

The Influence of Internal Control and Implementation of Accounting Information Systems on The Quality of Regional Government Financial Reports (Study Of Bandung City Government Regional Work Units)

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Abstract

This study aims to ascertain how internal control and the use of accounting information systems affect the caliber of financial reports produced by local governments. The study's independent variables are internal control and the adoption of accounting information technology, whereas the dependent variable is the caliber of local government financial reports. Bandung City's regional government agencies (SKPD) work units make up the study's population. Employees from the Inspectorate, BPK, BPPD, Department of Communication and Information, Department of Library and Archives, Investment and Integrated Services Agency, Department of Spatial Planning and Infrastructure, and Administrative and Financial Assistant in the financial section, as well as those with decision-making authority like department heads and sub-section heads, were included in the purposive sample that was chosen using this sampling technique. Fifty respondents from these agencies were given questionnaires as part of the data collection process. Using SPSS 23.0 for Windows, multiple linear regression analysis is used in this study. The study's findings show that internal control makes up 47.2% of the total contribution to the quality of local government financial reports, which is positive and significant. Implementing accounting information systems makes up 23.6% of the total contribution and positively and significantly affects the quality of local government financial reports. Additionally, accounting information systems and internal control simultaneously impact 55.3% and 44.7%, respectively, on the caliber of local government financial reports.

Keywords : Internal Control, Implementation of Accounting Information System, and Quality of Local Government Financial Statement

INTRODUCTION

The current economic sector of Indonesian society has experienced significant and fundamental changes, characterized by a growing need for accountability and openness in public sector administration. The duty to use regular accountability methods to hold organizations accountable for their performance in carrying out their purpose to achieve set goals and objectives is known as public accountability.

The government's obligation to provide information to the public, including accounting data in the form of financial reports, is impacted by the growing call for public accountability.

Financial report preparation heavily relies on public sector accounting to put public accountability into practice. (Lestari & Maryanti, 2021)

In essence, public-sector financial accounting aims to provide a public-sector financial report that will enable stakeholders to utilize the data to make financially sound decisions that satisfy their requirements. For accounting information to fulfill its goals, normative measures known as the qualitative qualities of financial reports must be accomplished. Government Regulation No. 71 of 2010 states that for government financial reports

to be of the appropriate caliber, they must have the following four normative prerequisites: 1. Relevance, which includes timeliness, predictive utility, feedback utility, and completeness; 2. Demonstrating reliability involves presenting truthfully, ensuring verifiability, and addressing public needs. Comparability asserts that financial report information is more helpful when it can be compared to financial reports from other entities or previous periods. Understandability.

However, at present, "BPK audits reveal that 64 ministry/agency financial reports receive an unqualified opinion, 19 receive a qualified opinion, and no opinion is given for the remaining 3 (TMP)." Meanwhile, BPK examined 68 of the 524 LKPD (local government financial reports) for local governments. This is because 456 LKPD were already examined during the prior semester. The findings of the BPK audit indicate that local governments' financial reports still need to be of better quality than those of the central government. It is recommended that local governments continue their efforts to enhance financial reporting.

Harry laments that many local governments continue to file their financial reports after the deadline, partly due to their lack of concern for these regulations. Harry stressed, "We encourage local governments to complete LKPD on time," on Tuesday, July 4, at the DPR building in Jakarta.

At the BPK West Java Provincial Office on Mochamad Toha Street, Bandung City, on Tuesday, July 6, 12 local governments received the Examination Results Report (LHP) for the 2015 Local Government Financial Report (LKPD) from the Financial Audit Agency (BPK)

for West Java. Arman Syifa, Head of the West Java Provincial Representation, stated, "We still provide a qualified opinion (WDP) to West Bandung Regency, Pangandaran Regency, Cirebon City, and Bandung City." Arman claims that several issues need attention to enhance the caliber of financial management. These issues include SKPD treasurers opening accounts without the regional heads' and BUD's approval, fixed assets of local government-owned land still uncertified, and land used for social and public facilities that still need to be turned over to the local government.

Table 1. Opinion on Bandung City Regional Government Financial Reports 2017-2021

No	Year	Opinion
1	2017	Reasonable With Exceptions
2	2018	Reasonable With Exceptions
3	2019	Reasonable With Exceptions
4	2020	Reasonable With Exceptions
5	2021	Reasonable With Exceptions

Source: www.bpk.go.id Downloaded on 18 September 2022 (Data processed)

According to Table 1 above, the Supreme Audit Agency (BPK) discovered multiple problems in reviewing the government's reports during the audit of the financial accounts of the

City Government of Bandung, which is why the opinion on the financial statements still needs to be revised. The Indonesian national financial system suffered from several flaws during the New Order era, including (1) poor internal control system design and implementation, (2) non-compliance with regulations, (3) disorderly state finances, (4) lack of information about state assets and liabilities; and (5) inconsistent and insufficient disclosure of government financial statements. (Inta Budi Setya Nusa, 2021)

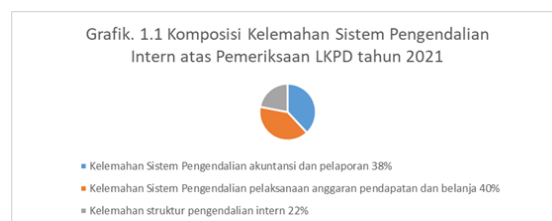
Internal control aims to improve state financial management's efficiency, accountability, and transparency. As the head of state, the president oversees and carries out the government's internal control system. As mandated by PP number 60 of 2008 about the government's internal control system (SPIP), the government formed Government Regulation (PP) in 2010 to oversee a new Internal Control System. (SUMARYATI et al., 2020)

In order to provide adequate assurance of the achievement of organizational goals through effective and efficient activities, reliable financial reporting, the protection of state assets, and compliance with laws and regulations, internal control is an integral process of actions and activities continuously carried out by leaders and all employees. The federal and regional governments use a sophisticated internal control system called the Government Internal Control System, or SPIP. SPIP components are a) information and communication, b) risk assessment, c) control activities, and e) internal control monitoring.

The Supreme Audit Agency (BPK) identified several phenomena, including the

inadequate Internal Control System (SPI). The circumstances produced essential results from the financial statement audit. As cited by Antara, Agung stated, "The examination results of these local government financial statements revealed at least 29 significant findings caused by the weakness of the internal control system and non-compliance with legal provisions," on Monday, May 29, 2017, at the BPK Training Center in Jakarta. Eleven findings—including insufficient accrual basis application, incomplete fixed asset status determination, insufficient inventory management, non-compliance with regulations in using state-owned assets, insufficient cash management, insufficient management of patent receivables, and insufficient recording and reporting of grants—have been linked to weaknesses in the internal control system. On the other hand, eight findings deal with non-compliance with laws and regulations. These findings include improper deposit of remaining grant funds, delayed project packages without penalties, procurement of goods not in compliance with specifications, overpayment of travel expenses, and incorrect provision of meal allowances and performance bonuses for staff.

BPK identified the following vulnerabilities in the internal control system for the 2021 LKPD audit in the IHPS Semester 1 2021 report:



Source: Bpk.go.id/ihps semester 1 of 2021

According to the findings of the BPK examination, there are multiple areas of

weakness in the internal control system: 32% are related to the accounting and reporting control system, 46% are related to the implementation of revenue and expenditure budget controls, and 22% are related to the internal control structure. These flaws significantly impact BPK's examination of the financial accounts.

These flaws arise from 1) incorrect or incomplete recording, 2) non-compliant report preparation, 3) non-compliance with revenue and expense regulations, 4) insufficient activity planning, 5) non-adherence to Standard Operating Procedures (SOP), and other flaws in the internal control system. (Taken from semester 1 of Bpk.go.id/ihps in 2016).

Steinbart et al., (2018) saying that the Internal Control System contains several components essential to controlling local responsibility. Information, communication, risk control, control activities, and the control environment are some of these components. The control environment is a component of the internal control system and is essential to an entity's operational activities' reasonable, safe, and healthy growth. Financial managers and administrators can also benefit from the internal control environment by maintaining assets, guaranteeing accurate and trustworthy financial reporting, and maximizing the economical, effective, and efficient use of resources.

The accounting information system, where financial statements are produced through a process based on high-quality inputs, procedures, and outputs, is another supporting element for the quality of financial statements in addition to the internal control system. The cornerstone of an effective financial reporting system is the

integration and continuance of these three elements. (Kania & Tanjung, 2021). An organization's accounting information system is a part or subsystem responsible for compiling financial data to support management decision-making. Depending on their roles and levels of responsibility, the various management tiers within an organization have distinct information needs. Lower levels of management require more thorough Information regarding operations and activities, while higher levels demand more succinct Information.

Power and authority are distributed according to regional and central authority, including financial authority. Financial statements are accounting Information required to make economic, social, and political decisions. The Regional Government must be able to offer accurate, timely, relevant, and reliable financial Information because it is the custodian of public monies, which makes a dependable information system necessary. Regional governments should consider investing in developing accounting information systems to bolster regional autonomy and decentralization.

1) To supply data for policy-making is one of the goals shared by the development of an accounting information system and an accounting system. 2) To enhance the quality, correctness of presentation, and information structure of the data generated by the current systems. 3) To strengthen internal audits and accounting controls. 4. To save the expense of clerical labor for maintaining accounting records.

In actuality, the use of accounting information systems by many regional governments remains ineffectual. The BPK

found 445 concerns overall, 291 of which were in regional administrations. These results are connected to inadequacies in the accounting and reporting control system. This happens because entities submit reports after the deadline, have insufficient systems for collecting and reporting accounting information, and lack sufficient human resources to support these systems. (Source: Ihps semester one at Bpk.go.id). processed data

LITERATURE REVIEW

Control

As Gamayuni, (2018) , control can be defined as exerting influence or direction over the actions of an entity, such as an organization or system. In contrast, in the words of Sheng, (2018), control is an endeavor to accomplish particular objectives through expected behavior. Faccia et al., (2019) articulates the same concept: "Control is an activity to discover and correct any deviations from the achieved results, compared to the previously established work plan."

From the theoretical frameworks, control can be defined as exerting influence over an object to accomplish particular objectives about the pre-existing work plan.

Internal Management

According to Salam, (2022), internal control is "a process influenced by the board of directors, management, and employees designed to provide reasonable assurance that the organization's objectives can be achieved, compliance with applicable laws." This definition is taken from the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

(Napitupulu, 2023) describe another viewpoint on internal control: "The policies of internal control and its procedures are to protect against misuse of company assets, ensure the accuracy of business information, and compliance with applicable laws and regulations."

In the meantime, Steinbart et al., (2018) define "A process carried out by the board of directors, management, and subordinates to provide adequate assurance to protect assets, maintain records, providing accurate and reliable information, applicable financial reporting standards, promoting operational efficiency changes, encouraging compliance with managerial policies, by applicable laws and regulations."

These arguments conclude that internal control is a procedure used to accomplish the organization's goals, influenced by influential people like the board of directors and management.

The purpose of internal control

The Committee of Sponsoring Organizations of the Treadway Commission (COSO), cited by Lestari & Maryanti, (2021), states that the goals of internal control are to establish internal control as a process used by the management and board of directors to provide adequate assurance that the following control objectives can be met:

1. Operational efficacy and efficiency
 2. The accuracy of financial statements
 3. Adherence to relevant legal and regulatory requirements.
-

(Inta Budi Setya Nusa, 2021) makes similar claims about the goals of internal control, which are as follows: 1. Protecting organizational assets 2. Checking the dependability and correctness of accounting data 3. Promoting efficiency 4. Promoting adherence to management guidelines.

These theories conclude that the goal of putting internal control in place is to ensure compliance with relevant laws and regulations, the effectiveness and efficiency of business operations or government administration, and the dependability of financial and non-financial reporting.

Model of Internal Control

Control is characterized as a procedure that offers an acceptable level of confidence, notwithstanding the potential for managerial override, collusion, and human error. From this theory, the internal control model comprises the following, according to SUMMARYATI et al., (2020): a. Control Environment; b. Control Activities; c. Risk Assessment; d. Information and Communication; and e. Monitoring.

Accounting Information Systems Implementation

(Kania & Tanjung, 2021) defines an accounting information system as gathering, processing, and reporting accounting data via technological means. In a similar vein, Gamayuni, (2018) states that: "An accounting information system is a recording system, usually computer-based, that combines accounting concepts and principles with the benefits of

information systems and is used to analyze and record business transactions to prepare financial reports to provide accounting data for its users.

Thus, accounting information systems are "a collection of interconnected subsystems that work together harmoniously to process financial data into financial information needed by decision-makers in the financial decision-making process" by Azhar Susanto. (Sheng, 2018)

The process of obtaining and combining conceptual and material resources to create a functional system is called implementation. (Faccia et al., 2019)

A method and procedure for gathering, categorizing, summarizing, and reporting financial and operational data is what Salam (2022) define as an accounting information system.

According to these theories, putting an Accounting Information System in place involves acquiring and integrating conceptual and physical resources to create a functional system that organizes financial transaction data into financial reports that are used as a basis for decision-making.

The standard of financial reports from local governments superiority

According to the Oxford Dictionary, quality is the benchmark for something or a particular caliber of excellence. The information is regarded as high quality if it is trustworthy and relevant. Information that can be utilized to make decisions is referred to as relevant information. Napitupulu (2023) As stated by Goetch and

Davis and referenced by Lestari & Maryanti (2021), quality is "...a dynamic condition related to people, processes, products, services, and environments that meet or exceed expectations." Conversely, quality is defined as "...the entirety of features and characteristics of a product or service that its ability to satisfy needs, whether explicitly or implicitly stated," in ISO-8402. (Inta Budi Setya Nusa, 2021) The contract's specifications or prerequisites that must be established before anything else are considered needs."

It is clear from the range of viewpoints presented above that quality is a dynamic attribute of goods, services, and the capacity to meet demands.

Financial Reports

A Definition for Local Government Financial Reports

As defined by PSAK 01, financial reports show the financial effects of transactions and other occurrences that are categorized into multiple significant groups according to their economic features. SUMARYATI et al., (2020) defines financial reports as follows: "Financial reports are reports that show the financial condition of an entity at a specific period." Financial reports also look at current problems, both strengths and weaknesses, to make economic decisions about the company's future course of action."

Lestari & Maryanti (2021) asserts that financial reports are documents an organization

compiles for its internal and external stakeholders.

Financial Reports From Local Governments

Reports that show the financial status of transactions carried out by a public sector organization are known as public sector financial reports (Steinbart et al., 2018). On the other hand, local government financial reports are declarations by reporting entities as a kind of accountability for the administration of local government finances during a period, according to (Kania & Tanjung, 2021)

Financial reports are structured reports on the financial status and transactions carried out by a reporting company by Government Regulation 71 of 2010. The reporting entity is a government unit made up of one or more accounting entities that are obligated by law and regulation to file general-purpose financial reports as accountability reports. These entities include the following: 1. The central government

Municipalities

Every state department or establishment under the federal government

If the intended organizational unit is obliged to provide financial reports by laws and regulations, then an organization within the national/local government or another organization may be required.

It is clear from the range of viewpoints presented above that financial reports serve as a means of holding the management of financial resources accountable. In order to facilitate

comparisons with financial reports from other businesses or prior periods, financial reports are prepared using appropriate accounting standards.

Purpose of Local Government Financial Reports

According to Government Regulation No. 71 of 2010, Attachment 1.02, financial reporting aims to provide data that helps users evaluate accountability and make decisions—whether social, political, or economic. This is accomplished by disclosing information about the following: a. the sources, allocation, and use of financial resources; b. the sufficiency of current period revenues to finance all expenditures; c. the amount of economic resources used in the reporting entity's activities and the results achieved; d. how the reporting entity meets its cash needs and funds all of its activities; e. the financial position and condition of the reporting entity about its sources of revenue, both short- and long-term, including those derived from tax collections and loans; f. the information about changes in the reporting entity's financial position, whether positive or negative, as a result.

Financial reports include the sources and uses of financial and economic resources, transfers, financing, budget balance surpluses, operational surplus/deficit reports (LO), budget implementation surpluses/deficits, equity, and cash flows of a reporting entity to accomplish these goals.

Mamduh M. Hanafi and Abdul Halim (2009:30) state that the goals of financial reporting go from the broadest to the narrowest,

as follows: supplying data that helps make decisions;2) supplying data that helps estimate Cash Flows for External Users; and3) supplying data that helps estimate Cash Flows for the Company.

According to Susan Irawati (2008:145), the goal of financial reports is "to provide useful information and a clear picture of the financial condition of a company or an assessment of the health of a company." Financial reports have a purpose that can be utilized for decision-making, giving decisions a solid foundation to build.

To sum up, financial reports aim to give pertinent details regarding the state of a reporting entity's finances and all of its activities for a given reporting period.

METHOD

In this study, associative and descriptive approaches were employed. The descriptive technique is research done without comparisons or connections with other variables to ascertain the values of one or more independent variables.

The descriptive technique is employed when summarizing or outlining topics about inquiries concerning independent variables, such as accounting information systems, internal control, and the caliber of local government financial reports. This study employs the associative approach to ascertain the simultaneous and partial effects of accounting information systems and internal control on the caliber of local government financial reports.

Primary data are the types and sources of data used in this investigation. Primary data is information that the researcher has personally

collected on the variables of relevance for the particular goal of the study. People divulge information when they are watched, questioned, or interviewed. Focus groups and in-depth interviews are two other excellent sources of primary data.

RESULT AND DISCUSSION

The Influence of Internal Control and Implementation of Accounting Information Systems on the Quality of Regional Government Financial Reports

Analysis of Multiple Regression

The degree to which internal control and accounting information systems impact the caliber of government financial reports is ascertained through multiple linear regression analysis. $Y = a + b_1x_1 + b_2x_2 + E$ is the formula used in the regression equation. In this instance, the findings of the computation using the SPSS 23 application to determine the impact of accounting information systems and internal control on the caliber of local government financial reports are as follows:

Table 2: Calculated results of multiple linear regression analysis

Model	Coefficients ^a		Beta	t	Sig.
	Unstandardized Coefficients	Standardized Coefficients			
(Constant)	-1.682	5.385		-.312	.756
Pengendalian_Internal	.498	.086	.593	5.772	.000
Sistem_Informasi_Akuntans	.340	.116	.300	2.918	.005

a. Dependent Variable: Kualitas_Laporan_Keuangan_Pemerintah_Daerah

The table's regression findings can be used to create the following multiple linear equations:

$$Y = (-1.682) + 0.498 X_1 + 0.340 X_2$$

Information:

Y = quality of local government financial reports

X1 = internal control

X2 = accounting information system

Without internal control and accounting information systems, local government financial reporting quality is zero, as indicated by the constant value (a) of -1.682.

Assuming the values of the other independent variables remain constant, the internal control variable's (X1) positive regression coefficient value of 0.498 indicates that an increase in internal control will result in a 0.498 value.

When the values of the other independent variables remain constant, an improvement in internal control will result in a regression coefficient value of 0.340 for the accounting information system variable (X2), which is positive.

Analysis of correlation coefficients

The dependent variable is the quality of local government financial reports (Y). The independent variables, internal control (X1) and accounting information systems (X2), are related by Pearson product-moment correlation analysis. The following are the results of calculations made with the SPSS 23 application:

Table 3. The Pearson Correlation Test

		Correlations		
		Kualitas_Laporan_Keuangan_Pemerintah_Daerah	Pengendalian_Internal	Sistem_Informasi_Akuntansi
Pearson Correlation	Kualitas_Laporan_Keuangan_Pemerintah_Daerah	1.000	.687	.486
	Pengendalian_Internal	.687	1.000	.314
	Sistem_Informasi_Akuntansi	.486	.314	1.000
Sig. (1-tailed)	Kualitas_Laporan_Keuangan_Pemerintah_Daerah		.000	.000
	Pengendalian_Internal	.000		.013
	Sistem_Informasi_Akuntansi	.000	.013	
N	Kualitas_Laporan_Keuangan_Pemerintah_Daerah	50	50	50
	Pengendalian_Internal	50	50	50
	Sistem_Informasi_Akuntansi	50	50	50

The correlation coefficient for internal control is 0.687, indicating a strong association between internal control and the caliber of financial reports from local governments, based on the correlation calculation results above and

the output obtained. The quality of local government financial reporting is strongly correlated with the accounting information system, as evidenced by the system's correlation coefficient of 0.486.

Examining the coefficient of determination

The determination analysis value expresses the extent of the combined impact of the independent and dependent variables. The coefficient of determination can be computed using the following formula once it is known that R is 0.778:

Table 4. Analysis of Simultaneous Determination Coefficients

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.744 ^a	.553	.534	2.04493

a. Predictors: (Constant), Sistem_Informasi_Akuntansi, Pengendalian_Internal

b. Dependent Variable:

Kualitas_Laporan_Keuangan_Pemerintah_Daerah

$$Kd = (R^2 \times 100\%)$$

$$= (0,744)^2 \times 100\%$$

$$= 55.3\%$$

The resultant coefficient of determination value is 55.3%, indicating that the quality of regional government financial reports is simultaneously influenced by internal control and accounting information systems by 55.3%, while other factors not included in this study account for 44.7% of the variation in report quality.

Test of Hypothesis (f)

To ascertain if internal control and accounting information systems have a substantial impact on the caliber of local government financial reports, the f-test or the simultaneous regression coefficient test is

utilized. As a result, the following statistical hypotheses are used with the f-test statistic:

Ho: The quality of local government financial reports is not significantly impacted by internal control or accounting information system variables.

Ha: A key factor influencing the caliber of local government financial reports is the presence of internal control and accounting information system parameters.

Table 5. Calculation Results for the F Test

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	243.139	2	121.570	29.072	.000 ^b
	Residual	196.541	47	4.182		
	Total	439.680	49			

a. Dependent Variable: Kualitas_Laporan_Keuangan_Pemerintah_Daerah

b. Predictors: (Constant), Sistem_Informasi_Akuntansi, Pengendalian_Internal

Contrasting the tabular f-value under the following situations with the calculated f-value:

1. Ho is accepted (no significant effect) if the computed F-value is less than the tabulated F-value.
2. Ho is rejected (significant effect) if the computed F-value exceeds the tabulated F-value.

The computed f-test result is 29.072, and the tabulated f-value for n = 50, with two variables, is 3.18, according to Table 4.17. Thus, the calculated f-value > the tabulated f-value, as determined by the testing criteria, indicates that all independent variables (accounting information system and internal control) concurrently have a significant impact on the dependent variable (quality of local government financial reports).

CONCLUSION

Conclusion

The following conclusions can be made in light of the findings of the study, and the conversations had regarding the Impact of the Application of Internal Control and Accounting Information Systems on the Quality of Local Government Financial Reports in the City Government of Bandung:

The City Government of Bandung's application of internal control is rated as good on the continuity line. The quality of local government financial reports produced by the City Government of Bandung is positively and significantly impacted, at least in part, by implementing internal control. The goal of implementing internal control is to have a positive effect, and this means that every employee who increases internal control will also improve the quality of local government financial reports; in other words, the more internal control, the better local government financial reports.

The City of Bandung's Accounting Information System falls into the excellent category on the continuity line. The quality of local government financial reports produced by the City Government of Bandung has been positively and significantly impacted, at least in part, by installing the Accounting Information System. The positive effect that the Accounting Information System is intended to achieve suggests that if the system is implemented more widely, the quality of local government financial reports will also rise, and vice versa.

The Quality of Local Government Financial Reports in the City Government of Bandung is positively and significantly impacted by the simultaneous installation of Internal Control and

the Accounting Information System. The quality of local government financial reports is influenced by internal control and the implementation of the accounting information system by 55.3%, according to the coefficient of multiple determination (Adjusted R²) of 0.553. The remaining 44.7% of the variance is influenced by variables not covered in this study, such as asset management, human resources, and accounting knowledge.

Suggestions

The researcher can make the following recommendations in light of the findings, discussions, and conclusions regarding the Impact of Internal Control and Accounting Information System Implementation on the Quality of Local Government Financial Reports in the City Government of Bandung:

Government leaders and staff can raise the caliber of local government financial reports by establishing internal solid control. Reasonable internal control can be improved by stepping up the proper disciplinary measures for breaking the rules or departing from policies and procedures. It is also anticipated that officials will use the prudential concept to establish what constitutes a reasonable amount of risk.

The quality of the resulting government financial reports will be enhanced by installing an accounting information system in a government agency. Wherever necessary, the availability criteria of the system might be enhanced. Controlling the available data and processing correct data can also improve the implementation of a sound information system.

By focusing on more crucial elements like establishing the accounting information system and internal control inside the government agency, the caliber of local government financial reports can be raised. Providing financial reports honestly and consistently, including all relevant information for general needs, presenting financial reports in formats or terms appropriate for the user's level of understanding, and delivering reports on time are additional ways to improve the quality of local government financial reports.

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The Influence of Internal Control and Implementation of Accounting Information Systems on The Quality of Regional Government Financial Reports (Study Of Bandung City Government Regional Work Units)

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