

THE IMPACT OF REGULATORY MEASURES AND INTERNAL OVERSIGHT ON THE PERFORMANCE OF REGIONAL FINANCIAL MANAGEMENT INFORMATION SYSTEMS VIA SAP ACCRUAL BASE IMPLEMENTATION

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ABSTRACT

This research aims to examine and elucidate the influence of regulations and internal controls on the efficacy of the regional financial management information system (SIPKD), mediated through the introduction of an accrual-based accounting system. Employing quantitative research methods, a questionnaire was utilized to gather data from 80 respondents in private capacities, including heads of OPDs, Budget User Authorities (KPAs), Budget Technical Implementing Officers (PPTKs), and Expenditure Treasurers across 20 Provincial Government Organizations (OPDs) in Jambi, Indonesia. The collected data underwent analysis using Wrap-PLS 7. The results demonstrated that the implementation of SAP accruals acted as a complete mediator, as direct regulatory measures and internal controls did not significantly impact the SIPKD's performance. However, when mediated through these two external variables, there was a significant positive effect on the SIPKD's performance. These findings imply the necessity of updating local governmental regulations and enhancing internal oversight to align with the SAP accruals policy, thereby achieving performance benchmarks for regional financial management information systems.

INTRODUCTION

The performance of local governments from the financial aspect is a benchmark for the realization of good and clean government. The performance appraisal indicators of local governments can be seen every year in the performance of financial reports. The Regional Government Financial Report (LKPD) annually receives an assessment in the form of an opinion from the Financial Audit Board (BPK). When BPK issues an Unqualified Opinion (WTP) to LKPD, it means that it can be concluded that the financial statements of an entity have been presented fairly and have quality. Four types of opinion will be given by the examiner, namely Unqualified Opinion (WTP), Fair Opinion with Exception (WDP), Unqualified Opinion (TW), and the last statement refusing to give an opinion or Not Giving an Opinion (TMP).

The achievement of financial performance is inseparable from government policies in encouraging every local government organization to implement a government accounting system mandated by law, Ministry of Home Affairs Regulations, Ministry of Finance Regulations (Dewi, 2012; Probahudono, Widayat, & Arifah, 2020); Regional financial reports which are records of all activities and financing using the APBN and APBD for each OPD must be inputted into the financial management information system at the regional level. The information system is created to synergize the local government with the central government at the management level. SIPKD performance measurement is seen from the determinants of financial information systems in the form of regulation (McGowan, Chan, Yurova, Liu, & Wong, 2018), internal control (Rosmalita & Nadirsyah, 2022), and SAP implementation (Probahudono, Widayat, & Arifah, 2020).

In addition, to present quality financial information to users under the plans that have been set, an effort that is considered relevant is needed, namely regional financial supervision (Pujiswara et al., 2014). Regional financial

supervision is a systematic activity shown to make sure that local government financial management runs in line with the plans and provisions of applicable laws and regulations related to all regional rights and obligations within the governance framework.

Monitoring is specifically aimed at preventing potential deviations from the intended objectives. Its purpose lies in aiding the effective and efficient implementation of established policies to achieve predetermined goals (WIDAGDO et al., 2020). Through monitoring, a closely linked activity is created to assess the degree of task completion (Wardhana, 2021), the adherence to leadership policies, and the identification of deviations in work implementation concerning the outcomes of utilizing regional financial accounting information systems. Regional oversight exerts a positive influence on the value of financial reporting and the accountability of local governments (Subekan & Hartoyo, 2012:42). The theoretical foundation of the organization regarding the adoption of SAP accruals, regulations, and internal controls suggests that the organization's reliance on regulatory enforcement endows it with complete authority to implement new policies.

LITERATURE REVIEW

Underlying Theory

Management Theory (Stewardship Theory)

The Stewardship theory delineates a scenario where management is not driven by personal objectives but instead prioritizes the overarching goals for the betterment of the organization. This theory assumes a robust correlation between contentment and the success of an organization. Its applicability extends to accounting research within public sector entities such as governmental bodies and profit-driven organizations (Wahida, 2015). The conceptual framework of Stewardship Theory is specifically tailored

to elucidate the mindset and societal aspects of managers in attaining the objectives of government organizations (Sanjaya, 2017). As an accountability mechanism, Stewardship theory serves to ensure effective oversight, auditing, and reporting, thereby aiding in the accomplishment of organizational objectives (Jefri, 2018), (Jefri, 2018; Jao et al, 2011).

The Stewardship theory depicts a scenario where the manager's interests do not take precedence but are instead focused on the principal or the larger organization. This theory, rooted in dedication and trust, assumes that individuals possess inherent capabilities to act responsibly, exhibit high integrity, and maintain honesty. It perceives management as a capable entity that engages in optimal actions to fulfil the needs of stakeholders. At its core, this theory revolves around trusting those vested with authority, portraying organizational management as responsible stewards dutifully carrying out assigned tasks bestowed by higher-ups (Humphrey., 2020).

According to (Davis, Schoorman, & Donaldson, 1997), Stewardship theory delineates a managerial setting where personal goals are not the primary motivators; instead, the focus remains on achieving the organization's overarching objectives. This theory is founded on psychological and sociological principles, defining executives as stewards who are inclined to act in alignment with the principal's wishes. Moreover, the behavior associated with stewardship remains dedicated to the organization, steadfastly striving to attain its goals (Obohn, O., & Ajibolade, 2017). Researchers employ this theory to explore scenarios where corporate executives, as stewards, are incentivized to act in accordance with their guiding principles (Hay & Cordery, 2018).

Government Accounting System-Accrual Basis

As per the Government Accounting Standards outlined in PP No. 24 of 2005, the Government Accounting System refers to a sequence of

manual or computerized steps encompassing data collection, recording, summarization, and reporting of the government's financial status and transactions (BPKP, 2020; Bayu & Yustikarana, 2019).

Meanwhile, according to Minister of Home Affairs Regulation No. 64 of 2013, the Accrual-Based SAP constitutes a Government Accounting Standard that acknowledges revenue, expenses, assets, debt, and equity in financial reporting based on accruals. It also recognizes income, expenditure, and financing in reporting budget implementation as per the guidelines in the APBD. Notably, La Notte (2017) and La Notte A. V. (2019) emphasize that the application of SAP necessitates a comprehensive understanding among entities responsible for compiling and presenting financial reports in both Central and Regional Governments, alongside their respective agencies.

For the successful implementation of SAP, it becomes imperative to grasp the fundamental rationale underlying government policies. Several factors profoundly influence the government's adoption of accrual-based SAP, namely: (a) Regulations, (b) Systems, and their supporting infrastructure, and (c) Human Resources. Understanding these pivotal aspects is crucial in effectively implementing the SAP system in government operations.

Regional Financial Management Information System (SIPKD)

The Regional Financial Management Information System (SIPKD) stands as an integrated tool employed by local governments to enhance the efficiency of implementing diverse regulations within regional financial management. This system operates based on the fundamental principles of efficiency, economy, effectiveness, transparency, accountability, and audibility, as outlined in the SIPKD Implementation Instructions (2010) issued by the Ministry of Home Affairs in Jakarta, Indonesia. Additionally, SIPKD

represents a tangible form of support from the Ministry of Home Affairs to local governments, aiming to fortify a unified perception of regional financial management systems and procedures. This support aids in interpreting and applying various laws and regulations concerning regional financial management, exemplifying real facilitative actions (Imron & Ritonga, 2018; Hermansyah & Efendi, 2019). The Regional Financial Management Information System (SIPKD) or also known as the Regional Financial Management System (SIMKEUDA) is a system consisting of various programs for the Preparation/Budgeting of the Regional Budget, Financial Administration, Accounting and Preparation of Financial Statements. Performance is the output/result of activities/programs that will be or have been achieved in connection with the use of the budget with measurable quality and quantity (Ministry of Home Affairs Number 15 of 2006 Article 1; Hendri & NR, 2020).

The legal basis for the Regional Financial Management Information System in the implementation and implementation are:

1. Law no. 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments;
2. PP No. 56 of 2005 concerning Regional Financial Information System;
3. Regulation of the Minister of Finance No. 46 of 2006 concerning Procedures for Submission of Regional Financial Information.

The government administers SIPKD nationally to be used to formulate national fiscal policies and controls, present regional financial information nationally, formulate regional financial policies, such as Balancing Funds, Regional Loans, and controlling budget deficits; and monitor, control and evaluate the funding of Decentralization, Reconcentrate, Assistance Tasks, Regional Loans, and regional budget deficits.

Regulatory

Determination of regulations at the regional level requires a process Regulation. This regulatory approach is a necessity to be able to achieve organizational effectiveness through a meaningful regulatory role. The regulatory process stated above by the regulatory framework as rules for financial reporting in the public sector. The regulatory framework is described as covering 4 (four) different types, but they have coherence in their formation and implementation. The financial reporting rules of public sector organizations include The law, Accounting standards, Accounting practice, and Specific rules" (Collins & Solabomi, 2017). This conception describes a set of regulations needed to achieve the role of regulation in a financial management environment through organizational accounting activities.

Collins & Solabomi (2017) revealed that the need to establish a regulatory framework based on the legal references above is an organizational phenomenon. The regulatory perspective is an organizational need that requires clarity of the process in the formation stage, the establishment of a regulatory framework, and the achievement of regulatory objectives through the implementation stage. The regulatory approach to local government entities is a regulatory framework in the procedure for drafting legal products for the formation of accounting regulations in financial management in local governments.

Internal Control System

Internal monitoring

Understanding of internal control in the objectives and objects of control, namely, to realize the achievement of accountability for the financial statements of public organizations (Jesica Prastiwi & Neem, 2018);. The purpose of the supervision is related to the object of supervision which includes legal products and policies, the implementation of government

administration, and finance (Rahayu & R, 2020). The concept of internal control cannot be separated from the concept of controlling in an organization. The concept of control is put forward as an attempt to convince the organization to move towards the stated goals, if part of the organization is in the wrong direction, the manager or manager tries to find the cause and then arranges things correctly to improve the performance of the regional financial information system (Jesica Prastiwi & Mimba, 2018); (Lestari & Dewi, 2020).

METHODOLOGY

This study used an explanatory survey as a research design. The sampling technique of the population unit was based on a description of the population and research sample (Sekaran, 2013). In this study, there were 20 OPD as a population unit with a population of 152 employees in the finance and planning department, and a sample of 80 respondents (20 OPD X_4 criteria). Determination of the number of sampling in this study using probability sampling method with purposive sampling technique, namely respondents who have the criteria/characteristics as the head of the OPD, Budget User Authorization Officer (KPA), Budget Technical Implementing Officer (PPTK), and Expenditure Treasurer in 20 provincial Regional Apparatus Organizations Jambi. Data collection techniques to answer 7 hypotheses with 2 exogenous variables, 1 mediating intervention variable (Y_1) and 1 endogenous variable (Y_2) using a closed questionnaire with a 5-point Likert scale for measuring question items. Hypothesis analysis tool using Partial Least Square (PLS) with Smart PLS software.

FINDINGS

Loading Factor Test Results

- (1) The research model is the regulatory variable (x_1) $\rightarrow Y_1$ SAP accrual implementation; (2) internal control

$\rightarrow Y_1$ SAP accrual implementation; (3) $X_2 \rightarrow$ SIPKD performance (Y_2); (4) $X_2 \rightarrow Y_2$; (5). $X_1 \rightarrow Y_1 \rightarrow Y_2$ (6). $X_2 \rightarrow Y_1 \rightarrow Y_2$ (7). $Y_1 \rightarrow Y_2$.

- (2) *Validation Results on Outer Loading* or the Loading Factor describes how much the indicators relate to each construct. The results of the analysis show that the value of Convergent validity, the value of the loading factor of regulatory effectiveness, internal control effectiveness, SAP accrual implementation, and SIPKD performance is greater than 0.60. So that all indicators are declared feasible or valid to be used in this study.
- (3) The results of the statistical test show that the AVE value has met the standard and has a good value because it is greater than 0.5. The results of the Composite Reliability value and the Cronbach Alpha value have variable values of $X_1, X_2, Y_1, Y_2 > 0.7$.

Inner Model Testing (PLS)

The assessment of the structural model in Partial Least Squares (PLS) involves evaluating the path coefficient and the dependent variable. The significance of the independent variable's value is determined by examining the t-statistic value associated with each path. To discern direct or indirect effects among variables, the R² evaluation of the inner or structural model is employed.

Upon conducting the test, it was found that the R-Squared value for the Y_1 variable equated to 0.739. This indicates that 73% of the variance in Y_1 , representing social media orientation, is accounted for, while the remaining 27% is influenced by other factors. Additionally, the R-Squared value for the Y_2 variable was determined to be 0.666%. This denotes that 67% of the variance in Y_2 , related to social media orientation, is explained, with the remaining 33% influenced by other factors.

Direct Effect Test Results

$H_1: X_1 \rightarrow Y_1$ (insignificant)

$H_2: X_2 \rightarrow Y_1$ (insignificant)

$H_3: X_1 \rightarrow Y_2$ (insignificant)

$H_4: X_2 \rightarrow Y_2$ (insignificant)

Mediation Test Results

$H_5: X_1 \rightarrow Y_1 \rightarrow Y_2$ (No Mediation)

$H_6: X_2 \rightarrow Y_1 \rightarrow Y_2$ (No Mediation)

$H_7: Y_1 \rightarrow Y_2$ (Significant)

The Stewardship Theory perceives management as a trustworthy entity capable of acting in the public's best interest, aiming to foster bureaucratic reform through the implementation of good governance (Jefri, 2018). The study's analysis highlights that policies represented by regulations and internal control, mediating the implementation of SAP accruals, significantly impact the performance of the Regional Financial Management Information System (SIPKD). This finding underscores the crucial role of effective internal regulations and supervision in implementing SAP-accrual, thereby enhancing SIPKD's performance. These regulatory and control mechanisms are structured in the public's favor and play a strategic role in guiding the principal's behavior towards producing accountable, transparent, clean, and nationally integrated regional financial reports (Singh et al., 2021).

The efficacy of regulatory measures and internal control signifies a manifestation of rational public policies aligned with central government regulations. Within the framework of Stewardship theory, the model of an individual is perceived as someone whose behavior can be shaped to foster collaboration within the organization, exhibiting collective or group behavior that prioritizes the collective good over individual interests, and displaying a willingness to serve (Rosmalita & Nadirsyah, 2021).

The implementation of SAP-accruals for OPD entities is a challenge and requires a quick response from policymakers to make regulations regarding the use of SAP-accruals so that they can encourage each OPD to implement a CASH-based SAP financial reporting system. In line with this policy, it is necessary to have a consistent monitoring system in carrying out the parole as a reviewer of internal reports, acting as a consultative, conducting evaluations, monitoring, and carrying out roles catalyst. If the three determinants are carried out in accordance with the demands of the public interest. Draft *Stewardship Theory* is specially designed to describe the psychology and sociology of managers to achieve the goals of government organizations (Notte & Rhodes, 2020;). Stewardship theory can function as an accountability mechanism to ensure good monitoring, auditing, and reporting to help achieve government goals with the performance of local financial information systems.

The Stewardship theory, as elucidated in this study, suggests that budget managers, acting as stewards, are entrusted to diligently serve the principal—the community. It entails the belief that OPDs (Organizational Performance Departments) have the responsibility to act in the public's interest by executing their duties and functions with diligence. This involves planning and executing budget mandates entrusted to them by credible individuals or institutions, aiming to achieve optimal objectives in budget management. To fulfill this duty, stewards are expected to harness their regulatory capabilities and internal oversight expertise. Leveraging Information System Technology and adhering to accrual-based government accounting standards are integral for efficient and effective management of regional finances, thereby promoting transparent and sound governance practices (Syarienda & Fahlevi, 2019).

CONCLUSION

It can be concluded that the performance of the regional financial management information system (SIPKD) regulation and internal control will contribute positively if the application of the accrual-based financial accounting system is carried out by each composite in the planning and finance section of each regional apparatus organization. As for the regulatory effectiveness was made with elucidation of regulatory objectives, Completeness of Regulatory Formats (SOP), Consistency of Regulatory References, and Consistency in Application of Regulations will be realized for the performance of SIPKD if the implementation of SAP accruals is carried out by the planning and finance department of each regional device organizational entity. Finally Internal control has an important role in the implementation of SAP accruals so that in the context of a supervisory function internal report reviewers, consultative, evaluative, monitoring, and catalytic reports must be carried out regularly.

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Outer loading result

Variable	Indicator	Outer Loading
Regulatory Effectiveness X1	X1.1	0.704
	X1.2	0.910
	X1.3	0.829
	X1.4	0.858
Internal Control Effectiveness (X2)	X2.1	0.623
	X2.2	0.802
	X2.3	0.857
	X2.4	0.899
	X2.5	0.872
SAP Accrual Implementation (Y1)	Y1.1	0.737
	Y1.2	0.784
	Y1.3	0.824
SIPKD Performance (Y2)	Y2.1	0.917
	Y2.2	0.960
	Y2.3	0.858
	Y2.4	0.940
	Y2.5	0.948

Validity and Reliability Test SmartPLS

Variable	Average Variance Extracted (AVE)	Composite Reliability	Cronbach Alpha
Regulatory Effectiveness X1	0.686	0.897	0.844
Internal Control Effectiveness (X2)	0.667	0.908	0.874
SAP Accrual Implementation (Y1)	0.612	0.826	0.684
SIPKD Performance (Y2)	0.857	0.968	0.958

Hypothesis test

The last step of the test using SmartPLS is hypothesis testing and is carried out by looking at the results of the *bootstrapping* value. The following are the results of the data test using SmartPLS bootstrapping.

Hypothesis	Original Sample estimate	Mean of subsamples	Standard Deviation	T-Statistics	P-Value
X1 -> Y1	-0.038	-0.051	0.142	0.264	0.792
X2 -> Y1	0.260	0.279	0.137	0.1890	0.059
X1 -> Y2	0.219	0.224	0.175	1,249	0.212
X2 -> Y2	0.111	0.082	0.127	0.874	0.383
X1 -> Y1 -> Y2	-0.012	-0.026	0.057	0.217	0.828
X2 -> Y1 -> Y2	0.085	0.106	0.074	1.157	0.248
Y1 -> Y2	0.328	0.364	0.150	2.180	0.030

R-Square Value

Variable	R-Square
SAP Accrual Implementation (Y1)	0.739
SIPKD Performance (Y2)	0.669

Source: Primary Data, Processed by researchers in 2021