

Analyzing the Role of Internal Control System in Maintaining Unqualified Opinion (WTP) in Local Government Financial Statements: Case Study in Jambi Province

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Abstract

This study analyzes the role of Internal Control System (SPI) in maintaining unqualified opinions on the Jambi Provincial Government Financial Statements. A descriptive comparative method is used with a qualitative approach. The object of the study is the Internal Control System in the Jambi Provincial Government Financial Statements of 2016-2018. Data is analysed using the selection technique before drawing conclusions. The results show that the Internal Control System in Jambi Provincial Government Financial Statements is very weak. The system has not been effective in its implementation because there are still findings related to SPI by the Supreme Audit Agency (BPK) every year. Therefore, it is necessary to follow up on the recommendations of BPK to build a better SPI in the future. This should be based on the elements of the internal control system contained in Government Regulation Number 60 of 2008, including control environment and activities, risk assessment, information and communication, and monitoring.

Keywords: Internal Control System; Unqualified Opinion; Local Government Financial Statements.

Abstrak

Penelitian ini bertujuan untuk menganalisis peran Sistem Pengendalian Intern (SPI) dalam mempertahankan opini wajar tanpa pengecualian pada laporan keuangan pemerintah daerah Provinsi Jambi. Metode Penelitian yang digunakan adalah metode deskriptif komparatif dengan pendekatan kualitatif. Objek dalam penelitian ini adalah Sistem Pengendalian Intern pada Laporan Keuangan Pemerintah Provinsi Jambi Tahun 2016 – 2018. Teknik analisis data yang digunakan adalah seleksi data kemudian dianalisis untuk ditarik kesimpulannya. Hasil

penelitian ini menunjukkan bahwa Sistem Pengendalian Intern dalam Laporan Keuangan Pemerintah Provinsi Jambi masih sangat lemah dan belum efektif dalam pelaksanaan karena faktanya setiap tahun masih ada temuan terkait SPI oleh BPK. Maka untuk meminimalisir temuan tersebut, diperlukan optimalisasi sistem Pengendalian Intern pada laporan keuangan Pemerintah Provinsi Jambi dengan menindaklanjuti rekomendasi yang diberikan BPK serta membangun sistem pengendalian intern yang lebih baik kedepannya dengan mengacu pada unsur-unsur sistem pengendalian intern yang terdapat dalam Peraturan Pemerintah Nomor 60 Tahun 2008 tentang Sistem Pengendalian Intern Pemerintah yaitu Lingkungan Pengendalian, Penilaian Resiko, Aktivitas Pengendalian, Informasi dan Komunikasi dan Pemantauan.

Kata kunci: Sistem Pengendalian Intern; Opini Wajar Tanpa Pengecualian; Laporan Keuangan Pemerintah Daerah.

INTRODUCTION

In a good financial management system, local governments are obliged to annually submit an accountability report to stakeholders such as the regional parliament and the community. The accountability report is known as the Local Government Financial Statement (LKPD), which is submitted at the end of the current year or not later than March 31 of the following year.

The annual financial statements prepared by the local government consist of seven report components, including Budget Realization (LRA), Operational, Capital Statement, Cash Flow Statement, Budget Balance Change, Notes to Financial Statement (CALK), and Balance Sheet. These submitted financial statements should be in accordance with the stipulated provisions and refer to the Government Accounting Standards (SAP). To ensure they meet these requirements, the government appoints the Supreme Audit Agency (BPK) to conduct audits for the LKPD.

After auditing the financial statements, the BPK provides an

opinion on the results. There are several opinions provided by the BPK, including Unqualified (WTP), Qualified (WDP), and Disclaimer. Based on these opinions, the government knows whether regional financial management has been implemented properly.

The Jambi Provincial Government in an effort to implement good financial management submits an accountability report yearly. From the results of BPK's financial statements up to 2018, WTP opinions have been obtained seven times. Although this is a great achievement for Jambi Province, there are still several weaknesses in the internal control system in the regional financial management process. This concern has continued for the last three years from 2016 - 2018.

Some of these weaknesses are shown in BPK Audit Result Report in Table 1.

Table 1. List of BPK Findings on the Internal Control System Audit of Jambi Provincial Government Financial Statements 2016-2018

YEAR	NUMBER OF FINDINGS	THE WEAKNESS OF SPI
2016	13 Findings	Inadequate management of cash accounts, personnel expenditure, and fixed assets
2017	10 Findings	Inadequate management of School Operational Assistance (BOS) funds, cash accounts, tax revenues, and fixed assets
2018	7 Findings	Inadequate management of BOS funds, personnel expenditure, and fixed assets

Source: *Jambi Provincial Government Financial Statements, 2016 - 2018*

Table 1 shows that the BPK findings in the Jambi Provincial Government have the same weaknesses in the Internal Control System (SPI) almost every year. Although it has been followed up by the local government, the same mistakes such as inadequate management of fixed assets, cash account, personnel expenditure, school operational assistance fund, and tax revenue are always repeated.

This indicates that Jambi Provincial Government is not fully effective in implementing the elements of the internal control system designed in accordance with statutory regulations. Therefore, it is essential to conduct research related to the internal control system in the local government of Jambi Province.

Similar research on SPI was carried out by several previous studies. The studies stated that the increase in the opinion quality on Local Government financial statements was influenced by the improvement of the internal control system and the optimization of the auditor role in each regional work

unit (Mulyani & Suryawati, 2011). Better SPIP implementation improves the quality of the organization's financial statements (Febri S, Rahayu, & Wiralestari, 2019). (Bulan, Tinangon, & Mawikere, 2017) stated that the government Internal Control System (SPIP) has a significant influence on the effectiveness of regional financial management. Furthermore, SPIP implementation has an important role in supporting financial accountability and maintaining WTP opinion (Ismani, Istiningrum, Nugroho, & Pustikaningsih, 2014).

Other studies showed that the implementation of SPIP is limited to internalizing it into all work processes in the organization through several aspects, including control environment and activities, risk assessment, information and communication, and monitoring. The internalization process of SPIP needs to be supported by the implementation of hard controls through Standard Operating Procedures (SOP) and the Task Force (SATGAS) (Hindriani, Hanafi, & Domai,

2012). (Zamzami & Faiz, 2015) Evaluated the appropriateness of implementing an internal control system based on SPIP elements in Government Regulation No. 60 of 2008 (Presiden Republik Indonesia, 2008). A similar study examined the implementation of SPIP related to budget execution in the office of National Unity and Political Body showing a lack of optimality (Hafit, Irianto, & Purwanti, 2018).

(Fathiyah, 2019) concluded that the role of internal control is very helpful in managing finances and assets in private educational institutions.

Based on existing data, this research determines the Role of the Internal Control System in Maintaining Unqualified Opinion (WTP) in the Jambi Provincial Government Financial Statements in 2016 - 2018.

According to The Committee of Sponsoring Organization of The Treadway Commission (COSO), internal control refers to the process conducted by commissioners, management, and other stakeholders to provide adequate assurance about the achievement of three objective groups. These groups include operational effectiveness and efficiency, reliability of financial reports, and compliance with applicable laws and regulations (Coso, 2013).

The internal control system has several aspects, including organizational structure, methods, and measures that are coordinated to maintain assets, checks the accuracy and reliability of accounting data,

promote efficiency, and promote compliance with management policies (Bastian, 2010).

According to Indonesian Government Regulation No. 60 of 2008, internal control refers to an integral process of actions and activities conducted to provide adequate confidence in the achievement of organizational goals through effective activities, reliability of financial reporting, assets safeguarding, and obedience to the law. These regulations provide several elements of internal control, including control environment and activities, risk assessment,, information and communication, and monitoring.

Control environment - Government agency leaders and employees need to create and maintain an environment that produces positive behavior and supports healthy internal control and management.

Risk assessment - Internal Control needs to provide an assessment of the internal and external risks faced by organizational units.

Control activities - ensure that directions from the leadership of Government Agencies are implemented efficiently and effectively to achieve organizational goals.

Information and communication - Information needs to be recorded and reported to government agencies and designated parties. Information is presented in certain forms and on time to ensure control and responsibility.

Monitoring - The ability to assess the quality of performance often to ensure that recommendations for audit results and reviews are immediately followed up.

The local government internal control success rate is measured based on the fulfillment of five defined categories. (Menteri dalam negeri, 2006) These categories are stated by the Ministry of Home Affairs Regulation No.13 of 2006 on guidelines for Regional Financial Management paragraph 2. The ministry stated that internal control should at least fulfill five-category criteria, including, a healthy control environment, and the implementation of risk assessment, control activities, an information and communication system, and control monitoring activities.

Local government financial statements ensure accountability in using finances to implement regional autonomy and operations. According to Government Regulation (Presiden Republik Indonesia, 2010) on accounting standards, financial statements refer to structured reports on an organizational position and transactions, conducted by a professional entity.

METHODS

This research used descriptive comparative method with a qualitative approach. (Lexy J. Moleong, 2014) stated that this procedure produces descriptive data in the form of written or spoken words from observable people's behavior. Also, descriptive research examines the status of a group of people, an object, a set of conditions, a system of thought, or a class of events in the present (Nazir, 2011).

This study describes the role of the internal control system in local government financial reports to maintain an unqualified opinion. From the BPK's audit reports on the internal control system, the study discusses how to optimize the role of SPI in the Local Government Financial Statements. The research object is the Jambi Province Government Financial Statements in 2016 - 2018.

Data was collected using existing literature and field studies. The literature included Local Government Financial Reports (LKPD), Audit Results (LHP) 2016 - 2018, and other references related to this research. Field studies were conducted through direct observation of SPI in the Jambi Provincial Government financial statements. The analysis technique used was data selection which was analyzed to draw conclusions.

RESULTS AND DISCUSSION

The results from financial statements showed an overview of the weaknesses and their causes in the

Internal Control System Audit Results Report on the Jambi Provincial Government financial statements for 2016-2018 as in Table 2.

Table 2. Recapitulation for the List of SPI Weaknesses, Their Causes and BPK Recommendations in the Audit Results Report on the Jambi Provincial Government Financial Statements 2016-2018

NO.	WEAKNESS IN SPI	CAUSES	BPK RECOMMENDATION
1.	Management of Regional Cash accounts is not yet orderly and does not comply with the stipulated provisions	There is no regional head regulation regarding the procedures for bookkeeping and the operation of receiving and disbursing Regional Cash accounts	<ul style="list-style-type: none"> - Prepare a regional regulation on regional cash management - Revise the cooperation agreement between Jambi Provincial Government and Jambi Bank
2.	Internal control over employee spending is still weak	Financial Administration Officer-Regional Work Unit (PPK-SKPD) has not verified the details of the Salary List in E-PEGAWAI in the submission of Request for Direct Payments (SPP-LS) of Salary	PPK SKPD needs to verify the details of the payroll with salary recap in E-PEGAWAI
3.	The management of School Operational Assistance (BOS) funds is not in accordance with the stipulated provisions	The Jambi Provincial BOS Team has not yet made a recapitulation of the report on the receipt and use of BOS funds	The Head of National Education needs to instruct the Boss Team to recapitulate the receipt and use of BOS funds periodically
4.	Regional revenue management is not in accordance with the provisions	Issuance of local tax returns is not timely and penalties for late taxes have not been imposed	Provide sanctions in accordance with the provisions for the Head of Taxes who are negligent in evaluating tax payments by the taxpayer
5.	Fixed Asset Management is inadequate	There is no inventory and assessment of regional fixed assets at the Public Works and Public Housing (PUPR) Office, Raden Mattaheh Regional Hospital, and the Education Office	Instruct the head of PUPR office, Raden Mattaheh Regional Hospital, and Education Office to inventory and assess land fixed assets for the Road Agency
6.	Presentation and measurement of fixed assets are not in accordance with Government Accounting Standards (SAP)	There is no capitalization of costs for rehabilitation/maintenance of fixed assets, depreciation expense and accumulated depreciation on capitalization are not yet in accordance with SAP (most of these findings are in the PUPR Office)	<ul style="list-style-type: none"> - Instruct the Head of PUPR Office to take inventory of the fixed assets in his assignment - Capitalize the cost of rehabilitation/maintenance of fixed assets as well as calculate depreciation expense and accumulated

NO.	WEAKNESS IN SPI	CAUSES	BPK RECOMMENDATION
			depreciation on the capitalization of these fixed assets

Source: Audit Result Report on the Jambi Provincial Government Internal Control System, 2016 – 2018

Table 2 showed that some of the weaknesses and their causes need to be followed up to maintain the WTP opinion. This can be completed by optimizing the role of SPI in accordance with Government Regulation Number 60 of 2008, by referring to the following elements.

A. Control Environment

Control environment refers to a condition in a government agency that affects its effectiveness. The audit results showed that the weaknesses of SPI and their causes are generally due to financial management activities that are not in accordance with the stipulated provisions, such as inadequate management of cash account, personnel spending, BOS fund, local revenue, and fixed assets. To overcome these weaknesses all stakeholders involved need to practice commitment to competence.

This is in line with (Wati, Herawati, & Sinarwati, 2014), which stated that human resource competence has a positive and significant effect on the quality of regional financial statements. An increased accountants' competence involved in the financial process produces a good reporting quality (Kasim, 2015). Therefore, it is necessary to improve education and training to increase human resource competence

in the Jambi Provincial Government. Because competence has only been based on experience, it is necessary to update knowledge for regional finance/goods management teams.

Furthermore, it is essential to optimize the available resources by routinely reconciling financial data both systematically and manually.

Each new authority and responsibility need to be determined through regulation or the governor's decree. The BPK recommends the Jambi Provincial Government to prepare a regional regulation on cash management to ensure order in accounts and accordance with provisions.

Selection of new employees needs to be in accordance with the stipulated conditions and based on the required competencies. Employees who manage regional finances and goods should be experienced and have an educational background in accounting. With basic accounting knowledge, it is easier to learn, understand, and implement financial management and regional goods properly and ensure internal control effectiveness. Furthermore, the optimization of internal control elements needs to be improved, and effective supervision is also necessary to support a good control environment.

B. Risk Assessment

The government needs to set clear and consistent objectives and a strategy to identify internal and external risks that can hinder achievement. After Identify risks, there is a need to formulate a risk management approach to minimize possibilities.

The results showed that optimizing the internal control elements of risk assessment can be achieved by integrating and updating the Regional Financial Management Information System (SIMDA) continuously. This mitigates inaccuracy by controlling activities through intensive and careful reconciliation between the Regional Apparatus Organizations and Financial Management Work Units (SKPKD)

The School Operational Assistance (BOS) Fund needs to be periodically reconciled, verified, and consolidated with supporting evidence throughout the process.

Technology-based applications are needed to produce reliable recording and reporting of regional assets to eliminate manual procedures.

C. Control Activities

In 2018, the submission of Jambi Provincial Government financial statements to the Supreme Audit Agency (BPK) exceeded the time limit due to ineffective implementation of internal control activities. Therefore, it is necessary to increase the effectiveness of tiered reconciliation and consolidation procedures in preparing financial statements.

(Mauli & Rosmiati, 2020), stated that control activities consist of reviewing performance through regular monitoring and evaluation, human resource development, integrated information system management physical assets control, determination and review of performance indicators and measures, separation of functions, transactions authorization accurate and timely recording, restrictions and accountability on resources, and internal control system documentation.

D. Information and Communication

The SPI information and communication strategy by the Jambi has not been fully effective, since the employee transfer process does not involve handover. Therefore, each employee mutation needs to be accompanied by work handover.

Arumitha stated that the information and communication methods in the BKD were good. Information and communication were shown by staff meetings, work plans, and activity reports that were used to engage with superiors and coworkers. These activities enabled employees to know their duties and responsibilities as well as facilitate appropriate decision making. (Arumitha, Isharijadi, & Styaningrum, 2020)(Arumitha, Isharijadi, & Styaningrum, 2020).

E. Monitoring

Monitoring assesses the quality of performance over time and ensures that recommendations from the results

and reviews of the audit are followed up.

Internal monitoring can be conducted through regular or special inspections in accordance with the Jambi Provincial government annual work plan. Also, monitoring can be conducted through early physical cash checks at the Regional Apparatus Organization (OPD) Treasurer, and financial statements review before submission to the BPK.

Monitoring is conducted through routine management control activities related to the implementation of tasks by superiors and coordination between sections to provide input. Furthermore, control is formed by the environment. (Yasmin, 2018). This means that the environment controls a leader's behavior towards subordinates and vice versa. Therefore, communication between superiors and subordinates is a type of control.

The results also showed that Jambi Provincial Government systems lack competent human resources for implementing financial management and regional assets. Other weaknesses include lack of coordination and reconciliation on regional financial and asset management, absence of technological appraisal applications, capitalization, and depreciation of fixed assets.

CONCLUSION

The role of the internal control system is still very weak and ineffective. Optimizing the role of internal control

can help minimize these weaknesses, to maintain an unqualified opinion (WTP).

This optimization can be completed by implementing the recommendations of BPK with reference to Government Regulation Number 60 of 2008 on Internal Control Systems. The recommendation contains strategic elements of internal systems, including control environment and activities, risk assessment, information and communication, and monitoring.

Jambi Provincial Government needs experienced and competent employees with an educational background in accounting. This is because it will be easier for such employees to learn, understand and manage regional finances and goods effectively and ensure internal control. Furthermore, regional asset management needs technology-based applications to replace manual methods. Through the current methods, the accuracy in inventorying, capitalizing, and calculating the depreciation is not in accordance with government accounting standards.

Reconciliation of regional financial and asset management needs to be conducted at least once every 3 months to minimize errors in records. The local government financial statements can be free of material errors when the provided recommendations are implemented to ensure internal control systems run effectively.

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