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Analysis of the Effect of the Government Internal Control System (GICS), Implementation of Government Accounting Standards (GAS), Compliance with Legislation and Regional Asset Management on the Quality of West Nias Regency Government Financial Reports

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ABSTRACT

This study aims to examine and analyze the influence of the application of Government Accounting Standards, Implementation of Government Accounting Standards, Compliance with laws and regulations, and Asset Management on the quality of financial reports in the West Nias district government. This type of research is causal research. This study's population were Financial Administration Officers (FAO-RAO), treasurers, and property managers in all Regional Apparatus Organization (RAO) of West Nias Regency Government, totaling 35 RAOs. The sampling method used was the census method so that the entire population was used as the research sample. The data in this study are primary data and data collection techniques using a questionnaire. This research's data analysis method is structural equation modeling-partial least squares (SEM-PLS) using SmartPLS software. This study's results indicate that the Government Internal Control System (GICS), Implementation of Government Accounting Standards, Compliance with Laws and Regulations, and asset management each have a significant positive effect on the Quality of Government Financial Statements of West Nias Regency. It means that if the internal control system, implementation of government accounting standards, compliance with laws and regulations, and asset management are improved, it will improve the quality of financial reports.

Keywords: Quality of Financial Statements, Government Internal Control System (GICS), Implementation of Government Accounting Standards (GAS), Compliance with Legislation, and Regional Asset Management.

INTRODUCTION

Good Government Governance (GCG) is the hope of all Indonesian people for the government in running its government. One of the essential principles in good governance is the accountability of financial management in the agency. According to Law No. 17 of 2003, financial management must carry out a professional, open, and responsible manner. For this reason, the government is obliged to be accountable and open to the public (public) in submitting local government financial reports. To support GCG, the central government provides autonomy to local governments based on law No. 32 of 2004 concerning local government.

In the online news media, DDTC News (2019) reveals that many ministries/ institutions and local governments received the unqualified opinion (UO), which indicates that the institution's financial reports are of high quality. Meanwhile, according to Haliah and Nirwana (2019), it is said that the current fact is that the government's performance and financial management are not as expected, and this causes a lack of public trust in the government.

The quality of financial reports is one indicator of good governance, where the better the management of government finances, the better the quality of financial reports. The quality of financial reports is normative measures that need to be embodied in accounting information to meet its objectives (Nordiawan, 2010). In the process, to ensure the quality of regional government financial management, it is assisted by an official institution called the Supreme Audit Agency (SAA), which is free and independent. It states in Law No. 15 of 2004 concerning audits of the management and accountability of state finances that the SAA conducts audits of the management and responsibility of state finances for officials entrusted with the task of managing state finances, to conclude the level of fairness of information presented in the financial statements, which after this referred to like opinion. The opinions given by the SAA on the audited financial statements are UO (Unqualified Opinion), QO (Qualified Opinion), AO (Adverse Opinion), and DO (Disclaimer of Opinion).

Based on the data obtained by the author from the official SAA Republic of Indonesia (RI) website, it concludes that the regional financial management system of West Nias Regency has not been managed optimally. It can be seen from the following Table 1.1.

Table 1.1 SAA Audit Results on RGFR West Nias Regency for Fiscal Years 2014 s.d. 2018

No	Year	Opinion
1	2014	Disclaimer of Opinion (DO)
2	2015	Qualified Opinions (QO)
3	2016	Disclaimer of Opinion (DO)
4	2017	Disclaimer of Opinion (DO)
5	2018	Disclaimer of Opinion (DO)

Source: https://medan.bpk.go.id/

From the table, it can be seen that in 2014 the SAA provided an opinion on West Nias Regency, with the Disclaimer of Opinion (DO). In the following year 2015, it experienced an increase in Qualified Opinions (QO). Still, in 2016, 2017, and 2018 it decreased in succession obtained Disclaimer of Opinion (DO), and this is due to the problem of asset administration, which is still not optimal. It can conclude that the West Nias Regency RGFR is still not qualified, and the West Nias Regency government needs to make improvements in its financial management so that the results of SAA's opinion on RGFR have increased to become QO or even UO.

Based on the results of the 2019 SAA examination of 542 RGFRs in Table 1.2, it shows that there are still several RGFRs with DO, one of which is the West Nias Regency.

Table 1.2 SAA Audit Results on RGFR in 2019

NO	SAA Opinion							
	UO		QO		AO		DO	
	RGFR	%	RGFR	%	RGFR	%	RGFR	%
1	443	82	86	16	-	-	13	2

Source: IHPS I BPK RI Year 2019

The SAA examination results of the 2019 RGFR revealed 12,117 problems consisting of 5,858 issues with the Internal Control System (ICS) and 6,259 issues of non-compliance with laws and regulations amounting to Rp 2.19 trillion. Based on this, to improve the quality of Regional Government Financial Reports (RGFR, the government needs to implement or enhance the Government Internal Control System (GICS). PP No. 60 of 2008 concerning ICS states that ICS is a necessary process of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and obedience to laws and regulations. The quality of GICS in the Regional Apparatus Organization (RAO) is one of the instruments in achieving the common goals (goal congruence) of the local government (Piter et al., 2018). GICS is responsible for producing quality financial reports. It ensures that the reports presented to the public are correct according to the actual events with reasonable control. The government creates the better of GICS and quality financial statements (Mahaputra, 2014). It is in line with research by Kurniasih (2014) and Febriawan (2017) and Kurniasih (2017), which prove that GICS has a positive effect on the quality of government financial reports.

Besides, the weaknesses of RGFR in the West Nias Regency are also caused by irregularities in Government Accounting Standards (GAS) on accounts' presentation in the financial statements. According to Government Regulation, No. 71 of the 2010 GAS are accounting principles applied to prepare and present government financial reports. GAS, which sets to use in Indonesia at this time, is PP No. 24 of 2005, which later became PP. 71/2010. The implication of this is that if financial management activities use the principles set out in GAS correctly and completely, the quality of financial reports will automatically increase. The better preparation and presentation of financial statements, the more likely it is to have a reasonable audit opinion. It supports Suwanda (2015) research and Manullang (2016), where GAS has a positive and significant effect on financial statements' quality. In contrast to the research of Fikri et al. (2015), where the implementation of GAS does not affect the quality of financial information.

Based on Law No. 10 of 2004 concerning the Formation of Legislation, a written regulation is established by a state institution or official that is authorized and generally binding. Based on this definition, compliance with statutory regulations is a character of obedience and obedience to written rules established by state institutions or authorized and generally critical officials. One of the criteria for providing SAA opinion in compliance with laws and regulations, where the results of the SAA audit reveal non-compliance with statutory provisions consisting of three conditions, namely 1) the incidence of regional losses and potential regional losses; 2) lack of regional revenue, and 3) administrative irregularities. Findings in the SAA audit that resulted in regional losses include spending on goods and services that are not following regulatory provisions, cases of double official travel expenses, and so on (SAA, 2014).

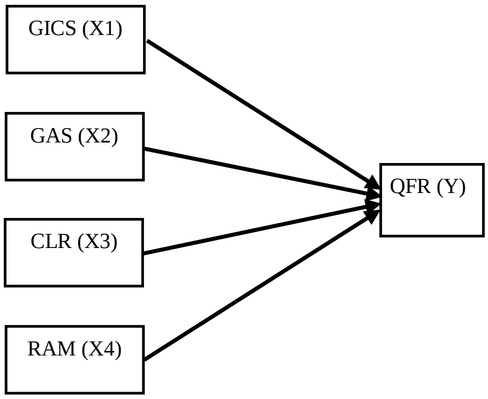
Table 1.1 states that the majority of problems in the RGFR audit are problems of non-compliance with laws and regulations, one of which is in the West Nias Regency. It suggests that compliance with laws and regulations has a relationship with the quality of financial reports. Permendagri No. 13/2006 also states that regional finances must be managed in an orderly manner, obeying laws and regulations, effective, efficient, economical, transparent, and responsible by taking into account the principles of justice, appropriateness, and benefits for the community. It aims to support the quality of financial reports. According to research by Sianturi (2016) and Manullang (2016), compliance with laws and regulations has a significant positive effect on the quality of financial statements. However, according to research by Pangkong (2013), understanding of rules does not affect the ability to prepare financial statements.

Another factor that also affects the quality of financial reports is the management of regional assets. As explained by Gutomo (2015), in the majority, the problem that is an obstacle to obtaining UO is asset management that is not accountable. Issues that commonly occur in asset management are assets that have not been recorded; there are still assets that record. Simultaneously, the goods are no longer available, and assets are recorded, but no valid proof of ownership is available. It is in line with Kurniasih (2017) research, which states that the implementation of asset management has a positive and significant effect on the quality of government financial reports. It is also supported by research by Ansari (2016) and Hadiani (2015). However, unlike Wiraputri

(2012), the management of the regional property has a positive but insignificant effect on the quality of financial reports. It supports the research of Yulpi et al. (2017).

Framework

Following the description of the background of the problem, literature review, and previous research, a conceptual research framework prepares as follows:



H1: The Government Internal Control System (GICS) has a positive and significant effect on the Quality of Financial Reports (QFR).
H2: Implementation of Government Accounting Standards (GAS) has a positive and significant effect on the Quality of Financial Reports (QFR).
H3: Compliance with laws and regulations (CLR) has a positive and significant effect on the Quality of Financial Reports (QFR).
H4: Regional Asset Management (RAM) has a positive and significant effect on the Quality of Financial Reports (QFR).

RESEARCH METHODS

This type of research includes the kind of quantitative research. The approach used is causality and inferential. This study uses statistical analysis, which aims to test the hypothesis (Sugiyono, 2017). Research is conducted with a causal research approach to investigate cause-and-effect relationships by observing the effects that occur and the possible factors (causes) that cause these effects (Sinulingga, 2018). The study used a questionnaire for data collection by giving respondents a set of questions or written statements to answer them (Sugiyono, 2014).

The population used in this study was the Secretary / Head of Administration, FAO (Financial Administration Officer) RAO, Goods Management and Expenditure Treasurer at RAO in West Nias Regency Government, totaling 124 people from 31 RAOs. This study uses a sampling technique with a census/survey method, where all members of the population use as research samples. In this research, the data analysis method used is structural equation modeling-partial least squares (SEM-PLS) using SmartPLS software.

RESULT AND DISCUSSION

Description of Research Data

Table 5.1 Descriptions of Respondents' Answers

Descriptive Statistics					
	N	Min	Max	Mean	Std. Deviation
QFR (Y)	124	1.78	5.00	4.1622	.77492
GICS (X1)	124	1.50	5.00	3.8274	.87312
GAS (X2)	124	1.50	5.00	3.7648	.89640
CLR (X3)	124	1.20	5.00	3.8548	.92106
RAM (X4)	124	1.33	5.00	3.9449	.91798
Valid N (listwise)	124				

Source: Calculation Results of SmartPLS 3.0

Based on the table above, it can conclude that the average respondent understands enough about the quality of financial reports, GICS, GAS, compliance with laws and regulations, and regional asset management in their respective RAOs.

Outer Model Evaluation (Measurement Model): Validity and Reliability Testing

Based on testing the validity of loading factors in Figure 5.1, all loading values are > 0.7, which means that the validity requirements are met based on the loading value. Furthermore, reliability testing is carried out based on the composite reliability (CR) value; it can be seen in the following table and figure.

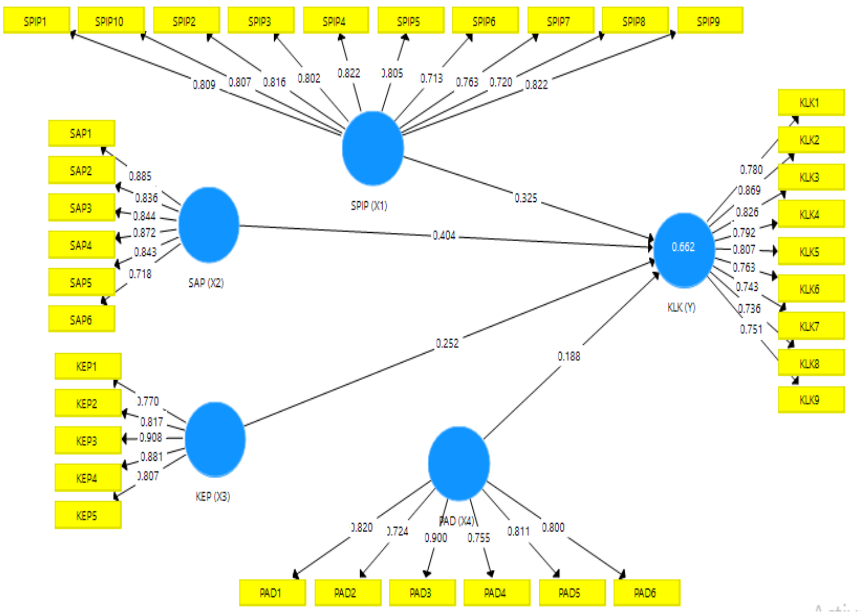


Figure 5.1 Path Diagram based on Loading Factor Value

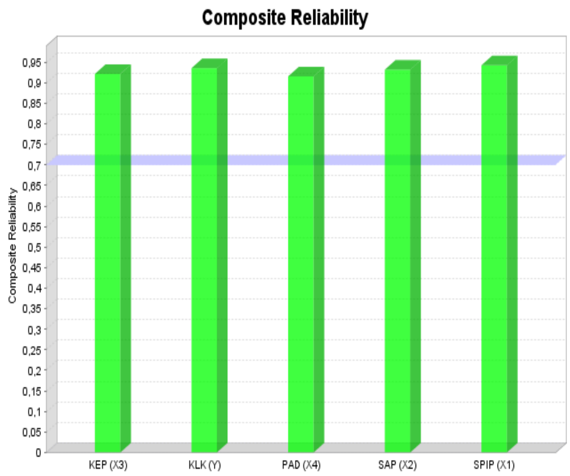


Figure 5.2 Reliability Testing based on Composite Reliability (CR)

The recommended CR value is above 0.7 (Sholihin and Ratmono, 2013: 67). It is known that all CR values are> 0.7, which means that they have met the reliability requirements based on CR. Furthermore, the discriminant validity test was conducted using the Fornell-Larcker approach.

Table 5.2 Discriminant Validity Testing

	X3	Y	X4	X2	X1
CLR(X3)	0.838				
QFR (Y)	0.534	0.786			
RAM (X4)	0.358	0.490	0.803		
GAS (X2)	0.289	0.617	0.265	0.835	
GICS (X1)	0.301	0.574	0.324	0.278	0.789

Source: Calculation Results of SmartPLS 3.0

It is known that the square root value of AVE for each latent variable is greater than the correlation value between these latent variables and other latent variables. It concludes that it has met the requirements of discriminant validity.

Significance Test (Direct Effect)

Table 5.3 Path Coefficient and P-Value

	O	M	STDEV	T Stat	P-Val
GICS (X1) -> QFR (Y)	0.325	0.329	0.058	5.607	0.000
GAS (X2) -> QFR (Y)	0.404	0.400	0.062	6.556	0.000
CLR (X3) -> QFR (Y)	0.252	0.247	0.062	4.097	0.000
RAM (X4) -> QFR (Y)	0.188	0.187	0.059	3.165	0.002

Source: Calculation Results of SmartPLS 3.0

Based on the results in Table 5.3, it can conclude that GICS, GAS, CLR, and RAM have a positive and significant effect on QFR.

Table 5.4 Value of the Coefficient of Determination

	R Square	R Square Adjusted
KLK (Y)	0.662	0.651

Source: Calculation Results of SmartPLS 3.0

Based on Table 5.4 above, it can conclude that GICS (X1), GAS (X2), CLR (X3), and RAM (X4) together can influence QFR (Y) by 65.1%, while the rest is 34.9% influenced by other factors.

CONCLUSION

Based on the results of data analysis and research discussion, the following conclusions can be drawn:

1. The Government Internal Control System (GICS) has a significant positive effect on local government financial reports' quality.
2. Implementation of Government Accounting Standards (GAS) has a significant positive effect on local government financial reports' quality.
3. Compliance with laws and regulations (CLR) has a significant positive effect on local government financial reports' quality.
4. Regional Asset Management (RAM) has a significant positive effect on local government financial reports' quality.

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