International Journal of Economic Research and Financial Accounting

International Journal of Economic Research and financial Accounting (IJERFA)
Volume 2, Number 2, January 2024, Page. 304 - 309 **E-ISSN:** ***2964-1977***

The Effect Of The Internal Control System On The Quality Of Financial Reports At Pt Perkebunan Nusantara XIV Makassar

Haerunnisa[1], Linda Arisanty Razak[2], Muchriana Muchran[3]
[1,2,3] Accounting Study Program, Faculty of Economics and Business, University of Muhammadiyah Makassar

Coresponding Author*
Email : Khaerunnisa0206@gmail.com

Abstract
This study aims to determine the effect of the internal control system on the quality of financial reports at PT Perkebunan Nusantara XIV Makassar. This research was conducted to get an overview regarding whether the internal control system is able to influence the quality of financial reports at PT Perkebunan Nusantara XIV Makassar. This type of research is a case study. This research was conducted at PT Perkebunan Nusantara XIV Makassar. The type of data used is quantitative and qualitative data while the data sources are primary and secondary. Methods of data collection using documentation techniques and questionnaires. The data analysis technique uses simple linear regression with SPSS version 25 assisted testing. The results of the study indicate that the independent variable of the internal control system influences the dependent variable on the quality of financial reports. This can be seen from the magnitude of the influence of the internal control system on the quality of financial reports, which is equal to 20.5%

Keywords: Internal Control System and Quality of Financial Reports

INTRODUCTION

Financial reports are information in the form of financial records of an organization in the accounting period used with the aim of describing company performance (Firmansyah and Sinambela, 2020). This is based on the purpose of financial reports according to the Financial Accounting Standards issued by IAI in 2009, where the purpose of financial reports is to provide information related to the financial position, performance and changes in financial position of an entity that is useful for a large number of users in making decisions. If the information is presented correctly, the information is very important for anyone in making decisions about the reported company. According to PSAK No.1, a complete financial report consists of balance sheet components, income statement, statement of changes in equity,

Financial reports have benefits for stakeholders if the information contained therein is presented in a relevant, understandable, reliable and comparable manner. Sometimes there are also financial reports that do not provide all the information users need in making economic decisions. If too much information is published, then of course it is also dangerous because the presentation of unimportant details will actually make the information difficult to understand. One system that can produce a source of information

in the form of financial reports is an internal control system (internal control). Internal controls are policies and regulations that protect business entity assets from misuse, and ensure that the business information presented is accurate and ensures that laws and regulations are followed (Chodijah and Hidayah, 2018). Good internal control is obtained from a coordinated structure, useful for entities to prepare more precise financial reports, prevent fraud, and secure company assets.

International Journal of Economic Research and Financial Accounting

International Journal of Economic Research and financial Accounting (IJERFA)
Volume 2, Number 2, January 2024, Page. 304 - 309 E-ISSN: 2964-1977

Maccording to COSO (Chodijah and Hidayah, 2018) the internal control structure of the entity unit consists of five components, namely: (1) control environment, (2) risk assessment, (3) information and communication, (4) control activities, (5) monitoring . In order for the internal control structure to function properly, adequate implementation of the five internal control components is required. As is well known, the quality of this control structure greatly influences the quality of financial report information produced by management. An adequate internal control system structure is able to reduce errors so that the quality of information from the resulting financial statements can be more reliable (Sundari and Rahayu, 2019).

The quality of financial reports is defined as the extent to which the financial reports presented show appropriate and reliable information. The quality of financial reports is useful as a basis for making economic decisions for stakeholders. The quality of financial reports with various measurement indicators is generally used in making investment decisions, compensation agreements and debt requirements. Contract decisions based on the slightly low quality of financial statements will affect welfare transfers that are not desired by the entity. From an investment perspective, of course, low quality financial reports can lead to ineffective allocation of resources.

When Anager is accountable for the authority delegated to him, management must prepare financial reports that are useful in making decisions for the management itself. In this regard, financial statements must be presented fairly in accordance with generally accepted and consistently applied accounting principles (Pavitasari and Aisyah, 2018).

Basically, the preparation of financial statements is certainly influenced by several factors. These have their respective roles which are interrelated to achieve reliable quality financial reports. The variable that is very instrumental in improving the quality of financial reports is the internal control system, which has functions and objectives that greatly affect the results of the preparation of financial reports. The internal control system consists of coordinated organizations to maintain organizational assets, check the accuracy and reliability of financial data, encourage efficiency and fulfill management policies, so that by implementing an internal control system, management will emphasize the importance of control and take wise steps to control it.

there is PTPN XIV Makassar, all types of work have been systemized, none other than a financial recording system using an integrated application during the current period. This system helps employees in their work. However, this creates a dependency on the system which results in employees only relying on the application without understanding all the components of the existing internal control system. Therefore, the focus of this research was carried out at PTPN XIV Makassar by collecting information related to the internal control system and the quality of financial reports.

Empirical research related to the internal control system for the quality of financial reports has also been studied before, where the research results show that according to Sulfiana (2018); Sundari and Rahayu (2019); Firmansyah and Sinambela (2020); Lestari and Dewi (2020); Chodijah and Hidayah (2018); and Pavitasari and Aisyah (2018) which state that the internal control system affects the quality of financial reports. Meanwhile, according to Rizka et al. (2021); Hasanah and Siregar (2021); Isnaen and Albastiah (2021); and Ernawati and Budiyono (2019) show that the results of their research say the internal control system has no effect on the quality of financial reports.

International Journal of Economic Research and Financial Accounting

International Journal of Economic Research and financial Accounting (IJERFA)
Volume 2, Number 2, January 2024, Page. 304 - 309 **E-ISSN:** ***2964-1977***

Based on the search results of previous research, it shows that the influence of the internal control system on the quality of financial reports still finds different research results. Therefore, researchers are interested in reviewing the internal control system regarding the quality of financial reports with different research objects and different research years so that it is hoped that they can provide more accurate answers with previous research guidelines.

This research is a replication of research that has been conducted by Sulfiana (2018) with the title Effects of Internal Control Systems, and Human Resource Competence on the Quality of Financial Reports at PT Bumi Sarana Beton. The basic differences in this study are regarding: (1) The object of this research is PTPN XIV Makassar; (2) The focus of research is to collect data related to the internal control system on the quality of financial reports; (3) This research was conducted using the latest data, namely data for 2022

RESEARCH METHODS

Aagency theory

Separation between owners and management in accounting is called agency theory (agency theory). This theory is a theory that emerged in the development of accounting research originating from a modification of the development of the financial accounting model by adding aspects of human behavior in the economic model. Agency theory bases the contractual relationship between shareholders and managers. This theory argues that the relationship between shareholders as owners and management as managers is essentially difficult to create because of conflicting interests (Hasanah and Siregar, 2021).

The agency theory began to develop towards fulfilling the manager's goal of maximizing the owner's wealth. The inability of management to increase owner's wealth creates an agency problem. Agency problems have the potential to occur if the manager's share of ownership of company shares is less than one hundred percent (Isnaen and Albastiah, 2021). With the amount of ownership that only part of the company has, managers tend to act in personal interests and not to maximize the company. This will eventually lead to agency costs. It is impossible for an entity not to have agency costs in guaranteeing managers will make optimal decisions from the viewpoint of stakeholders because of the large differences in interests between them. Even to achieve their own personal interests, management can act using accounting as a tool to perform financial report engineering. This difference in interests is called the agency problem, this is what causes asymmetric information.

Maccording to Tuanakonta in Sulfiana (2018) states that the internal control system is an organizational plan and all coordinated methods and policies within a company to safeguard assets, evaluate the accuracy and how far financial data can be trusted, promote business efficiency and encourage the leadership policies that have been outlined .

objectiveThe goals of the internal control system are maintaining entity assets, checking the accuracy and reliability of financial data, encouraging efficiency, and encouraging compliance with predetermined management policies (Gondodiyoto, 2007). Management is responsible for designing and implementing the five elements of internal control to achieve the three internal control objectives. These elements according to COSO

Quality of Financial Statements

The information integrity of the financial statement is the extent to which the reported financial statements show true and honest information. Based on Statement Of Financial Accounting Concepts (SFAC) No. 2 that the quality of information ensures that it is reasonably free from error, bias, and is honest in reporting.

International Journal of Economic Research and financial Accounting (IJERFA)
Volume 2, Number 2, January 2024, Page. 304 - 309 **E-ISSN:** ***2964-1977***

Companies are required to present and report accounting information honestly and accurately for the integrity of financial reports. The information must describe honestly and transactions and other circumstances that must be presented fairly. The integrity of financial reports is an important thing that must be implemented and achieved by entities, especially in financial matters, namely financial reports as a media for accountability by management to stakeholders (Ernawati and Budiyono, 2019).

Financial statements are records of financial information of an entity in the accounting period that can be used to provide an overview of the company's performance (SAK, 2009). Financial reports are the main communication tool for business entities (Firmansyah and Sinambela, 2020).

Based on the Financial Accounting Standards issued by the Indonesian Accounting Association, the purpose of financial reports is to provide information regarding the financial position, performance and changes in the financial position of a company that is useful for a large number of users in making decisions.

Financial reports prepared for this purpose must meet the common needs of most users. However, financial reports do not provide all the information that users may need in making economic decisions because they describe financial effects and past events, and are not required to provide non-financial information.

RESULTS AND DISCUSSION

There is a descriptive analysis, the results of filling out the questionnaire by respondents will be quantified using a Likert Scale with rating points, Strongly Agree (5), Agree (4), Neutral (3), Disagree (2), and Strongly Disagree (1). The questionnaire with independent variables in this case is the Internal Control System consisting of 11 questions, while for the dependent variable in this case is the quality of financial reports consisting of 10 questions.

The average respondent's answer is 4.14 meaning that the average question is responded to with the statement "agree". Question X.6 has the highest average score with an average score of 4.45. While the lowest average value comes from question X.5 with an average value of 3.94.

Questions related to the quality of financial statements were answered "agree" by respondents with an overall average score of 4.10. Question Y.8 is the highest average answer, which is 4.48, while the lowest average is question Y.10, which is 3.91.

tergot 4 (four) questions which after being tested turned out to be invalid, namely questions X.1, X.4, X.5, and X.11. Then the invalid questions were removed from further testing, therefore the indicators of the Internal Control System were measured using 7 valid questions

There are 7 indicators that can be used to measure internal control systems that are declared valid. all questions related to the quality of financial reports are stated to be completely valid, and therefore can be used as a tool to measure the dependent variable of financial report quality.

nilai Cronbach Alpha from the variable quality of financial statements has a value of 0.726 > 0.70, it can be concluded that the data for the independent variables are declared reliable. the value in the R Square column is 0.205 or 20.5%. This indicates that the internal control system is able to influence the quality of financial reports by 20.5%, and the remaining 79.5% is influenced by other variables.

Constant value of 40.451 while the value of the SPI regression coefficient is 0.019 and the sig. 0.009 < 0.05 so the regression equation is as follows: With respect to the regression equation above, it can be concluded that there is a positive and significant effect on the internal control system variable on the quality of financial reports, so the hypothesis which states that the internal control system has a positive and significant effect on the quality of financial reports is accepted.

Bsed on the results of hypothesis testing that has been done before that the variable in this study is the Internal Control System (X) on the Quality of Financial Statements (Y). Discussion of the results

International Journal of Economic Research and financial Accounting (IJERFA)
Volume 2, Number 2, January 2024, Page. 304 - 309 **E-ISSN:** ***2964-1977***

of this study as an answer to the previous problem formulation. The results of this study can be statistically explained in the following explanation.

The results of the regression analysis show that the regression coefficient of the Internal Control System (X) is 0.019. The results of the t test obtained the Internal Control System (X) variable of 40.451 with a significance value of 0.009 <0.05, so it can be said that it is significantly positive.

This al indicates that the Internal Control System has a positive and significant influence on the Quality of Financial Statements at PT Perkebunana Nusantra XIV. This means that with an internal control system, the quality of financial reports will be even better.

Maccording to Tuanakonta in Sufiana (2018) states that the internal control system is an organizational plan and all coordinated methods and policies within a company to safeguard assets, evaluate decisions and how far financial data can be trusted, promote business efficiency and encourage leadership policies that have been outlined .

with the implementation of an internal control system, management will emphasize the importance of control and take important steps to control it, this goal also ensures that the company's business activities comply with laws and regulations, company policies and procedures, so as to minimize errors in presenting accounting data and will produce correct reports, protect and limit the possibility of fraud and embezzlement, so as to produce financial information, namely the preparation of quality and correct financial reports.

This research is in line with research conducted by Sulfiana (2018) which found that the internal control system has a positive and significant effect on the quality of financial reports. Sundari and Rahayu (2019) also found the same thing

that the internal control system affects the quality of financial reports. While the results of this study are not in line with research conducted by Ernawati and Budiyono (2019) where the results of their research found that the internal control system did not affect the quality of financial reports

CONCLUSION

Objectivethe aim of this research is to obtain empirical evidence showing the influence of the internal control system on the quality of financial reports. Based on the data collected, conclusions can be drawn regarding the influence of the internal control system on the quality of financial reports. Where the internal control system has a significant positive effect on the quality of financial reports at PT Perkebunan Nusantara XIV with an effect of 20.5%.

Based on the results of the study, the internal control system variables are consistent with the theoretical statement that the purpose of internal control is to check the accuracy and reliability of accounting data. This research is expected to provide an overview to the company that the internal control system is important and has a role in achieving the quality of financial reports. With the implementation of an internal control system, management will emphasize the importance of control and take important steps to control it.

International Journal of Economic Research and Financial Accounting

International Journal of Economic Research and financial Accounting (IJERFA)
Volume 2, Number 2, January 2024, Page. 304 - 309 E-ISSN: 2964-1977

REFERENCES

Chodijah, S., and Hidayah, N. 2018. The Influence of Utilization of Information Technology and Internal Control Systems on the Quality of Local Government Financial Reporting (Case study of DKI Jakarta Provincial SKPD). Tekun Journal, Vol 8. No.

ErNawati, FY, and Budiyono, R. 2019. The Influence of Human Resource Competence, Utilization of Information Technology and Internal Control Systems on the Quality of Financial Reports for General Hospitals in Blora Regency. MALA'BI : Journal of Economic Management STIE Yapman Majene, 1 (2), 80-.

Firmansyah, I., and Sinambela, RT 2020. The Influence of the Internal Control System on the Quality of Financial Reports at the Regional Financial and Asset Management Agency of West Java Province. LAND / Logistics and Accounting Development, Volume 1, (p-ISSN : 2715-9590).

Ghozali, I. 2018. Application of Multivariate Analysis with the IBM SPSS 21 Update PLS Regression Program. Diponegoro University Publishing Agency.

Gondodiyoto, S. 2007. Information System Audit. Media Discourse Partners.

Hasanah, S., and Siregar, TRS 2021. The Effect of Application of Government Accounting Standards, Accounting Information Systems, Internal Control Systems, and Human Resource Competence on the Quality of OPD Financial Reports in Labuhanbatu Regency. Indonesian Journal of Accounting, Finance & Taxation (JAKPI), Vol : 9 No(ISSN 2776-5474).

Isnaen, F., and Albastiah, FA 2021. The Influence of Human Resource Competence, Utilization of Information Technology, Application of Accounting Information Systems, and Implementation of Internal Control Systems on the Quality of Financial Reports. Al-Mal: Journal of Islamic Accounting and Finance, Volume 02.

Lestari, NLWT, and Dewi, NNSRT 2020. The Effect of Understanding of Accounting, Utilization of Accounting Information Systems and Internal Control Systems on the Quality of Financial Reports. KRISNA: Collection of Accounting Research, Vol. 11, N.

Mulyadi. 2010. Auditing. Salemba Four.

Pavitasari, E., and Aisyah, MN 2018. The Influence of Human Resource Competence, Understanding of Government Accounting Standards, and Internal Control Systems on the Quality of Kendal District Government Financial Reports. Yogyakarta State University.

Rizka, A., Zamzami, and Gowon, M. 2021. The Influence of Human Resource Competence and Internal Control Systems on the Quality of Financial Reports with the Successful Implementation of Regional Financial Management Information Systems as Intervening Variables (Empirical Studies on