The Influence Internal Control System on the Quality of Financial Statements of BAZNAS of Indonesia

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Abstract—The aims of This research to determine of The Influence Internal Control System (Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring) on the Quality of Financial Statements of BAZNAS in Indonesia. The objects of the research are Baznas is the National Zakat Authority (BAZNAS) of Northern West Java Indonesia. The research uses secondary data with quantitative verification method. Therefore, this research also examined the research instruments, namely validity and reliability tests and hypotheses assessment of classical assumption test, the research also used multiple regression models. The samples of the research are 6 Baznas (6 observations). The results shows that simultaneously, Internal Control System (Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring) have effects on Financial Statement. The results showed that the control environment, control activities, as well as information and communication have a significant affect on financial performance. While the risk assessment is influential but not significant to the financial performance, while the monitoring has a significant negative affect on financial performance.

Keywords—internal control system, financial statements, Baznas

1. INTRODUCTION

Baznas is a National Zakat Authority (BAZNAS) which is the only official institution established by the government based on Presidential Decree No. 8 /2001, whose task and function are to collect and distribute zakat, infaq and shodaqah (ZIS) at national level. The issuance of Law No. 23/2011 on management strengthened the role of BAZNAS as an authorized institution that carries out zakat management nationally. The law states that BAZNAS is declared as a non-structural governmental institution that is independent and responsible to the president through Ministry of Religions. Therefore, BAZNAS, along with the government, is based on Islamic law (sharia), trustworthiness, expediency, justice, legal certainty, integration and accountability [1].

PK (The audit Board of Indonesia) audited 645 financial statements, 9 performance reports, and 33 reports with specific objectives throughout the first semester of this year. BPK made 9.729 findings with 14.997 problems categorized as weaknesses in the internal control system (SPI), non-compliance with statutory provisions, as well as insufficiency and inefficiency (bisnis.tempo.co, 3 October 2017). These situations were supported by a statement from Harry Azhar Azis, Chairman of BPK, he conveyed that the summary of semester examination results (IHPS) II of 2016 was they found the weakness of Internal Control System (SPI) and non-compliance with the provisions of laws and regulations that occurred in the central government, regional government, State owned enterprises of Indonesia (BUMN-Badan Usaha Milik Negara), and institutions [2].

In addition to the internal control system, information technology is an integral part of the progress of accounting in public sector, especially in processing and providing financial statements to the users of Baznas financial statements. Suggested that large and small entities use information technology to record and manage their business transactions. This is applied in public sector where almost all government institutions have used information technology in carrying out their duties. In line with the development of its activities, each institution will certainly continue to improve the capabilities of its information technology system to address the needs for information that are continuously increasing [3].

From the above discussion, we can conclude that Baznas financial statements are weak and need to improve due to the lack of internal control systems. Therefore, the researchers are interested in conducting research on the quality financial statements innovations which have an effective and efficient accounting information system model that can be used by Baznas in making their accountable financial statements to increase ZIS revenue that can help the welfare of muzzaki and will affect the sustainable development of the economic sector of Baznas in the Northern part of West Java. Of the many factors that affect the quality of financial statements, the researchers will focus on examining the relationships between human resource competency, the implementation of internal control systems, and the utilization of information technology. Furthermore, this research will be entitled "The Influence Internal Control System on the Quality of Financial Statement of Baznas of Indonesia".
II. LITERATURE REVIEW

A. State of Art

This research is a follow up to the research of Nurhayati [1] research which states: The findings for this study are: (85.2%) significant organizational culture and effectiveness of the Accounting Information System (AISs) in North West Java BAZNAS, and user competence significantly positive effects of (78.3%) of the effectiveness of Accounting Information Systems (AISs) in BAZNAS the North West Java. In line with the research conducted by Arnold and Sutton [4], "A broad definition of a research Natheti that draws from both the accounting domains and information systems domains. Further, arguments are made for why AIS research must be the primary stream of accounting research if the accounting domain is going to have an impact on practice and provide leadership in the accounting and auditing environment that is currently evolving”.

This research followed up the research of Nurhayati [1]: The findings for this study are: organizational culture significant positively affects of 85.2 % the effectiveness of Accounting Information System (SIA) in BAZNAS of Northern West Java, and user competence significant positively affects of 78.3 % the effectiveness of Accounting Information System (AISs) in BAZNAS of Northern West Java. The difference is that this research added variables that have not been studied, namely: internal control system on the quality of financial statements and produce an additional outcome; an effective SIA model in accordance with Baznas' needs [1].

1) Implementation of the internal control system: System as "a set of interrelated elements integrated intended to reach the goals". Giving the following definition of internal control: "In accounting, the term internal control "refers to” a process affected by an organization's structure, work, and authority flows, people and management information systems, designed to help the organization achieve specific goals or objectives” [5].

The Republic of Indonesia Government Regulation Number 60 of 2008 states that the Internal Control System is an integral process in actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in achieving organizational goals through effective and efficient activities, reliability of financial statements, safeguarding of state assets, and compliance with laws and regulations [6].

2) Elements of the internal control system: The element of the Internal Control System in Government Regulation Number 60 / 2008 [6], refers to the elements of the Internal Control System that have been practiced in governmental environments in various countries, which include:

- Control environment
- Risk assessment
- Control activities
- Information and communication
- Monitoring

Monitoring must be able to assess the quality of performance from time to time and ensure the follow up of the recommendation of audit and reviews results. The following testing lists are intended to assess whether government institutions have implemented the monitoring element that supports the Internal Control System and healthy management;

- Continuous Monitoring
- Separate Evaluation
- Audit completion.

3) Definition of quality as financial statement: Reeve et al., [7] states that every transaction is recorded and summarized, the report is then prepared for the users. Accounting reports providing the information are called financial statements. Meanwhile, Rao in Mubarok and Yadiati [8] that: "Financial statements are a form of reports which helps management in decision making process".

Meanwhile, the characteristics of financial statements are illustrated in the qualitative characteristics of financial statements. The qualitative characteristics of financial statements according to Government Regulation Number 71 / 2010 are normative measures that need to be realized in accounting information so that they can fulfill their objectives. The following four characteristics are normative prerequisites that are needed so that government financial statements can meet the desired quality [9]: (a) Relevant; (b) Reliable; (c) Comparable and (d) Understandable.

B. Effects of the Implementation of Internal Control System on the Quality of Baznas Financial Statements

Krismiasi in Mubarok and Yadiati [8] suggests that in relation to financial statements, increasing the quality of financial statements is one of the objectives of the internal control activities. In a good internal control activity, control procedures will be developed to ensure that the specific objectives, such as the control of financial statements, can be achieved.

Control procedures help an organization to realize financial transactions that can be properly recognized, recorded, valid, complete, and presented timely. Control procedures can also reduce the risk of fraud and eliminate doubts about financial data, notes and financial statements in general. In other words, effective internal control will be able to improve the reliability of financial statements.
III. RESEARCH METHODS

A. Research Objects and Methods

The object of this research is the Implementation of the Internal Control System on the Quality of Financial Statements of Baznas Northern West Java. The research method used in this research is a descriptive and verification method. Sugiyono explains that verification research is research that aims to find out the relationship between two or more variables through data collection in the field [10]. The data sources used in this research are sources or primary data. The primary data used by researchers is the result of filling out questionnaires and interviews with the human resources that are involved in the making and users of financial statements and at Baznas West Java Indonesia.

Data collection method is an integral part of research design as shown in the shaded part of the figure. There are several data collection methods, with its advantages and disadvantages. The problems that are examined using the right methods improve the research results [11]. In this research, the data collection methods used is: Interviews and Questionnaires in which the researchers used questionnaires with a Likert scale. Sugiono [10] suggests that the Likert scale is an ordinal scale which contains several alternative answers. The Likert scale is used for the questions:

- 1 = Strongly Agree
- 2 = Agree
- 3 = Hesitant
- 4 = Disagree
- 5 = Strongly Disagree

B. Population and Sample

According to Sekaran [11] population refers to the whole group of people, events, or things that researchers are interested to investigate. The population of this research is the human resource of Baznas West Java Indonesia.

Sample is a portion of the population. The sample consists of several selected members of the population. In other words, a number of, but not all, account population elements provide samples [11]. The sample taken by the researcher is all human resources involved as the users and involved in making financial statements at Baznas in the northern part of West Java [11].

C. Hypothesis Testing Design

In this study the statistical test tool used was multiple regression analysis. So that some tests are needed as follows, the classic assumption test is carried out to fulfill the requirements in testing using regression using the SPSS program, and interpreting the results. There are several assumptions that must be fulfilled before using Multiple Linear Regression as a tool to analyze the effects of the variables that are studied, including the normality test, multicollinearity test (for multiple linear regression), heteroscedasticity test and autocorrelation test [1].

IV. DISCUSSION AND CONCLUSION

From result of validity test and reliability test used SPSS 21, it is known that the value of r statistic is ranged from 0.472 to 0.876. Meant, all items in the instrument of research financial performance variable are greater than the value of r table of 0.373. Thus, it can be said that all items of the study instrument are valid. And it obtains Cronbach alpha value of financial statement variable is 0.875, and Internal control; system 0.887 and greater than the value of r table 0.4.23. So, all instruments of research variables are declared reliable and worthy to use in research.

A. Multiple Regression Analysis

| TABLE 1. PARSIAL TEST |
|-----------------------|
| Model                  | Unstandardized Coefficients | Standardized Coefficients | T       | Sig |
|                        | B   | Std. Error | Beta   |       |     |
| (Constant)             | 0.865| 2.091      | 0.413  | 0.684 |
| Control Environment/ CE| 0.328| 0.150      | 0.353  | 2.192 | 0.070|
| Risk Assessment/ RA    | 0.219| 0.096      | 0.317  | 2.277 | 0.034|
| Control Activities/ CA | 0.326| 0.137      | 0.343  | 2.574 | 0.028|
| Information and Communication/ IC | 0.492| 0.144 | 0.529 | 3.427 | 0.003 |

Based on Table 1 and using regression model show the Equations:

\[ y = 0.863 + 0.328 \times CE + 0.219 \times RA + 0.326 \times CA + 0.492 \times IC + 0.394 \times M + e \]

That the first hypothesis is accepted because the control environment has an affect on the financial statement in Baznas. This result indicates that the control environment is a determinant of high financial statement in Baznas Positive influence implies that the higher the control environment in the internal control system undertaken by the company will be in the higher the financial statement. The control environment governs the all of the organization aspects and affects awareness of employee control. A good control environment is the foundation for all the components of internal control, building discipline and control structures. With the high control environment in Baznas as shown in the description of the control environment variables, it has an impact on the high financial statement in Baznas. This indicates that the control environment in the internal control system in Baznas has been able to build employee awareness for discipline and mutual control.
That the second hypothesis is rejected because the risk assessment does not affect the financial statement in Baznas. This result indicates that risk assessment is not a determinant of high or low financial statement in Baznas. This is shown that as many as 13 people (25%) of respondents do not know the internal control system in the company and one respondent who answered the risk assessment on the low category. Risk assessment does not affect the financial performance of the company. This fact is understandable because according to the Committees of Sponsoring Organizations of the Treadway Commission (COSO), risk assessment is the process of identifying, analyzing, managing and managing risks that affect corporate goals related to the various activities in which Organizations are involved. The purpose of the company will run well if the internal control system in the company goes well.

That the third hypothesis is accepted because the control activities affect the financial statement in Baznas. This result indicates that control activities are the determinants of high or low the financial statement in Baznas. The positive influence of control activities, means that the higher the control activities performed in the company, the higher the financial statement in Baznas. Control activities are policies and procedures that companies make to help ensure that management guidance is exercised. Control activities also aim to minimize the risks, which are established and implemented to help ensure the achievement of objectives effectively. Control activities take place throughout the organization, all levels and on all functions. So, the control activities that run well and in accordance with the control program that has been set will impact on company performance including financial performance.

That the fourth hypothesis is accepted because the information and communication affect the financial statement in Baznas. This result indicates that information and communication are the determinants of high or low financial statement. The positive effects of information and communication can be interpreted that the higher the information and communication done in company in internal control system will be the higher the financial statement in Baznas. Information and communications within the internal control system shall be identifiable, recorded and communicated in the form and time frame allowing all parties concerned to carry out their responsibilities. The existing information’s system will produce reports containing information on business, financial and information related to compliance, be enabling users to run and control the business. Thus, the information and communication are the main factor of the organization’s activities including financial problem, so that it will impact on financial performance of organizations.

The fifth hypothesis is rejected because the monitoring had a negative effect on financial statement in Baznas. This result indicates that monitoring is a key determinant of high or low financial statement in Baznas. that one respondent answered the monitoring statement in the low category and 34% of respondents in the medium category. The negative influence of monitoring on financial performance, means that the lower the monitoring activity conducted in the company makes the financial statement Baznas will decrease further.

The monitoring activity in the internal control system is a necessity, because the process for assessing the quality of system performance is done over time. It is run through ongoing monitoring activities, separate evaluations or a combination of the two. This monitoring is conducted in a sustainable manner in accordance with business activities. Extreme or very strict monitoring gives birth to very high standards and great detail that makes performance work effectively. Even small mistakes cannot be tolerated and immediately judged to be unfeasible, so it is reasonable if they can add to the assessment of matters related to financial performance, such as the data contained in the financial statements.

B. Coefficient of Determination

| Model | R   | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-----|----------|------------------|---------------------------|
| 1     | .786| 0.685    | 0.765            | 0.146                     |

The result of data processing with SPSS ver. 21

The coefficient of determination (Table 2) is highly recommended using the adjusted value in evaluating regression models. Where the value can go up or down if one independent variable is added to the model.

\[ K_d = R^2 \times 100\% \]

\[ K_d = 0.585225 \]

Description:

\[ K_d \] = Coefficient of Determination

\[ R \] = Multiple Correlation Coefficients

The results showed that the control internal system have effect 58.52 % on Quality financial statement.

C. Conclusion

Described in the previous chapter, it can be drawn some conclusions as follows:

- Control environment has positive effects on the financial statement of Baznas Northes of Java Indonesia.
- Risk assessment has Positive effect on the financial statement of Baznas Northes of Java Indonesia.
- Control activities has positive effects on the financial of Baznas Northes of Java Indonesia.
- Information and communication have positive effects on the financial statement of Baznas Northes of Java Indonesia.
• Monitoring has positive effect on the have financial statement of Baznas Northes of Java Indonesia.

• Internal Control System has effect on the financial statement of Baznas Northes of Java Indonesia.

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