PSYCHOLOGY AND EDUCATION (2021) 58(5): 7483-7491
ISSN: 1553-3979

The Effect of Internal Control System and Good Corporate Governance Quality in the Financial Statements of PT Bank Sulselbar

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ABSTRACT

This study aims to determine the current condition of the quality of financial reports at the PT Bank Sulselbar office, and the influence of the internal control system and good corporate governance on the quality of financial reports. This research also uses validity and reliability tests, T-test (partial), F test (simultaneous), correlation coefficient test (r), and coefficient of determination (r^2). From the results of hypothesis testing, it has been proven that the internal control system and good corporate governance have a positive and significant influence on the quality of the financial statements of PT Bank Sulselbar. The results of this study provide an overview of the importance of implementing internal control systems and the implementation of good corporate governance, as a tool that can assist companies in controlling companies in ensuring the quality of financial reports.

Keywords: Internal Control, Good Corporate Governance.

Introduction

PT Bank Sulselbar is a large local bank with branches operating extensively in South Sulawesi and West Sulawesi. This bank generally processes funds obtained from the provincial government and general customers, but the management of funds from general customers is still relatively small. PT Bank Sulselbar has been a good bank and is free from problems that can have a fatal impact on the bank, but apart from that, there are parties who commit irregularities, for example in providing credit outside the applicable regulations. Things like this are certainly a part that needs to be considered so that banks are more effective in implementing good corporate governance (Sa'diah, 2021).

PT Bank Sulselbar is also required to apply the principles of knowing customers and customer protection including explaining to customers about the possibility of risk of loss in connection with customer transactions conducted through Bank Sulselbar Good Corporate Governance (GCG) in banking is expected to increase added value for all interested parties (stakeholders) (Ajao & Oluwadamilola, 2020). From the results of observations made by researchers, the internal control of the accounting information system at Bank Sulselbar is also inseparable from problems, one of which is the lack of supervision of computer access. There is a computer that can be accessed by employees who are not in their fields. So that information or data that should only be known by certain employees can also be known by other employees. So this can trigger the misuse of such information or data.

The development of the company in PT Bank Sulselbar of course requires the development of an information system that integrates one part with another part of the company. In the corporate environment, PT Bank Sulselbar also has obstacles, both internal and external. One of the internal obstacles that occur is the delay of employees. Constraints also occur to customer service, namely the lack of good communication between the company and the customer. Another obstacle in the internal scope is the delay in financial reporting from the time determined by the company. Not only that, but external constraints also sometimes occur, one of which is the delay in calculating money from the branch to the center (Afiah & Azwari, 2015). These obstacles are a problem for the company because customers will feel dissatisfied with the services provided and will result in complaints, therefore the company must be able to act and overcome these problems (Yasmin et al, 2021).

Based on the existing phenomena, we can know that a company must have an internal control structure in order to plan and control the company's operations to achieve company goals or objectives. Meanwhile, companies that do not have an inadequate or ineffective internal control structure will have a negative impact on the company. Companies must also implement Good

Corporate Governance (GCG) so that the quality of financial reports is achieved; companies need to implement good corporate governance (Hermanto, 2020). The principles of a healthy corporation that need to be applied in the management of the company are carried out solely to protect the interests of the company in order to achieve the company's goals and objectives.

The collapse of these public companies was caused by strategic failures and fraudulent practices from top management that went undetected for a long time due to the weak independent supervision by corporate boards. The five main components needed in the concept of good corporate governance are fairness, transparency, accountability, independence, and

Literature Review

The existence of an adequate accounting system makes corporate accountants able to provide financial information for every level of management, owners or shareholders, creditors, and other users of financial statements (stakeholders) that are used as the basis for making economic decisions. The system can be used by management to plan and control the company's operations. In more detail, the policies and procedures that are used directly are intended to achieve targets and guarantee or provide appropriate financial reports and guarantee compliance or compliance with laws and regulations, this is called internal control, or in other words that internal control consists of policies and procedures. Used in the company's operations to provide reliable financial information and ensure compliance with applicable laws and regulations (Rabiyah et al, 2021).

Internal control for a company (especially one that has gone public) is a must. Along with the obligation to audit financial statements, the board of directors is required to provide a statement regarding the adequacy of the control system of the company they manage and which model/framework is adopted (fully designed by themselves), and must be audited by an external auditor. The internal control system is very important because the system has certain elements

responsibility. These five components are important because the consistent application of the principles of good corporate governance has been proven to improve the quality of financial reports and can also become an obstacle to performance engineering activities that result in financial statements not reflecting the company's fundamental values (Syukur et al, 2021).

The preparation of financial statements is heavily influenced by various important indicators. This gives their respective roles in improving the quality of financial reports. Namely the system of internal control and good corporate governance. Both have functions and objectives that can have an impact on the results of the preparation of financial statements (Rahman, 2021).

and characteristics that can increase the possibility of the reliability of accounting data and security measures against company assets and records. The objectives of the internal control system (Mulyadi, 2014); the main objectives of internal control are as follows: 1) maintaining organizational wealth, 2) checking the accuracy and reliability of accounting data, 3) encouraging efficiency, and 4) encouraging compliance with management policies.

The purpose of the internal control system is to maintain the reliability of accounting data, it can be said that the internal control system can affect the quality of financial reports because the internal control system can minimize errors in the presentation of accounting data so that it will produce correct reports, protect or limit the possibility of fraud and embezzlement, organizational activities can be carried out efficiently.

Attention to corporate governance began to focus after the occurrence of spectacular scandals such as Enron, WorldCom, Tyco, London & Commonwealth, Poly Peck, Maxwell, and others. The collapse of these public companies was caused by strategic failures and fraudulent practices from top management that went undetected for a long time due to the weak independent supervision by corporate boards. The five main components needed in the concept of good corporate governance (Fadli, 2015) are fairness, transparency, accountability, independence, and responsibility. These five components are important because the consistent application of the principles of good corporate governance has been proven to improve the quality of financial reports and can also become an obstacle to performance engineering activities which result in financial statements not reflecting the company's fundamental values. Good corporate governance has a significant effect on the quality of financial reports (Khairina, 2018). Good corporate governance does not have a positive and significant effect on the integrity of financial statements (Sudirman et al, 2021).

Methods

This research was conducted at PT Bank Sulselbar; the selection of this location was based on the data and information needed, relevant to the subject matter that became the object of research. The population used in this study is PT Bank Sulselbar in this case represented by employees who understand the related variables which can be shared in the Accounting, Administration Section Head, Finance Administration Staff, and Cashier, totaling 90 people.

The sampling method used in this study is the saturated sample method. The saturated sample method is a sampling technique when all members of the population are used as samples. Research methods based on the philosophy of positivism, used to examine certain populations or samples, data collection using research instruments, quantitative or statistical data analysis, with the aim of testing predetermined hypotheses. The data collection method used in this study is descriptive data consisting of observations and questionnaires.

Descriptive statistics in research are basically a process of transforming research data in tabulated form so that they are easy to understand and interpret. Descriptive statistical analysis in this study includes the mean, the size of the spread (standard deviation), and the form of distribution (minimum value and maximum value) of the data which are determined using the Statistical Product and Service Solution (SPSS) program. The data analysis method used in this study is a statistical analysis method whose calculations are carried out using SPSS (Statistical Product and Service Solution). This analysis aims to determine the effect of the internal control system variable (X_1) and good corporate governance (X_2) on the financial report quality variable (Y).

1) Reliability Test

A reliability test is carried out to find out how far the results of two or more measurements of the same symptoms using the same measuring instrument. According to Sugiyono (2014:121) reliability is as follows: "Instruments which, when used several times to measure the same object, will produce the same data". To see the reliability of each instrument used, the author uses the Cronbach Alpha coefficient by using the SPSS facility. An instrument is said to be reliable if the value of the Cronbach Alpha coefficient > 0.6.

2) Validity test

Validity shows the degree of accuracy of the data that actually occurs on the object with the data collected by the researcher. In finding the correlation value, the writer uses the Pearson Product Moment formula. To find the validity of an item, we correlate the item score with the total of those items. If the coefficient between the items and the total items is equal to or above 0.2072 then the item is declared valid, but if the correlation value is below 0.2072 then the item is declared invalid.

Result

A. Descriptive Statistics Test Results

The variables used in this study are the internal control system, good corporate governance, and the quality of financial reports. These variables will be tested with descriptive statistics.

Table 2. Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Internal Control System	90	3.20	5.00	4.2044	.34214
Good Corporate Governance	90	3.50	5.00	4.1644	.32613
Financial Report Quality	90	3.50	5.00	4.1189	.26728
Valid N (leastwise)	90				

Source: Author's findings

Table 2 describes the results of descriptive statistics on the variables in this study, including:

1) Internal Control System (X_1)

Based on table 2 above, X_1 has a minimum value of 3.2, a maximum value of 5, and a mean of 4.2044 so that it is on a value scale that indicates the answer choices strongly agree. The standard deviation value indicates a deviation of 0.34214 from the average value of the respondents' answers.

2) Good Corporate Governance (X_2)

Based on table 2 above, X_2 has a minimum value of 3.5, a maximum value of 5, and a mean of 4.1644 so that it is on a value scale that indicates the answer choice is to agree. The standard deviation value indicates a deviation of 0.32613 from the average value of the respondents' answers.

3) Quality of Financial Statements (Y)

Based on table 2 above, Y has a minimum value of 3.5, a maximum value of 5, and a mean of 4.1189 so that it is on a value scale that indicates the choice of agreeing. The standard deviation value indicates a deviation of 0.26728 from the average value of the respondents' answers.

B. Data Quality Test Results

1) Validity Test Results

A validity test (validity test) is a tool used to measure whether the questionnaire is valid. A validity test is done by testing the correlation between item scores and the total score of each variable, using Pearson correlation. Question items are said to be valid if the significance level is below 0.05. Table 3 shows the results of the validity test on four variables consisting of the Internal Control System (ICS), Good Corporate Governance (GCG), and Quality of Financial Reports (QFR).

Table 3. Validity Test Results

Question items		r - count	r - table	Description
	ICS1	0.577	0.2072	Valid
	ICS2	0.678	0.2072	Valid
	ICS3	0.673	0.2072	Valid
	ICS4	0.547	0.2072	Valid
X_1	ICS5	0.632	0.2072	Valid
	ICS6	0.730	0.2072	Valid
	ICS7	0.724	0.2072	Valid
	ICS8	0.613	0.2072	Valid
	ICS9	0.703	0.2072	Valid
	ICS10	0.598	0.2072	Valid
	GCG1	0.567	0.2072	Valid
	GCG2	0.575	0.2072	Valid
	GCG3	0.614	0.2072	Valid
	GCG4	0.441	0.2072	Valid
	GCG5	0.678	0.2072	Valid
X_2	GCG6	0.727	0.2072	Valid

	GCG7	0.715	0.2072	Valid
	GCG8	0.591	0.2072	Valid
	GCG9	0.618	0.2072	Valid
	GCG10	0.613	0.2072	Valid
	QFR1	0.515	0.2072	Valid
	QFR2	0.473	0.2072	Valid
	QFR3	0.562	0.2072	Valid
	QFR4	0.480	0.2072	Valid
Y	QFR5	0.638	0.2072	Valid
	QFR6	0.676	0.2072	Valid
	QFR7	0.569	0.2072	Valid
	QFR8	0.578	0.2072	Valid
	QFR9	0.489	0.2072	Valid
	QFR10	0.631	0.2072	Valid

Source: Author's findings

Based on table 3, it is known that the variables of the internal control system, good corporate governance, and the quality of financial reports have a value of r count > r table (r count > 0.2072) of 0.05 so it can be concluded that all questions in this study are valid.

2) Reliability Test Results

A reliability test is a tool to measure a questionnaire which is an indicator of a variable or constructs. This reliability test was conducted to test the consistency of the answers from respondents through the questions given, using the cronbach's alpha statistical method with a significance used of more than (>) 0.6. The results of reliability testing are as follows:

Table 4. Reliability Test Results

Variable	Cronbach's Alpha	Description
Internal Control System (X_1)	0.845	Reliabel
Good Corporate Governance (X_2)	0.879	Reliabel
Financial Report Quality (Y)	0.881	Reliabel

Source: Author's findings

Table 4 shows that the variables of the internal control system, good corporate governance, and the quality of financial reports have cronbach's alpha values greater than 0.6. This shows that the questions in this study are reliable. Each question item used will be able to obtain consistent data and if the question is asked again, it will get an answer that is relatively the same as the previous answer.

C. Hypothesis Test Results

1) Multiple Linear Regression Analysis

After the results of the data quality test are carried out and the overall results show that the regression model meets the classical assumptions, the next stage is the evaluation and interpretation of the multiple regression models.

Table 5. Regression Equation Model

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	1.459	.279		5.236	.000
	Internal Control System	.215	.074	.276	2.904	.005

Good Coorporate Governance	.421	.078	.514	5.410	.000

a. Dependent Variable: Financial Report Quality

Source: Author's findings

Based on the table above, the regression equation formed in this regression test is:

$Y = 1.459 + 0.215X_1 + 0.421\ X_2 + e$

The model can be interpreted as follows:

a) The constant value is 1.459. This indicates that, if the independent variable (internal control system and good corporate governance) is zero (0), then the value of the dependent variable (financial report quality) is 1.459 units.

b) The regression coefficient of the internal control system (b1) is 0.215 and is positive. This means the value of the Y variable will increase by 0.215 if the values of the X1 variable increase by one unit and the other independent variables have a fixed value. The positive coefficient indicates that there is a unidirectional relationship between the internal control system variable (X1) and the financial report quality variable (Y). The better the internal control system owned by the company, the better the quality of the financial reports it produces.

c) Good corporate governance regression coefficient (b2) is 0.421 and is positive. This means that the value of the Y variable will increase by 0.421 if the values of the X2 variable increase by one unit and the other independent variables have a fixed value. The positive coefficient indicates that there is a unidirectional relationship between good corporate governance (X2) and the financial report quality variable (Y). The better the good corporate governance owned by the company, the better the quality of the financial statements produced will be.

2) Test R^2 (Coefficient of Determination)

The coefficient of determination test aims to determine how much the ability of the dependent variable can be explained by the independent variable.

Table 6. Coefficient of Determination Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.718[a]	.516	.504	.18816

a. Predictors: (Constant), Good Coorporate Governance, Internal Control System

b. Dependent Variable: Financial Report Quality

Source: Author's findings

From table 6, there is an R number of 0.718 which indicates that the relationship between the quality of financial statements and the two independent variables is strong because it is close to a very strong definition whose numbers are between 0.601 - 0.8. While the R square value of 0.516 or 51.6% indicates that the variable quality of financial statements can be explained by the variables of the internal control system and good corporate governance of 51.6%, while the remaining 48.4% can be explained by other variables that do not exist in this study.

3) Partial Test Results (t-Test)

A partial test is used to see the effect of each independent variable on the dependent variable. The test is carried out by t-test, namely by looking at the significance value of t-count. If the significance value of t-count is <0.05, it can be said that the independent variable has an influence on the dependent variable. The test results are as follows:

Table 7. Partial Test Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.459	.279		5.236	.000
	Internal Control System	.215	.074	.276	2.904	.005
	Good Coorporate Governance	.421	.078	.514	5.410	.000

a. Dependent Variable: Financial Report Quality

Source: Author's findings

Through the statistical t-test consisting of the Internal Control System (X_1) and Good Corporate Governance (X_2), it can be seen partially the effect on the Quality of Financial Statements (Y).

a) First Hypothesis Testing (H_1)

Table 5 shows that the internal control system variable has a significant level of 0.005, which is smaller than 0.05. The coefficient value of 0.215 indicates that the effect given is positive on the dependent variable. This means that H_1 is accepted so that it can be said that the internal control system has a positive and significant effect on the quality of financial reports.

b) Second Hypothesis Testing (H_2)

Table 5 shows that the good corporate governance variable has a significant level of 0.000, which is smaller than 0.05. The coefficient value of 0.421 indicates that the effect given is positive on the dependent variable. This means that H_2 is accepted so that it can be said that good corporate governance has a positive and significant effect on the quality of financial reports.

4) Simultaneous Test Results (F Test)

A simultaneous test is used to test whether there is an overall effect of the independent variables on the dependent variable using the F test. This test uses 5% with the provisions; if the significance of F count is < 0.05 then the proposed hypothesis can be accepted.

Table 8. F Test Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.278	2	1.639	46.289	.000[b]
	Residual	3.080	87	.035		
	Total	6.358	89			

a. Dependent Variable: Financial Report Quality

b. Predictors: (Constant), Good Coorporate Governance, Internal Control System

Source: Author's findings

Table 8 shows that the significance level is less than 0.05, so it can be said that the internal control system and good corporate governance simultaneously (together) have an influence on the quality of financial statements, with a probability of 0.000. Because the probability is much smaller than the significant value of 0.05, the regression model can be used to predict the level of quality of financial statements.

Discussions

The results showed that the internal control system variable had a positive and significant effect on the quality of financial reports. The better the internal control system owned by the company, the better the quality of the financial reports it produces. Policies and procedures that are used directly are intended to achieve goals and guarantee or provide appropriate financial reports and ensure compliance or compliance with laws and regulations, this is called internal control, or in other words that internal control consists of policies and procedures used in operations. Company to provide reliable financial information and ensure compliance with applicable laws and regulations. In the control process, it will force management at all levels to ensure and control that the people who work in it implement the intended strategy effectively and efficiently, so that the quality of financial reports will be better.

Internal control for a company (especially one that has gone public) is a must. Along with the obligation to audit financial statements, the board of directors is required to provide a statement regarding the adequacy of the control system of the company they manage and which model/framework is adopted (fully designed by themselves), and must be audited by an external auditor. The internal control system is very important because the system has certain elements and characteristics that can increase the possibility of the reliability of accounting data and security measures against company assets and records. The purpose of the internal control system. According to the main objectives of internal control, namely as follows: 1) maintaining organizational wealth, 2) checking the accuracy and reliability of accounting data, 3) encouraging efficiency, and 4) encouraging compliance with management policies (Agbenyo et al, 2018)).

With the aim of having an internal control system that can maintain the reliability of accounting data, it can be said that the internal control system can affect the quality of financial reports. The internal control system can minimize misstatements of accounting data, so that it will produce correct reports, protect or limit the possibility of fraud and embezzlement, organizational activities can be carried out efficiently. The indicator that forms the variable of the internal control system is the control environment. A controlled environment will demonstrate a commitment to ethical values and integrity. Independence from management in carrying out the supervisory function, establishing appropriate structures, reporting lines, authority, responsibility, commitment, and maintaining competent individuals in accordance with their objectives, understanding the roles and responsibilities of internal control.

The implementation of Good Corporate Governance can improve the quality of financial reports. Good Corporate Governance consists of five components, namely transparency, accountability, responsibility, independence, fairness, and equality. A transparent company will provide material and relevant information to all stakeholders (stakeholders and stockholders) so that the stakeholders can easily access any required information. An accountable company has determined the duties and responsibilities of each section and to employees in detail and clearly, besides that all elements within the company are aligned with the company's vision, mission, goals, and strategies. The responsibility of the company will always pay attention to the community and the surrounding environment, implement a good environmental impact analysis system, and often hold Corporate Social Responsibility (CSR) (Maddatuang et al, 2021).

Companies that carry out good corporate governance will apply the principle of independence from which every part of the company can express opinions on the interests of the company, and also treat all parts of the company fairly according to their respective portions. In addition, the company applies the principles of Fairness and Equality, namely expressing opinions on the interests of the company, treating all parts of the company according to their respective portions.

Conclusion

The internal control system has a positive and significant effect on the quality of financial reports. This shows that maintaining organizational wealth, checking the accuracy and reliability of accounting data, encouraging efficiency, encouraging compliance with management policies will affect the quality of financial reports. Good corporate governance has a positive and significant effect on the quality of financial reports. This shows that transparency, accountability, responsibility, independence, and equality will affect the quality of employee reports.

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