other research, rules and laws, and related books. Results from the data above are then analyzed using Quantitative Methods.

Findings – this study shows that GICS implementation and the role of internal control apparatus have positive influence on the financial statements of Audit Board of Indonesia.

Research Limitations / Implications – The results of this study only shows the GICS implementation and role of Internal Control Apparatus as influencing factors to the quality of financial statement, as there can be other factors.

Originality / Value – This study provides description of GICS, Internal Control Apparatus, and financial statements quality at the Audit Board of Indonesia.

Keywords: Government Internal Control System, Internal Control Apparatus, Financial Statements Quality.

Paper Type – Research Paper

1. Introduction

In the last 9 years (2009-2018), the Audit Board of Indonesia (BPK) received Unqualified Opinion for financial statements. Audit Board of Indonesia as the Government's external auditor is audited by the Public Accounting Firm (KAP) appointed by the House of Representatives (DPR). The opinion on the Financial Report at the highest level continuously shows that Audit Board of Indonesia able to carry out financial management of the budget and present it in a financial report in accordance with the standards. A financial report is considered high quality when the financial statements present the truth and naturally the financial position and performance of a company according to generally accepted accounting standards (Peecher, 2002).

COSO (2013) defines Internal Control as a process that is influenced by the leadership of the entity, namely the board of directors, management, other personnel, which is designed to provide adequate assurance regarding the achievement of objectives in the fields of operations, reporting, and compliance. According to the Government

Regulation of the Republic of Indonesia Number 60 of 2008 states that the Internal Control System is an integral process in actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. Government Internal Control System (SPIP) is an internal control system that is carried out thoroughly in the central government and regional government. Afiah and Azwari (2015) in their study concluded that the implementation of SPIP had a positive and significant influence on the quality of financial statements.

Internal audit is an activity that is independent, aims to convince, and provides consultation where the activity is designed to add value and improve company operations (Institute of Internal Audit, 2018). Based on the understanding of Minister Regulation PANRB No. 5 of 2008,

the Government Internal Supervisory Apparatus (APIP) is a Government Agency that has the main task and function of conducting supervision. Gamayuni (2018) in his research stated that the effectiveness of the role of Internal Audit gave a positive and significant influence on the quality of financial statements.

This study aims to determine whether there is an influence from the implementation of the Government Internal Control System (SPIP) and the Role of Government Internal Control Apparatus (APIP) on the quality of Audit Board of Indonesia financial statements. The measure of the quality of financial statements according to the definition of Government Regulation No. 71 of 2010 is Relevant, Reliable, and Comparable and Understandable. The study was conducted with a quantitative method using a questionnaire to be distributed to the work units in charge of preparing financial reports and APIP of Audit Board of Indonesia. In addition, interviews with authorized officials regarding financial reports, SPIP, and APIP will be conducted. The results of the study are expected to be able to provide input and suggestions to improve the application of SPIP, the role of APIP, and the quality of financial reports at the Audit Board of Indonesia.

2. Framework

- Internal Control Systems, Internal Control, and Financial Reports

The International Organization of Supreme Audit Institutions (INTOSAI, 2010) defines Internal Control as an integrated process carried out by organizational authorities and employees aimed at identifying risk factors and referring to the company's mission to ensure adequate implementation of shared objectives. While the Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2013) defines Internal Control as a process that is influenced by the leadership of the entity, namely the board of directors, management, other personnel, which is designed to provide adequate confidence in achieving objectives in the operational, reporting, and compliance. Internal Control Components according to COSO are: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring Activities. Internal audit is an activity that is independent, aims to convince, and provides consultation where the activity is designed to add value and improve company operations (Institute of Internal Audit, 2018). Whereas according to Tugiman (1997) internal examination is an independent assessment function in the organization with the aim of testing and evaluating the activities of the

organization carried out. Sawyer (2003) defines internal audit as an independent and systematic assessment by the overall internal auditor of operations and controls within the organization, which is intended to determine (1) accurate and reliable financial and operational information; (2) company risks are identified and minimized; (3) external regulations and internal policies and procedures have been obeyed; (4) operational criteria are met; (5) resources are managed efficiently and economically; and (6) organizational goals are achieved effectively. Kieso et. Al (2007) states the notion of financial statements as a means that can be used by an entity to communicate conditions related to financial conditions to interested parties both from internal entities and external government. A financial report is considered of high quality when the financial statements present with the correct and reasonable financial position and performance of a company in accordance with generally accepted accounting standards (Kusnaedi et al, 2016; Marti and Kasperskaya, 2015; Peecher, 2002). Whereas according to the Financial Accounting Standards Board (FASB) in the Statement of Financial Accounting Concepts No. 2 (1980), the qualitative characteristics that are mainly of financial statements are relevance and reliability.

- Internal Control Systems and Financial Statements

Tugiman (2000) states that the performance and achievement of organizational goals are significantly influenced by internal control within the organization. Research conducted by Lafond and You (2010) states that internal controls determine the quality of the company's financial statements. Premuroso (2012) states that the influence of the reliability of an internal control is significant to the financial statements. Nur Afiah and Azwari (2015) through their research also stated that the implementation of the government's internal control system had a positive and significant impact on the quality of financial statements.

H1: Implementation of the Government's Internal Control System has a significant effect on the Quality of the Audit Board of Indonesia's Financial Statements

- Internal Control and Financial Statements

Gamayuni (2013) through his research stated that the effectiveness of internal audit functions had a positive and significant influence on the quality of financial statements. In addition, Arrens and Loebbecke (1997) argue that the quality of financial statements is the result of an effective internal audit. Schneider and Wilder (1990), Goodwin and Seow (2002), and Gramling, et al. (2011) argue that internal audit has an influence on the quality of financial statements.

The research conducted by this research was carried out with the aim to determine the effect of the Government's Internal Control Apparatus on the quality of financial reports in the

Supreme Audit Agency. The dimensions of the Internal Control Apparatus variable in this study differ from previous studies which generally used the Institute of Internal Auditor (IIA) standards or the Government of Indonesia's internal audit standards. This is because the Supreme Audit Agency has its own internal supervision standards.

H2: Government Internal Control Apparatus has a significant effect on the Quality of Financial Audit Board Financial Statements

3. Methodology

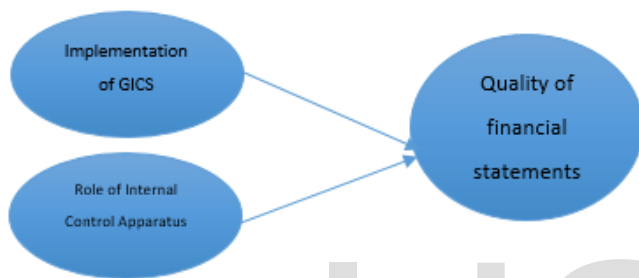


Figure 3.1. Research Model

This research conducted with the model as in figure 3.1, with the variables as follow

Variable	Dimension	Sources
Implementation of GICS	<ul style="list-style-type: none"> Control environment Risk Assessment Control Activities Information & Communication Monitoring 	COSO (2013) PP No.60/ 2008
Internal Control Role	<ul style="list-style-type: none"> Objectives, Authorities and Responsibilities Independence and Objectivity Professional Skills and Accuracy Quality Assurance / Assurance Program Confidentiality 	Audit Board of Indonesia, Internal Control Standard (2017)
Quality of Financial Statement	<ul style="list-style-type: none"> Relevance Reliable Comparable Understandable 	Government Accounting Standard (2010)

The type of research conducted is exploratory research, with quantitative approach of the Structural Equation Model analysis using AMOS software.

This research use questionnaire with likert scale, and to fulfill the requirements for using SEM the sample for this research will be 210 samples.

4. Findings

• Validity & Reliability

For the validity and reliability test to the questionnaire, this research use Pearson Product Moment and Cronbach alpha. The test concludes the questionnaire is valid and reliable with

Variable	Cronbach Alpha
GICS	0.935
Role of Internal Control Apparatus	0.949
Quality of Financial Statement	0.961

Pearson Product Moment above 0,361 for all the indicators, and the Cronbach Alpha number are above 0.6 as

• Goodness of fit

Goodness of fit	Results	Conclusion
Chi Square	301,809	Fit
Probability	0,476	Fit
GFI	0,736	Marginal
AGFI	0,692	Marginal
CFI	0,978	Fit
TLI	0,977	Fit
CMIN/DF	1,003	Fit
RMSEA	0,006	Fit

From the table, this research model is good fit.

• Hypothesis Test

	Estimate	S.E.	C.R.	P	Label
F3 <--- F1	.054	.044	1.225	.221	par_21
F3 <--- F2	.007	.106	.069	.945	par_22

From this table, this research finds that with estimate 0.054, the implementation of GICS affects quality of financial statements positively and significantly.

Also, with the estimate 0.007 the Internal Control Apparatus role affects the affects quality of financial statements positively and significantly.

5. Conclusion

The independent variable GICS has a positive effect on the dependent variable. This is consistent with the research conducted by Lafond and You (2010) which states that internal control determines the quality of the company's financial statements. Premuroso (2012) states that the influence of the reliability of an internal control is significant to the financial statements. Nur Afiah and Azwari (2015) through their research also stated that the implementation of the government's internal control system had a positive and significant impact on the quality of financial statements.

The results of this study are also in accordance with the study of Elbannan (2007) which states that strong internal control over financial reporting is important for preparing reliable financial reports. Furthermore, according to Altamuro and Beatty (2010), increasing supervision and reporting of internal controls will improve the quality of financial reports in the banking industry. Baihaqi (2008) also states that the use of an entity's internal control is one of the factors that determine the reliability of the financial statements produced.

Role of Internal Control Apparatus Independent Variables have a positive effect on the quality of financial statements. The results of this study confirm the Gamayuni (2013) study through his research stating that the effectiveness of internal audit functions has a positive and significant influence on the quality of financial statements. In addition, Arrens and Loebbecke (1997) argue that the quality of financial statements is the result of an effective internal audit. Furthermore Schneider and Wilder (1990), Goodwin and Seow (2002), and Gramling, et al. (2011) argue that internal audit has an influence on the quality of financial statements.

Cohen and Kaimanakis (2011) state that opinions from a financial report provide confidence in a financial reporting that financial statements have been prepared in accordance with existing accounting standards, as well as financial position, operational results, and surplus / deficit values that have been adequately stated

This research only measures implementation of GICS and role of Internal Control Apparatus as factors

affecting Quality of Financial Statements, as there may other factors that contribute to the Financial Statement Quality.

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