



## The Influence of Internal Control Implementation and Managerial Performance on Financial Accountability Local Government in Indonesia

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### ABSTRACT

The purpose of this study to examine whether the financial accountability is affected by the internal control and managerial performance of local government in Indonesia. Usefulness of research as input for the government to improve internal control, managerial performance and financial accountability. Population in this study all local government unit of North Sulawesi province are 226 unit tool (SKPD). Number of samples 115 unit tool with respondents as many as 345 civil servants. Data collection using primary data. Method data testing conducted by validity and reliability. With structural equation model approach partial least square, confidence level 95% and  $\alpha = 0.05$ , the hypothesis was rejected H0. The conclusion is implementation of internal control influence on financial accountability. Managerial performance influence on financial accountability in local government in Indonesia.

**Keywords:** Internal Control, Managerial Performance, Financial Accountability

**JEL Classifications:** M4, H7, G3

### 1. INTRODUCTION

Since the beginning of 1990, the paradigm of government in some countries start towards good governance, in order to put government organizations to become more effective, efficient and equitable for every citizen. This paradigm demands of government officials in order to become more responsive to the demands of their environment, so that the service provided is getting better, transparent and accountable (Indra, 2006). There are many issues by the government performance said Mardiasmo (2009), Kumolo (2015) complained about the poor performance of the government in planning at the local level such as provinces, districts and cities in Indonesia. Managerial performance of local government were also highlighted by finance minister Sri Mulyani Indrawati where many local government officials who have not been able to absorb the budget spent by the government (Mulyani, 2016).

During this time the management of financial resources the country still marked deviations, from the planning and budgeting, implementation, and accountability report. Determination of the

amount of more budget based on the cake for sheer (Crisnandi, 2014). Another phenomenon of public sector development in Indonesia today is the strengthening of financial accountability demands by public institutions, both at central and regional levels. Basically, financial accountability is the provision of information and disclosure on the activities and financial performance of local governments to the parties concerned. Both central government and local government will be subject to a give of information in order to meet the public's right, namely the right to know, the right to be informed, and the right to be heard and to be listened to Mardiasmo (2009).

Development of financial accountability is reflected in the financial statements of local government (LKPD) is not good as seen from LKPD opinion given by the supreme audit (BPK) of the Republic Indonesia. Still a few local governments that received an unqualified opinion (WTP) of the supreme audit (BPK) on the report government finance. This is cause by, (a) the lack of support and community participation in supporting the success of the government's work program, (b) there are irregularities in the

financial management of the country/region, (c) low competence of human resources of local government in the area of financial management, (d) the system budget planning has not been good or not in accordance with the applicable provisions (BPKP, 2015). Opinion given on a financial statement is a reflection of the quality of financial accountability. State financial accountability being in the spotlight where accountability practices in Indonesia is still far from expected as the mechanism of procurement of goods and services. As is known the supreme audit agency (BPK) found many cases related to the procurement of goods and services whose value is significant (BPK News, 2014).

Gamawan (2014) also highlights the financial reporting and the implementation of local government that is inefficient in terms of both time and budget. Internal control weakness lies in the many cases of financial records that have not yet been performed, but inaccurate, inadequate planning and budgeting and implementation of activities that are not in accordance with the mechanism of the budget. The reason why the supreme audit (BPK) still provides a disclaimer opinion on the financial statements of local government, among other things because of inadequate implementation of the internal control of local governments and the lack of internal control system of government (SPIP) institutionalized.

UU No.17/2003, article 32 affirms that local governments are required to submit financial reports as a form of implementation of the budget (APBD) to the Regional Representatives Council (DPRD), the financial statements referred to at least cover the budget realization statement, balance sheet, statement of cash flows, and notes to financial statements. Research on the importance of the financial statements have been made by Boyne and Law (1991), Marwata (2006), Mir and Sutiyono (2013) who noted the importance of the annual report as a means of improving accountability.

Research on the relationship between internal control and managerial performance conducted by Miah and Mia (1996), which examines the internal control and performance managerial on the organization of government agencies in New Zealand. Van Gramberg (2000) at the Victorian state government in Australia and Soobaroyen (2006) against the managers of companies in Australia.

Table 1 shows the results examination supreme audit (BPK, 2014) which found many weaknesses of internal control system occur include weaknesses in the system the implementation of budget revenue and expenditure in the amount of 5,948 cases, consisting of three groups of findings are: The weakness of control system of accounting and reporting, weaknesses control system implementation of the budget revenue and expenditure, as well as the weakness of the internal control system.

## 2. THEORITICAL FRAMEWORK

### 2.1. The Effect of Internal Control to Financial Accountability

Internal control is a very important part in the overall spectrum control mechanisms are used to motivate, measure and impose

**Table 1: Supreme audit findings (BPK) on the weakness of the internal control system**

Group findings	Number of cases
The weakness of the control system of accounting and reporting	1.829
The weakness of the control system implementation of the budget revenue and expenditure	2.174
The weakness of the internal control structure	1.100
Total	5.103

Source: IHP-BPK, 2014

sanctions on the actions of managers and employees of an organization. An effective control system is a prerequisite for better performance.

Internal control systems used by an organization to ensure that the organization's resources are used effectively and efficiently to the achievement of organizational goals (PP No 60. 2008). The failure of the organization in achieving its intended purpose can occur because of a weakness in one or several stages in the process of internal control. Achievement of high performance due to the implementation of effective control systems.

Implementation internal control system will improve the financial accountability of the organization to drive decision-making by managers better, because the internal control in the public sector basically cannot be separated from efforts to improve and enhance managerial performance impact on a society (Jones and Pendlebury, 2000, Mardiasmo, 2009).

From some research, the internal control system used by organizations significantly affect the increase of financial accountability in organizations. Internal control systems and a significant positive effect on financial accountability in government organizations (Miah and Mia, 1996). Internal control also affects the financial akuntabilitasa (Obalola et al., 2014; Coy et al., 2002). From the description above can be concluded that the implementation of internal control can improve financial accountability.

### 2.2. The Effect of Managerial Performance on Financial Accountability

Demands are greater on the implementation of the transparency of the public sector or the government creates the implication that the government should provide information to the public that describe the performance of the organization to outside parties as a form of performance and as a basis for decision-making (Mardiasmo, 2009; Mahmudi, 2010), Decentralization of local government in Indonesia resulted in increasing demands of financial accountability of public institutions both the center and in the regions (Mardiasmo, 2009). Given these demands resulted in the government should improve the planning and control activities (Miah and Mia, 1996).

Managerial performance which is the skill level managers in implementing management activity is one factor that can be used to improve organizational effectiveness and financial

accountability. Managerial performance based on management functions such as planning, organizing, controlling and leadership (Mahoney et al., 1963). Decentralization of local government in Indonesia resulted in increasing demands of public accountability to public institutions are both the center and in the regions (Mardiasmo, 2009). Given these demands resulted in the government should improve the planning and control activities (Miah and Mia, 1996).

Financial accountability is the embodiment of the obligation of government agencies to account for the success/failure of the organization in achieving the goals and objectives that have been set, through a media periodic accounts that the financial statements (Lan, 2000; Mardiasmo, 2009; Shah, 2007). Basically, financial accountability is the provision of information and disclosure (disclosure) on financial activity to the parties concerned. financial reports may affect the quality of management to make better decisions.

Research on the importance of financial accountability of government agencies carried out by Boyne and Law (1991) who argued that government agencies accountable for their performance can improve financial accountability in the annual report. Wynn-Williams (2005) conducted a study on the provision of health services in New Zealand, found that increased performance will enhance the quality of financial reporting.

The study compared the public sector and the private sector in assessing performance. Shah and Matthew (2005) says that in developing countries, the management of local government budgets in the usual rated the government's performance. In the context of governance, public participation and the participation process of the apparatus to the transparency of budget management that is efficient, effective, professionals can boost performance and financial accountability. Overview of theoretical framework mentioned above can be described as in Figure 1.

### 3. METHODOLOGY

From the research objectives, this study included in the survey research. This research is verificative research explanatory research or causal study, because this research aimed to find out if and how far the factors thought to affect a variable in order to test the hypothesis. This research included into the cross-sectional studies.

Method of data analysis structural structural equation model (SEM) approach partial least square (PLS). SEM is used in order to answer the problem formulation and testing hypothesis. While the PLS approach is used for the measurement model is constructed involving formative and reflective. The hypothesis was tested by t test statistics (hypothesis testing partial) with the provision that if H0 is rejected if the value of t is greater than the critical value t for  $\alpha = 0.05$  by 1.96 (Ghozali, 2014).

### 3.1. Population and Sample

The population in this study are all local government unit of North Sulawesi province are 226 unit tool (SKPD). Number of samples 115 unit tool with respondents as many as 345 civil servants. By Hair et al. (2014) using power analysis and significance level of 5%, the highest number of direction arrows pointing in the direction of construct amounted to 2 and R2 is 0.25, the minimum sample size is 52 samples. Used in this study is a simple random sampling technique. Simple random sampling is the technique of sample selection is done randomly, and each member of the population has an equal chance to be selected (Sekaran and Bougie, 2013).

Data collection using primary data. Primary data is data/information collected by researchers through a list of questions/statements addressed to the respondent for the purpose of obtaining the facts and factual information from respondents, using questionnaires and interviews. Method data testing conducted by validity and reliability. Test the validity of this research is done by correlating each question with a total score for each variable. The formula of product moment correlation is as follows:

$$r_{XY} = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{\{n \sum X^2 - (\sum X)^2\} \{n \sum Y^2 - (\sum Y)^2\}}}$$

## 4. RESULT AND DISCUSSION

The measurement results of confirmatory factor analysis showed all variables can be seen the value of each dimension weighting factor >0.50 (Table 2). This means that all indicators are valid as a measure for each dimension. Then the composite reliability each >0.70 indicates that the indicators have consistency in measuring the dimensions of each.

Table 3 shows that  $T_{\text{value}}$  implementation of internal control that is equal to 2.664 > 1.96. Because  $T_{\text{value}}$  greater than  $T_{\text{table}}$ , degree

**Table 2: Validity test summary measurement model all dimension**

Dimension	Loading factor	R <sup>2</sup>	Error variance	t	CR	AVE
Implementation of control environment	0.935	0.874	0.126	65.606	0.950	0.542
Risk of assessment	0.953	0.909	0.091	56.349		
Control activities	0.949	0.901	0.099	64.372		
Information and communication	0.844	0.713	0.287	18.361		
Controlling	0.873	0.763	0.237	30.976		
Accountability program and activities	0.847	0.717	0.283	16.092	0.936	0.550
Financial statements and performance assessment	0.897	0.804	0.196	29.687		
A reliable financial information	0.869	0.756	0.244	31.759		
Objective assessment and follow-up result	0.888	0.789	0.211	23.482		
Management functions	0.999	0.999	0.001	12.477	0.929	0.685

of error rate of 5% was decided to reject H0. So based on the test results can be concluded that the implementation of internal control partially influence on financial accountability. The results of this study provide empirical evidence that the higher the implementation of internal controls will enhance financial accountability.

Path coefficient of the internal control variable is 0.347. Positive path coefficients showed that the higher the internal control will improve the financial accountability of government agencies-city district in Indonesia. In other words, it can be interpreted that the managerial performance can be improved if a government unit tool (SKPD) further improved internal control implementation.

Table 4 shows the path coefficient value 0.668 is more than zero.  $T_{value}$  variable managerial performance toward financial accountability is 7.120 greater than value  $T_{table}$  1.96. Because  $T_{value}$  greater than  $T_{table}$ , degree of error 5% was decided to reject H0. Path coefficient between managerial performance with financial accountability that is equal to 0.668 with a positive. So based on the test results can be concluded that the managerial performance effect on financial accountability. The results of this study provide empirical evidence that the better managerial performance will improve financial accountability. Managerial performance impact of 44.6% on financial accountability, while the remaining 55.4% is the influence of other factors that were not studied.

### 5. CONCLUSION

The implementation of internal control influence on financial accountability of local governments in Indonesia. The better the application of internal control that will make the financial accountability of the local government is also getting better. Overall application of internal control in the regions and cities are already good, just that there are some things that still need to be improved, for example in the human resources policies and practices are exemplary leaders, as well as the promotion is not

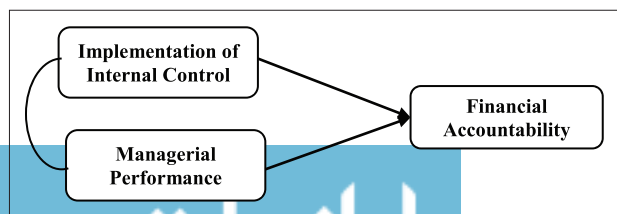
**Table 3: Testing results the effect internal control on financial accountability**

Path coefficient	$T_{value}$	$T_{table}$	H0
0.347	2.664	1.96	Reject

**Table 4: Testing results the effect managerial performance on financial accountability**

Path coefficient	$T_{value}$	$T_{table}$	H0
0.668	7.120	1.96	Reject

**Figure 1: Conceptual framework**



based on performance appraisal. Likewise for physical control of assets where the asset management or management is still not good.

Managerial performance influence on financial accountability in local government in Indonesia. The better managerial performance Make financial accountability of the higher or more accountable. It can be interpreted that the managerial performance ability as in budget planning, achievement of budget targets, organizing, assigning of staff, inspection work, monitoring the use of budget and human resources, will improve financial accountability. Good managerial performance will affect financial accountability, minimize errors in the presentation of financial statements, minimize differences budget realization, achievement programs and activities, as well as timely reporting.

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