

# Analysis of the Factors That Influence Financial Reports in Government of North Sumatera with Implementation of the Government's Internal Control System as Moderating Variable

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## ABSTRACT

This study aims to determine the effect of implementation of government accounting standards (SAP), use of information technology, the role of internal audit, finance administration, and conflict of interest on the quality of local government financial reports in the Government of North Sumatera. In addition, this study also examines whether the implementation of the government's internal control system (SPIP) can be used as a moderating variable in this research model or not. The type of research conducted is causal-associative research. The location of this research was the OPD in the Government of North Sumatera. The method of data collection in this study was documentation and observation techniques using a questionnaire. The data analysis technique used in this research is the PLS (partial least squares) technique using the analysis tool SmartPLS version 3.0 software, which is run on computer media. The results obtained in this study indicate that the implementation of SAP, the role of internal audit, finance administration, and conflicts of interest have a positive and significant impact on the quality of the local government's financial reports in the Government of North Sumatera. Meanwhile, the use of information technology has had no significant effect on the quality of local government financial reports in the Government of North Sumatera. Meanwhile, other results in this study indicate that the implementation of SPIP is only able to moderate the role of internal audit and finance administration of local government financial reports in the Government of North Sumatera.

**Keywords:** quality, report, financial, spip

## INTRODUCTION

One of the autonomous authorities granted to regional governments by the central government is autonomy in the area of regional finance. Autonomy in the financial sector indirectly requires regional governments to be accountable for the implementation of their financial management, one of which is through disclosure of financial reports. The financial reports presented by the government must provide useful information for external users such as the public who rely on it as their main source of financial information (Carini et al., 2018). Disclosure of information in these financial reports is believed to reduce information asymmetry between the government and the public (Park et al., 2020). Given this, the financial reports presented by the government must be quality financial reports in order to meet the needs of its users.

Assessment of the quality of a Regional Government Financial Report (LKPD) can refer to the assessment of the Audit Board of the Republic Indonesia (BPK) through the audit opinion obtained (Din et al., 2017; Adiputra, 2018; Gasperz, 2019). Examination of the fairness of the information presented in the LKPD is based on conformity with SAP, adequacy of disclosure, effectiveness of the Internal

Control System (SPI) and compliance with laws and regulations. [Law Number 15 Years, (2004); Pamungkas et al., (2018); Anggriawan & Yudianto (2018); Gasperz (2019)].

Based on the Summary of Examination Results for Semester I of 2022, the results of examination of 541 LKPDs throughout Indonesia for the 2021 Fiscal Year, the BPK gave WTP opinions on 500 (92.4%) LKPDs, WDP opinions on 38 (7%) LKPDs, and TMP opinions on 3 (0.6%) LKPD. In addition to providing opinions, the BPK audit results also revealed 11,910 problems within the local government, namely 5,366 SPI weaknesses and 6,544 cases of non-compliance with statutory provisions. This shows that the local government financial reports still do not fully meet the criteria and elements that form the quality of financial reports.

The North Sumatra Provincial Government (Pemprovsum) is one of the local governments that has consistently received WTP opinions 5 times in a row in the last 5 years from 2016-2020. Even though Pemprovsum has been able to obtain WTP opinions consecutively in the last five years, this does not guarantee that the LKPD produced is free from financial report problems.

The results of studies from several previous studies indicate that the quality of LKPD can be influenced by several factors, including (a) the application of SAP [Julita & Susilatri (2018); Nurlinda, et al (2019); Gasperz (2019); Yuesti et al (2020); Aaron (2021)]; (b) Utilization of information technology [Mutiana, et al (2017); Julita & Susilatri (2018); Gasperz (2019); Aswar, et al (2021); Zulvia, et al (2021)] (c) The role of internal audit [Tambingon, et al (2018); Kewo & Mamuaya (2019); Aswar, et al (2021)]; (d) Financial Administration [Hermelinda (2018); Defitri (2018); Yahya & Torong (2019)]; (e) Conflict of Interest (Yahya & Torong, 2019); and so forth.

The application of SAP is one of the main factors that can affect the quality of financial reports. SAP are accounting principles that must be applied in preparing and presenting

government financial reports in order to produce quality financial reports. This is in line with research (Onyulo 2017; Gasperz, 2019; Nurlinda et al., 2019; Ademola et al., 2020; Omoregie & Eromosele, 2020; Aswar et al., 2021)

The use of Information Technology (IT) that has not been maximized by the Regional Government will also affect the quality of the information presented in the LKPD (Muda et al., 2018). The existing technology is so sophisticated, both computers and laptops can help human work in making their work easier, including preparing financial reports. This explanation is in line with research (Mutiana et al., 2017; Julita & Susilatri, 2018; Aswar et al., 2021; Zulvia et al., 2021) The role of internal audit carried out by the inspectorate in supervising the implementation of regional government activities is also considered important. Therefore, an effective internal audit function and role is needed in order to create quality, transparent and accountable financial reporting (Tambingon et al., 2018) Regional financial administration which is an integral part of the regional financial management process is also considered to have an important role in the regional financial reporting process. Financial administration is a major concern in financial accountability, so that the quality of financial reports can be maintained (Yahya & Torong, 2019).

The factor of conflict of interest also needs to be considered in producing quality financial reports. To produce quality financial reports, regional governments must be free from all forms of conflicts of interest that can threaten local governments in carrying out their functions (Yahya & Torong, 2019).

Accurate recording in financial reports is very important, for this reason, adequate internal control is needed, without proper control, reports may not be reliable, so that it will be difficult to identify which financial reports are good and which still need improvement.

If the government's internal control is weak, it will be difficult to detect fraud in the

accounting process being carried out. In line with research (Onyulo, 2017; Julita & Susilatri, 2018; Dewi et al., 2019; Nurlinda et al., 2019; Gasperz, 2019; Aswar et al., 2021; Ahmad et al., 2020; Zulvia, et al., 2021)

According to Safkaur, et al (2019) quality financial reports in the public sector, especially in government, are financial reports that are able to present relevant and reliable financial information. According to Erniati (2019) government financial reports have benefits as a means of information and a means of evaluating performance. As a means of information, government financial reports are useful for determining and predicting the condition of the government's financial health, the government's economic conditions and changes that have/will occur, monitoring government performance, and the suitability of implementing government activities with laws and regulations.

The objective of these financial reports can be met with the characteristics of the quality of financial reports in accordance with Government Regulation No. 71 of 2010 namely relevant, reliable, comparable and understandable. The four characteristics are (1) relevant, a financial report is said to be relevant if the information presented has an impact on user decision considerations by evaluating past or present events and predicting future events and can correct past evaluation results. (2) having reliable information, the characteristics of reliable information are presented honestly and fairly, can be tested for truth and does not favor the needs of certain parties. (3) comparable, the financial reports presented should be comparable so that they are more useful. Comparisons can be made internally by comparing financial statements from previous years, this can be done with a note if the entity applies the same policy from year to year. (4) can be compared, the information presented is stated in the form of terms that have been adapted to the limits of understanding of the users so that they can be understood by users. Users of information in financial reports are assumed to have

adequate quality and knowledge and have the willingness to study the information referred to in reports.

## **LITERATURE REVIEW**

### **1. Implementation of Government Accounting Standards (SAP)**

PP No. 71 of 2010 concerning Government Accounting Standards (SAP) as a legal instrument in the application of accrual-based SAP in government environments, that SAP aims to regulate the presentation of financial statements for general purposes (general purpose financial statements) in order to increase the comparability of financial reports both against budgets, between periods, and between entities (PP No. 71 of 2010). Accrual-based accounting is an accounting basis in which the method of recognizing economic transactions and other events is when the transactions occur, regardless of when cash or cash equivalents for the transactions are received or paid.

### **2. Use of Information Technology**

Information technology includes computers, software, databases, networks, e-commerce, and other types related to technology (Wilkinson et al., 2000). One of the technological developments, among others, is computer media, which is an application of information and communication-based technology that is used as the main tool for processing data into useful information by processing, presenting, and managing information and also functions as a communication technology for information dissemination.

### **3. The Role of Internal Audit**

Based on PP No. 12 of 2017, internal audits in the government of Indonesia are carried out by the Government Internal Supervisory Apparatus (APIP). Government audits in Indonesia do not only include audits of whether the reports presented comply with applicable accounting standards but also include evaluation of internal controls and compliance with regulations (Furqan et al., 2020). BPKP (2018) explains that internal

audit is an independent and objective activity to provide assurance (assurance activities) and consulting (consulting activities) designed to provide added value and improve the operations of an organization (auditee). This means that the role of internal audit is not only as a watchdog but also as a partner for management by providing assurance services and consulting services.

#### 4. Financial Administration

In carrying out regional financial management, the regional head as the holder of regional financial management authority can delegate part or all of his powers in the form of planning, budgeting, implementation, administration, reporting, and accountability, as well as supervision of regional finances, to regional apparatus officials (PP No. 12 of 2019). Regional financial administration itself is a series of bookkeeping activities carried out systematically in the financial sector based on certain principles, standards, and procedures so as to provide actual information in the financial sector. Regional Treasury Administration Systems and Procedures are systems and procedures related to the implementation of the duties and authorities of the Regional Treasurer in the context of administration and accountability for the implementation of the APBD (Yahya et al., 2018).

#### 5. Conflict of Interest

Conflicts of interest are usually not specific interests or activities but the result of a conflict between the duties that must be performed by public officials for the public and their personal interests and activities (World Bank, 2020). Conflicts of interest can also arise when Civil Servant (CS) perform their duties. A civil servant can be said to be an accountable if it is able to overcome these problems. This means that they must be able to make the right choices when there is a conflict of interest, not get involved in practical politics, and serve citizens fairly and consistently in carrying out their duties and functions.

#### 6. Implementation of The Government's Internal Control System (SPIP)

The purpose of building an internal control system is to protect state assets, both physical and data, maintain records and documents, produce accurate, relevant, and reliable financial information, ensure that financial reports are in accordance with SAP, and improve organizational efficiency and effectiveness. The implementation of this SPIP is one of the concrete steps for local governments to ensure that their activities can be carried out in an accountable and transparent manner, especially in financial management. In accordance with Government Regulation Number 60 of 2008, SPIP consists of five elements: control environment, risk assessment, control activities, information and communication, and internal control monitoring.

#### Framework

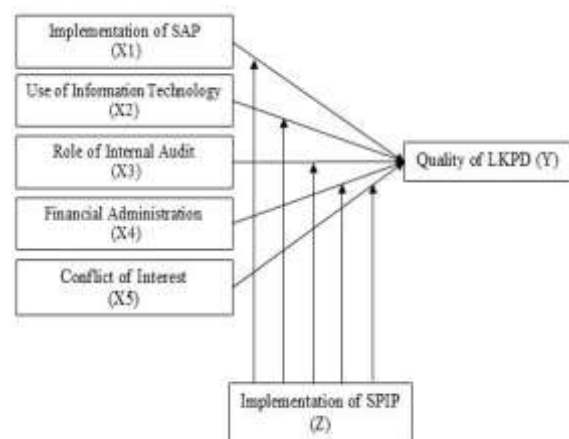


Figure 1. Framework

H1: Implementation of government accounting standards has a positive effect on the quality of financial reports in the Regional Government of North Sumatera Province.

H2: Use of information technology has a positive effect on the quality of financial reports in the Regional Government of North Sumatera Province.

H3: The role of internal audit has a positive effect on the quality of financial reports in the Regional Government of North Sumatera Province.

H4: Financial administration has a positive effect on the quality of financial reports in the Regional Government of North Sumatera Province

H5: Conflict of Interest has a positive effect on the quality of financial reports in the Regional Government of North Sumatera Province

H6: The application of SPIP is able to moderate the implementation of SAP on the quality of financial reports in the Regional Government of North Sumatera Province

H7: The application of SPIP is able to moderate the use of IT on the quality of financial reports in the Regional Government of North Sumatera Province

H8: The application of SPIP is able to moderate the role of internal audit on financial quality reports at the Regional Government of North Sumatera Province

H9: The application of SPIP is able to moderate the financial administration of the quality of financial reports in the Regional Government of North Sumatera Province

H10: The implementation of SPIP is able to moderate conflicts of interest in financial quality reports for the Regional Government of North Sumatera Province

## **RESEARCH METHOD**

### **1. Type of Research**

This type of research is called causality research. This research will examine the effect of applying government accounting standards, the utilization of information technology, the role of internal audit, financial administration, and conflicts of interest on the quality of financial reports by using the utilization of the government's internal control system as a moderating variable in Regional Government Organizations (OPD) representatives of the North Sumatera Provincial Government from June 2021 to December 2021.

### **2. Population and Sample**

The population in this study were Financial Administration Officers (PPK), Expenditure Treasurer, and Financial Staff within the North Sumatera Provincial Government, with

a sample size of 93 people. The population and sample were chosen because they match the research objectives in which the PPK, Expenditure Treasurer, and Financial Staff in 38 OPD within the scope of the North Sumatera Provincial Government are involved in financial management.

### **3. Data Analysis Technique**

The data analysis used in this research is Partial Least Square (PLS), which is a component- or variant-based Structural Equation Model (SEM). PLS is an alternative approach that shifts from a covariance-based SEM approach to a variant-based one (Ghozali & Latan, 2015). The PLS evaluation model is based on predictive measures that have non-parametric properties. PLS-SEM analysis usually consists of two sub-models, namely the measurement model, often called the outer model, and the structural model, often called the inner model (Ghozali and Latan, 2015).

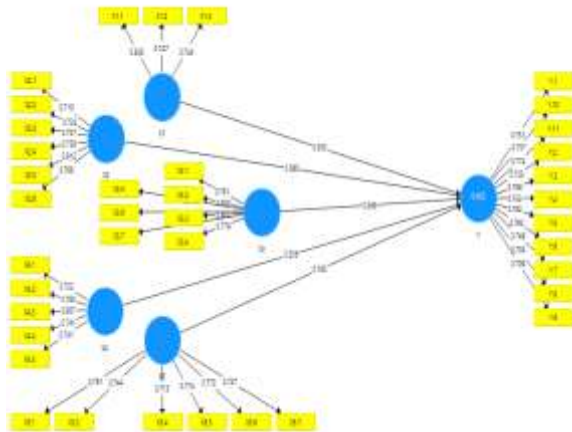
## **RESULT**

### **1. Outer Model Evaluation Test**

The outer model or commonly called the measurement model, is a model calculated by SEM-PLS that aims to define how each indicator relates to its latent variable by testing the validity and reliability of indicators forming latent variables by means of Confirmatory Factor Analysis (CFA). The tests carried out on the outer model in this study included validity and reliability tests.

#### **a. Validity Test**

Convergent validity is measured by determining whether each estimated indicator validly measures the dimensions of the concept being measured. The value of convergent validity is the value of the loading factor on the latent variable with its indicators. The loading factor value can be seen from the resulting outer loadings, which are between 0.5 and 0.7, which are still acceptable, while those below 0.5 must be excluded from the model (Haryono, 2017).



Source: Data Processing with SmartPLS (2022)  
Figure 2. Outer Loading Values

From Figure 2, it can be seen that all outer loading values in the variables are greater than 0.5, which means that the indicators are declared valid so that they are feasible to use in this study.

After conducting convergent validity testing, discriminant validity testing is then carried out to prove whether the indicator in a construct will have the largest loading factor in the construct it forms compared to the loading factor with other constructs. Discriminant validity is carried out by looking at the cross-loading values between the indicator and the construct.

	X1	X2	X3	X4	X5	Y
X1.1	0,832	0,180	0,202	0,053	0,025	0,462
X1.2	0,747	0,046	0,183	0,003	0,133	0,281
X1.3	0,744	0,090	0,177	0,125	0,159	0,313
X2.1	0,088	0,710	0,077	0,154	-0,072	0,090
X2.2	0,083	0,732	0,115	0,083	0,042	0,144
X2.3	0,089	0,707	0,001	-0,003	-0,034	0,053
X2.4	0,049	0,758	0,100	-0,009	0,060	0,069
X2.5	0,144	0,812	0,039	0,030	-0,087	0,195
X2.6	0,160	0,788	0,150	0,082	0,070	0,160
X3.1	0,187	0,188	0,791	0,346	0,005	0,388
X3.2	0,239	0,149	0,850	0,304	0,004	0,394
X3.3	0,175	0,068	0,803	0,297	0,085	0,310
X3.4	0,128	0,118	0,779	0,159	-0,177	0,251
X3.5	0,266	-0,015	0,740	0,103	-0,030	0,400
X3.6	0,166	0,155	0,825	0,131	-0,031	0,268
X3.7	0,143	-0,022	0,808	0,119	-0,107	0,300
X4.1	0,087	0,049	0,149	0,722	0,177	0,253
X4.2	0,101	0,130	0,250	0,763	0,202	0,352
X4.3	0,045	-0,026	0,273	0,807	0,236	0,364
X4.4	-0,016	-0,035	0,038	0,741	0,217	0,230
X4.5	0,060	0,168	0,242	0,741	0,144	0,311
X5.1	0,126	-0,107	-0,104	0,220	0,791	0,220
X5.2	0,003	0,055	-0,050	0,253	0,744	0,225
X5.4	0,033	0,063	-0,116	0,197	0,713	0,176
X5.5	0,159	0,009	0,071	0,224	0,774	0,278
X5.6	0,093	0,013	-0,062	0,129	0,772	0,113
X5.7	0,103	-0,053	0,048	0,096	0,737	0,187
Y.1	0,352	0,185	0,195	0,307	0,141	0,751
Y.2	0,405	0,149	0,267	0,161	0,242	0,725
Y.3	0,458	0,120	0,343	0,293	0,197	0,786
Y.4	0,319	0,217	0,410	0,270	0,225	0,753
Y.5	0,497	0,162	0,342	0,324	0,291	0,782
Y.6	0,331	0,185	0,256	0,303	0,190	0,782
Y.7	0,227	0,143	0,281	0,342	0,205	0,749
Y.8	0,359	0,058	0,257	0,399	0,285	0,739
Y.9	0,207	0,088	0,256	0,274	0,200	0,709
Y.9	0,207	0,088	0,256	0,274	0,194	0,708
Y.10	0,335	0,149	0,483	0,338	0,163	0,757
Y.11	0,348	0,074	0,382	0,372	0,179	0,774

Source: Data Processing with SmartPLS (2022)  
Table 1. Cross Loading Values

Based on the cross loading values generated in the model shown in Table 1 above, it can be concluded that the correlation of each indicator with the construct is higher than the other constructs, as seen from the cross

loading values, which have the greatest value on the variables formed compared to other cross loading values. In addition to testing the discriminant validity itself, it can also be known through other methods, namely by

looking at the resulting AVE value. The AVE value generated in this study can be seen in Table 2 and includes the following:

Variable	Average Variance Extracted (AVE)
Implementation of SAP	0,601
Use of Technology Information	0,566
Role of Internal Audit	0,640
Finance Administration	0,571
Conflict of Interest	0,571
Quality of LKPD	0,570

Source: Data Processing with SmartPLS (2022)  
Table 2. Average Variance Extracted (AVE) Values

Based on the data presented in Table 2 above, it is known that the AVE value for each independent variable on LKPD quality is greater than 0.5. Based on the cross-loading value and the AVE value generated in this research model, it can be argued that discriminant validity in this research model has been achieved.

Variable	Composite Reliability	Cronbach's Alpha
Implementation of SAP	0,819	0,681
Use of Technology Information	0,886	0,854
Role of Internal Audit	0,926	0,907
Finance Administration	0,869	0,814
Conflict of Interest	0,888	0,853
Quality of LKPD	0,936	0,925

Source: Data Processing with SmartPLS (2022)  
Table 3. Composite Reliability and Cronbach's Alpha Values

Based on table 3 shows that the composite reliability and Cronbach's alpha values produced by each variable are above 0.7 and 0.60, respectively, so that it can be said that the reliability of each research variable instrument is achieved or that it can be said to be reliable.

## 2. Inner Model Evaluation Test

### a. Test the coefficient of determination ( $R^2$ )

R-Square ( $R^2$ ) results of 0.67 and above for the independent latent variables in the structural model, indicating the effect of the independent variables on the dependent variable is included in the good category. Meanwhile, if the result is 0.33-0.67 then it is included in the medium category, and if the result is 0.19-0.33 then it is included in the weak category (Ghozali, 2014). In this study, we looked at the R-Square value before

### b. Reliability Test

In addition to testing the validity, a reliability test is also carried out, which is measured by composite reliability, which measures the real value of the reliability of a construct. The rule of thumb used to assess construct reliability is that the composite reliability value must be greater than 0.7 for confirmatory research (Ghazali and Latan, 2015). The reliability test also looks at the value of the composite reliability; the reliability of a construct can also be evaluated by looking at the resulting Cronbach's Alpha value. The Cronbach's alpha value must be greater than 0.60 so that it can be said that all instruments for each variable are reliable. The results of the composite reliability of each variable can be seen in the following tables:

entering the moderation construct (before moderation) and after entering the moderation construct (after moderation). Based on the data processing that has been done, the R-Square value is obtained which is presented in the table

Variable	R-Square Before Moderating	R-Square After Moderating
Quality of LKPD (Y)	0,452	0,605

Source: Data Processing with SmartPLS (2022)  
Table 4. R-Square Values

Based on the R-Square value obtained in the research model before moderation of 0.452, it can be said that it is included in the medium category. And the R-Square value obtained in the research model after moderation is 0.605. The R-Square value obtained in the research model after this moderation is included in the moderate category.

**b. Effect Size (f<sup>2</sup>)**

The effect size value (f<sup>2</sup>) indicates the interaction between the independent variable and the moderating variable in influencing the dependent variable. The calculation of the effect size (f<sup>2</sup>) is used to measure the contribution of each variable to the R-squared by looking at the f<sup>2</sup> values of 0.02, 0.15, and 0.35, which indicate that the model is small, medium, and large (Ghozali, 2015).

$$f^2 = \frac{R^2 \text{ Model Moderasi} - R^2 \text{ Model Tanpa Moderasi}}{1 - R^2 \text{ Model Moderasi}}$$

Then, based on the R-Square value that has been calculated using SmartPLS, which can be seen in Table 4 above, the effect size value in this research model can be calculated as follows:

$$f^2 = \frac{0,452 - 0,605}{1 - 0,605} = 0,386$$

Based on the results of the effect size calculation above, the SPIP implementation variable contributes 0.386 to the quality of LKPD, which means it is included in the large category.

**c. Hypothesis Testing**

Hypothesis testing is done by looking at the t-statistic values resulting from the bootstrapping process. The hypothesis is accepted (supported) if the resulting t-statistic value is greater than 1.96 with a significance level of 0.05 (two-tailed). Hypothesis testing is done twice. The first test tests the model without including the implementation of SPIP construct as a moderating variable. The results of the bootstrapping process for models without moderation in the SmartPLS program can be seen in table 5.13 as follows:

Hypothesis	Variable	T-Statistics	P-Values	Description
H1	X1 → Y	4,598	0,000	Ha accepted
H2	X2 → Y	0,883	0,378	Ha rejected
H3	X3 → Y	2,845	0,005	Ha accepted
H4	X4 → Y	2,769	0,006	Ha accepted
H5	X5 → Y	2,299	0,022	Ha accepted

Source: Data Processing with SmartPLS (2022)  
Table 5. Hypothesis Before Moderating

Based on the test results in Table 5.13. above, it can be seen that, of the five (five) research hypotheses without moderation proposed, only three can fulfill the requirements for acceptance. The results of the H1 test obtained a t-statistic value that showed a result of 4.598 > 1.96 and a p-value of 0.000 < 0.05, thus allowing it to be concluded that the hypothesis is acceptable, where there is an influence on the application of government accounting standards (X1) on the quality of government financial reports. The H2 test shows that there is no significant effect of the use of information technology (X2) on the quality of LKPD, as shown by the t-statistic value of 0.883 < 1.96 and p-value of 0.378 > 0.05, so that the hypothesis is

rejected. Then, for the H3 test, we obtained a t-statistic of 2.845 > 1.96 and a p-value of 0.005 < 0.05, so the hypothesis is accepted, and thus it can be concluded that there is a role for internal audit (X3) on the quality of LKPD. The test results on H4 show a t-statistic value of 2.769 > 1.96 and a p-value of 0.006 < 0.05, which indicates that there is an effect of financial administration (X4) on the quality of LKPD, so the hypothesis is accepted. Testing for H5 shows a t-statistic result of 2.299 > 1.96 and a p-value of 0.022 < 0.05, meaning that the conflict of interest (X5) in this study has a significant influence on the quality of LKPD, so the hypothesis is accepted.

Hypothesis	Variable	T-Statistics	P-Values	Description
H6	Z*X1 → Y	0,217	0,829	Ha rejected
H7	Z*X2 → Y	1,138	0,256	Ha rejected
H8	Z*X3 → Y	2,150	0,032	Ha accepted
H9	Z*X4 → Y	2,015	0,044	Ha accepted
H10	Z*X5 → Y	0,852	0,394	Ha rejected

Source: Data Processing with SmartPLS (2022)  
Table 6. Hypothesis After Moderating



Table 6 depicts hypothesis testing with the implementation of the government internal control system (SPIP) variable acting as a moderating variable. The result of multiplying the SPIP implementation variable with the government accounting standard implementation variable ( $Z*X1$ ) shows that the SPIP implementation variable is not able to moderate the SAP implementation ( $X1$ ) on the quality of LKPD ( $Y$ ). This can be seen from the t-statistic value of 0.217 and the p-value of 0.829. Because the resulting t-statistic value is less than 1.96 and the p-value is greater than 0.05, the hypothesis is rejected.  $Z*X2$ , which is an interaction between the variables of SPIP implementation and the use of information technology, has a t-statistic value of 1.138, which is smaller than 1.96, and a p-value of 0.256, which is greater than 0.05. So it can be concluded that the implementation of SPIP is not able to moderate the effect of using information technology on the quality of LKPD. So with these results, the implementation of SPIP is said to be a moderating predictor variable, namely, a variable that has a relationship with or influence on the quality of LKPD but is unable to moderate the effect of using information technology on the quality of LKPD.  $Z*X3$ , which is an interaction between the SPIP implementation variable and the role of the internal auditor, has a t-statistic value of 2.150, which is greater than 1.96, and a p-value of 0.032, which is less than 0.05. So it can be concluded that the implementation of SPIP is able to moderate the effect of internal audit's role on the quality of LKPD. So with these results, the implementation of SPIP is said to be a quasi-moderating variable, namely, a variable that has a relationship with or influence on LKPD quality and is able to moderate the effect of the role of internal audit on LKPD quality.  $Z*X4$ , which is an interaction between the implementation of SPIP variable and financial administration, has a t-statistic value of 2.015, which is greater than 1.96, and a p-value of 0.044, which is less than 0.05. So it can be concluded that the

implementation of SPIP is able to moderate the effect of financial administration on the quality of LKPD. So with these results, the implementation of SPIP is said to be a quasi-moderating variable, namely, a variable that has a relationship with or influence on the quality of LKPD and is able to moderate the influence of financial administration on the quality of LKPD.  $Z*X5$ , which is an interaction between the variables of SPIP implementation and conflict of interest, has a t-statistic value of 0.852, which is smaller than 1.96, and a p-value of 0.394, which is greater than 0.05. So it can be concluded that the implementation of SPIP is not able to moderate the effect of conflicts of interest on the quality of LKPD. So with these results, the implementation of SPIP is said to be a moderating predictor variable, namely, a variable that has a relationship with or influence on LKPD quality but is unable to moderate the effect of conflict of interest on LKPD quality.

## **DISCUSSION**

### **Effect of Implementation of SAP on the Quality of Regional Financial Reports**

The test results in this study found that the application of SAP has a positive and significant influence on the quality of LKPD in Government North of Sumatera. Theoretically, agency theory analyzes the agreement between the principal and the agent, either implicitly or explicitly, with the hope that the agent given the mandate will act or do the job as desired by the principal. The application of SAP in self-government aims to regulate the presentation of financial reports for general purposes (general purpose financial statements) in order to increase the comparability of financial reports both against budgets, between periods, and between entities.

The presentation of financial statements in accordance with the self-defined SAP ultimately aims to meet the common needs of the majority of users of financial statements. In line with the decision-usefulness theory, which states that the normative prerequisites must be fulfilled by the financial reporting

component in order to provide benefits in the context of decision-making, Where SAP is concerned in Indonesia, it emphasizes four normative prerequisites: relevance, reliability, comparability, and understandability. So that theory supports the results of this study, where the application of SAP in the presentation of financial statements has a positive effect on the quality of the financial statements presented.

### **The Influence of the Use of Information Technology on the Quality of Regional Financial Reports**

Effective and efficient use of information technology can certainly assist the government in presenting quality financial reports, one of which is through the use of regional financial information system programs or software. Utilization of information technology can also function as a medium for information disclosure to the public. The results found in this study indicate that this explanation cannot be proven by the Provincial Government of North Sumatra. This is because the application and utilization of information technology are still not optimal due to a lack of computers that can be used by the accounting and finance subdivision to carry out tasks, the unavailability of an adequate internet network, the fact that the entire accounting process is not computerized (from the beginning of the transaction to the preparation of financial reports), the use of software that changes so frequently that it takes time to understand its use, and the absence of regular maintenance of computer equipment. If the use of information technology has been carried out properly, the process of preparing financial reports should be carried out more easily and efficiently, so that the quality of the resulting financial reports will also be better.

### **The Effect of the Role of Internal Audit on the Quality of Regional Financial Reports**

In accordance with the test results in this study, it was found that the role of internal audit has a positive and significant influence

on the quality of LKPD. The decision usefulness theory explains that financial reports have an accountability function and provide useful information for users of financial statements, so that financial reports must pay attention to the level of quality of information to be generated and used in decision making. To support this, the government established APIP (Government Internal Supervisory Apparatus) to carry out the internal oversight function of the implementation of the duties and functions of government agencies.

### **Effect of Financial Administration on the Quality of Regional Financial Reports**

The test results in this study found that financial administration has a positive and significant influence on the quality of LKPD. Financial administration is part of the regional financial management process, which is carried out in order to achieve an orderly administration of regional financial management as a whole. Financial administration, which is the main center for regional government financial accountability, should be able to improve the quality of the financial reports it produces. Good regional financial administration involves a series of bookkeeping activities carried out based on certain principles, standards, and procedures so as to provide quality information in financial reports.

### **The Effect of Conflicts of Interest on the Quality of Regional Finance Reports**

In accordance with the test results in this study, it was found that conflicts of interest have a positive and significant influence on the quality of the provincial government's financial reports. Theoretically, the contractual relationship between agents and principals in agency theory can cause agency problems, one of which is a violation of ethics. This is due to the existence of personal or group interests that conflict with their responsibilities as an entrusted agent to take actions that are in accordance with what is desired by the principal. The emergence of a conflict of interest within the government

environment can be the trigger for actions that violate applicable law; in this case, it can lead to fraud or acts of corruption that can cause losses to the state. For this reason, every government official needs to be aware of the negative impacts arising from this conflict of interest.

### **Implementation of SPIP in Moderating the Effect of Implementation of SAP on the Quality of Local Government Financial Reports**

In this study, it was found that the implementation of SPIP variable can only be used as a moderating predictor variable, namely a variable that has a relationship with or influence on LKPD quality but cannot moderate the effect of SAP implementation on LKPD quality in Pemprov. This shows that in Pemprov, the government's internal control system does not affect the effect of SAP implementation on the quality of its financial reports. This means that the influence of SAP implementation on the quality of regional government financial reports at Pemprov is determined by how good the quality of SAP implementation is at Pemprov itself.

### **Implementation of SPIP in Moderating the Use of Information Technology on the Quality of Regional Government Financial Reports**

In this study, it was found that the implementation of SPIP was only a moderating predictor variable, namely, a variable that had a relationship with or influence on the quality of LKPD but was not able to moderate the effect of using IT on the quality of LKPD in Pemprov. The partial test results show that the use of information technology has no significant effect on the quality of LKPD at Pemprov. Likewise, after being moderated by the implementation of SPIP, the influence of information technology becomes significant for the quality of LKPD. This means that the application and utilization of information technology, such as the use of computers and their networks, and the process of inputting

and processing data in accounting activities within the Pemprov environment to improve the quality of LKPD are not affected by the application of SPIP.

### **Implementation of SPIP in Moderating the Role of Internal Audit on the Quality of Regional Government Financial Reports**

In this study, it was found that the application of SPIP can be used as a quasi-moderating variable, namely a variable that has a relationship with or influence on the quality of LKPD and is able to moderate the influence of the role of internal audit on the quality of LKPD in Pemprov. Through a good SPIP, an organization will be able to run well. A good SPIP is, of course, useless if it is not supported by supervision. The Inspectorate, as the government's internal audit, which carries out internal supervision through audit activities in the implementation of government duties and functions, will certainly provide additional assurance that healthy organizational activities will be carried out. The existence of a good internal control system will certainly facilitate the inspectorate in carrying out its duties to provide confidence in the fairness of financial reports. The test results in this study support this.

### **Implementation of SPIP in Moderating Financial Administration on the Quality of Regional Government Financial Reports**

In this study, it was found that the application of SPIP was a quasi-moderating variable, namely, a variable that had a relationship with or influence on the quality of LKPD and was able to moderate the influence of financial administration on the quality of LKPD in Pemprov. In the process of financial management, it is necessary to have an orderly administration to ensure that administrative activities in financial management have been carried out in accordance with established procedures. Through the implementation of an effective government internal control system, of

course, it will assist local governments in carrying out financial administration activities so that they can guarantee regional financial accountability as outlined in local government financial reports. In accordance with the results of this study, which show that the government's internal control system is able to moderate the effect of financial administration on the quality of the provincial government's financial reports,

### **Implementation of SPIP on the Quality of Regional Government Financial Reports**

In this study, it was found that the implementation of SPIP is a moderating predictor variable, namely a variable that has a relationship with or influence on LKPD quality but is unable to moderate the effect of conflict of interest on LKPD quality in Pemprov. Public sector organizations, especially the government, have the goal of maximizing the social welfare of the people by prioritizing public interests above other interests. The implementation of a sound internal control system can ensure that the authority inherent in each existing position can be monitored and controlled according to organizational goals so as to minimize abuse of authority for personal or certain group interests. However, this study found that the internal control system was unable to moderate the effect of conflicts of interest on the quality of financial reports. This shows that the effect of a conflict of interest on the quality of local government financial reports at Pemprov is not determined by how the internal control system is implemented.

### **CONCLUSION**

1. The application of government accounting standards has a positive and significant influence on the quality of financial reports in the Regional Government of North Sumatra Province.
2. The utilization of information technology has no significant effect on the quality of financial reports in the Regional Government of North Sumatra Province.
3. The role of internal audit has a positive and significant influence on the quality of

- financial reports in the Regional Government of North Sumatra Province.
4. Financial administration has a positive and significant influence on the quality of financial reports in the Regional Government of North Sumatra Province.
5. Conflict of interest has a positive and significant influence on the quality of the regional government of North Sumatra Province.
6. The application of the government's internal control system is unable to moderate the effect of applying government accounting standards on the quality of the financial reports of the Regional Government of North Sumatra Province.
7. The application of the government's internal control system was unable to moderate the influence of the use of information technology on the quality of the financial reports of the Regional Government of North Sumatra Province.
8. The application of the government's internal control system is able to moderate the influence of the government's internal audit role on the quality of the financial reports of the Regional Government of North Sumatra Province.
9. The application of the government's internal control system is able to moderate the effect of government financial administration on the quality of the financial reports of the Regional Government of North Sumatra Province.
10. The application of the government's internal control system is unable to moderate the effect of conflicts of interest on the quality of the financial reports of the Regional Government of North Sumatra Province.

### **RESEARCH LIMITATIONS**

1. This research was only conducted at the OPD of North Sumatra Province, with respondents in this study only involving one person from each of the three positions involved in preparing financial reports, so that the conclusions obtained

may only apply to the Regional Government of North Sumatera Province.

2. The variables of applying government accounting standards, utilizing information technology, the role of internal audit, financial administration, conflicts of interest, and the application of government internal control systems only have an effect of 60.5% (R-Square value) on the variable quality of provincial government financial reports in North Sumatera. This shows that there are still other variables (of 39.5%) that might affect the quality of financial reports in the North Sumatera Provincial Government but are not included in this study.
3. In this study, there were variable indicators that were considered invalid when viewed from the convergent validity test (outer loading value), so the authors had to remove or remove these invalid variable indicators from the research model. The indicators removed amounted 1 (one) indicator out of 7 (seven) indicators on the conflict of interest variable.
4. This study uses primary data, which is analyzed from filling out questionnaire by respondents. So the answer given by the respondent is a perception.

## SUGGESTION

1. Based on the research results, it can be seen that the factors that have an influence on the quality of LKPD in the Regional Government North of Sumatera are the application of government accounting standards, the role of internal audit, financial administration, and conflicts of interest. For this reason, the North Sumatera provincial government can consider factors that must be improved, such as making adjustments to the application of applicable government accounting standards, increasing awareness of the negative impacts arising from conflicts of interest, and carrying out tighter supervision for each executor of management and financial reporting in

order to improve the quality of the financial reports of the Regional Government of North Sumatera.

2. For future research, those interested in conducting research on the quality of local government financial reports are expected to look for other variables that are suspected of having a relationship with or influence on the quality of financial reports. Because the variables used in this study are only able to explain 60.5% of the variance, there are still other factors that have an influence on the quality of local government financial reports.

## Declaration by Authors

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