The Role of the Goverment's Internal Control System as An Intervening Variable on the Influence of Non-Compliance with The Quality of Local Government Financial Statements In Indonesia

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Abstrak : This study aims to examine the influence of the goverment's internal control system and non-compliance with regulations on the quality of local goverment financial statements. Local goverments financial reports have a function as a form of accountability from the goverment to the public. This study uses Secondary data with local goverments financial statements as Indonesia amounted to 259 from 2010 to 2014 using eviews9 test tool. The result showed that the goverments internal control system and regulatory non-compliance have a significant effect on the quality of local goverment financial statements with the results on internal goverment control system variables of -0.932243 and the variable non-compliance regulation amounted to 0.830193 which means both variables above the significant value 0,05. On the internal goverment control system variables and regulatory non-compliance affecting 0,203449 which means 0,796 influenced by other variables.

Keywords : quality of financial statements, goverment internal control system, non-compliance regulation

1. RESEARCH BACKGROUND

The demand to have good governance must be responded by the government with the increasing changes. These changes will lead to implementation of good government governance. The challenge to achieve this is difficult because of the public services done by the government are riddled with many unhealthy activities. These activities will lead to corruption, collusion and nepotism practice which mark Indonesia as one of most corrupt country. This statement is based on the Transparency Indonesia (TI) survey done from 2006 until 2010. The good government governance is the society's demand and must be done the government (central and local) as public accountability. Accountability can be defined as the possibility of success and failure during the organization's

accomplishment to achieve objectives and targets previously determined periodically (Mardiasmo, 2002). As one of responsibility in implementation governance, arranged in Law No. 17 of 2003 about the financial state and Law No. 32 of 2004 about local government, the concrete attempt to show transparency and accountability in management of financial government (central and local), is in form of financial report.

SPIP is the government internal control done in all central and local government to create reliability of financial report, increase efficiency and effectively in government, secure the state's assets and comply with the law. SPIP can be used as early indicators to assess the organization's performance and a way to direct, supervise and measure the assets of an organization. Moreover, SPIP has an important role

of preventing and detecting fraud early, also guiding entity properly. One of management's general purposes in creating effective internal control system is to make sure the reliability of financial reporting (Arens, 2008:370).

According to Government Regulation (Peraturan Pemerintah or PP) No. 60 of 2008, intern control system good governance includes many policies such as (1) related to financial recording, (2) give assurance that the financial report has been drafted based on the government's standard accounting, income and expenses in accordance with authorization and (3) give assurance regarding assets' security that affected materially in the government financial report. The development of Government Internal Control System (SPIP) covers (a) the technical composing of SPIP, (b) socializing SPIP, (c) educating and training SPIP, (d) guiding and consulting SPIP and (e) increasing the auditor's competency of government internal supervision. In addition, the training is done by BPKP.

Choi (2011) states that accounting system, funding sources, tax, politic and economic relationship, economic development level, education level and culture are eight elements which can influence accounting. Moreover, Choi (2011) says that law and development of accounting are also able to influence the examination result of the local government's financial report showing noncompliance regulation to the Law that caused the local's loss, potency of local's loss, loss income, administration, non-economics, inefficiency, and ineffectively. Standard of State Financial Examination (BPK 2007) mentions that compliance with the last component regulation to assess the LKPD's accountability is compliance to the law. Examination

result of financial report shows noncompliance regulation caused the local's loss, potency of local's loss, loss income, administration, non-economics, inefficiency, and ineffectively. The personnel's performance assessment is not based on performance only compliance (Tobirin :2008). The more findings of noncompliance regulation indicate the government's performance and accountability are less than desirable. The dissatisfactory local government will cause the local's loss.

BPK RI opinion of local government financial report during 2011-2012 shows local government financial report percentage that assessed as Normal Without Exception (WTD) increased 23% from 10% in 2012 (from 13%). The percentage of Normal With Exception (WTP) local government financial report is decreased 62% in 2013 from 67% in 2012 with 5% difference, Abnormal Opinion (TW) in 2012 is the same percentage 1% and Not Giving Opinion (TMP) in 2012 is 14% decreasing 5% from 2011 which is 19% (IHPS I BPK RI year 2013). Summary of Semester Examination Result (IHPS) I BPK in 2013 shows there are 5.307 cases of Internal Control System (SPI) weaknesses. These cases are categorized based on findings in three categories, weakness of accounting control system and reporting, weakness of implementation budget control and weakness of internal control structure. Weakness of accounting control system and reporting cases are 1.918 (38% from SPI weakness), weakness of implementation budget control cases are 2.257 (43% from total SPI weakness), and weakness of internal control structure cases are 1.132 (21% from total SPI weakness). BPK recommendations of the cases are administration penalty and/or SPI improvement. Findings of the loss

because of noncompliance regulation are 7.282 cases worth Rp7.826.780,01 million. Findings of noncompliance caused the central or local loss, potency of central or local loss and loss income are 4.117 cases (56% from total noncompliance regulation cases) worth Rp6.666.051,68 million.

The aims of this research are to find SPIP influence to quality of local government financial report, noncompliance regulation influence to quality of local government financial report, government internal control system and noncompliance regulation influence to quality of local government financial report.

Based on the research background previously explained, the researcher interested to do research about this topic. This research is a development from some previous research that are Teuku, et al.(2015), Desi, et al.(2014) dan Komang, et al.(2014). The researcher wishes this research can give more advice to the central or local government and as a way to increase the quality of local government financial report in the future. In addition, the researcher wishes for herself and the reader to gain more knowledge about variable studies, theoretically and practically, in this research.

2. RESEARCH STATEMENTS

a. Is noncompliance regulation influence the local government financial report?
b. Is the government internal control system influence the quality of local government financial report?
c. Is there any indirect influence between noncompliance regulation and government internal control system to the quality of local government financial report?

3. RESEARCH LIMITATION

This research is limited to the variables related to noncompliance regulation, government internal control system, and quality of local government financial report or LKPD. The research is measured by LKPD data from 2010-2014 in Indonesia.

4. RESEARCH OBJECTIVE

a. To find and examine the relationship of noncompliance regulation's influence to local government financial report.
b. To find and examine the relationship between government internal control system's influence and the quality of local government financial report.
c. To find and examine the indirect relationship of noncompliance regulation and government internal control system to the quality of local government financial report.
d. To find and examine the indirect influence between the quality of local government financial report to noncompliance regulation and government internal control system.

5. THEORETICAL APPROACH

a. Noncompliance Regulation

Noncompliance regulation related to accounting policies accumulated in determining the normality in financial report (Hendarto: 2006). Financial examination is done by BPK RI based on the regulation identifies

some findings. The findings are categorized on revealing noncompliance regulation that caused the state's loss, potency of the state's loss, loss income, administration storage, noneconomic, ineffectively and inefficiency in Summary of Examination Result in every semester.

b. Government Internal Control System

Government Regulation (PP) No. 60 of 2008 defines internal control system as an integral process of actions and activities done by the leader and the employees continually to give assurance for achieving the organization's objectives by means of effective and efficient activities, reliability in financial recording, securing the state's assets and compliance to regulation. The objectives of Government Internal Control System are:

1) Give assurance to achieve effectively and efficiency toward governance government's objective
2) Reliable financial recording
3) Security of the state's asset
4) Compliance to regulation

c. Quality of Local Government Financial Report

Quality assessment of financial report can be seen from the presented report. The information in the financial report can be understood and fulfilled the user's necessity for making decision, error materials and reliable. Therefore, the financial report can be compared with the previous period. Generally, the financial report reflects influence from the past events and it is not mandatory to provide non-financial information. According to Mulyana (2010: 96), quality is defined as compatibility with standards, measured with incompatibility and achieved by examination. Additionally, Mahmudi (2003:17) explains that financial public report is a form of the government's responsibility to its citizen about financial public management from tax, retribution, or other transactions. The presentation of general purposes financial statements aim to increase comparison between financial report and budget, inter period or inter entity. Components included in financial report are Implementation Budget Report, Balance, Cash Flow Report, and Note of Financial Statement. Based on the Regulation of Minister of Home Affairs or Permendagri No. 13/2006, there are four characteristics of normative prerequisite needed to fulfill good quality of financial report which are relevant, reliable, comparable and understandable.

6. HYPOTHESIS FORMULATION

Noncompliance Regulation

Findings about loss of local assets such as money, marketable securities, and goods which are real and have exact number as a cause of noncompliance regulation activities, intentionally or unintentionally (BPK RI 2010). Noncompliance regulation caused the central or local loss is measured by the worth of the local loss (Atmaja and Probohudono, 2015). Compliance regulation is one of questionable factor in publishing public financial report. Compliance regulation is reflected from

illegal activities or findings of noncompliance regulation. Noncompliance regulation can cause miss presentation materials from information in financial record or other financial data significantly related to examination's objective (BPK RI Regulation No. 1 of 2007). Thus, BPK RI in examination does inspection to local government entity to the Law, fraud and unworthiness that influence directly and material to presentation of financial report. If the unworthiness found from inspection, the inspector will publish the inspection result of the financial report with the paragraph referred as compliance to government regulation.

H1 : noncompliance regulation influenced significantly to the local government financial report.
Government Internal Control System In Government Regulation No 8 of 2006, Government Internal Control System (SPI) is a process influenced by management, created to give assurance to achieve effectively, efficiency, compliance to regulation, reliability in presenting local government financial report. In Law No. 60 of 2008, Government Internal Control System (SPIP) is an integral system held in central and local government.

H2 : Government Internal Control System influenced significantly to LKPD
Indirect Influence between Noncompliance Regulation, Government Internal Control System and Quality of Financial Report Noncompliance regulation is one of factor makes the quality of financial report is less than desirable. The application of compliance regulation is a process with symbolic interaction between the controller and the controlled (Sawabe, 2002). This approach is done by regulation draft of application independent strategy and referred with legal aspect above it which can fulfill the objective of the regulation (Colin, 2003). This re-regulatory makes the re-regulatory approach through controlling institution strategy as phase of making its own decision that can fulfill compatibility the objective of the regulation (Syiful Hifni:2014).

H3 : noncompliance regulation indirectly influences the financial report.

7. RESEARCH METHOD

The data used in this research are the secondary data which is the result of examination (IHP) BPK from 2013 to 2014. The population in this research is all local government in Indonesia totaled 524. The collecting sample technique used is Probability Sampling or Random Sampling. This technique gives same probability taken from each elements of population (Sugiyono, 2014). The data collecting technique used for this research are downloading directly from BPK official website www.bpk.go.id and asking directly by email to Public Relation Department of BPK. The analysis tool for the data is eview9.

8. ANALYSIS AND DISCUSSION

a. Model Trial

There are three phase of this trial, Chow trial, Hausman trial and Lagrange Multiplayer trial. Based on both trials, the model used in this research is fixed effect since the probability value 0,0000<0,05.

	prob
C	0.0000
SPIP	0.3514
REG	0.4066

Classic Assumption Trial

Multi Collinear

	SPIP	REG
SPIP	1.000000	0.141724
REG	0.141724	1.000000

The result of multi collinear trial can be seen in the table above. Each Internal Control System (SPI) and Noncompliance Regulation (REG) variables both values 0,141724. Because both variables are smaller than 0.8, it can be concluded that there is no multi collinear in both free variables.

Heteroscedasticity

Variable	Prob.
C	0.3973
REG	0.0857
SPIP	0.1018

Heteroscedasticity trial result can be seen in the table above. Each Internal Control System (SPI) and Noncompliance Regulation (REG) variables values 0,0857 and 0,1018 respectively. The SPI variable value is more than 0,05 which means there is a heteroscedasticity problem.

Autokorelasi

DL	DU	D	DU	DL
1,7815	1,81223	1,778891	2,18777	2,21875

Autokorelasi trial result can be seen in the table above. There is no autocorrelation because the watson table result are in the middle between DU dan DL.

9. HYPOTHESIS DISCUSSION

The first hypothesis concerning the weakness of the internal government control system that influences the quality of local government financial statements. The result of this bipotesis analysis states that the weakness of the government's internal control system influences the R value (0.203449) to the quality of local government financial statements, this means the decreasing findings in the financial statements related to the weakness of the government's intenal control system, the better the financial report quality, financial statements will be delivered in a timely manner, as well as reliable accountability. The results of this research support the research conducted by Desidkk, 2014 The results of this second hypothesis study supports from research Atyanta (2011) stating that non-compliance of regulations affect the quality of local government financial statements with the value of F above 0.05 which means significant to the dependent variable Test results the third hypothesis states that there is an influence of non-compliance with regulations on government financial statements area through the internal control system with a value of 0.03 it states that the hypothesis is accepted. This result supports Justisia's research, et al (2014) states that non-compliance with laws and regulations affects the quality of financial statements.

10. CONCLUSION

The weakness of the government's inten- sive control system as well as non-compliance with the findings of the y-cases undertaken by BPK has decreased or the finding of weaknesses is reduced will affect the quality of the local government financial statements in

Indonesia. It is assumed that the local government has good human resources and high enough menzati atuaran which will influence improve the quality of local government financial statements This study shows the difference after the calculation of opinion BPK using categorization of WTP and NON WTP, that the level of quality of financial statements local governments in Java are better quality than financial statements that are outside Java. The type of data used in this study is secondary data Data from the summary of BPK audit results in 2013 and 2014 Population in this study all Local Government in Indonesia s 524 Sampling technique conducted by researchers using Probability Sampling or Random Sampling is something sampling way which provides equal opportunity or opportunity to be taken to every element of the population (sugyono, 2014) Techniques data through downloading files from the website of the Supreme Audit Agency (BPK RI) in the website www bpk go id and ask directly via email to the Public Relations BPK Analyzer by eviews9

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