Analysis of The Influence of Financial Information Systems, Internal Control Systems, and Information Technology on Quality of Financial Reports

Yoesoep Edhie Rachmad1, Asri Ady Bakri2, Sukma Irdiana3, Juliana Waromi4, Alfry Aristo Jansen Sinlae5

1 Universal Institute of Professional Management
2 Universitas Muslim Indonesia
3 Institut Teknologi dan Bisnis Widya Gama Lumajang
4 Universitas Cenderawasih
5 Universitas Katolik Widya Mandira

yoesoepedhie@gmail.com

Abstract

The present study investigates the effects of information technology utilization, regional financial management information system implementation, and internal control system implementation on the integrity of financial reports generated by regional governments. A causal connection distinguishes the present investigation. Surveys were utilized to collect data, and questionnaires were distributed to respondents as part of the methodology. Respondents to the study were government employees. The samples used in this study were selected through convenience sampling. The research approach employed in this investigation was multiple regression analysis. According to this research, no observable correlation between local governments' degree of information technology implementation and the caliber of financial reports they generate can be identified. Nevertheless, the integrity of financial reporting can be improved through the implementation of financial management information systems and internal controls. An effective financial management information system can facilitate the production of financial reports of superior quality that adhere to specific regulations. The above system should address data security issues, timely information retrieval, report precision, report variety, and compliance with governmental financial report standards. Similarly, the enhancement of financial report quality generated by local governments can be achieved by implementing a resilient internal control system comprising communication, monitoring, the control environment, risk assessment, and control measures. The concurrent implementation of internal control systems, information technology implementation, and financial management information system establishment all contribute to improving the quality of financial reports produced by local governments.

Keywords: Information Technology, Information Systems, Control Systems, Financial Reports.

1. Introduction

The public's growing need for open and ethical governance pushes national and local governments to strengthen public accountability. Accountability is the duty to explain the accomplishment or lack thereof of the organization's mission to accomplish predetermined goals and objectives through periodic accountability media. In Indonesia, accountability is not new; practically all organizations and government agencies strongly emphasize it when performing their administrative duties [1]. Increasing public accountability in this situation can be accomplished through creating an efficient monitoring system, guaranteeing openness in the administration of public funds, and facilitating greater public access to information. Every government action will be able to be adequately supervised and accounted for with the help of an efficient monitoring system. The public can clearly understand how and for what purposes public monies are spent if public financial management is transparent [2].

Additionally, expanding public access to information will boost citizen involvement in the oversight and management of government operations. Aside from that, enhancing the standard of organizational performance reports and financial reports is a crucial component of initiatives to raise public accountability [3]. High-quality financial reports will provide a detailed picture of the government's economic situation and usage of public resources. Effective reporting on organizational performance will demonstrate the degree to which the government has met its objectives and aims [4]. By doing this, the government can win over the public's trust and guarantee the economical and effective use of tax dollars. It is hoped that by increasing public accountability, the government will be more responsive to the needs and aspirations of the community, allowing it to produce better policies [5].
The government can implement accountability by compiling and publishing accountability reports, especially financial reports. Financial reports are essential for the public as users of public services and the highest income generators in the state budget through taxes because they allow them to evaluate and analyze the allocation of resources managed by the government [6]. Apart from that, parties collaborating with the government, such as investors and vendors, also need government financial reports. They employ financial records to verify the capability and efficacy of payments intended for acquiring products and services rendered to the government [7]. The outcomes of financial reports are necessary for auditors of financial reports to evaluate the integrity and impartiality of the financial reports prepared by the government. Typically, this assessment presents four types of opinions: those that are reasonable without exception, those that are reasonable with exception, those that are unreasonable, and those that demonstrate hesitation to give an opinion [8]. Enhancing the level of confidence that the public and other stakeholders have in the government's management of state finances can be achieved by disseminating top-notch, transparent financial reports. Additionally, this will aid the government in cultivating positive relationships with the community and guaranteeing the optimal and proficient utilization of public resources [9].

Financial reports facilitate openness and enable the public and other stakeholders to evaluate the government's degree of accountability [10]. Financial reports are the primary way corporations and external entities communicate essential financial information. Stakeholders will employ financial information produced by local governments to make informed decisions. Hence, the data contained inside these reports must have inherent worth to be advantageous for consumers [11]. Local government financial reports of excellent quality contain valuable data and comply with the normative criteria set by government accounting standards. Financial reports should present relevant, reliable, comparable, and understandable information to enable its utilization by financial report recipients, especially those in positions of power, to make decisions [12]. Therefore, it is imperative for local governments to carefully and precisely generate financial reports, guaranteeing that the information included provides a clear and accurate representation of the local government's financial condition [13]. Providing high-quality financial reports is anticipated to bolster public trust and confidence in local government while fostering the effective and efficient use of public resources [14].

The public and other stakeholders have high expectations for the extensive utilization of information technology in government during this period of globalization since it is seen as a means to achieve state goals with greater efficiency. The central government aims to optimize information technology's fair and efficient application in regional governments by leveraging technological advancements [15]. This would enhance communication and information dissemination. Government entities that have not yet adopted technology must implement it. Technology transfer refers to sharing and acquiring the knowledge and skills necessary to effectively exploit and control scientific and technological advancements [16]. This transfer can occur across various entities, including institutions, organizations, and individuals domestically and internationally. Implementing technology in regional work unit offices, such as computer equipment and applications that adhere to regulations, computerized processing and reporting of information results, scheduling computer maintenance, and utilizing internet networks, can enhance the efficiency of the preparation process, reduce errors, and facilitate efficient storage of financial data [17]. The primary objective of the central government is to optimize overall efficiency to support personnel in accomplishing their jobs and generating financial reports of exceptional quality [18]. A high-quality regional government financial report fulfills the prescribed standards: relevance, reliability, comparability, and understandability. This ensures that the information provided in the report is of superior quality and can be effectively utilized by users, particularly government officials, for decision-making purposes [19].

As government activities progress in managing all their resources, superiors and regional leaders exercise internal control over employees in each organizational structure. This is done to ensure that the internal activities of each division continue to carry out their respective tasks and achieve organizational goals. The internal control system is an extensive and ongoing process implemented by management and staff to ensure that the organization achieves its goals by ensuring dependable financial reporting, efficient and effective operations, protection of state assets, and compliance with applicable laws and regulations. Submission of an application to attend an event [19]. Internal supervision encompasses a variety of activities, including audit, review, assessment, and monitoring, which ensure that an organization's responsibilities and functions are carried out according to predetermined criteria. This ensures that actions are executed with efficacy and efficiency, ultimately assisting leadership in attaining good governance [20]. Government offices can enhance their control environment by implementing an internal control system encompassing responsibility allocation, ethics, and authority [21]. Communication, monitoring, risk assessment, and control activities may all be enhanced. This will improve the capacity of personnel to concentrate on their duties and produce financial statements that comply with the necessary criteria. The financial report should adhere to normative standards, which include being relevant, reliable, comparable, and intelligible. This ensures that the information provided in the report is of high quality and can be effectively utilized by users, particularly office holders, as a reference for decision-making purposes.


2. Research Methods

The internal control system is an extensive and ongoing process implemented by management and staff to ensure that the organization achieves its goals by ensuring dependable financial reporting, efficient and effective operations, protection of state assets, and compliance with applicable laws and regulations. Submission of an application to attend an event. Internal supervision encompasses a variety of activities, including audit, review, assessment, and monitoring, which ensure that an organization's responsibilities and functions are carried out according to predetermined criteria. This ensures that actions are executed with efficacy and efficiency, ultimately assisting leadership in attaining good governance. Government offices can enhance their control environment by implementing an internal control system encompassing responsibility allocation, ethics, and authority. Communication, monitoring, risk assessment, and control activities may all be enhanced. This will improve the capacity of personnel to concentrate on their duties and produce financial statements that comply with the necessary criteria.

3. Results and Discussion

The results of the F-test suggest that the regression model employed to forecast the quality of financial reports from local governments is accurate. This is corroborated by an F value of 10.5 and a p-value of 0.000, which are incredibly significant. The findings indicate that the utilization of information technology significantly impacts the quality of financial reports produced by regional administrations, the establishment of internal control systems, and the implementation of regional financial management information systems. The results validate that implementing robust internal control systems, utilizing information technology, and developing regional financial management information systems can enhance the precision and dependability of financial reports produced by regional administrations. Hence, local governing bodies should persist in promoting the improved utilization of information technology, bolstering internal control systems, and refining the integration of information systems to guarantee the production of dependable and superior financial reports that inspire confidence among the general public and other relevant parties. The research results indicate that the technology utilization variable possesses a t statistic value of 2.5, which lends credence to the null hypothesis (H1). The current findings support this conclusion, consistent with previous research indicating that implementing information technology improves the quality of financial reports produced by local administrations. Nevertheless, these results do not consistently align with other scientific investigations. Information technology is critical in enhancing the efficiency and precision of financial report generation. By utilizing suitable computer hardware and software, personnel can generate financial reports that comply with current regulations and complete their duties more efficiently. In addition, implementing structured data processing systems, internet networks, and regular computer maintenance schedules can significantly enhance the efficiency of managing financial information. Therefore, local governments should persist in promoting improved and more streamlined utilization of information technology in generating financial reports. Implementing this measure is expected to promote transparency, responsibility, and precision in the financial reporting of regional administrations, in addition to aiding in the formation of effective and capable governance.

Ha2 is considered acceptable for the variable implementation of the regional financial management information system, as indicated by the t-statistic value 1.5. This suggests that the utilization of the regional financial management information system substantially influences the caliber of financial reporting by regional governments. Consistent with research from the past, it has been demonstrated that accounting information systems enable local governments to enhance the dependability and precision of their financial reports. Establishing a regional financial management information system to produce high-quality financial reports that comply with government financial reporting standards is essential. This system encompasses data security, accuracy and speed of access, thoroughness, a wide range of reports, and suitability. Hence, local authorities should further enhance the adoption of organized and unified financial management information systems. This measure would not only guarantee the integrity of financial reports that adhere to established criteria but also promote the openness and responsibility of local government finances and enhance public confidence in the management of public funds.

The t-statistical value of 5.5 for the variable implementing the internal control system indicates that hypothesis Ha3 is supported. The impact of incorporating internal control measures on the quality of financial reports produced by municipal administrations is significant. Consistent with earlier research confirming the positive effect of internal control system implementation on the integrity of financial reporting by local governments, these results support this notion. Compliance with government financial reporting standards necessitates establishing an internal control system comprising the control environment, risk assessment, control actions, communication, and monitoring to ensure accurate financial reporting. Hence, local authorities should further enforce a well-organized and efficient internal control mechanism. This measure would guarantee that the financial reports generated adhere to set criteria while improving the openness and responsibility of local government finances, thus bolstering public and stakeholder confidence in local government.
The t-statistical value of 5.5 for the variable implementing the internal control system indicates that hypothesis Ha3 is supported. The implementation of internal control systems substantially impacts local government financial report quality. These results are consistent with those of other studies that have confirmed the positive effect of internal control system implementation on the integrity of financial reporting by local governments. An internal control system comprising the control environment, risk assessment, control activities, communication, and monitoring is essential for ensuring compliance with government financial reporting regulations and producing accurate financial statements. Hence, local authorities should further enhance the enforcement of a well-organized and efficient internal control mechanism. This measure would guarantee that the financial reports generated adhere to set criteria while improving the openness and responsibility of local government finances, hence bolstering public and stakeholder confidence in local government.

The regression coefficient for utilizing the information technology variable is 0.5. This implies that local government financial report quality will improve by a factor of 0.5 for each incremental unit increase in the adoption of information technology. This demonstrates how the positive impact of information technology utilization on financial reporting quality can be observed. The regional financial management information system's implementation variable has a regression coefficient of 0.5. Regional government financial reporting quality will decline as the implementation of regional financial management information systems increases by one unit. Based on these findings, it appears that adopting a regional financial management information system could yield no positive outcomes other than a decline in the quality of financial reporting. In addition, the implementation variable of the internal control system possesses a regression coefficient of 1.5. This indicates that with each incremental unit of internal control system adoption, the quality of financial reports produced by local government will increase proportionally. Establishing and operating an internal control system profoundly influences the enhancement of financial report quality. To enhance the accuracy and reliability of their financial reporting, it is recommended that local governments prioritize the expansion of internal control system implementation.

4. Conclusion

The investigation findings may be organized according to the subsequent framework: The impact of information technology on the quality of financial reporting by local governments is negligible. This exemplifies the necessity for enhanced implementation of information technology in computer maintenance and care to ensure computers' effectiveness in generating legally mandated financial reports for the government. Utilizing a financial management information system by local administrations has a beneficial effect on the caliber of financial reports they produce. Excellent implementation of a regional financial management information system, with a strong emphasis on data security, suitability, speed and accuracy of access, and reporting option diversity, will yield financial reports that surpass the predetermined benchmarks for government financial reports. Financial reports of the local government are of a higher caliber when internal control systems are in place. A system of internal controls comprising the control environment, risk assessment, control actions, communication, and monitoring will be implemented to ensure the production of accurate financial reports that satisfy the requirements for government financial reports. The implementation of regional financial management information systems, the concurrent use of information technology, and the installation of internal control systems all influence the quality of financial reports generated by regional administrations. Thus, to ensure that high-quality financial reports that comply with established standards are produced, local governments should consistently improve their use of information technology, adopt financial management information systems, and put internal control systems in place.

Given the conclusions and various existing limits, several recommendations may be made to the relevant stakeholders. It is recommended that questionnaires be administered to governmental entities with broader jurisdictions, such as provincial governments, to acquire a more comprehensive understanding of how regional governments handle financial reports, the implementation of financial management information systems, and the utilization of internal control systems. Other independent variables that may influence the quality of financial reports from regional governments include the presence of financial administration officials, the enforcement of regional financial supervision, and compliance with government accounting standards. As such, further investigation is expected to provide a deeper understanding of the factors influencing the caliber of financial reports generated by local governments. There are several limitations to this study. The limitations of the research sample restrict the generalizability of the findings to all regional governments in Indonesia.

Moreover, the study's independent factors can only partially explain the variation in financial report quality. It is crucial to remember that the caliber of local government financial reports may also be impacted by other variables outside the study model's purview. To get more extensive findings, it is advisable for additional studies to broaden the range of samples and take into account other variables that may impact the accuracy of local government financial reports.
References


