

Original Article

# Mediation Effect in the Internal Control in the Relation of Good University Governance and accrual-based SAP Implementation toward the Quality of Financial Reports: A Proposed Framework

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**Abstract** - The purpose of this study is to provide a framework for the mediation effect of internal control in the relation of good university governance and accrual-based SAP implementation toward the quality of the financial report. To bridge the gap, a mediating effect of internal control is proposed based on some kinds of literature. In the future, this study is significant for the higher education leader, management, Internal Supervisory Unit, and people who make the financial report for the need to give an internal control to make a qualified financial report. Besides, this study will also be served as additional literature for some studies in higher education, not only the public but also the private ones around Indonesia that has not been explored yet.

**Keywords** - the internal control system, SAP accrual-based, good university governance, financial report, higher education

## I. INTRODUCTION

New public management paradigm has influenced Indonesian financial management system proved by the appearance of law about bureaucracy reformation in the field of financial management namely Undang-Undang number 17 in 2003 about the national financial, Undang-Undang number 1 in 2004 about national treasury and Undang-Undang number 15 in 2004 about the management and responsibility investigation toward the state finance. Those three laws are based for the state institution to change the financial administration to be financial management.

Those laws about the state financial management have changed the way of thinking about the state financial management to be more efficient, professional, accountable and transparent by doing some changes, start

from the traditional budgeting to be work-based budgeting which somehow plays a great role in bringing up the Peraturan Pemerintah number 24 in 2005 about the National Accountancy Standard. The development of accountancy in the public sector in Indonesia made some shift from the Cash toward Accrual, which seen as no longer relevant and should be increased to be totally in the accrual system. That is why the made of Peraturan Pemerintah number 71 in 2010 about the National Accountancy Standard that forced the implementation of accrual-accountancy based should be implemented at least in 2015 of the fiscal year. To support the implementation of the accrual system in the state centre institutions, Ministry of Finance develop accrual-based-institution accountancy (Sistem Akuntansi Instansi Berbasis Akrua/ SAIBA) as the improvement of accountancy finance system (Sistem Akuntansi Keuangan/ SAK) as the previous implementation. SAIBA is expected to fulfil the accrual information that should be revealed in the financial report of the State Higher Education Institution as part of the work unit done by the central government.

The information generated by accrual-based accounting standards is considered superior compared to cash-based standards because accrual information is considered more capable of providing an accurate picture of all financing and service provision. Accrual information is also considered more capable of increasing government accountability (Carlin, 2005). The superiority of the accrual basis compared to the cash basis can be explained in several aspects. These aspects include transparency, efficiency, relevance, and accountability (Karunia, Payamta, & Sutaryo, 2019)

State College is a working unit under supervised by the central ministry system of the central government that



has to adapt and prepare to its good management, qualified human resource in all level to fulfil the financial report demand. All the field and working unit have to realize that it is important to make a qualified financial report to support the data, control and evaluation process. Along with all those demands, there is a system in college that highlighted the good management called Good University Governance (GUC). It emerges as a scoring system which is fundamental for increasing the college value. The management of university organization have extensive coverage. This includes the management of science, lecturers, human resources support, students, facilities and infrastructure of academic, academic programs, academic information on the three fundamental tasks of the university (education, teaching and public services) (Risanty & Kesuma, 2019). This concept guides how the management of a good university and how the university should place itself in the middle of the public and the nation (Sumarni, 2009). University governance is a guideline for the university to achieve the vision and goals as an institution of professionalism, research, and knowledge (Apriyanti, 2018)

It is required for the higher education institution or college to implement internal control as mentioned by Peraturan Pemerintah number 60 in 2008. The internal control in higher education institution is done by the Internal Supervisory Unit (Satuan Pengawas Internal/ SPI) that created to strengthen the accountability and management of the higher education institution in implementing its duty and function. The Internal Supervisory Unit has the main job to oversee all the process of audit, review internally, evaluate, observe and other supervising activity toward the implementation of the duty and function of the organization which is aimed to control the activity, save the property and assets, guarantee the qualified financial report, increase the effectiveness and efficiency and also play as an early detector of deviation and disobedient toward the rules and law. So, by having good internal control, the implementation of GUC can reduce the number of corruption, make the minority get proper attention and being listened well in the decision-making process. Besides, in the future, it is hoped to be more responsive toward future necessity.

## II. BACKGROUND AND HYPOTHESIS DEVELOPMENT

The implementation of Good University Governance (GUC) as the part that consists of good governance which is expected to give a positive effect on the college service to the stakeholder, including increasing the accountability. Accountability is defined as a public responsibility toward all the activities performed. The delivery of the responsibility is necessary to be done transparently through the media, which is further can be communicated both to the internal and external (Kaihatsu, 2006). One of the delivery media is through the qualified financial report of the government institution that fulfils the criteria, relevant, reliable, comparable and understandable. The implementation of good university

governance commonly effects the quality of the financial report (Stevenson, 2004). The implementation of *good university governance* simultaneously affect the quality of the financial (Anwar & Pratolo, 2012)

### ***H1 : there is a positive and significant effect of Good University Governance toward the quality of the financial report***

Government Accounting Standards (SAP/Sistem Akuntansi Pemerintah (SAP)) are accountancy principles that implemented in arrange and present the government financial report. SAP is based on accrual that applied to make the information presented in the financial report more accurate, relevant and transparent, so it is considered to be standard to increase transparency, accountability and quality in the financial report. The accrual-based implementation in presenting the government financial report is a kind of effort to support the improvement of the financial report (Carlin, 2005)

The relationship between accrual-based government accounting standards and the quality of financial reports is that the better the implementation of accrual-based government accounting standards, the better and accountable the quality of financial report information will be (Mardiana & Fahlevi, 2017), the accrual-based implementation affect the quality of the financial report (Najati, Pituringsih, & Animah, 2017); (Primasari, Gaol, Susiana, & Fuad, 2018)

### ***H2 : there is a positive and significant effect between the Government Accounting Standard accrual-based and the quality of the financial report***

The relation of the implementation of internal control generally affects the quality of the financial report. Based on the Peraturan Pemerintah number 60 in 2006 about the Internal Supervisory Unit of higher education institution as the required government working unit that should be created. Higher education institution must have the Internal Supervisory Unit to do the audit activity that leads to reviewing and consulting, so the university management is done well. An Internal Supervisory Unit is a unit that created to observe the implementation of government internal control system (Sistem Pengendalian Internal Pemerintah /SPIP).

The Internal Control System is an integral process for actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, safeguarding state assets, and compliance with laws and regulations. One of the objectives of the control system is to monitor the reliability of financial reports so that it can be concluded that the effective implementation of internal control will affect the quality of financial reports. Internal control has a significant effect on the quality of financial reports (Amrullah, 2019); (Mardiana & Fahlevi, 2017); (Kaihatsu, 2006)

**H3 : there is a positive and significant effect of the internal control system toward the quality of the financial report**

Several researchers tried the Internal Control System as mediation. The internal control system mediates the relationship between the quality of human resources and the use of technology on the quality of financial reports (Amrullah, 2019)). The internal control system acts as mediation in the relationship between the role of the internal control unit and the good university governance (Asmawanti & Aisyah, 2017)

**H4 : There is a positive and significant effect between Good University Governance and the quality of the financial report through the Internal Control System**

**H5 : There is a positive and significant effect of the accrual-based Government Accounting Standard toward the quality of the financial report through the Internal Control System**

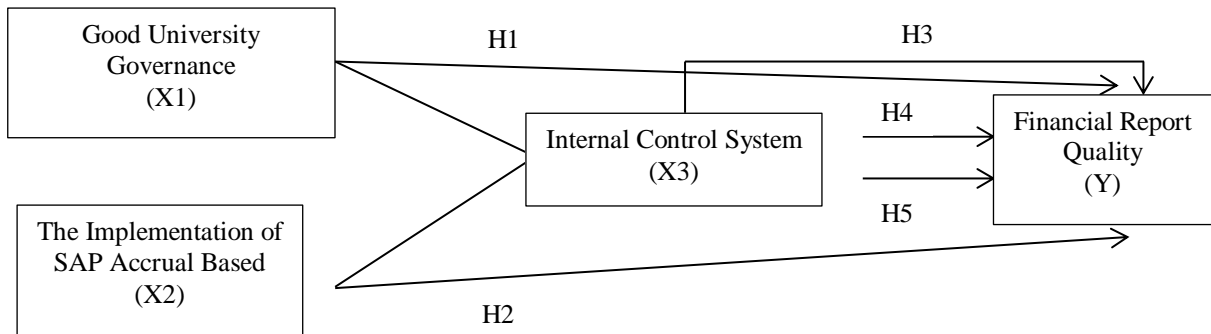


Fig. 1 Research Model

**IV. RESEARCH METHODOLOGY**

In this paper, a conceptual framework has been proposed in which an internal control system mediate the relationship between good university governance, accrual-based Government Accounting Standard implementation toward the financial report. The adopted methodology in this paper served as conceptual modelling that depicts a new framework which combined the significant constructs of financial report quality. To construct this model which is contextual, several data sources have been fully analyzed. The study data are to be generated from the 17 State Higher Education Institution under supervised by the Education and Culture Ministry that unite in Accounting Used of Budgeting/Good Helper Unit (Unit Akuntansi Pembantu Pengguna Anggaran/Barang or UAPPA/B) in East Java, Indonesia by using a well-structured survey questionnaire. The sample of the study is to be drawn from the Internal Supervisory Unit, people who administrate and arrange the financial report in higher education institutions in Unit UAPPA/B East Java. The expected sample size for the study is 190 of the total population of 254 using Slovin formula (Arikunto, 2017). The statistical tools to be used for data analysis are partial least square-SEM (PLS-SEM) to measure the model.

**III. PROPOSED RESEARCH FRAMEWORK**

This current study is after taken into cognizance with the literature reviewed from a prior study and several suggestions given by different authors. This study developed a proposed research framework for future study to determine the relationships between the constructs.

Thus, to determine the relationship among the moderating effect of Internal Controlling System, Good University Governance, and the accrual-based Government Accounting Standard in a financial report is proposed. The research framework in this study has two independent variables (Good University Governance and accrual-based Government Accounting Standard and the quality of the financial report will serve as the dependent variable, while the mediating variable is the Internal Control System (Figure 1). This study focuses on higher education institutions in East Java.

**V. DISCUSSION AND CONCLUSION**

This paper examines the moderating effect that internal controlling system proposes on the relationship between good university governance, accrual-based Government Accounting Standard implementation toward the quality of financial report as depicted in Figure 1. Furthermore, the paper has been presented model the potential moderating effect of internal controlling system proposes on the relationship between good university governance, accrual-based Government Accounting Standard implementation toward the quality of financial report mentioned above. Therefore, the proposed model has several models of important contribution related to the financial report quality. First, suppose the proposed framework is validated. In that case, the findings will provide important insights into the head of higher education institution about the important role of good university governance and accrual-based SAP implementation to improve the financial report quality. Second, the paper also suggests that, if good university governance, accrual-based SAP implementation, financial report quality, internal controlling system Figure 1: Proposed Research Framework; then the findings will be a practical contribution to increasing the higher education institution performance. For example, the head of higher

education institution can improve the performance of the institution through increasing Internal Supervisory Unit performance, people who manage and arrange the financial report as well as increase the institution service level. Third, the proposed model suggests that the internal control system can mediate the relationship between good university governance, accrual-based SAP implementation toward the financial report quality. This implies that, by having more effective higher education institution management, there will likely be an increase in financial report quality. This model can be validated, and further research should be considered the mediating effect of the internal control system on the relationship between good university governance, accrual-based SAP implementation toward the quality of financial report empirically.

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