

# **THE EFFECT OF THE IMPLEMENTATION OF GOVERNMENT INTERNAL CONTROL TOWARDS AUDITOR OPINION USING THE APPLICATION OF GOVERNMENT ACCOUNTING STANDARDS AS A MODERATION VARIABLE**

Michael King<sup>1</sup>, Hari Setiyawati<sup>2\*</sup>, Ratna Mappanyuki<sup>3</sup>

<sup>1</sup> Postgraduate Program, Universitas Mercu Buana

<sup>2</sup> Postgraduate Program, Universitas Mercu Buana

<sup>3</sup> Postgraduate Program, Universitas Mercu Buana

**Abstract.** This study aims to analyze the effect of the application of the government's internal control system to the achievements of Auditor Opinions moderated by the application of Government Accounting Standards. The method of determining the sample used is the purposive sampling method. Respondents in this study were the Head of Subdivision of Finance and Treasurer / Administration who were directly involved in the preparation of 59 financial statements.

The benefit of this study is to contribute scientifically to public sector accounting science and solve problems for local governments in the implementation of tasks, namely understanding the Government's Internal Control System with the attainment of opinions on local government financial reports and the importance of implementing Government Accounting Standards. The results of this study prove that the application of the government internal control system has an effect on the achievement of auditor opinion, whereas if moderated the application of Government Accounting Standards it also significantly influences the achievement of auditor opinion so that this moderation is quasi-moderating ie through moderating variables will more significantly achieve unqualified opinion.

**Keywords:** Auditor Opinion, Government Accounting Standards, Internal Control System.

## **1. INTRODUCTION**

At least the regional governments that obtain unqualified opinions from the Supreme Audit Agency are of particular concern by the Regional Government in the implementation of financial preparation and reporting. At the 2015 audit there were 533 Local Governments and 542 Regional Governments that were obliged to prepare financial statements of only 312 Regional Governments who obtained opinions Reasonable Without Exception (WTP) or 58%, 187 Local Governments get a Fair Opinion with Exceptions (WDP) or 35%, 30 Local Governments receive an opinion Not Giving Opinion (TMP) or 6% and 4 Local Governments get Unqualified opinion or 1% . Harry Azhar Azis (October 4: 2016). Examination of financial statements is intended to find out whether the financial statements have been prepared in accordance with Government Accounting Standards, the adequacy of disclosures, compliance with legislation and the effectiveness of internal controls. The effectiveness of the internal control system has increasingly provided direction for the government in the implementation of the preparation of financial statements, a series of actions, procedures and even policies can be carried out by the Government in the framework of preparing financial statements in accordance with the applicable legislation. The internal control system

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\*Corresponding Author, Email: hari\_setiyawati@mercubuana.ac.id

implemented by the Regional Government greatly influences opinions on the Regional Government Financial Statements. Budiawan and Purnomo (2014) conducted a study on the Effect of Internal Control Systems and Coercive Strengths on the Quality of Local Government Financial Reports, the results of which indicate that the internal control system does not have a positive effect on the quality of local government financial reports. This is inversely proportional to the results of research conducted by Herawati (2014) which examined the Effect of Internal Control Systems on the Quality of Financial Reports, the results of which showed that there were significant influences between Environmental Control, Risk Assessment, Control Activities, Information and Communication, and Quality Monitoring Financial statements The implementation of the Government Accounting Standards imposed in 2015 has not run optimally (Kumolo, 2015). The Minister of Home Affairs (Kumolo, 2015) said there were several obstacles faced by the regions in implementing the new Accounting Standards. Constraints faced included the quantity of human resources (HR) in financial management, competence, and commitment of regional heads in encouraging optimization of the performance of financial-based financial reports in area

## **2. THEORITICAL REVIEW**

### ***2.1. Internal Control System***

The internal control system according to Hall (2014: 5), "A group of interrelated multiple components or subsystems that serve a common purpose or system is a collection or group consisting of two or more interconnected components or subsystems to achieve goals the same one". Definition of internal control system according to Hery (2013: 159) Internal control system is a set of policies and procedures to protect company assets or assets from all forms of misuse, to ensure the availability of accurate accounting information, and to ensure that all legal provisions Laws and management policies have been complied with or carried out properly by all company employees. Based on some of the descriptions that the system is a collection of several subsystems that have the same goals in different ways based on each task and function of the subsystem. The same thing was stated by Anthony (2013: 164). The Internal Control System includes organizational structures, methods and measures that are coordinated to maintain organizational wealth, check accuracy and reliability of accounting data, encourage efficiency and encourage compliance with management policies. According to Romney and Steinbart ( 2012: 204) Internal control system is a process that is designed and implemented by the board of commissioners or management to provide adequate assurance that the control objectives have been achieved so that they can help achieve company goals. In addition to the aforementioned statements, Government Regulation number 60 of 2008 concerning the Government's Internal Control System, defines internal control as follows: Internal Control System is an integral process in actions and activities carried out continuously by the leadership and all employees to provide adequate assurance for achieving organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations "

### ***2.2. Government Accounting Standards***

According to Tanjung (2013) the definition of Government Accounting Standards are as follows: Government accounting standards are accounting principles applied in compiling and presenting government financial reports, which consist of Central Government Financial Reports (CGFR) and Local Government Financial Reports (LGFR), in the framework of transparency and accountability in the administration of government accounting, as well as improving the quality of CGFR and LGFR.

According to Indra Bastian (2010), "Government accounting standards are the accounting principles set out in compiling and presenting government financial reports". Definition of

Government Accounting Standards according to Abdul Halim (2012: 43), Regional Government Accounting is the process of identifying, measuring, recording, and reporting economic (financial) transactions from regional government entities (districts, cities or provinces) that are used as information in the context of economic decision making by external parties that require local government. While the definition of Government Accounting Standards according to Government Accounting Standard Board (GASB) (1999), "Government Accounting is an integral of the accounting discipline. It is the basic concepts underlying the accounting for whole and shares many characteristics with commercial accounting. "

### ***2.3. Auditor Opinion***

Audit opinion is given by the auditor through several audit stages so that the auditor can provide conclusions on the opinions given to the audited financial statements. The audit opinion is stated in an audit report consisting of three paragraphs, namely the opening paragraph, the paragraph of scope and the paragraph of opinion. The opening paragraph identifies audited financial statements and states that the financial statements are the responsibility of the entity's management. In the paragraph the scope of the auditor describes the explicit nature of the audit and explicitly states that the audit conducted has provided an adequate basis for expressing opinions on the financial statements. Whereas in the opinion paragraph, the auditor communicates the results of the audit. Based on the Law of the Republic of Indonesia No. 15 of 2004 concerning the Examination of Management and Responsibility of State Finance, the types of opinions given by the BPK RI contained in the Standard Statement for Examination of 300 Republic of Indonesia Supreme Audit Agency Regulation Number 1 of 2017 concerning State Financial Examination Standards, auditor opinion divided into four, namely Unqualified Opinion, Qualified Opinion, Adverse Opinion and Statement Refusing to Give Opinion.

### ***2.4. Conceptual Framework***

Research conducted by Desi, Ria & Rasuli (2012) states that one of the factors influencing unqualified opinion is the internal control system. With the better internal control system, there is a positive effect on the acquisition of unqualified opinion.

According to Purwaniati (2008), states that there is a positive and significant influence between the application of government accounting standards to the quality of local government financial reports, namely SAP is applied in the scope of government, both in the central government and its departments and in regional government and its agencies. SAP implementation is believed to have an impact on improving the quality of financial reporting in central and regional governments.

In line with previous research conducted by Muhammad Arfan (2016) with the title The Effect of Understanding of Government Accounting Standards and Internal Control Systems on Quality of Financial Statement from Local Government through a Review of the Process of Financial Statement by the Inspectorate Agency stated that there was a significant influence from understanding of Government Accounting Standards on the Quality of Financial Statements.

The relationship between the Internal Control System, Government Accounting Standards and the Achievement of Auditor Opinions can be seen in the picture as follows:

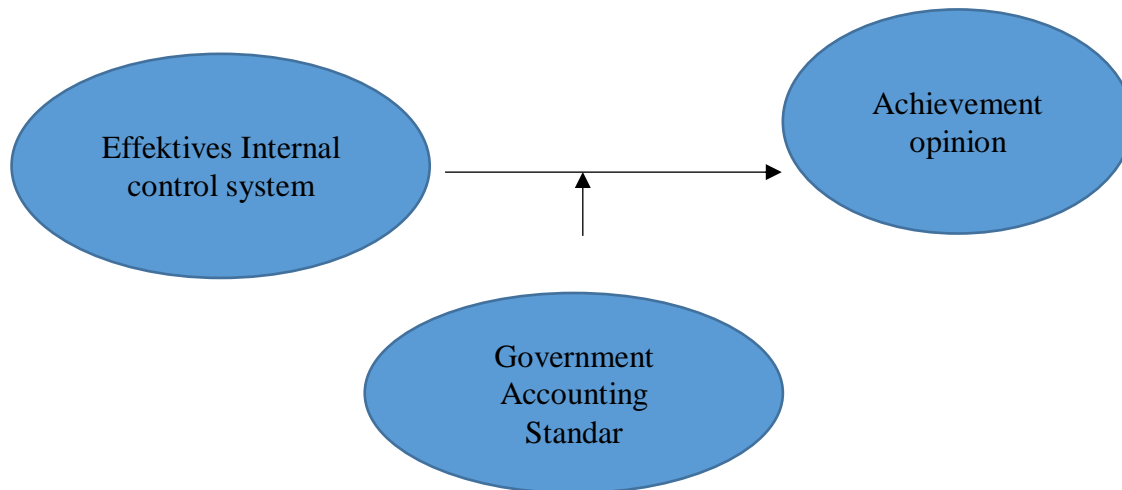


Figure 1. Framework

Based on the framework stated earlier, the following hypothesis can be compiled:

H1: Effectiveness of the Internal Control System Influences the Achievement of auditor opinion

H1: Effectiveness of the Internal Control System Influences the Achievement of auditor opinion if moderated by the Application of Government Accounting Standards.

### 3. METHODS

#### 3.1. Research Method

This research is explorative (exploratory study) with a type of causal study where the researcher wants to find the cause of one or more problems (Uma Sekaran, 2007). In this study will be examined the effect of the effectiveness of the internal control system on the achievement of auditor opinion moderated by the application of government accounting standards. The target population as a whole unit of analysis in this study is the entire Regional Government Work Unit of the City of Tangerang. The sample is determined by using saturated samples, ie all populations are sampled. Data were analyzed using Smart PLS software. The stages of testing are carried out as follows: descriptive statistical analysis, validity and reliability test, evaluation of goodness of fit, and hypothesis testing.

### 4. STATISCITAL TEST RESULTS

#### 4.1. Descriptive Statistics

The average value of the indicators of the effectiveness of the Internal Control System is 4,284 with a very high category. The lowest score of 3.302 is in the indicator of budget constraints and

the highest score of 4.488 is in the indicators of employee integrity, new legislation, transaction verification and transaction reconciliation. as seen in the following table:

**Table 2. Describe Indicators of the Effectiveness of Internal Control Systems Variables**

No	Indicator	Score	category
1	Employee integrity	4,488	Very high
2	Employee ethical values	4,465	Very high
3	HR Competence	4,233	Very high
4	New legislation	4,488	Very high
5	Technological developments	4,070	High
6	Budget limitations	3,302	High enough
7	Approval of transactions	4,535	Very high
8	Verification of transactions	4,488	Very high
9	Reconciliation transactions	4,488	Very high
	<b>Average</b>	<b>4.284</b>	Very high

**Source: Primary data processed, 2019**

Based on the description above. the effectiveness variable of internal control has very high categorization. This illustrates that the internal control system has been effectively implemented.

The average value of the variable indicator of the Application of Government Accounting Standards is 4.367 with a very high category. The lowest score of 4.046 is found in the indicator of income realization and the highest score of 4,627 is found in the indicators of government regulation and budget realization. as seen in the following table:

**Table 3. Description of Indicators Variable Application of Government Accounting Standards**

No	Indicator	Score	category
1	Government regulations	4,627	Sangat Tinggi
2	Budget Realization	4,627	Sangat Tinggi
3	Fixed Asset Assessment	4,372	Sangat Tinggi
4	Obligation Assessment	4,232	Sangat Tinggi
5	Realization of Revenue	4,046	Tinggi

6	Fair Presentation of Transactions	4,279	SangatTinggi
7	Presentation of Accounting Events	4,162	Tinggi
8	Reporting Period	4,581	Sangat Tinggi
9	Accounting Method	4,418	Sangat Tinggi
10	Completeness of Information	4,325	Sangat Tinggi
11	Report Presentation	4,372	Sangat Tinggi
	<b>Average value</b>	<b>4.367</b>	<b>Sangat Tinggi</b>

**Source:** Primary data processed, 2019

Based on the description above. The variable Application of Government Accounting Standards has very high categorization. This illustrates that Government Accounting Standards have been applied and have been adhered to well.

The average value of the indicator indicators of the auditor's opinion is 4,271 with a very high category. The lowest score of 4.023 is in the indicator of restrictions on the scope of the audit and the highest score of 4,535 is in the conformity indicator of the accounting standards applied. as seen in the following table:

**Table 4. Description of Indicator Variables Achievement of Auditor Opinion**

No	Indicator	Score	category
1	Compliance with the accounting standards applied	4,535	Very high
2	No material errors	4,233	Very high
3	Enough proof material is presented	4,349	Very high
4	The lack of sufficient competent evidence	4,163	High
5	Restrictions on the scope of the audit	4,023	High
6	Reports are presented fairly	4,326	Very high
	Average value	<b>4.271</b>	Very high

**Source:** Primary data processed, 2019

Based on the description above. Auditor opinion achievement variables have very high categorization. This illustrates that the auditor's opinion has been achieved well.

#### **4.2. Validity and Reliability test**

The following is the result of the output loading factor constructing the application of government accounting standards that has a significant effect on the opinion outcomes moderated by the effectiveness of the internal control system on Smart PLS:

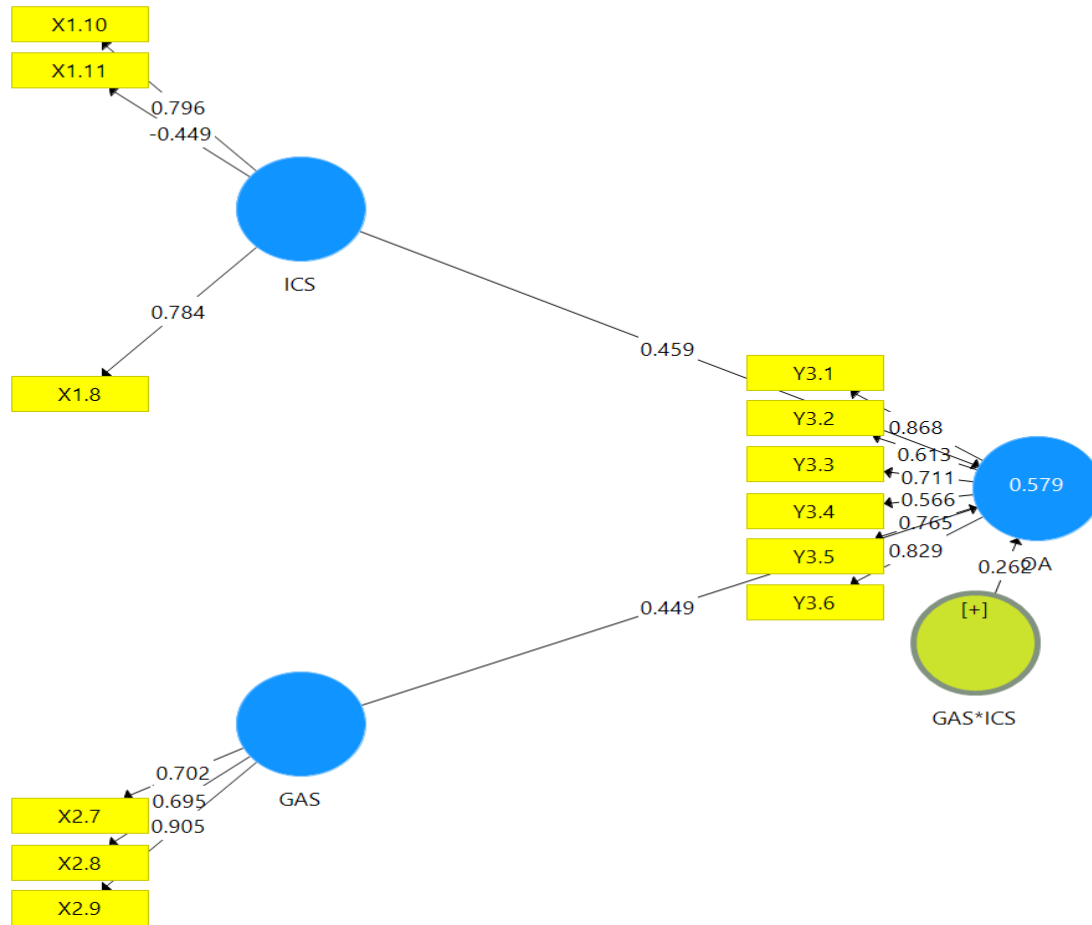


Figure 2. Output Loading

Based on the output on the path diagram above, the loading factor has met convergent validity, ie the indicator value is above 0.5. All loading factors are significant at the 5% level.

The reliability test results of each variable in this study can be seen in the table below:

**Table 5. Reliability Test Results**

Variable & Dimensions	AVE	Cronbach's Alpha	Composite Reliability	Information
Effectiveness of Internal Control System (X1)	0.584	0,711	0.852	Reliabel
Application of the GAS (X2).. Moderating	0.598	0.669	0.815	Reliabel
Achievement of Auditor Opinion (Y)	0.538	0.828	0.872	Reliabel
GAS*ISCE	1.000	1.000	1.000	

**Source:** Primary data processed, 2019

Based on the results of the reliability output above, it can be concluded that for all dimensions in the variable, the effectiveness of the internal control system, the application of government accounting and the auditor's opinion have Cronbach's Alpha above 0.6 and Composite Reliability above 0.7 so that it can be concluded that the indicator- the indicators used in each dimension have sufficient reliability or ability to measure the construct.

#### ***4.3. Evaluate the Goodness of Fit Structural Model (Inner Model)***

Table 6 below explains the results of the coefficient of determination analysis of the research variables:

**Table 6 R Square**

Variabel	R Square	R Square Adj
Achievement of Auditor Opinion (Y)	0.579	0.546

**Source:** Primary data processed, 2019

Based on the determination coefficient in the table above, the R2 value for the auditor opinion achievement variable is 0.406, which means that the value indicates that the auditor opinion achievement model is explained by the effectiveness of the internal control system and the application of government accounting standards by 40.6% while the rest is 59, 4% is explained by other variables not found in the research model.

#### ***4.4. Hypothesis Testing***

To test the hypothesis in this study, the Tstatistic value of each pathway is partially direct influence. The following is a picture that explains the path diagram to test the hypothesis:



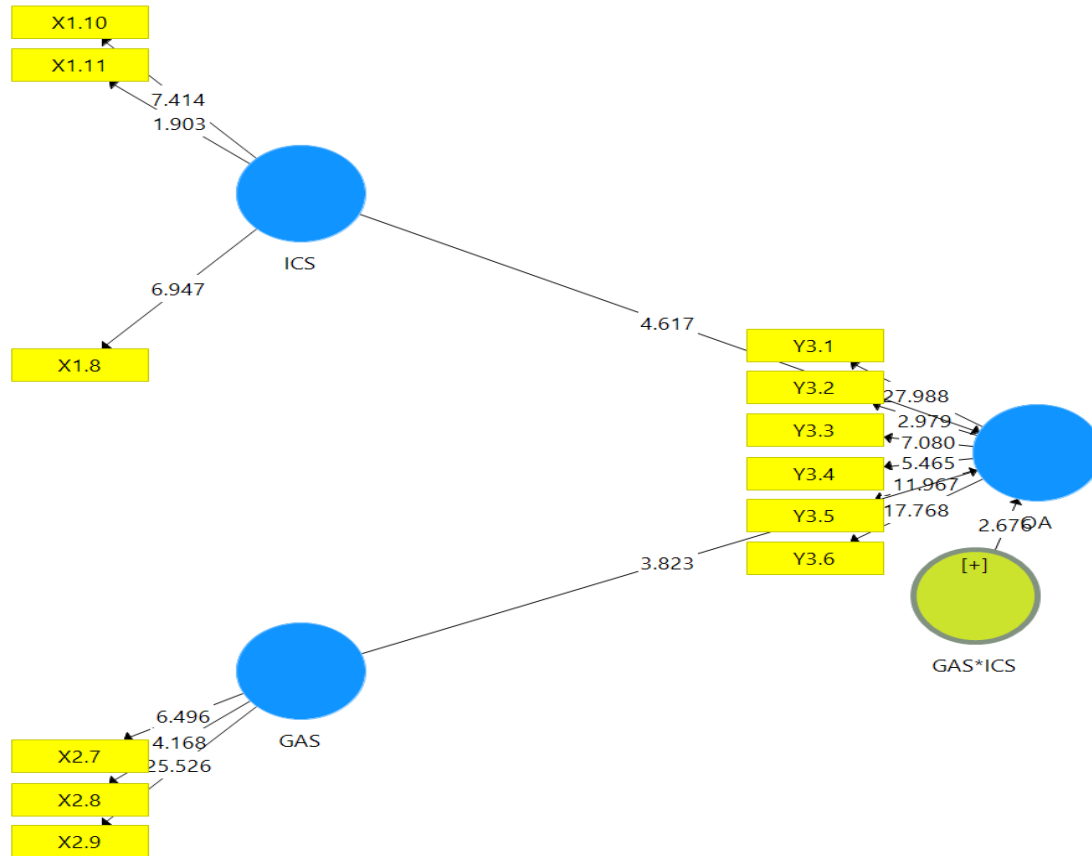


Figure 3. Output Inner Model

Table 7. Path Coefficients

Inter-Variable Relationships	Coefficient Parameter	T Statistics	P Values	Information
Effectiveness of Internal Control System -> Achievement of Auditor Opinion	0.459	4.617	0.000	Significant
Application of The GAS -> Achievement of Auditor Opinion	0.449	3.823	0.000	Significant
GAS*ICSE-> Achievement of Auditor Opinion	0.262	2.677	0.008	Significant

Inf.: Significant at level 5%

The path parameter coefficient obtained from the effect of the effectiveness variable of the internal control system on the achievement of the auditor's opinion is 0.459 with a Tstatistic value of  $4.617 > 1.660$  at the significance level  $\alpha = 0.05$  (5%) and P values of 0.000 below 0.05 which states that there is a significant effect internal control system towards auditor opinion achievement. The results of this study support the first hypothesis, namely there is the effect of the effectiveness of the internal control system on the achievement of auditor opinion. The value of 0.459 in the parameter coefficient means that the more effective the implementation of the internal control system, the easier it is to achieve unqualified auditor opinion.

The path parameter coefficients obtained from the effect of the application of government accounting standard variables on the achievement of auditor opinion is 0.449 with a Tstatistic value of  $3.823 > 1.660$  at the significance level  $\alpha = 0.05$  (5%) and P values of 0.000 above 0.05 which states that there is a significant effect government accounting standards for auditor opinion achievements. The path parameter coefficient obtained from the effect of the effectiveness variable of the internal control system on the achievements of the moderating auditor opinion on the application of government accounting standards is 0.262 with a Tstatistic value of  $2.677 > 1.660$  at the significance level  $\alpha = 0.05$  (5%) and P values 0.008 below 0.05 which states that the application of government accounting standards moderates the significant effect of the effectiveness of the internal control system on auditor opinion outcomes. The results of this study support the second hypothesis, namely the application of government accounting standards to moderate the effect of the effectiveness of the internal control system on the achievement of auditor opinion.

## 5. DISCUSSION

### *5.1. Effect of Effectiveness of Internal Control Systems on Achievement of Auditor Opinions*

Based on the results of hypothesis testing, the results show that the effectiveness of the internal control system influences the achievement of auditor opinion. This is because if the internal control system is good then the goals of the organization or entity can be achieved properly. The purpose of a good internal control system is to maintain the wealth and record of the organization, check the accuracy and reliability of accounting data and improve or encourage efficiency and compliance with management policies or entities. The Internal Control System in the Regional Government of Tangerang City has been very good in the presence of:

- a. Organizational Structure that separates functional responsibility explicitly in each SKPD so that all activities are based on the duties and functions of the existing SKPD.
- b. System of authority and recording procedures that provide adequate protection of assets. Income and costs are well organized with the administration and accounting fields that coordinate all SKPDs in preparing financial statements.
- c. Healthy practice in carrying out the duties and functions of each unit and employees or employees whose quality is in accordance with their responsibilities. All these elements have been well fulfilled by the Regional Government of Tangerang City.

The same thing was expressed by Oka and Sudarno (2017) in his research stating that internal control is weak which results in incomplete accounting records and or inadequate documents available and / or the system does not produce valid accounting data. This condition does not allow the examiner to carry out adequate inspection procedures. As a result of these conditions, the examiner will give an opinion other than Unqualified Fairness. The same thing was stated by Hari

(2016) in his research stating that the weaknesses of the internal control system and non-compliance with statutory provisions affect audit opinion.

### ***5.2. Effect of Application of Government Accounting Standards on The Achievement of Auditor Opinions***

Based on the results of hypothesis testing, the results show that the application of Government Accounting Standards influences the achievement of auditor opinion. This is because the Government Accounting Standards are references that have been determined by the Government that must be followed by the Regional Government and the Central Government so that they are mandatory. Rational means that if the Government Accounting Standards that have been compiled are not elaborated and are not obeyed by the Regional Government and the Central Government in the preparation of financial statements, the preparation of financial statements is no longer in line with Government Accounting Standards. Government Accounting Standards are references in the preparation of financial statements if the Regional Government and the Central Government do not follow what has been regulated in SAP, so that high quality financial statements will not be achieved which can ultimately affect the achievement of auditor opinion.

### ***5.3. The Application of Government Accounting Standards Moderates The Significant Effect of The Effectiveness of The Internal Control System on The Achievement of Auditor Opinions***

Based on the results of hypothesis testing, the results show that government accounting standards moderate the significant effect of the effectiveness of the internal control system on the auditor's opinion achievement. This means that the effectiveness of the internal control system influences the achievement of auditor opinion, when moderated by the application of government accounting standards it also remains influential. Government accounting standards must be applied, as well as internal control systems, local governments must implement them.

## **6. CONCLUSIONS AND RECOMMENDATIONS**

### ***6.1. Conclusions***

Based on the results of the discussion presented in the previous chapters, the following can be concluded:

1. The effectiveness of the internal control system influences the achievement of the auditor's opinion. If the internal control system is good then the goals of the organization or entity can be achieved properly.
2. The effectiveness of the internal control system if moderated by the application of Government Accounting Standards also continues to influence the achievement of auditor opinion.

### ***6.2. Sugesstion***

1. Local governments must increase their commitment to continue to improve their internal control system by involving all relevant parties, not only inspectors who carry out their own supervision but also each SKPD must have an SOP for all existing activities so that there is no overlapping between existing fields.
2. Accounting policy is a reference in the preparation of financial statements so that there is a need for sharper accounting policies so that the preparation of financial statements is fully disclosed so that all accounts in the financial statements can be presented.

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