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Government Internal Control System and Reliability of Social Aid Fund Management Financial Statements

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Abstract

This study aims to determine the effect of the government internal control system (SPIP) which refers to Central Government Regulation Number 60 of 2008 on the reliability of financial statements for the management of social aid (BANSOS). Tests were carried out on 19 SKPD as social aid managers in Sukoharjo regency area. The results show that the elements of SPIP, namely the environment control, activities control and information and communication did not significantly influence the reliability of financial statements of social aid fund management. While other SPIP elements, namely risk assessment and monitoring have a significant effect on the reliability of financial statements of social aid management.

Keywords

government internal control system
reliability of financial statements
social aid

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1. Introduction

The social aid program sourced from the local government budget (APBD) according to Minister of Home Affairs Regulation (Permendagri) number 32/2011 is one of the social assistance provided in the form of money/goods from the regional government to individuals, families, groups or communities of a nature not continuously and selectively which aims to protect the public from social risks. Minister of Home Affairs Regulation Number 32 of 2011 has undergone three changes, namely through Minister of Home Affairs Regulation Number 39 of 2012, Minister of Home Affairs Regulation Number 14 of 2016 and Permendagri Number 13 of 2018.

The audit board of the Republic of Indonesia (BPK) notes the irregularities in the management of social aid fund due to inadequate internal control systems and non-compliance with laws and regulations which are subsequently formulated in audit findings. Based on the BPK's audit findings, it shows that the financial statements of the

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social aid fund management have not been fully reliable because they do not meet honest presentation characteristics.

Weygandt et al. (2018) reveal that if an internal control has been established then all operations, physical resources, and data will be monitored and under control, the goal will be achieved, the risk will be small, and the information produced will be of higher quality. With the stipulation of internal controls in the accounting system, the accounting system will produce more qualified (timely, relevant, accurate, and complete accounting information), and can be audited (auditable).

Financial reporting is influenced by internal control. Widyaningsih et al. (2011) state that the internal control system can support the effectiveness of the regional financial accounting system so that it can produce quality financial statement information.

The background of the importance of implementing internal controls is due to a number of key issues in the management of state finances, including the existence of a disclaimer opinion by the BPK on financial statements. The disclaimer opinion given by the BPK can result in a decrease in public confidence in the government's ability to manage state/regional finances. Yudi et al. (2008) state that one of the reasons for the disclaimer opinion issued by the BPK was the weak government control system.

In more detail, the quality of financial reporting of local government is influenced by elements in the SPIP in the form of a control environment, risk assessment, activities control, information and communication, and monitoring (Faishol, 2016). On the contrary, Herawati (2014) states that the elements of activities control and monitoring did not have a significant effect on the quality of local government financial reporting. According to Tadeko (2017) the elements of the control environment and risk assessment did not have a significant effect on the quality of local government financial reporting. Whereas, Widyaningsih (2015) states that the element of the information and communication have no effect on the quality of local government financial reporting.

This study develops the concept of Dabbagoglu (2012), namely organizations need to build effective intern control system (SPI) by establishing the basic elements that form it effectively as well. SPI that is built is very useful in providing the effectiveness in preventing and/or detecting fraud. The elements that need to be considered are: 1) environment control; 2) risk assessment; 3) information and communication; 4) activities control; and 5) monitoring.

2. Methods

This research is a quantitative study with a sample of 19 social securities fund SKPD in Sukoharjo regency area where each SKPD is represented by 3 (three) respondents, while the sampling is done by purposive sampling technique. The sample selection criteria in this study are: 1) social aid fund managers who are experienced in managing social aid fund at least 1 year and 2) social aid fund management that its SKPD has been audited by the Inspectorate of Sukoharjo Regency in the period 2013 and 2014. Data collection conducted by using a survey method in the form of a questionnaire containing 6 instruments, they are instruments to measure: 1) environment control; 2) risk assessment; 3) activities control; 4) information and communication; 5) monitoring and

6) reliability of financial statements of social aid fund management. The research regression models are as follows:

$$FR = \alpha + \beta_1 EC + \beta_2 RA + \beta_3 AC + \beta_4 IC + \beta_5 MO + e$$

Where:

FR = reliability of financial reports management of social assistance fund

α = intercept value

β_1 – β_5 = regression coefficient

EC = environment control

RA = risk assessment

AC = activities control

IC = information and communication

MO = monitoring

e = error (other variables not explained in the model)

Reliability of financial statements of social aid fund management was measured using a 6-point likert scale with an interval scale. Answers 1 (strongly disagree) to 6 (strongly agree). The measurement of variable using 10 statement items that have been adjusted to Central Government Regulation Number 71 of 2010 concerning Government Accounting Standards.

The environment control describes the overall attitude of the organization that influences the awareness and actions of organizational personnel regarding control. These control environments are measured using a 6-point Likert scaled with an interval scale. Answers 1 (strongly disagree) to 6 (very strongly agree) using the research instruments used by Herawati (2014).

Risk assessment for the purpose of financial reporting is the process of identifying, analyzing and managing the entity's risks relating to the preparation of financial statements in accordance with generally accepted accounting principles. These risk assessment variables are measured using a 6-point Likert scaled with interval scale. Answers 1 (strongly disagree) to 6 (very strongly agree) using the research instruments used by Herawati (2014).

Activities Control includes adequate authorization, design and use of documents and adequate records, independent checks, adequate separation of functions, physical control over local government assets and records, and performance review. Variables of control activities are measured using a 6-point Likert scaled with interval scale. Answers 1 (strongly disagree) to 6 (very strongly agree) using the research instruments used by Herawati (2014).

Government agencies must have relevant and reliable information both financial and non-financial information relating to external and internal events. Agencies are also required to provide and utilize various forms and means of communication and to continuously manage, develop and update information systems. This variable of information and communication was measured using a 6-point Likert scaled with interval scale. Answers 1 (strongly disagree) to 6 (very strongly agree) using the research instruments used by Herawati (2014).

Monitoring is carried out through ongoing monitoring, separate evaluations, and follow-up on audit recommendations and other reviews. Continuous monitoring is carried out through routine management activities, supervision, benchmarking, reconciliation, and other related actions in carrying out tasks. These monitoring variables were measured using a 6-point Likert scaled with interval scale. Answers 1 (strongly disagree) to 6 (very strongly agree) using the research instruments used by Herawati (2014).

3. Results and Discussion

Descriptive data about the research questionnaire in detail are presented in the following Table 1.

Table 1 Descriptive Statistics Questionnaire

No.	Information	Amount	
		SKPD	Respondents
1.	Distributed questionnaire	19	57
2.	Questionnaire returned	19	57
3.	Response rate of return of questionnaire	100%	100%
4.	Incomplete or damaged questionnaire	0	0
5.	Questionnaire that can be used	19	57
6.	Rate of questionnaire that can be used	100%	100%

The results of descriptive statistics on control environment variables, risk assessment, activities control, information and communication, monitoring and reliability of financial statements of social aid fund management are presented in the following Table 2.

Table 2 Variable Descriptive Statistics

Variables	Min	Max	Mean	Std. Dev.
EC	40	56	46.77	3.375
RA	38	58	47.49	4.921
AC	39	56	48.07	3.178
IC	35	57	48.89	3.802
MO	39	58	48.74	3.715
FR	43	58	48.47	3.060
Valid N (list wise)	57	57	57	57

The technique used to test validity is to use the Pearson correlation coefficient (Table 3). Data is said to be valid if the correlation between the scores of each question with a total score of each construct is significant at the level of 0.05 or 0.01 then the question is said to be valid. The results of the pilot test reliability are presented in Table 4.

Table 3 Validity Test Results

No.	Pearson Correlation Coefficient						Remark
	EC	RA	AC	IC	MO	FR	
1.	0.467**	0.535**	0.571**	0.405**	0.494**	0.280*	Valid
2.	0.562**	0.363**	0.531**	0.340**	0.687**	0.614**	Valid
3.	0.709**	0.701**	0.600**	0.507**	0.559**	0.468**	Valid
4.	0.646**	0.554**	0.434**	0.676**	0.202*	0.530**	Valid
5.	0.532**	0.440**	0.531**	0.468**	0.585**	0.519**	Valid
6.	0.640**	0.629**	0.580**	0.519**	0.576**	0.528**	Valid
7.	0.708**	0.777**	0.450**	0.460**	0.431**	0.546**	Valid
8.	0.502**	0.820**	0.624**	0.726**	0.645**	0.540**	Valid
9.	0.577**	0.657**	0.625**	0.500**	0.571**	0.445**	Valid
10.	0.669**	0.702**	0.605**	0.796**	0.521**	0.501**	Valid

* significant at level 0.05
 ** significant at level 0.01

Table 4 Reliability Test Results

Variables	Cronbach's Alpha	Number of Questions	Number of Respondents
CE	0.771	10	30
RA	0.823	10	30
AC	0.753	10	30
IC	0.730	10	30
MO	0.720	10	30
FR	0.710	10	30

Table 5 Determination Coefficient Test Results

Descriptions	Value
R	0.815
R Square	0.664
Adjusted R Square	0.631
Std. Error of the Estimate	1.859
Std. Deviation	2.185

Table 6 Simultaneous Test Results (F-Test)

Descriptions	Value
Mean Square	69.604
F	20.148
Sig. (p-value)	0.000

In Table 5 the adjusted R square value is 0.631. This value shows that 63.1% of the variation in reliability of financial statements of social aid fund management can be explained by variations in the environment control, risk assessment, activities control, information and communication, and monitoring, while the remaining 36.9% is influenced by other factors, not included in the research model.

Based on the results in Table 6, the calculated F value is 20.148 with a significance level of 0.000. The significance value of Fcount is less than 0.05, it can be concluded that the SPIP variables (control environment, risk assessment, control activities, information and communication, and monitoring) has a simultaneous influence on the reliability of financial statements of social aid fund management.

Table 7 Multiple Linear Regression Test Results

Model	Unstandardized Coefficients		Sig.
	B	Std. Error	
(Constant)	7.459	4.578	0.109
EC	0.071	0.103	0.493
RA	0.182	0.063	0.006
AC	0.175	0.091	0.060
IC	0.030	0.088	0.735
MO	0.393	0.083	0.000

Based on the results of the multiple linear regression test presented in Table 7 above, it can be seen that the constant is positive that is equal to 7.459 which means if the environment control (EC), risk assessment (RA), activities control (AC), information and communication (IC), and monitoring (MO) is equal to 0, the reliability of financial statements of social aid fund management will be positive at a constant value of 7.459.

While the β value indicates the magnitude of the change in the dependent variable if the independent variable changes by one unit. The coefficients of the independent variables from the analysis in Table 7 can be seen as independent variables which are positive, namely the environment control (EC) with a value of 0.071. Such explanation also applies to other independent variables in this study, namely, risk assessment (RA), activities control (AC), information and communication (IC), and monitoring (MO).

Table 8 Hypothesis Testing: Partial Test Results (t-Test)

Model	B	T Statistic
EC	0.071	0.493
RA	0.182	0.006
AC	0.175	0.060
IC	0.030	0.735
MO	0.393	0.000

Testing the first hypothesis (H1) has a value of $\beta_1 = 0.071$ with a significance level of 0.493 (sig. < 0.05) so, H1 is not supported. Based on the results of these tests it can be concluded that the control environment variable does not affect the reliability of financial statements of social aid fund management in Sukoharjo regency.

The results of this study are in line with the Tadeko (2017) study which states that the environment control does not affect the quality of local government financial reports. Conversely, the results of this study are not in line with the research of Herawati (2014) and Widyaningsih et al. (2011) which state that the control environment influences the quality of financial statements.

Testing the second hypothesis (H2) has the value of $\beta_2 = 0.182$ with a significance level of 0.006 (sig. < 0.05) so, H2 is supported. Based on the results of these tests it can be concluded that the risk assessment variable influences the reliability of financial statements of social aid fund management in Sukoharjo regency.

The results of this study are in line with the research of Herawati (2014) and Faishol (2016) which state that risk assessment influences the quality of financial statements.

Testing the third hypothesis (H3) has a value of $\beta_3 = 0.175$ with a significance level of 0.060 (sig. < 0.05) so, that H3 is not supported. Based on the results of these tests it can be concluded that the activities control variable does not affect the reliability of financial statements of social aid fund management in Sukoharjo regency.

This research is in line with the research of Herawati (2014) which states that control activities do not affect the quality of financial statements. Conversely, the results of Widyaningsih (2015) and Tadeko (2017) study conclude that control activities affect the quality of financial statements. This study concludes that control activities have not gone well in some of the social security fund SKPDs in Sukoharjo regency.

Testing the fourth hypothesis (H4) has a value of $\beta_4 = 0.030$ with a significance level of 0.735 (sig. < 0.05) so, that H4 is not supported. Based on the results of the test it can be concluded that the information and communication variables do not affect the reliability of financial statements in Sukoharjo regency.

The results of this study are in line with the research of Widyaningsih (2015) which states that information and communication do not affect the quality of local government financial reports. In contrast, Herawati (2014) study, Tadeko (2017) states that information and communication had an effect on the quality of financial statements. This study concluded that information and communication had not gone well in some social security fund SKPDs in Sukoharjo regency.

Testing the fifth hypothesis (H5) has a value of $\beta_5 = 0.393$ with a significance level of 0.000 (sig. < 0.05) so, that H5 is supported. Based on the results of these tests it can be concluded that the monitoring variable has an effect on the reliability of financial statements of social aid fund management in Sukoharjo regency.

The results of this study are in line with the research of Widyaningsih (2015) and Faishol (2016) which concluded that monitoring affects the quality of local government financial reports.

4. Conclusion

Based on the discussion, it shows that risk assessment and monitoring proved to have a significant positive effect on the reliability of financial statements of social aid fund management in Sukoharjo regency. While the elements of the government internal control system (SPIP) consisting of elements of the environment control, activities control, and information and communication proved to have no effect on the reliability of financial statements of social aid fund management in Sukoharjo regency. This shows that the elements of the environment control, activities control, information and communication should be improved in the SKPD of the social aid fund manager, so that the financial statements for the management of the social aid fund generated will be more reliable.

SPIP has an influence contribution of 0.631 or 63.1%. This means that SPIP has an effect of 63.1% on the reliability of financial statements. This is in accordance with the purpose of the SPIP implementation in the SKPD of the social aid fund manager, namely to increase the reliability of financial statements of social aid fund management.

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