



**THE IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE
AND THE GOVERNMENT’S INTERNAL CONTROL SYSTEM
IN EFFORT TO IMPROVE THE QUALITY OF REGIONAL
FINANCIAL REPORTS IN PALEMBANG CITY**

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Abstract

The implementation of good corporate governance should be supervised and controlled both internally and externally so that the quality of LKPD can be guaranteed. SPIP also has a role in controlling which has the impact of the presentation of quality financial reports. This study aims to find out how much the implementation of good corporate governance and the government's internal control system is to improve the quality of regional financial reports in Palembang City. This study used a sample of 58 respondents in the Regional Financial and Asset Management Agency (BPKAD) Palembang City. The research method uses descriptive quantitative methods using statistical calculations with SPSS as an analytical tool. In this study, descriptive statistics were used along with reliability, validity, and traditional assumption tests (like the tests for normality, multicollinearity, autocorrelation, and heteroscedasticity), multiple linear regression analysis, and hypothesis testing (like the simultaneous test, partial test, and test of the coefficient of determination). The study's findings indicate that both effective corporate governance and internal control systems have a favourable impact on the accuracy of financial reports. The independent variables of sound corporate governance and an effective internal control system are concurrently positive and significant to the independent variable, which is the calibre of financial reports, according to the statistical test F.

Keywords: Governance, Internal Control, Financial Statements

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INTRODUCTION

The implementation of good governance will have an impact on the performance of an organization including the government. One good performance indicator is the presentation of reliable, accountable, and transparent regional financial reports. In order to realize a regional government that has good performance, local governments must continue to strive to improve good financial reporting. Of course, high-quality financial reports are very beneficial for users or stakeholders, especially for transparency to the public. Law Number 17 of 2003 concerning State Finance states that regional governments are obliged to issue financial reports as a basis for decision-making. Financial reports that have good quality are important as the responsibility of the regional government to the community through the Regional People's Representative Council (DPRD) in a transparent and accountable manner. Financial reports present local government assets, liabilities, and capital information.

Law No. 9 of 2015 regulates the administration of government through the management of state finances by submitting financial reports in a real effort to increase transparency and accountability. Government financial accountability with respect to the principle of timeliness and prepared in compliance with government resolution No. 71 and government accounting requirements (Marfuah, 2018). Regional government financial reporting refers to the government accounting standards (SAP) (Abdullah & Putra Nainggolan, 2019). Regional financial reports are verified by independent auditors, distributed to the DPRD and independently made available to the public. The audit

financial reports that are published can then be used as a performance evaluation material and provide planning suggestions for the next future (Kurniawati et al., 2020). The government as the manager of the Regional Government Organization (OPD) must have competent human resources and adequate information technology so that it can produce financial reports that are reliable, accountable, and transparent. Information technology is needed to produce quality financial reports for regional governments.

The use of technology in computer accounting applications within the scope of the central and regional governments is very important in assisting the OPD and PPKD financial management officials in preparing cost-effective, efficient, and economical accrual-based financial reports in accordance with SAP. Apart from that, it can also help distribute regional financial information to the community through public services.

Implementation of Good Corporate Governance (GCG) should be supervised and controlled both internally and externally so that the quality of LKPD can be guaranteed. Internally it is supervised by the Government Internal Monitoring Apparatus (APIP) which acts as the internal auditor of the government. The role of the internal auditor is the second factor that is suspected to affect the quality of LKPD. Internal auditors have strategic roles and positions and are required to be able to carry out their functions as an early warning system. In addition, the Internal Control System of the Government (SPIP) also has a role in control which has a bearing on the quality of financial reports presented. SPIP has a number of elements that are very important in the management of regional

accountability, the areas described above are environment control, risk control, activity control, information control, and communication control. The control environment, is a component of the internal control system, is the basic element for the operational activities of an entity that is safe, sound, and reliable, optimizing the use of resources economically, effectively, and efficiently (Randal, 2014). The Financial Audit Agency (BPK) as the external auditor ensures and tests the implementation of the SPIP to the government. The fairness of the presentation of financial statements will be impacted by SPIP.

Palembang City Government obtains Unqualified Opinion (WTP) on Regional Government Financial Reports (LKPD) from 2016 to 2021 (Meidiyana, 2021). Therefore, Palembang City has a commitment to always improve local government performance by presenting reliable, accountable, and transparent LKPD. However, there are still cases at the Palembang City Regional Financial and Asset Management Agency (BPKAD) where two unscrupulous employees were named by the Public Prosecution Service (JPU) as suspects in 2019 in connection with a corruption case over irregularities in elevator procurement funds (Rusidi, 2020). So that the implementation of GCG and SPIP as internal controllers in local government becomes an interesting matter for the disclosure of quality LKPD.

LITERATURE REVIEW

Good Corporate Governance

GCG is a series of methods from planning, and implementing to evaluating organizational management in an effort to increase value. GCG government has a role in business continuity efforts in an effort to

bring in investors (Abdullah & Putra Nainggolan, 2019).

Government Internal Control System (SPIP)

SPIP is a series of systems that regulate elements within an organization or agency to achieve organizational goals. SPIP plays a role in achieving the objectives of governance management, management of state financial assets, and compliance with laws in an effective and efficient manner. PP No. 60 of 2008 states that SPIP is made up of a number of indicators, comprising the risk assessment, control measures, control environment, information, and communication, as well as evaluation and monitoring of internal control (Gustina, 2021). SPIP in government agencies is known as a system created to guide government agency management efforts so that it can achieve its objectives in an effective and efficient manner, where the state financial management can be reported reliably, managed safely, and in a certain way to promote financial compliance and financial compliance.

Quality of Financial Statements

According to PP No. 71 of 2010, government financial reporting must be relevant, reliable, comparable, and understandable. A financial report that has good quality must present information properly and correctly in accordance with accounting principles. Quality government financial reports must contain information that can be understood as a guide for government decision-making (Hendri & NR, 2020).

GCG and SPIP should be applied in preparing regional financial reports because local governments are responsible for

regional financial reports level of quality. A good SPIP guarantees the production of quality financial reports. To improve the quality of financial reports, local governments must always improve control activities by considering the systematic delegation of tasks to several people to ensure checks and balances.

RESEARCH METHODS

Researchers in this study used quantitative research methods. Palembang City's Regional Financial and Asset Management Agency (BPKAD) served as the research site for this study. The sample is 58 people. All presentation and analysis of information used in this study through the use of the SPSS program. The statistics used in this study are descriptive statistics with validity tests, reliability tests, conventional hypothesis tests, multiple linear regression analysis, and hypothesis testing, including simultaneous tests, partial tests, and coefficient of determination tests, which are examples of conventional hypothesis tests.

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

To determine how government internal control systems (X₂) and effective business governance (X₁) affect the calibre of financial reports, multiple linear regression analysis was used.

The following Table 1, which are based on the regression equation's findings, demonstrate: a constant of 10,518 means that all independent variables are constant at 10,518; good corporate governance (X₁) of 0.355 means that for every unit rise in the internal control system's value, the quality of financial reports will also increase by 0.355; the internal control system (X₂) of 0.375 indicates that for every increase in the

value of organizational commitment by 1, It will result in a 0.375 improvement in the financial reports' quality.

Table 1. Multiple Regression Analysis Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10,518	5,220		2,015	,049
subx1	,355	,128	,344	2,778	,007
subx2	,375	,176	,264	2,131	,038

Source: Data processed using SPSS (2023)

Determination Coefficient Test

Table 2. Determination Coefficient Test Results

Model	R	R Squared	Adjusted R Squared	Std. Error of the Estimate	Durbin-Watson
1	,496a	,246	,218	3,323	2,063

Source: Data processed using SPSS (2023)

The adjusted R square value, based on the aforementioned data, is 0.218. As a result, the variable Internal control systems and good corporate governance both had a 24.6 % variables outside of the research model are responsible for the remaining effects, which have an impact on the variable quality of financial statements.

Simultaneous Test (Test F)

Table 3. F Test Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	197,977	2	98,988	8,963	,000 ^b
Residual	607,420	55	11,044		
Total	805,397	57			

Source: Data processed using SPSS (2023)

Based on the Table 3, the F test of 8,963 with a significance level of 0.00 0.05 represents the findings of the ANOVA

calculation. This demonstrates how the two independent factors jointly influence the dependent variable's size and may be used to forecast it.

Partial Test (t-Test)

Table 4. t Test Results

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	10,518	5,220		2,015	,049
subx1	,355	,128	,344	2,778	,007
subx2	,375	,176	,264	2,131	,038

Source: Data processed using SPSS (2023)

Using a significance test, the information in the Table 4 can be explained as follows: a constant value of 10,518 with a significance value of 0.049; when the t count value is $2.778 > t$ table 2.051 and the significant value of excellent corporate governance on the quality of financial reports is 0.007 0.05, H_a is acceptable. Therefore, it can be said that factors contributing to sound corporate governance have an impact on financial report quality; and since the government's internal control system has a substantial impact on the quality of financial reports and the t count value is $2,131 > t$ table 2.051, H_a is acceptable. It follows that factors in the government's internal control system have an impact on the accuracy of financial reports.

The Effect of Good Corporate Governance on the Quality of Financial Statements

Based on the research done, it can be determined that hypothesis H_a is accepted because the Good Corporate Governance variable has a t-value of 2,778 and a t-table of 2,051 with a significant value of 0.007

0.05. The quality of financial reporting is positively impacted by good corporate governance. This study's findings support the conclusion that excellent corporate governance is being practised. This research is also in line with (Gea & Putra, 2022) research showing that accounting information systems act as a moderating factor in the relationship between excellent company governance and the accuracy of financial statements. (Taha, 2020) demonstrates that the introduction of sound corporate governance at PAM Tirta Mangkaluku, Palopo City, has a favorable and significant impact (Mursalim et al., 2021) shows that Good Corporate Governance has a favourable and minimal impact on the accuracy of financial statements.

The Effect of Internal Control Systems on the Quality of Financial Statements

According to the research, hypothesis H_a is accepted because the government's internal control system variable has a significance value of 0.038 0.05, a t count of 2,889, and a t table of 2,131. The effectiveness of financial reports is improved by the government's internal control system. This study supports earlier studies that demonstrate the effectiveness of financial reports is negatively and significantly impacted by the internal control system (Mokoginta et al., 2017) and this research is also in line with (Br Hombing et al., 2020) demonstrates a favorable and considerable impact on the accuracy of financial reports. (Mutiana et al., 2017) research showed indicated the efficiency of internal government control measures significantly and favourably affected the calibre of financial reports. But research from (Yendrawati, 2013) indicates

that the internal control system has no impact on the information quality of financial reports.

The Influence of Good Corporate Governance and Internal Control Systems on the Quality of Financial Reports

According to the research, the variable for strong corporate governance has a t-value of 2,778. the hypothesis H_a is accepted since the t table has a value of 2.051 and a significance level of 0.007 0.05. The quality of financial reporting is significantly impacted by variable strong corporate governance. A t count value of 2.131, a t table value of 2.051, and a significance value of 0.038 0.05 for the government internal control system variable also show that hypothesis H_a is accepted, according to this study. The effectiveness of financial reports is improved by the government's internal control system. This research is in line with (Koessuryana, 2021) and (Hartati, 2019) This demonstrates that effective internal control and excellent corporate governance have a favourable and considerable impact on the calibre of financial reporting during the COVID-19 pandemic.

CONCLUSION AND SUGGESTIONS

In an effort to raise the standard of regional financial reports, Empirical data on the use of good corporate governance and the internal control system of the government will be presented in this study. The study's findings indicate that both effective corporate governance positively affect the veracity of financial reports, as does the government's internal control system. The independent variable, which consists of the independent variables of

excellent corporate governance and the independent variable is positively and significantly impacted by The effectiveness of financial reports, which serves as the government's internal control mechanism, according to the statistical test F. Internal controls within the government, strong corporate governance, and credibility with relation to the calibre of financial reporting, the BPKAD in Palembang City is increasingly managing the relationship between fellow employees and improving the control system regarding the quality of financial reports. It is hoped that the results of this research can be used as a reference in presenting scientific knowledge in the field of accounting. Further research is expected to be able to add other variables that have an impact on office interests. Further research can be complemented by carrying out in-depth observations, not just using a questionnaire.

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