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Does Internal Control Effectiveness Affect Financial Reporting Quality? Evidence from Local Government of Bandung, West Java Province, Indonesia

ItaSalsalina

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ARTICLE INFO	ABSTRACT
Article history:	Background: Based on phenomenon of poor quality of financial reporting and lack of
Received 10 October 2015	accountability at most of all central and local government in Indonesia, so the
Accepted 30 November 2015	Government of Indonesia needs to improve the effectiveness of internal control as noted
Available online 31 December 2015	by the audit board of the Republic of Indonesia in order to achieve reliability of
	financial reporting. Objective: This research aims to examine the effect of internal
Keywords:	control effectiveness on financial reporting quality and its impact on performance
internal control effectiveness, financial	accountability. Results: The results revealed that internal control effectiveness affects
reporting quality,	financial reporting quality, and thus gives an impact on performance accountability of
performance accountability.	the local government. Conclusion: Based on research findings, it can be concluded
	thatinternal control effectiveness will provide reasonable assurance on the reliability of
	financial reporting, and thus enhance performance accountability.
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INTRODUCTION

Public accountability is an important issue especially for governmental organization. In accordance with Law No. 17 year 2003 on State Finance, Government Regulation No. 71 year 2010 on Governmental Accounting Standards and Regulation of the Minister of Home Affairs No. 59 year 2007 concerning Guidelines on Regional Financial Management, each local government in Indonesia is expected to manage finances economically, efficiently and effectively as well as to provide financial statements as a form of public accountability. Accountability requires that governments answer to the citizenry in order to justify the raising of public resources and the purposes for those resources (Ruppel, 2005). Government must be accountable for results(Callahan, 2007). According to Callahan (2007), accountability for results (performance) means holding government responsible not only for its expenditures, the quantity of services provided, and the fulfillment of reporting requirements, but also for the results of its actions. Therefore, governments need to show their constituents whether policies, programs and activities they deliver are producing the results that they were intended to introduce.

Governmental Accounting Standards Board (GASB) Concepts Statement No. 1 stated that

accountability is considered as the cornerstone of financial reporting(Martin and West, 2003). According to International Public Sector Accounting Standards Board (IPSASB, 2013), the objectives of financial reporting by public sector entities are to provide information about the entity that is useful to users for accountability and for decision making purposes. Similarly, Gross et al., (2005) stated that the purpose of financial reporting for governmental organization is to be publicly accountable, by providing relevant, reliable. useful, and understandable information that addresses the principal needs of a variety of users. As noted by GASB Concepts Statement No. 1 par. 56 that accountability is based on the general belief that the citizenry has a right to know, a right to receive openly declared facts that may lead to public debate by the citizens and their elected representatives, thus financial reporting plays a major role in fulfilling government's duty to be publicly accountable (Wilson et al., 2010). In other words, financial reporting quality is an important factor for the success of governmental organization in terms of the quality of financial information being provided as well as its accountability. According to Webster, accountability is an obligation or willingness to accept responsibility or to account for one's actions (Callahan, 2007).

Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities

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(IPSASB) noted that accounting and financial reporting provides important accountability information. By providing a financial report of high quality, governmental entities can also satisfy one some of the information needs of organizations and users that have the authority to require reports tailored to meet their own specific information needs (Budding et al., 2015). Performance accountability of governmental institutions, as noted by the Institute of Public Administration in Indonesia (LAN, 2000) is the embodiment of the obligation of governmental institutions to be responsible for the success of organizational mission in achieving its goals and objectives that have been determined periodically through the system of responsibility. According to et al. (2010), the need to report on Wilson management's accountability to citizens, creditors, oversight bodies, and others has played a central role in shaping the accounting and reporting practices of governmental and not-for-profit organizations. From this point of view, we can conclude that accountability of public institutions is a must and also a main objective of the governmental financial reporting, as also noted by Ruppel (2005), that accountability is the foundation for governmental financial reporting based on the existence of citizenry has the right know and receive an explanation in terms of the use of public funds.

The phenomenon of poor quality of financial reporting and lack of public accountability at most of all central and local government in Indonesia are noted by The Minister of Finance, Sri Mulyani (2009). She argued that poor quality of financial reporting of governmental institutions is due to the lack of internal control effectiveness. Therefore she asked for all head of ministries and institutions, to implement an effective internal control in order to improve the quality of financial reporting. Meanwhile the head of The Audit Board, HadiPoernomo (2010) stated that the government has not successfully managed in improving financial reporting quality, effectiveness of programs and activities implementation, compliance with legislation, and effectiveness of internal control. Furthermore, the minister of home affairs. GamawanFauzi (2011), argued that financial reporting of local government did not efficient in terms of time and budget. According to the vice president, Boediono (2011), transparency and accountability of public financial management has

not been satisfactory. Over twenty financial statements of ministries and state institutions did not get "unqualified" opinion from the Audit Board. Similarly, Indonesian President, SusiloBambangYudhoyono (2012) stated that he was not satisfied with audit opinion from the Audit Board concerning performance accountability of governmental institutions in Indonesia for the year 2011. The problem related to the poor quality of financial reporting was caused by the weaknesses of internal control as noted by the head of The Audit Board, HadiPoernomo (2013). According to The Minister of Finance, ChatibBasri (2013), the government should consider the way to solve the problem of financial reporting quality in terms of transparency and accountability.

The poor quality of governmental financial reporting is a main problem, because financial reporting quality is a key element in the accountability of public sector bodies (Henley et al, 1989), and its objective is for decision making (Engstorm and Copley, 2004). Therefore, Indonesian Vice President, Boediono(2011), asked for all governmental agencies at the central and local levels to improve the quality of financial statements, due to the target of all ministries and institutions to obtain an "unqualified opinion". The quality of financial reporting is associated with the internal control effectiveness as one of the criteria in awarding audit opinion in accordance with Law No. 15 year 2004 regarding audit of state financial management responsibility. Criteria in awarding the opinion are: (a) compliance with Governmental Accounting Standards, (b) adequate disclosures, (c) compliance with laws and regulations, and (d) effectiveness of the internal control system.

One of the influential factors for the success of both central and local government is reflectedthrough the presentation offinancial statements thathavea goodquality. Governmental financialstatementsare considered qualifiedif they receive "unqualified opinion". Eachcentral and local government, are required topublishfinancial statementsasa form of accountabilityandshould be auditedbytheTheAuditBoard. Financial audit carried out by the Audit Board has a purpose to provide an opinion on the fairness of the financial statements.

This following data shows the audit opinion of financial statements conducted by the Audit Board for the year 2012:

Table 1: Opinion based on the examination of Financial Statements By the Audit Board of Republic of Indonesia for the Year 2012.

I ype of		OPINION							
Financial Information	Unqualified Opinion	%	Qualified Opinion	%	Adverse Opinion	%	Disclaimer Opinion	%	Total
LKPP	0	0	1	100	0	0	0	0	1
LKKL	68	74	22	24	0	0	2	2	92
LKPD	113	27	267	64	4	0.01	31	8	415
LK BadanLainnya	4	66	1	17	0	0	1	17	6

Source: Summary of Examination Result (IHP) Semester I for the year 2013

Where:	LKPP =	Financial	Statements	of Central
Governme	nt			

LKLL= Financial Statements of Ministry and Institutions

LKPD= Financial Statements of Local Government

LK BadanLainnya = Financial Statements of Others Bodies

Based onTable1above we can see that the majority of audit opinionon financial statementsof

the central government, ministries and institutions, local government, andotherbodies are "fair with exception" (*qualified opinion*), while the government's targetis to achievean "unqualified opinion". Results based on the examination of financial statements of local government for the year 2012conducted by the Audit Board, discovered the existence of 4,412 cases of weaknesses in internal control system categorized in three groups as described below in table 2:

Table2: FindingsGroup of Internal Control System Based On Examination Resultsfor the year 2012.

No.	Sub of GroupFindings	Number of Cases
1	Weaknesses in Accounting Control Systemand Reporting	1.586
2	Weaknesses in Control System of Budget Implementation	1.935
3	Weaknesses in Internal Control Structure	891
	Total	4.412

Based on the evaluation internal controlsystemby the Audit Board, we can see several cases of internalcontrolweaknessescanbe grouped into weaknesses of accounting controlsystems and reporting, weaknesses of budget control system, weaknesses of revenue and expenditure control system, as well as weaknesses of internal control structure. Each groupalong with the findings of the cases are described as follows:

1. A total of 1,586 cases of weaknesses in accounting control system and reporting, consist of:

• 895 cases of inaccurate recording;

• 498 cases of preparing report is not in accordance with provisions;

16 cases of late reporting;

• 163 cases of inadequate accounting information systems; and

• 14 cases of accounting information system are not supported with competent human resources.

2. A total of 1,935 cases of weaknesses in controlling the implementation of revenue and expenditure budget, consist of:

• 617 cases of inadequate activities planning;

• 249 cases of collecting, depositing and reporting mechanism of local revenue and grants is not in accordance with provisions;

570 cases of irregularities against specific legislation or internal regulations of the organization;
58 cases of expenditure execution is out of budget;

• 324 cases of inappropriate in determining policy that result in a loss of potential revenue;

• 83 cases of inappropriate in determining policy that result in an increase in cost or expenditure; and

• 34 cases of weaknesses in controlling the implementation of revenues and expenditures budget, including physical asset management and security.

3. A total of 891 cases of weaknesses in internal control structure, consist of:

• 485 cases of entities do not have a formal Standard Operational Procedures (SOP);

• 277 cases of existing SOP does not run optimally;

• 4 cases of entities do not have internal watchdog unit;

• 99 cases of an existing internal watchdog unit are inadequate; and

• 26 cases there was no segregation of duties and functions adequately.

According to the Audit Board, financial statements which obtain unqualified and qualified opinion, are basically supported by an adequate system of internal control, whereas those which obtain adverse and disclaimer opinion are not supported by an adequate internal control system, therefore need improvement in terms of reliability of financial reporting. In other words, the existence of an effective internal control will affect the quality of financial information itself.

Based on the examination of performance accountability report (LAKIP) in year 2013 toward 88 ministries or institutions and 33 provincial governments, we can see that from 88 ministries only institutions (7.14%) awarded A predicate 6 (excellent), 33 institutions (39.29%) awarded B predicate (good), while as many as 40 institutions (47.62%) awarded CC predicate (quite average), 3 institutions (3.57%) awarded C predicate (average), and 2 institutions (2.38%) awarded D predicate (poor). From 33 provincial governments, none have achieved A predicate, but only 9 provinces (27.27%) awarded B predicate, 19 provinces awarded CC predicate (57.58%) which is one of them is West Java provincial government and 5 provinces awarded (15.15%) C predicate. The evaluation results indicate that the overall performance accountability of governmental institutions in Indonesia have not achieved excellent or good predicate and thus need improvement.

This study was conducted to examine the problem related to the poor quality of financial reporting at governmental institutions especially the influential factor of it which is the effectiveness of internal control system. Problems in this study can be formulated as follows:

1. How is the effect of internal control effectiveness on financial reporting quality.

2. How is the effect of financial reporting quality on performance accountability.

2. Literature Review:

2.1 Financial Reporting Quality:

Financial reporting is basically the process of communicating financial accounting information about the company that is useful to external users in making decisions about providing resources to the entity (Nikolai et. al., 2010; Briton and Waterston, 2010; Kieso et al, 2012; Wahlen et al., 2012). The objective of financial reporting isto provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions (Porter and Norton, 2010; Atrill and McLaney, 2011; Elliott and Elliot, 2011; Libby et al., 2011; Kieso et al., 2012). In other words, it can be concluded that financial reporting is a process that encompasses all aspects relating to the preparation and presentation of financial information that will be useful for investors, creditors and other users in making decisions. Financial reporting for governments is based primarily on pronouncements issued by the Governmental Accounting Standards Board (GASB). The GASB recommends each government issue a comprehensive annual financial report (Bogui, 2008). Therefore financial reporting for public sector organization aims to produce financial information that serves as a means of accountability and evaluation of financial performance. In orderto meet thedesired quality of governmental financial statements, thenormative prerequisites are needed. Qualitative characteristics of financial statements are normative measures to assess the quality of financial statement relating to its purpose.

According to Kieso et al., (2012), the qualitative characteristics of accounting information consists of the fundamental characteristics and enhancing characteristics. Fundamental characteristics are divided into two types: (1) relevance which consists of predictive value, confirmatory value, and materiality; and (2) faithful representation which consists of completeness, neutrality, and free from error, while enhancing characteristics which is intended to improve fundamental qualities consist of comparability, verifiability, timeliness, and understandability. According to Beest et al. (2009), the quality of financial reporting can be measured by qualitative characteristics of financial information, such as: reliability, understandability relevance, and comparability. Similarly, Cheung et al. (2010) and Statement of Governmental Accounting Standards No. 01 (Governmental Regulation No. 71 year 2010), stated that qualitative characteristics of financial statements are required by the government in order to meet the desired quality such as: relevant, reliable, comparable, and understandable. Stickney et al. (2010) stated that reliability of financial reporting refers to the faithfulness of which accounting information represents what it purports to represent and the extent of which the information is both verifiableby independent measures and neutral with respect to the interest of a particular user group.

2.2 Internal Control Effectiveness:

Internal control can be defined as a process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in each of the following categories: (a) effectiveness and efficiency of operations; (b) reliability of financial reporting; (C) compliance with applicable laws and regulations (COSO, 2009; Agami, 2006; Needles et al., 2008; Porter and Norton, 2010; Narayanaswamy, 2011; Gelinas, 2011). Effectiveness of internal control refers to the existence of an adequate system of internal control relevant to the design of policies, rules and procedures (Wittayapoom et. al., 2011). Effectiveness of internal control can be achieved when managers design a reasonable assurance that the goals and objectives can be achieved. There are five key control components that must exist to achieve the effectiveness of internal control: (1) control environment which is defined as actions, policies, and procedures that reflect the overall attitude of top management, directors, and owners of an entity about internal control and its importance; (2) risk assessmentwhich is defined as management's identification and analysis of risks relevant to the preparation of financial statements in accordance with GAAP. Risk assessment processes indentify factors affecting risks; assess significance of risks and likelihood of occurrence; and determine actions necessary to manage risks. (3) control activities which is defined as policies and procedures that management has established to meet its objectives reporting,(4) for financial information and communication which is defined as methods used to initiate, record, process, and report an entity's transactions and to maintain accountability for related assets; and (5) monitoring which is defined as management's ongoing and periodic assessment of the quality of internal control performance to determine whether controls are operating as intended and are modified when needed (Arens et al., 2006; Needles et. al., 2008; Bodnar and Hopwood, 2010; Jones et al., 2011; Considine et al., 2012).

2.3 Performance Accountability:

According to Webster, accountability is an obligation or willingness to accept responsibility or to account for one's actions. Accountability requires that governments answer to the citizenry in order to justify the raising of public resources and the purposes for those resources (Ruppel, 2005). To be accountable means that there is an obligation to answer for one's actions and decisions which arises when authority to act on behalf of an individual or body (*the principal*) is transferred to another (*the agent*) (Funnell *et al.*, 2012).

Accountability always related to performance. Accountability for results (performance) means holding government responsible not only for its expenditures, the quantity of services provided, and the fulfillment of reporting requirements, but also for the results of its actions (Callahan, 2007). According

to Wilson *et al.* (2010), accountability for operating performance is accomplished by providing report users information on service efforts and accomplishments (SEA). Martin and West (2003) noted that SEA reporting is intended to provide information to users about services provided and accomplishments and then use measures to link the two together. Hence, the relationship between service efforts and accomplishments should provide citizens and other users valuable information about governmental performance and provide information to hold managers accountable.

The level of success achieved by the governmental apparatus in performing their duties is described in the performance report. Disclosure of performance report of governmental organization is a form of public accountability. The government obligation to perform accountability is based on agency theory which is known as principal-agent relationship (Jensen and Meckling, 1976, Eisenhardt, 1989). According to agency theory, apparatus of local government in this research is considered as an agent where the governor or mayor is considered as a principal. In the perspective of agency theory, the principal delegate decision-making authority and the use of resources to the agent to be carried out or managed in the interests of the principal. To find out the achievement of its agent, then the principal requires performance report from its agent.

Institute of Public Administration in Indonesia (LAN, 2000) statesthat performanceisan overview ofachievement level to the program/activity/policies implementation in order to achieve goals, objectives, mission and vision of the organizationas statedin the formulation of organizational strategic. Performance accountability is a form of government's obligationto achieving account forthesuccessandfailure in variousobjectives that have been established by the government periodically throughperformance report which is known as performance accountability report of governmental institution (LAKIP). In otherwords, performance accountability report is a form of government's obligation to be publicly accountable for the success orfailure of the mission of its organization.

3. Theoretical Framework:

3.1 The Effect of Internal Control Effectiveness on Financial Reporting Quality:

Issue of financial reporting quality supported by the existence of an effective internal control as management responsibility also noted bv International Public Sector Accounting Standards Board (IPSASB, 2013). Internal control is used by management in order to achieve business goals. Thus the reliability (quality) of financial reporting is affected by the effectiveness of internal control. The relationship between internal control effectiveness and financial reporting quality is supported by theory. According to Rezaee and Riley (2010) an effective internal control system can assist in preventing, detecting and correcting material misstatements in financial reports. Furthermore, Young (2012) argued that internal control systems operate at different level of effectiveness. Internal control can be judged effective if published financial statements are being prepared reliably, thus it can ensure reliability of financial reporting.Considine *et al.* (2012) also stated that a sound internal control system will assist in meeting the goal of preparing reliable financial report.Similary Maher *et al.* (2012) stated that internal controls provide management with reasonable assurances that the company's assets are protected and the information that the accounting information in the company is reliable.

between The relationship internal control effectiveness and financial reporting quality is also supported by previous research findings. According to Skaife et.al (2007) internal control effectiveness strongly and significantly affects reliability of financial reporting because internal control is essential for corporate governance statement for the firms particularly in the Thai listed firms.Amudo and Inanga (2009) similarly stated that internal control system is responsible for organizations' failure to achieve reliability of financial reporting. Moreover Wittayapoom and Limsuwan (2011) stated that internal control effectiveness significantly positively affects reliability of financial reporting. Then, Tunji (2013) noted that an effective internal control system has a great impact on accuracy and reliability of records of banks .

3.2 The Effect of Financial Reporting Quality on Performance Accountability:

Issue of performance accountability which is supported by financial reporting quality is based on theory. According to GASB Concepts Statement No. 1 concerning objectives of Financial Reporting states that accountability is the cornerstone of all financial reporting in government (Wilson et al., 2010). GASB notes that financial reporting should provide information useful in making economic and political decisions and in assessing accountability (Freeman et al., 2011). Financial reporting in the public sector is a key element in the accountability of public sector bodies (Henley et al., 1989). Similarly, Copley (2010) states that financial reporting plays a major role in fulfilling government's duty to be publicly accountable in a democratic society. Moreover Ruppel (2005) also states that in order to help fulfill a government's duty to be accountable, government financial reporting should enable the financial statement user to assess the extent to which operations were funded by nonrecurring revenues or long-term liabilities were incurred to satisfy current and non-profit operating needs.Government organizational accounting and reporting usually emphasize control of and accountability for expendable financial resources (Freeman et al., 2011). SFAC No.1 identifies four objectives of federal financial reporting, all of which rest on the foundation of accountability (Wilson and Kattelus, 2010).

The relationship between financial reporting quality and performance accountability is also

supported by previous research findings. As noted by Mack and Ryan (2006), the research findings indicated that general-purpose of financial reports are used to satisfy financial accountability and public accountability rather than decision making. Eivani *et al.* (2012) also concluded that Financial reporting is the best index of accountability, while Afiah and Rahmatika (2014) stated that Internal Control have significant effect on the quality of financial reporting, both partialy and simultaneously.

Furthermore the Quality of Financial Reporting has implications on Good Government Governance.

4. Research Model and Hypothesis:

Based on theory and previous research findings as discussed above, form a premise which shows the effect of internal control effectiveness on the quality of financial reporting. The conceptual model could be described in figure 1 below:

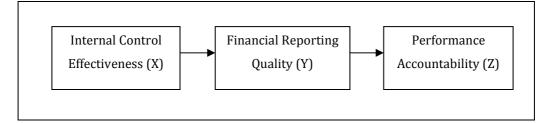


Fig. 1: Conceptual Model.

The proposed hypothesis in this research could be formulated as follow:

H1: Internal control effectivenessaffects financial reporting quality.

H2: Financial reporting quality affects performance accountability

5. Methodology, Findings and Discussion:

In this study there are three variables and described into two models. Model I is intended to examine Internal Control Effectiveness as an independent variablewhere proxies of variable are: 1) control environment, 2) risk assessment, 3) control activity, 4) information and communication, and 5) monitoring and Financial Reporting Quality as a dependent variable (Y)where proxies of variable are: 1) relevance; 2) reliability; 3) comparability; and 4) understandability. Furthermore model II is intended to examine Financial Reporting Quality as an independent variable (Y) and performance accountability as a dependent variable (Z) where proxies of variable: 1) performance planning; 2) performance performance reporting; 3) evaluation; and 4) performance achievement.

Surveyeddesign was used in this study, where primary data was obtainedthroughquestionnaires which were distributed to selected respondents. The questionnaire wasprepared based onindicatorsthat were intended to determine the effect of the effect of internal control effectiveness on financial reporting quality.

Unit of analysis in this study is local governmental unit (SKPD) at Bandung city, totally 33 SKPD. Respondents in this study are apparatus of SKPD who are carrying out daily duties, regarding financial reporting process in order to provide financial information as a means of accountability. Questionnaires were distributed to personnel directly related to the financial reporting process such as: head of finance department, treasurer, budgeting staff and accounting staff. Data collected by using the survey method. A total of 110 questionnaires distributed to 33 SKPD. Of the total 110 questionnaires distributed, only 78 questionnaires from 22 SKPD could be collected and analyzed or with a respond rate of 70.9%.

Data was then analyzed using simple regression analysis. Simple regression analysis was intended to measure the effect of independent variable on dependent variable with a significance level 5% (α = 0,05). Statistical hypotheses in this study are as follows:

• H_{01} : $\beta = 0$ means internal control effectiveness does not affect financial reporting quality.

• H_{al} : $\beta \neq 0$ means internal control effectiveness affects financial reporting quality.

• H_{02} : $\beta = 0$ means financial reporting quality does not affect performance accountability.

• H_{a2} : $\beta \neq 0$ means financial reporting quality affects performance accountability.

In this research, the hypothesistestingis analyzed with a simpleregression method. The structural regression modelin this studycould be described into two models asfollows:

$$FRQ = a + b ICE +$$

Where:

FRQ= Financial Reporting Quality b= Coefficient of Regression ICE= Internal Control Effectiveness e₁= *error of term*(model I)

Model II:

$$PA = a + b FRQ + e_2$$

Where:

PA= Performance Accountability b= Coefficient of Regression FRQ= Financial Reporting Quality e₂= *error of term*(model II)

Table 3. Validity Test of Variable X

In this study, questionnaire was tested in two ways, validity andreliability test. Based on this research analysis usingproduct moment techniqueobtained the following results:

Statement	R (count)	$R_{(table)}$	conclusion
1	0,632	0,2227	Valid
2	0,600	0,2227	Valid
3	0,527	0,2227	Valid
4	0,498	0,2227	Valid
5	0,697	0,2227	Valid
6	0,769	0,2227	Valid
7	0,580	0,2227	Valid
8	0,620	0,2227	Valid
9	0,616	0,2227	Valid
10	0,711	0,2227	Valid
11	0,687	0,2227	Valid
12	0,647	0,2227	Valid
13	0,665	0,2227	Valid
14	0,595	0,2227	Valid
15	0,650	0,2227	Valid
16	0,705	0,2227	Valid
17	0,694	0,2227	Valid
18	0,635	0,2227	Valid
19	0,564	0,2227	Valid
20	0,570	0,2227	Valid
21	0,658	0,2227	Valid
22	0,617	0,2227	Valid
23	0,714	0,2227	Valid
24	0,646	0,2227	Valid
25	0,213	0,2227	Not Valid
26	0,573	0,2227	Valid
27	0,619	0,2227	Valid
28	0,757	0,2227	Valid

Based on the analysisinTable 3, it is known thatallstatements other than statementitem of number 25has acorrelation coefficient r

 $_{count}$ greater than $_{table}(0.05;76)$, meaning that all items are valid and could be analyzed except for the statement of number 25.

Statement	R (count)	R (table)	conclusion
1	0,697	0,2227	Valid
2	0,721	0,2227	Valid
3	0,663	0,2227	Valid
4	0,670	0,2227	Valid
5	0,711	0,2227	Valid
6	0,776	0,2227	Valid
7	0,600	0,2227	Valid
8	0,694	0,2227	Valid
9	0,802	0,2227	Valid
10	0,637	0,2227	Valid
11	0,666	0,2227	Valid
12	0,799	0,2227	Valid
13	0,783	0,2227	Valid
14	0,797	0,2227	Valid

Table 4: Validity Test of Variable (Y).

Based on the analysisinTable 4, we can see allitemshave correlation coefficient r $_{count}$ greaterthanr_{table} (0.05;76), meaning thatallitems are valid; therefore all data canbe further processed.

Based on the analysis in Table 5, we can see all items have correlation coefficient r $_{count}$ greaterthanr_{table}(0.05;76), meaning that all items are valid; therefore all data canbe further processed.

After validity test, then doing reliability test. Testingreliability of all items using Cronbach Alphatechniques (α) with thehelp of SPSS.

Based on the analysisinTable 6, we can see that CronbachAlphavalueof0.943is greaterthan0.6, so itcan be concluded that all itemsin thestatement of independent variable (X) are reliable.

Based on the analysisinTable 7, shows that theCronbachAlphavalueof0.924is greaterthan0.6, so itcanbe concluded that all itemsin thestatement of dependent variable (Y) are reliable.

Based on the analysisinTable 8, we can see that CronbachAlphavalueof0.857is greaterthan0.6, so itcan be concluded that all itemsin thestatement of variable (Z) are reliable.

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 Table 5: Validity Test of Variable (Z).

Statement	R (count)	R (table)	conclusion
1	0,770	0,2227	Valid
2	0,766	0,2227	Valid
3	0,701	0,2227	Valid
4	0,791	0,2227	Valid
5	0,643	0,2227	Valid
6	0,667	0,2227	Valid
7	0,640	0,2227	Valid
8	0,662	0,2227	Valid

Table 6: Reliability Test of Independent Variable (X).

Reliability Statistics				
Cronbach's Alpha	N of Items			
.943	27			

Table 7: Reliability Test of Dependent Variable (Y).

Reliability Statistics			
Cronbach's Alpha	N of Items		
.924	14		

Table 8: Reliability Test of Variable (Z).

Reliability Statistics				
Cronbach's Alpha N of Items				
.857	8			

5.1 The Effect of Internal Control Effectiveness on Financial Reporting Quality:

Thereare twotypesof conceptual model in this research. The aim of model I-test is to know the effect of independentvariable(X) on dependent variable(Y), in this research is the effect of internal control effectiveness on financial reporting quality. This test result of model (*t-statistic*) could be seen inthis following table 9:

Based on the analysispresented inTable 9, thestructural regression equation for model I isasfollows:

FRQ = 15,302	+
0,385 ICE + e ₁	

Where:

FRQ= Financial Reporting Quality

ICE= Internal Control Effectiveness

 e_1 = *error of term*

It is shown that the significance value(0.000) $< \alpha$ (0.05), therefore H_{01} is rejected and H_{a1} is accepted. It can be concluded that internal control effectiveness affects financial reporting quality.

In order to know the ability of model Itoexplainvariation of dependent variable (Y) we we could see from this following result of determination test (table 10):

Sig.

1	Table 9:	Statistical t-test (Model I).			
				Coeffi	cients ^a	
	Model		Unstandardi	zed Coefficients	Standardized Coefficients	<i>t</i>
		WIOUEI	В	Std. Error	Beta	i
	1	(Constant)	15.302	5.661		2.703
1	X1	.385	.050	.664	7,737	

a. Dependent Variable: Total_Y

Table 10: Coefficient of Determination Test (Model I).

Model Summary ^b						
Model R R Square Adjusted R Square Std. Error of the Estimate						
1	.664	.441	.433	6.08233		
a. Predictors: (Constant), X1						
b. Dependent Variable: Total_Y						

Based on the analysis, as described in Table 10, we could see that the R-Square value is 0.441; hence variation of financial reporting quality as of 44.1% may be explained by variation of internal control effectiveness, while the remaining 55.9% are explained by other causes from outside of the model. Internal control effectiveness within the government areproxied by control environment, risk assessment, control activities, information and communication, and monitoring.

5.2 The Effect of Financial Reporting Quality on Performance Accountability:

The quality offinancial reportingin the government are measured byfourdimensions namely: relevant, reliable, comparable and understandable (LAN, 2000)while performance accountability are measured by fourdimensions namely performance planning, performance reporting, and performance evaluationand performance achievement.

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The aim of model II-test is to know the effect of independent variable(Y) on dependent variable(Z), in this research is the effect of financial reporting

quality on performance accountability. This test result of modelII (*t-statistic*) can be seen in this following table 11:

It is shown that the significance value(0.003)

 $<\alpha(0.05)$, therefore H₀₂ is rejected and H_{a2} is accepted.

From this result we canconclude that financial reporting quality affects performance accountability. In order to know the ability of model II to explain variation of dependent variable (Z) we

could see from this following result of determination

 Table 11: Statistical t-test (Model II).

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients		Sig
		В	Std. Error	Beta	ι	Sig.
1	(Constant)	20.386	3.926		5.192	.000
1	Total_Y	.201	.066	.329	3.041	.003
a. Dependent Variable: Total_Z						

Based on the analysispresented inTable 11, thestructural regression equation for model II isasfollows:

PA = 20,386 +	
$0,201 \text{ FRQ} + e_2$	

Where:

PA= Performance Accountability FRQ= Financial Reporting Quality e_2 = error of term

Table 12: Coefficient of Determination Test (Model II) Model Summary^b

Table 12: Coefficient of Determination Test (Model II) Model Summary .							
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	.329ª	.109	.097	4.69207			
a. Predictors: (Constant), Total_Y							
b. Dependent Variable: Total_Z							

test (table 12):

As described in Table 12, we can see that the R-Square value is 0.109, hence variation of performance accountability as of 10.9% may be explained by variation of financial reporting quality, while the remaining 89.1% is explained by other causes from outside of the model. Performance accountability aremeasured by performance planning, performance reporting, performance evaluation, andperformance achievement.

6. Conclusions, Limitations and Recommendations:

6.1 Conclusions:

Based on the results of this research, we can conclude that:

1. The internal control effectiveness affects financial reporting quality. In other words, internal control system aims to achieve reliability on financial reporting. This supports the theory which has been stated previously that the internal control effectiveness affects the quality of financial reporting. Furthermore, it supports the result of previous studies which also stated that an internal control effectiveness affects the quality of financial reporting.

2. The quality of financial reporting affects performance accountability. In other words, financial reporting quality aims to provide performance accountability. This result supports the theory which has been stated previously that financial reporting quality affects performance accountability. Moreover the conclusion also supports the result of previous

studies which also stated that the quality of financial reporting affects performance accountability.

6.2 Limitations of Research and Recommendations:

This research has limitations in variability and sample size. As variability of SKPD are limited only in Bandung city, the results may not necessarily reflect the situations of SKPD in other provinces in Indonesia. Hence it is recommended that further research would be conducted to examine more SKPD in other provinces in Indonesia.

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