Government Internal Control System, Debt Financing and Legislature Size on Accountability of Social Assistance

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Abstract
This research aims to examine the influence of Government Internal Control System, Debt Financing, and Legislature Size on Accountability of Social Aid. This research used secondary data, which are financial statements and additional information from local government or city level in East Java Province for the period from 2011 until 2013. The sampling method used is purposive sampling method, by which overall 105 samples were chosen. This research uses logistic ordinal regression method to test the hypothesis, which holds 5% significance. Based on the hypothesis test, it shows that the Legislature Size has a significant value under 0.05 with negative estimate value. Meanwhile, Government Internal Control System and Debt Financing has a significant value upper 0.05 with positive estimate value. Using new variables and adjusting with the new government regulation, this research concludes that Legislature Size has significant negative influence on Accountability of Social Aid. Government Internal Control System measures, whether Government Internal Control System elements exist in the financial reports or not and Debt Financing measures that debt to equity ratio (DER) has no significant influence to Accountability of Social Aid.

Keywords: Government Internal Control System; Debt Financing; Legislature Size; Accountability; Social Aid

1. Introduction
Social assistance is a donation which is given by the local government. Based on government Act No. 32 in 2011, it explains that social assistance is the provision of assistance in the form of money or goods from local government to individuals, families, groups and/or communities that are not continuous and selective, which aims to protect them from the
possibility of social risks. Social risks is an incident or event which creates the potential of social vulnerability to individuals, families, groups and/or communities and comes in the form of crisis of social, economic, and political problems and also natural disasters. If such social risks are not mitigated through assistance, the risks will worsen and affected groups will be unable to live in fair conditions.

Local governments are required to take the responsibility of local financial management by presenting the financial statement as a form of responsibility of local financial implementation (Zeyn, 2011). This also includes the distribution of social assistance. The social assistance fund must be used to fund all activities that are executed by the government in the form of social assistance. Accountability is closely related to transparency as transparency refers to freedom to obtain information, whereas accountability regards responsibility to the public for any activities performed (Maani, 2009). Therefore, the accountability of social assistance distribution is very crucial and accountability for social assistance is part of the procedure that can not be underestimated. Both the recipient and the giver will become the object of examination of disbursement of social assistance fund. Disbursement of social assistance fund will be reviewed by Badan Pengawas Keuangan dan Pembangunan (BPKP). Social assistance fund disbursement has become government-wide work plans that are acted on immediately, especially the programs that are related to social risks directly.

In practice, the realization of social assistance funds are still not properly implemented yet. In 2011, Audit Board of the Republic of Indonesia in Bali area found several findings, such as the realization of social assistance fund which doesn’t fit between the proposal with the responsibility report, the report for the uses of social assistance funds was not submitted, until disbursement of social assistance without going through eligible test procedure.

One of the causes of the abuses of social assistance funds is the diverse understanding about the use of social assistance funds, itself. Ministry / Institution at the central level have a different understanding with the local government regarding the eligibility to receive social assistance funds, how they are to be utilized and also the accountability. This difference in perception that occurred resulted in social assistance programs, that have been prepared by the Ministry/Institution in central level as well as the local government, to overlapping implementation of the social assistance program implementation (Akuntan Indonesia, 2014).
The lack of regulations regarding the distribution of social assistance fund of the government can also be one of the causes of abuses in the distribution of social assistance funds. Social assistance is mentioned in the Government Regulation (Peraturan Pemerintah) No. 71, 2010 that Governmental Accounting Standards (Standar Akuntansi Pemerintah) is one of the items of government operating expenditures that is listed in the Budget Realization Report (Laporan Realisasi Anggaran). However, in this Government Regulation No. 71, 2010, social assistance is only explained in the form of a definition and not in details. It raises issues related to budgeting and implementation of social assistance, which increases the potential of budget misappropriations for activities that would not be usually questioned because there is no clear limitation on social assistance. Therefore, the Ministry of Home Affairs issued regulation No. 32 in 2011 regarding guidelines for awarding grants and social assistance which is sourced from local government budgets. In addition, the Government Accounting Standards Committee (Komite Standar Akuntansi Pemerintah) also published a Technical Bulletin No. 10 in 2011 about spending social assistance accounting. It is necessary to provide the guidance, aligning perceptions and removing problems related to social assistance management and accountability.

Control is an action or activity performed to ensure achievement of the goals and objective. The implementation of social assistance distribution and disbursement should be accompanied by good internal control. Government control system is commonly called Government Internal Control System (Sistem Pengendalian Internal Pemerintah-SPIP) which is a control system that is held throughout the entire government internal environment, which includes the central government and local government. Government Internal Control System is implemented by the government and influences the effectiveness as well as efficiency of the distribution of social assistance funds budgeted, so that the objectives of social assistance can be achieved. If the government internal control system is implemented properly, the misappropriation of social assistance funds could be minimized and the accountability of social assistance funds will be more accurate.

Basically, to distribute social assistance funds either by using debt or not, there must be accountability. Disclosure is important as a form of accountability. Darmastuti (2012) declared that an organization with high levels of debt financing will be required to publish the financial disclosure and reporting with generally accepted standards. Adequate disclosure will be useful to
convince creditors as it conveys accurate judgement on the ability of the debtor to pay their obligation.

Local parliament, as the legislature institution, has supervisory functions, and should properly supervise the implementation of government policies including the local financial management. There are 50 Brebes local parliament members, in Central Java period 2009-2014 as reported by the National Movement for the Eradication of Corruption (Gerakan Nasional Pemberantasan Tindak Pidana Korupsi). The Central Java to the local State Attorney’s alleged misappropriation of funds aspirations of the social assistance has been sourced from 2011 local budgeting. Allegations of corruption are causing the state losses of Rp 4.9157 billion (merdeka.com, 2014).

2. Literature Review

2.1 Accountability of Social Assistance

Accountability is an obligation to deliver the responsibility or to answer and explain the performance and action of a person/legal entity/collective leader of an organization to the party who has the rights or authority to request information or responsibility (BPKP, 2011). Based on Government Act No. 32 in 2011, guidelines for awarding grants and social assistance sourced from local government budget defines that social assistance is the provision of assistance in the form of money or goods from local government to individuals, families, groups and/or communities that are not continuous and selective, which aims to protect them from the possibility of social risks.

Implementation of social assistance expenditure by the government should be an obligation performed to fulfill the rights of the parties that have the authority to ask for accountability as well as evidences and material evaluation, whether social assistance expenditures that have been implemented are on target.

Social assistance expenditure in local financial report is one item of operative expenditure. Technical bulletin No. 10 from Government Accounting Standards Committee explained that there are four (4) types of social assistance expenditure disclosures in Note to Financial Statements (NTFS), namely:

1. Details of social assistance according to the recipient or group of recipients of social assistance.
2. Details of social assistance by type of main activities
3. Details of social assistance expenditure by the form of money, goods and / or services.

Other additional explanations are required for full disclosure.

With the four (4) types of social assistance expenditure disclosures, the accountability of social assistance can be measured by using the top ranked social assistance expenditures disclosure amount that is presented by each local government, with detail as follows:

**Table 1: Rank Table**

<table>
<thead>
<tr>
<th>The amount of disclosures types</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 types</td>
<td>1</td>
</tr>
<tr>
<td>2 types</td>
<td>2</td>
</tr>
<tr>
<td>3 types</td>
<td>3</td>
</tr>
<tr>
<td>4 types</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Government Act No. 32 in 2011

**2.2 Government Internal Control System**

Government Regulation No. 60 in 2008 regarding Government Internal Control Systems explained that:

1. Internal Control Systems is an integral process on the actions and activities that are performed continuously by management and all employees to provide reasonable assurance on the achievement of organizational goals through effective and efficient, through the reliability of financial reporting, safeguarding of state assets, and compliance with laws and regulations.

2. Government Internal Control Systems is internal control system that thoroughly organizes the central government and local governments.

3. Based on Government Regulations No. 60 in 2008, Government Internal Control Systems consists of elements:

4. Control Environment comprises of:
5. The enforcement of integrity and ethical values
6. Commitment to competence
7. Condusive leadership
8. The establishment of an organizational structure that fits the needs
9. Delegation of authority and responsibility correctly
10. Formulation and implementation of sound policies on human resources development
11. Implementation of the role of internal control apparatus of effective government
12. Good working relationships with relevant government agencies
13. Risk assessment, consist of:
14. Risk identifications
15. Risk analysis
16. Control activity, at least has characteristics that consist of:
17. Review on relevant government agencies
18. Human resources development
19. Control of information system management
20. Physical control on asset
21. Determination and reviews on indicators and performance measurements
22. Function separation
23. Authorization of important transaction and events
24. Accurate and timely recording on transactions and events
25. Access restriction on resources and the recordings
26. Accountability of resources and the recordings
27. Good documentation on internal control system and transaction also important events
28. Information and Communications
29. Leader of government agencies shall identify, record and communicate the information with right format and time and organized effectively, with the following:
30. Provide and utilize various forms and tools of communications
31. Manage, develop, and update information systems continuously
32. Internal control monitoring.
33. Leader of government agencies shall monitor the internal control system, through:
34. Sustainable monitoring
35. Separation evaluation
36. Follow up the audit result recommendation
Internal control system that is performed by the government will influence the implementation of activities, including the distribution of social assistance. When the government has implemented the internal control system properly, only then the government’s goals will be achieved. The result of accountability of social assistance by the government should depend on the implementation of distribution of social assistance, its compliance with the objectives. Based on these requirements, the proposed hypothesis is as follows:

Hypothesis 1 (H1): Government Internal Control System influences the accountability of social assistance

2.3 Debt Financing

Renyowijoyo (2010) said that in public sector, funding resources come from taxes, levies, income state/local enterprises, foreign loans, bonds, and other sources are legitimate (government), donations, endowments, loans, grants, etc.

One source of government financing is government loans as debts from foreign and domestic sources. Renyowijoyo (2010), also depicted that to finance the activities of local government, they may apply for loans from government sources, other local governments, financial institutions banks, non-bank financial institutions, and public or it could also issue local bonds with the approval of Parliament. According to Nordiawan (2012), debt or obligation is something that gives the owner liability in the future which the payment is made at the expense of asset.

Organizations that have a high level of debt financing will be required to publish financial disclosure and financial statements which are in compliance with generally accepted standards (Darmastuti, 2012).

Hypothesis 2 (H2): Debt financing influence to accountability of social assistance

2.4 Legislature Size

Menurut Renyowijoyo (2010) said that government structure is needed to protect and serve the needs of citizens. To explain according to democratic governance, government structure is based on a system of "checks and balances" that are usually done by the separation of the functions of the executive, legislative, and judicial branches.
According to Law No. 32 of 2004 on Regional Government, the legislature or the Regional Representatives Council commonly shortened to Parliament, is an institution representative of the people of the area included in an element of local government. Parliament has a legislative function, budgeting, and oversight.

According to Winarna and Pure (2007) and Suhardjanto (2011), the legislature (DPRD) is an institution that has a strategic position and role related to local financial supervision in order to control the local financial policies so it can be economical, efficient, effective, transparent and accountable.

Hopefully, more number of members of parliament will oversee the activities that are performed by the government ensuring that they will be better, especially the distribution of social assistance. Then the missappropriation of social assistance fund that has been budgeted can be avoided so that the accountability will be superior and detailed.

Hypothesis 3 (H3): Legislature size is influential to accountability of social assistance.

3. Research Method

3.1 Samples and Data

Population of this research is all local governments in East Java. There are 38 districts/cities. By using purposive sampling, 35 district/city governments have been obtained from the period 2011 to 2013. The criteria that have been used in purposive sampling are as follows:

- Districts/cities in East Java which have presented financial statements in the fiscal year 2011-2013 are complete and have been audited by the Audit Board of the Republic of Indonesia (BPK-RI),
- Districts/cities in East Java that have budgeted and implemented Social Assistance in fiscal year 2011-2013,
- Districts/cities in East Java which have funding from the debt in fiscal year 2011 to 2013.

3.2 Research Variables

The dependent variable in this study is the accountability of social assistance that has been measured using ranked scoring of 1-4 based on the number of types of social assistance disclosure in financial statements in accordance with technical bulletin No. 10 in 2011.
The independent variable in this study is the internal control system of government, debt financing, and the legislative measure that are valued as follows:

Government internal control system is measured by using scoring based on the existing of the 26 elements of government internal control system, referred in government regulation No. 60 in 2008 in Notes to Financial Statement. If the entity discloses one item, then it will given a value of 1 (one), if it does not, it will be rated 0 (zero).

Government Internal Control System = amount item which is disclosed 26

Debt ratio = (total debt/total equity) x 100%

Legislature size measured by using a number of members of district/cities parliament.

4. Data Analysis Method

Hypothesis examination in this study has been made by using logistic ordinal regression. The regression model that has been used is:

Logit (p1+p2+...+pk) = α1 + β1SPI + β2PU + β3Leg

Where:

P = Probability of the level of accountability of social assistance by number of types of disclosures

α = estimated

β1-3 = intercept

SPI = Independent Variable Internal Control System

PU = Independent Variable Debt Financing

Leg = Independent Variable Legislature Size

5. Findings

5.1 Descriptive Statistic Analysis

From 105 observations studied, the average accountability of social assistance value is 2.30 with standard deviation of 0.820. The value indicates that the accountability of social assistance is most disclosed in NTFS by district/city in East Java Ade 2 from 4 types disclosure of social assistance.
Government Internal Control System has an average value of 0.587 with standard deviation of 0.106. This value indicates that from all elements of the government internal control system, the district/city in East Java on average only execute 58.7% based on the disclosure.

Debt financing has an average value of 0.334% with standard deviation of 0.497. This shows that the total equity is greater than the total debt financing in each district/city in East Java.

The last in district/city parliament in East Java, the legislature size has an average number of members of 44.29 with a standard deviation of 8.069. The average value is quite high considering the range of the number of members of Parliament at the district/city are at least 20 and at most 50.

5.2 Hypothesis Test

By using ordinal logistic regression analysis, it was found that pseudo R-square value in this study was 10.1%, which means that 10.1% of the variability of accountability of social assistance as a dependent variable was able to be explained by the independent variable that is, the internal control system, debt financing, and legislature size, while the remaining 89.9% is explained by other variables, in addition to the three independent variables. The ordinal logistic regression analysis results in this study can be seen from the following table:

Table 2: Parameter Estimates

<table>
<thead>
<tr>
<th>Threshold</th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>[Bansos = 1]</td>
<td>-1.981</td>
<td>.846</td>
<td>5.484</td>
<td>1</td>
<td>.019</td>
<td>-3.639 to -1.320</td>
</tr>
<tr>
<td>[Bansos = 2]</td>
<td>-.354</td>
<td>.825</td>
<td>.184</td>
<td>1</td>
<td>.668</td>
<td>-1.972 to 1.263</td>
</tr>
<tr>
<td>[Bansos = 3]</td>
<td>1.262</td>
<td>.870</td>
<td>2.105</td>
<td>1</td>
<td>.147</td>
<td>-.443 to 2.968</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Location</th>
<th>Estimate</th>
<th>Std. Error</th>
<th>Wald</th>
<th>Df</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
</tr>
</thead>
<tbody>
<tr>
<td>SPI</td>
<td>.836</td>
<td>1.100</td>
<td>.578</td>
<td>1</td>
<td>.447</td>
<td>-1.320 to 2.993</td>
</tr>
<tr>
<td>PU</td>
<td>.433</td>
<td>.236</td>
<td>3.371</td>
<td>1</td>
<td>.066</td>
<td>-.029 to .896</td>
</tr>
</tbody>
</table>
Based on the table above, we can conclude as follows:

The first hypothesis (H1) in this study said that the government internal control system influences accountability of social assistance, which according to the calculations is rejected. It means that the existing of government internal control system elements on district/city in East Java NTFS (Notes to Financial Statement) has no influence on the accountability of social assistance.

This study only assesses the government internal control system based on the existing program policies and activities that contain elements of internal control which are disclosed in local government financial statements, so it cannot be ascertained whether the activities of internal control by district/city in East Java government have been properly implemented or not.

Generally, when a district/city conducts internal control activities, it shows that the local government display efforts to control their administration activities to keep them running properly in order to achieve their objectives, vision and mission. Internal control activities performed by local government should be maximized, in order to see the nature of results. However, in this study, the quality of internal control activities performed by the local government district/city in East Java cannot be determined. Furthermore, the government internal control system percentage, which is still lower than 90%, showed that there are elements of the government internal control system that have not been executed yet.

The second hypothesis (H2), said that debt financing is an influence on accountability of social assistance, which is also rejected. It means that in local government district/city in East Java, debt financing has no influence on accountability of financial assistance. The proportion of debt financing in districts/cities in East Java was very low and allocation of funds from debt financing is not for social assistance which shows that debt financing has no influence on accountability of social assistance at all.

Third hypothesis (H3) in this study said that legislature size influences accountability of social assistance, and it is the only hypothesis which is accepted. Calculations show that legislature size has negative influence on accountability of social assistance.

<table>
<thead>
<tr>
<th>Leg</th>
<th>-.042</th>
<th>.015</th>
<th>7.807</th>
<th>1</th>
<th>.005</th>
<th>-.072</th>
<th>-.013</th>
</tr>
</thead>
</table>

Link function: Negative Log-log.
Source: SPSS result, 2015
Fundamentally, the greater number of members of Parliament of a local government, the overall activities conducted by the local government will be better, including the implementation of distribution of social assistance, so that the accountability of social assistance in financial statements have high rates. However in this study, the result showed that even with large numbers of members of Parliament, higher levels of accountability of social assistance that is disclosed in the Notes to Financial Statements (NTFS) was not achieved.

6. Theoretical and Practitioner Implications

It has been found that government internal control system – which is measured by the utilization of the existing disclosure government internal control system elements in financial statement- has no influence on the accountability of social assistance, due to the fact that there are elements from the disclosures that are yet to be implemented. In this study debt financing also has no influence on the accountability of social assistance, because the proportion of debt financing in districts/cities in East Java was very low. Subsequently, legislature size has negative impact on accountability of social assistance, which showed that even with high number of members of the Parliament the level of accountability of social assistance that is disclosed in the Notes to Financial Statements (NTFS) was not higher. This is because in quantities, more parliament member will raise many vested interests that do not fit with the needs, which does not improve the quality of supervision conducted.

It is imperative for the government to take responsibility or accountability for the management of funds in accordance with the regulations, especially for the distribution of social assistance. Misappropriation of social assistance can happen very easily, hence an effort to prove that the distribution of social assistance is being done well is through making an accountability in accordance with applicable regulations. In distribution of social assistance, it is critical for the government to perform internal control system as well, while also the government is also required to provide appropriate accountability as information to third parties as there is debt financing for social assistance activities. Additionally, legislative institution has supervisory functions and should monitor the distribution of social assistance well, so that the misappropriation does not occur because when social assistance is done well, accountability improves as a result.
7. Limitations

Limitations of this study are, that the small scope that are only districts/cities in East Java, the study itself can not be representative of conditions in Indonesia as a whole. Researchers suggest to increase the scope of research that can be a representation of conditions in Indonesia as a whole. Moreover, debt financing is one of funding sources that is owned by the local government, and in the next research, it is expected to use other funding sources which are owned by the local government. Measuring government internal control system only through disclosure in the financial statement do not represent how the quality of internal control activities performed are. In next research, methods using primary data are to be used so that the results of the internal control system of government can be more accurate.

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