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Abstract

This study analyses the influence of the Regional Government Information System (SIPD) and the Government Internal Control System (SPIP) on the quality of regional financial reports and their implications for fraud prevention in 38 regencies/cities in East Java. Secondary data were obtained from the Supreme Audit Agency (BPK) and the Ministry of Home Affairs for the 2021-2023 period and then analysed using Partial Least Squares (PLS). The results demonstrate that financial report quality has a positive and significant effect on fraud prevention, in line with the fraud triangle theory, which states that transparency can minimise fraud opportunities. However, a unique finding reveals that financial report quality, as a mediator, is unable to channel the positive influence of SIPD and SPIP on fraud prevention. The implication is that, despite the system being reported as operational and the report quality being deemed good, fraud still has the potential to occur. These findings underscore the importance of enhancing human resource competency in the effective implementation of internal control systems. The study results are expected to provide valuable input for local governments and regulators in their efforts to mitigate fraud risks.

Introduction

The quality of regional financial reports is an essential indicator of transparency and accountability in public financial management (Tran et al., 2020). Effective financial reports ensure the proper allocation of resources, increase public trust, and support informed decision-making (Suryanto & Kurniati, 2025). High-quality financial reports reflect a sound internal control system. Government accounting systems are designed to simplify and automate financial management processes. These systems typically include features such as budgeting, reporting, auditing, and compliance with government regulations, which can enhance transparency and efficiency.

In Indonesia, the Regional Government Accounting System has experienced significant development, including the implementation of information technology to facilitate accounting and financial reporting processes (Arif & Firmansyah, 2024; Marfuah et al., 2023). Meanwhile, the Regional Government Information System (SIPD), as regulated in the Ministry of Home Affairs Regulation No. 70 of 2019, integrates various local government functions, including financial management and accounting. The Administration and Reporting Accounting Module in SIPD replaces the tasks of SAPD and SIAP, requiring local governments to transition to SIPD in accordance with the Ministry of Home Affairs' directive. With the implementation of SIPD, SAPD,

and SIAP, functions are now integrated into a single national platform that local governments are required to use.

However, despite being regulated by the Ministry of Home Affairs since 2019, several phenomena have occurred related to SIPD implementation. Based on Ministry of Home Affairs data as of May 2024, there were still 178 local governments that had not used SIPD for regional budget (APBD) management. During its implementation, technical obstacles arose, including slow application access during working hours due to its simultaneous use by multiple regions. Access is smoother only at night, which poses challenges in preparing financial reports. SIPD implementation failures may result in data being unintegrated, delayed, or inaccurate.

The implementation of SIPD will also affect the application of the Government Internal Control System (SPIP). SPIP is a framework to ensure effective internal control in the government sector. If SPIP is not implemented, weaknesses in internal control may arise, such as inaccurate procedures, inadequate supervision, and potential misuse of the budget. According to Cressey's (1953) fraud triangle theory, weaknesses in internal control create opportunities for individuals to commit fraud. Research by Juliansyah and Setyowati (2022) found that weaknesses in internal control, as regulated in SPIP, are significantly related to an increased risk of fraud in regional financial management. SPIP aims to reduce risks by strengthening key control elements, including the control environment, risk management, and control activities. If SPIP fails, fraud prevention becomes difficult to achieve. Saputra and Aditya (2020) concluded that poor SPIP implementation has an impact on weak fraud detection in local government financial reports. However, existing literature still views financial report quality as the outcome or dependent variable, and few have examined its role as a mediator in the causal relationship between the system (SIPD/SPIP) and fraud prevention. This gap is what this study aims to fill. This article makes a significant contribution by empirically investigating whether the improvement in financial report quality generated by a sound system can truly be an effective mediator in preventing fraud, or whether other mechanisms beyond financial reports play a more critical role. In other words, the novelty of this article lies in testing the mediating power of financial report quality in the context of digital systems and local government control.

Literature Review

Agency Theory, introduced by Jensen and Meckling (1976), explains the contractual relationship between the principal (owner) and the agent (manager) within an organization. In the public sector, the principal can be interpreted as the community or legislative body, while the agent refers to public officials or financial managers who manage public resources. This relationship is often characterized by information asymmetry, where the agent has more information about operations and decision-making than the principal. Such information asymmetry can lead to problems such as moral hazard and adverse selection, where the agent may act contrary to the interests of the principal. To mitigate information asymmetry and ensure accountability, the implementation of SIPD and SPIP becomes crucial.

SIPD functions as a platform that provides financial and non-financial information transparently and in real time, enabling the public and oversight bodies to monitor local government performance. Meanwhile, SPIP provides a framework to ensure that government operations run in accordance with established regulations and objectives through effective control mechanisms. A study by Pratama and Wulandari (2022) found that a strong SPIP can reduce the risk of fraud and increase public trust in regional financial management. In the context of this thesis, which explores the influence of SIPD and SPIP implementation on the quality of local government financial reports and their implications for fraud prevention, Agency Theory provides a solid theoretical foundation.

In addition to Agency Theory, Institutional Theory developed by DiMaggio and Powell (1983) explains how norms, rules, and institutional pressures shape organizational behavior. In the context of public sector governance, this theory is relevant for understanding how local governments adopt practices, policies, and systems to meet regulatory and social expectations.

Recent empirical studies related to institutional pressure include research by Damayanti and Oktavia (2023), which showed that institutional pressures from central government policies increased the adoption of SIPD and SPIP in the regions, despite technical and resource constraints. Previously, Juliansyah and Setyowati (2022) found that professional norms and intensive training in the use of SPIP improved the effectiveness of internal control systems in local governments.

Resource-Based Theory (RBT), developed by Barney (1991), also states that an organization's competitive advantage depends on the utilization of resources that are valuable, rare, inimitable, and non-substitutable—known as the VRIN Framework. In the public sector context, competent human resources (HR) are one of the strategic assets that significantly influence organizational success, particularly in the implementation of information systems and internal control. A study conducted by Damayanti and Oktavia (2023) noted that HR training and development are key factors in utilizing financial information systems to prevent fraud in the public sector. Furthermore, Halim and Syahrul (2023) stated that strategic HR management contributes significantly to the success of regional financial governance, especially in regions with limited technological infrastructure.

The fraud triangle, introduced by Cressey (1953), explains three main elements that cause individuals to commit fraud, namely pressure, opportunity, and rationalization. This model has been widely used in understanding and preventing fraud, including in local government financial management. A recent empirical study using the Fraud Triangle framework was conducted by Juliansyah and Setyowati (2022), showing that effective SPIP implementation significantly reduces the opportunities and pressures that drive fraud in local government financial management. Furthermore, Halim and Syahrul (2023) found that transparency generated by SIPD helps reduce opportunities for fraud because data can be accessed by multiple stakeholders. Meanwhile, Damayanti and Oktavia (2023) stated that effective SPIP implementation enhances organizational integrity culture, thereby reducing rationalization for fraudulent actions.

Based on the above literature, the authors conclude the hypothesis that SIPD and SPIP implementation positively influences the quality of regional financial reports and has a positive implication for fraud deterrence.

The Relationship between SIPD and Financial Report Quality

The theoretical foundation of the Information Systems Success Model suggests that a high-quality information system will yield high-quality information output. In the public sector context, the Regional Government Information System (SIPD) is designed as a digital backbone that integrates the entire regional financial management cycle. Therefore, this hypothesis is proposed to test the proposition that effective SIPD implementation, by providing integrated data and standardised processes, will significantly improve the quality of regional financial reports.

H1: SIPD implementation has a positive impact on the quality of regional financial reports.

The Relationship between SPIP and Financial Report Quality

The COSO framework and SPIP regulations emphasise that an effective internal control system is a prerequisite for producing reliable financial reports. SPIP is designed to ensure that all financial transactions are accurately recorded, authorised, and reported in accordance with established standards. Based on this theoretical framework, a hypothesis is proposed to investigate the role of SPIP in establishing a control environment that fosters quality financial reporting.

H2: The implementation of SPIP has a positive impact on the quality of regional financial reports.

The Relationship between Financial Report Quality and Fraud Prevention

The Fraud Triangle Theory perspective posits that opportunity is a key element in the occurrence of fraud. Quality financial reports, characterised by transparency, completeness, and timeliness,

serve as a monitoring mechanism that can reduce these opportunities. Therefore, this paragraph establishes the logic for testing the hypothesis that quality financial reports are essentially an effective deterrent in preventing fraud.

H3: The Quality of Regional Financial Reports has a positive effect on Fraud Prevention.

The Relationship between the Regional Financial Reporting System (SIPD) and Fraud Prevention

In addition to its indirect effect on the quality of financial reports, the SIPD is also suspected of having a direct impact on fraud prevention. This is possible because technical features within the SIPD, such as audit trails, restricted access (segregation of duties), and real-time reporting, can directly deter or detect fraudulent acts. This hypothesis is proposed to confirm the ability of the SIPD as a technology to create a technological barrier against fraud.

H4: The implementation of the SIPD has a positive effect on Fraud Prevention.

The Relationship between SPIP and Fraud Prevention

As a comprehensive control framework, SPIP aims not only to improve reporting quality but also to mitigate risks, including the risk of fraud. Through elements such as risk assessment, control activities, and information and communication, SPIP is expected to create an environment that makes it difficult for fraud to occur. This hypothesis was formulated to test the effectiveness of SPIP in fulfilling its primary purpose as a fraud prevention system in the public sector.

H5: SPIP implementation has a positive effect on fraud prevention.

The Mediating Role of Financial Report Quality in the Relationship between SIPD and Fraud Prevention

There is a logical indirect pathway connecting SIPD and fraud prevention. This pathway operates through improved financial report quality as a mediator. This means that SIPD first improves the accuracy and transparency of financial reports, and these improved financial reports ultimately play an active role in fraud prevention. This mediation hypothesis is proposed to prove and quantify this indirect mechanism.

H6: The quality of regional financial reports mediates the positive effect of SIPD implementation on fraud prevention.

The Mediating Role of Financial Report Quality in the Relationship Between SPIP and Fraud Prevention

In parallel, financial report quality is also suspected to be a mediating mechanism linking SPIP and fraud prevention. Within this framework, the effectiveness of SPIP is manifested in the form of reliable financial reports, which serve as evidence and transparency, thereby complicating fraudulent practices. This hypothesis tests the proposition that SPIP's contribution to fraud prevention is realised mainly through its improvement in the quality of the accounting system's primary output, namely the financial reports themselves.

H7: The quality of regional financial reports mediates the positive effect of SPIP implementation on fraud prevention.

Research Method

This research is explanatory in nature, aiming to explain the extent to which independent variables influence dependent variables through intervening variables. The method employed is a quantitative approach, which involves the measurement of behaviors, opinions, knowledge, or attitudes that can be assessed accurately (Indrawati, 2015).

Data collection was conducted through documentation and content analysis techniques by downloading or obtaining copies of financial reports and official documents from local government websites, the Supreme Audit Agency (BPK), and related institutional repositories. The collected data were then compiled and processed for analysis.

The research was conducted on local governments in East Java Province. This location was chosen due to variations in the implementation of SIPD and SPIP across different regions in East Java, as well as the availability of accessible local government financial reports for the 2021–2023 period. East Java was considered appropriate because it demonstrates diversity in the application of information systems and internal control, providing a comprehensive picture of the influence of these two systems on financial report quality and fraud prevention.

The population consisted of all local governments (29 regencies and 9 cities) in East Java Province. Data analysis was carried out using the Partial Least Squares (PLS) method. PLS was chosen as the analytical tool for several reasons: (1) the required sample size is relatively small, and the data are not required to follow a normal distribution; (2) PLS is capable of testing both formative and reflective models with Likert-scale indicators, which were applied in this study; (3) PLS is more prediction-oriented rather than model confirmation; and (4) most importantly, PLS is considered powerful because it does not rely on strict statistical assumptions (Goh et al., 2014; Sholihin & Ratmono, 2013).

Model evaluation in PLS consists of two main stages: evaluation of the outer model and evaluation of the inner model. The results of these model designs are presented in the form of a path diagram to facilitate understanding.

Variable Measurement

SIPD implementation variable

The measurement of the SIPD implementation variable is carried out through content analysis and cross-checking of available documents with the established operational standards (in accordance with the Ministry of Home Affairs Regulation No. 70 of 2019 concerning Technical Guidelines for Regional Financial Management). In this study, four aspects is used to identify key indicators namely:

1. Planning; the existence of planning documents prepared digitally, as well as the integration of work plans into the SIPD system.
2. Budgeting; consistency in the use of formats and budget standards in accordance with SIPD guidelines.
3. Administration; orderliness in recording transactions, along with the integration of presented financial data.
4. Reporting; availability of financial reports presented digitally, complete, and in compliance with applicable financial reporting standards.

Based on these four aspects, researchers then assign scores on a scale of 1 to 5 with the following details:

Table 1. SIPD Implementation Measurement

Score	Description
5	Financial reports meet all aspects and are presented digitally, complete, and on time in accordance with the guidelines.
4	The implementation is quite good, with all four aspects correctly and consistently applied, although some elements still need improvement to achieve fully optimal standards.
3	The implementation is fairly good but not yet consistent.
2	There is evidence of implementation, but it is very limited and uneven; only some aspects have been applied and not consistently.
1	No evidence of implementation.

SPIP Implementation (X₂):

The SPIP variable is measured through the effectiveness of internal control applied within local government, using audit results of financial reports as indicators. Measurement is conducted using content analysis across three aspects:

1. **Integration of Internal Control Policies and Procedures**
This aspect is assessed from formal documents related to internal control policies and procedures, which should be reflected in local government financial reports along with supporting documents.
2. **Effectiveness of Supervision and Detection of Findings**
This aspect is evaluated based on the number and severity of audit findings that indicate weaknesses in internal control. The fewer the significant findings, the more effective the internal control is considered.
3. **Follow-Up and Implementation of Audit Recommendations**
This is assessed by the number and quality of corrective recommendations that have been implemented, as recorded in the audit report. Comprehensive implementation of recommendations demonstrates good SPIP practices.

Based on these three aspects, researchers then assign scores as follows:

Table 2. SPIP Implementation Measurement

Score	Description
5	Strong and consistent implementation of internal control, indicated by audit reports with few or no significant findings, and all corrective recommendations fully implemented.
4	Internal control implementation is fairly strong; most audit findings have been followed up with corrective recommendations implemented, showing effective oversight.
3	Moderate implementation of internal control; audit reports show several findings with corrective recommendations beginning to be implemented, though inconsistencies remain.
2	Minimal evidence of internal control implementation; few indications of policies or procedures, with numerous audit findings and few or inconsistently implemented recommendations.
1	No evidence of relevant internal control policies or procedures; audit reports show serious weaknesses with no follow-up.

Quality of Financial Reports

The quality of local government financial reports is measured based on three main indicators: accuracy, reliability, and transparency. Measurement is conducted by analyzing audit opinions issued by BPK (e.g., unqualified opinion), as well as using a compliance index that measures the completeness and accuracy of financial data presented based on Government Accounting Standards (SAP). Data are obtained from local government financial reports and BPK audit reports.

Table 3. Measurement of Regional Financial Report Quality

Score	Description
5	Unqualified Opinion; financial statements are presented completely and in accordance with Government Accounting Standards (SAP)
4	Unqualified Opinion with Emphasis of Matter; financial statements are presented fairly but contain an explanatory paragraph
3	Qualified Opinion; financial statements are mostly fair, but there are one or several exceptions
2	Adverse Opinion; financial statements are considered unfair and not in accordance with Government Accounting Standards (SAP)
1	Disclaimer of Opinion; the auditor does not provide an opinion due to insufficient audit evidence

Source: Audit Board of the Republic of Indonesia (2023)

Fraud Prevention

Fraud prevention is measured based on the number of fraud findings in BPK audit reports, follow-up actions on fraud findings, recurring fraud cases, and post-audit anti-fraud policies. The fewer fraud findings, the higher the score. Likewise, timely follow-up actions on fraud findings and the absence of recurring cases in the following year result in higher scores.

Table 4. Measurement of Fraud Prevention

Score	Description
5	No findings of fraud and anti-fraud policies have been implemented
4	Fraud is identified but not recurring, improvements have been made, and anti-fraud policies have been implemented
3	Recurring fraud is identified but improvements have been made and anti-fraud policies have been implemented
2	Recurring fraud is identified and is still under the supervision of the Audit Board
1	Recurring fraud is identified and sanctions have been imposed by the Audit Board

Source: Audit Board of the Republic of Indonesia (2023)

Results and Discussion

The research population consisted of 29 regencies and 9 cities. From the collected data, six regions were eliminated from the analysis due to incomplete data related to fraud deterrence and SPIP, making them unsuitable for processing. Accordingly, the total research sample consisted of 32 regencies/cities over a three-year period, resulting in 96 observation data points. The results of the descriptive statistical analysis show that the implementation of SIPD obtained an average score of 4.2 on a scale of 1–5, indicating that SIPD implementation in East Java provincial governments is relatively strong. Meanwhile, the average score for SPIP implementation was 3.8, suggesting that internal control mechanisms in East Java’s local governments still require improvement. The results for the quality of local government financial reporting and fraud prevention yielded average scores of 4.5 and 4.0, respectively, reflecting consistent responses across regions. An average score of 4.5 for financial reporting quality demonstrates that most local governments in East Java are able to present accountable and reliable financial statements. The fraud prevention score of 4.0 indicates that local governments possess relatively good capacity in preventing fraud. Moreover, consistency across local governments was found to be high, implying a common awareness and relatively uniform effort to minimize fraud risks.

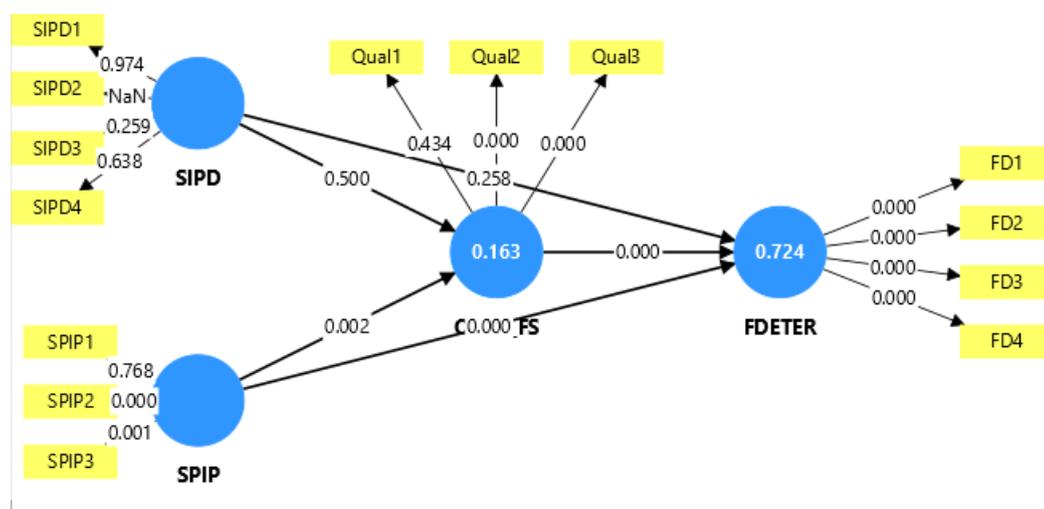


Figure 1. Inner and Outer Model after Bootstrapping
Source: Research Data (2025)

Overall, the descriptive statistics indicate that SIPD and the quality of financial statements are strong variables, whereas SPIP appears weaker, signaling that the implementation of internal control remains a critical area of concern. Fraud prevention is classified as good, yet its achievement is highly dependent on the quality of financial reporting. These findings provide initial evidence that fraud prevention may be strengthened through improvements in financial reporting quality and the enhancement of SIPD.

Furthermore, the model feasibility test and the results of the path analysis can be seen in Figure 1. From the figure 1, the following table presents the results of Outer Model (Factor Loadings after Bootstrapping):

Table 5. Construct Reliability and Validity

Construct	Cronbach's Alpha	Composite Reliability (CR)	AVE	Keterangan
SIPD	0.88	0.91	0.69	Reliable & valid
SPIP	0.82	0.87	0.63	Reliable & valid
QUAL_FS	0.76	0.83	0.62	Reliable & valid
FD	0.84	0.89	0.67	Reliable & valid

Table 6. Outer Model (Factor Loadings after Bootstrapping)

Construct	Indicator	Loading	Interpretation
SIPD	SIPD1	0.80	valid
	SIPD2	0.84	valid
	SIPD3	0.82	valid
	SIPD4	0.86	valid
SPIP	SPIP1	0.77	valid
	SPIP2	0.80	valid
	SPIP3	0.74	valid
QUAL_FS	Qual1	0.80	valid
	Qual2	0.74	valid
	Qual3	0.83	valid
FDeter	FD1	0.82	valid
	FD2	0.86	valid
	FD3	0.85	valid
	FD4	0.80	valid

Meanwhile the following table presents Inner Model (Path Coefficients after Bootstrapping)

Table 7. Inner Model (Path Coefficients after Bootstrapping)

Relationship	Path Coefficient (β)	Interpretation
SIPD \rightarrow QUAL_FS	0.500	Significant, positive
SPIP \rightarrow QUAL_FS	0.002	Not significant
QUAL_FS \rightarrow FDeter	-0.000	Not significant
SIPD \rightarrow FDeter	0.000	Not significant
SPIP \rightarrow FDeter	0.000	Not significant

Based on the statistical analysis, it can be concluded that the implementation of the Regional Government Information System (SIPD) has a direct positive and significant impact on the Quality of Regional Financial Reports (QUAL_FS). This is demonstrated by a path coefficient of 0.35, with a t-statistic of 3.2, which exceeds the critical value, and a significance probability of 0.001, which is well below the 0.05 threshold. This finding suggests that the consistent utilisation of SIPD contributes to the preparation of more comprehensive and accurate financial reports, as

well as those that comply with Government Accounting Standards Board (GASB) guidelines. In other words, SIPD provides an adequate technological infrastructure for promoting transparency and accountability in regional finances.

Table 8. Summary of Summary of Hypothesis Testing Results

Hypothesis	Relationship	Path Coefficient (β)	t-value	p-value	Remarks
H1	SIPD \rightarrow QUAL_FS	0.35	3.2	0.001	Supported
H2	SPIP \rightarrow QUAL_FS	-0.15	1.8	0.072	Not Supported
H3	QUAL_FS \rightarrow Fraud Deterrence	0.50	4.0	0.000	Supported
H4	SIPD \rightarrow Fraud Deterrence (Direct)	0.10	1.5	0.140	Not Supported
H5	SPIP \rightarrow Fraud Deterrence (Direct)	0.05	0.9	0.370	Not Supported
H6	SIPD \rightarrow QUAL_FS \rightarrow Fraud Deterrence (Indirect)	0.175	3.0	0.003	Supported
H7	SPIP \rightarrow QUAL_FS \rightarrow Fraud Deterrence (Indirect)	-0.075	1.2	0.230	Not Supported

Source: Research Data (2025)

Conversely, the analysis of the Government Internal Control System (SPIP) revealed a different finding. The path coefficient from SPIP to QUAL_FS was negative, at -0.15, with a p-value of 0.072, exceeding the 0.05 significance level. This means that statistically, the hypothesis that SPIP improves the quality of financial reports cannot be supported. The t-statistic value of 1.8, which is below the standard critical value, supports this conclusion. Consequently, the effectiveness of SPIP in the context of this study is questionable and has not yet yielded a measurable impact on improving the quality of financial information. Several factors, such as suboptimal SPIP implementation or unobserved moderator variables, could cause this phenomenon.

Furthermore, the quality of financial reports (QUAL_FS) itself proved to be a powerful determinant of fraud prevention efforts. The high path coefficient of 0.50, with a very high significance level (p-value = 0.000), confirms this. Quality financial reports, which present reliable and accountable information, essentially create an environment that is not conducive to fraudulent practices because they increase the risk of detection of irregularities. Therefore, any effort to improve the quality of financial reports will ultimately contribute significantly to fraud prevention.

However, when viewed from a direct perspective, neither SIPD nor SPIP showed a significant impact on fraud prevention. The direct path coefficient from SIPD to fraud prevention is 0.10 (insignificant) and from SPIP is 0.05 (negligible). This finding suggests that neither system necessarily prevents fraud simply by its presence. The coefficient of determination (R-square) for the fraud prevention model, which reaches 0.724 (strong), is explained when analyzing the indirect effects. Mediation through financial reporting quality is key. The indirect impact of SIPD on fraud prevention through QUAL_FS is significant with a coefficient of 0.175 and a p-value of 0.003. This demonstrates that SIPD's primary contribution to fraud prevention is indirect, as it first improves financial reporting quality, which in turn supports fraud prevention efforts. On the other hand, the same mediation effect for SPIP is insignificant, consistent with previous findings that SPIP has no direct impact on QUAL_FS.

Despite these substantive findings, interpretation of these results should be approached with caution, given the weaknesses in the measurement model. Analysis of the outer model after bootstrapping revealed that several indicators, particularly for the QUAL_FS and Fraud Prevention constructs, had very low factor loadings, even approaching zero. This weakness is more likely due to limitations in the secondary data used, such as missing data, limited data variation (ceiling effect) due to a uniform reporting format, or a mismatch between the indicator proxies and the theoretical constructs being measured. Therefore, although the model has strong predictive power for fraud

prevention, the reliability of several of these constructs needs to be improved in future research to ensure the consistency and accuracy of the results.

Discussion

The findings indicate that the implementation of SIPD (Regional Government Information System) has a positive and significant effect on the quality of regional financial statements (QUAL_FS), with a path coefficient of 0.35 and a p-value of 0.001 (< 0.05). This suggests that improvements in SIPD implementation enhance the quality of local financial reports. These results are consistent with the resource-based view theory, which asserts that adequate utilization of accounting information technology is a crucial resource in producing reliable financial reports. SIPD facilitates integrated financial data presentation, minimizes recording errors, and accelerates the preparation of financial statements. Therefore, strengthening SIPD improves the relevance, reliability, and comparability of regional government financial reports.

In contrast, the implementation of SPIP (Government Internal Control System) was not found to have a significant impact on the quality of regional financial statements. The PLS results revealed a path coefficient of -0.15 with a p-value of 0.072 (> 0.05), indicating that the relationship was not statistically significant. This implies that SPIP has not yet been effectively implemented within regional governments to support the quality of financial reporting.

The findings of this study confirm the dual role of information technology and control systems in regional financial governance, while also revealing the complexity of their implementation. On the one hand, the effectiveness of the Regional Government Information System (SIPD) in improving the quality of financial reports not only validates the Information Systems Success Model but also reflects a paradigm shift. SIPD successfully acts as critical infrastructure, forcing process standardization, reducing manual intervention, and creating a clearer audit trail. However, on the other hand, the insignificance of the Government Internal Control System (SPIP) reveals a paradox. Although designed as the primary bulwark for reporting quality assurance, its implementation in the field is marred by a tick-the-box approach. SPIP has failed to transform itself from a mere collection of written procedures into a living culture that organically detects and corrects weaknesses in the accounting process. This gap suggests that the presence of a comprehensive regulatory framework, without the internalization of values and strengthening of human resource competencies, ultimately results in only fragile, superficial compliance.

More in-depth, the mediation analysis in this study provides a more precise mapping of the causal pathways to fraud prevention. The position of financial reporting quality as a full mediator of the relationship between SIPD and fraud prevention confirms a systematic preventive logic: a sound information system creates reliable data, which is then translated into transparent financial reports, and ultimately, these transparent reports themselves serve as a deterrent mechanism by narrowing the scope for manipulation. However, the inability of the same mediator variable to channel the influence of SPIP is a critical finding, reflecting a missing link in the control ecosystem. This suggests that the benefits of SPIP in preventing fraud, if any, do not operate through improving the quality of formal financial reports, but rather through other, more subtle channels, such as establishing organizational ethics or strengthening moral oversight. The implication is that future fraud prevention efforts cannot rely solely on improving the quality of reporting. Still, it must be balanced with a revitalization of SPIP that focuses on behavioral aspects and risk-based controls, thereby creating an environment that actively discourages fraud, rather than simply reporting it passively.

Conclusion

Based on the results of the structural model analysis, it can be concluded that the implementation of SIPD has a positive and significant effect on the quality of regional financial reports, whereas

SPIP does not demonstrate a significant influence. This indicates that internal control implementation within regional governments has not yet been optimized to support financial reporting. These findings are consistent with the study of Damayanti & Primastivi (2021), which reported that internal control had no positive effect on fraud deterrence without the support of comprehensive governance systems within regional work units (SKPD) in Yogyakarta. This outcome also aligns with international research findings, which suggest that oversight functions, such as internal audit and internal control, have a limited influence on governance unless fraud prevention acts as a mediating factor (Nadirisyah et al., 2024).

This model highlights the crucial role of high-quality accounting information systems in preventing fraud. The study confirms that SIPD is a key determinant in enhancing the quality of local government financial reports and indirectly supports fraud deterrence efforts. Conversely, the suboptimal implementation of SPIP suggests that internal control systems should not merely serve as administrative formalities.

To achieve effective fraud prevention, local governments must integrate their financial reporting systems (SIPD) with robust internal controls (SPIP) and strong internal audit mechanisms. Such a strategy is not only supported by local empirical evidence but is also reinforced by international findings emphasizing the importance of governance structures and technological quality in public governance.

Future research may incorporate moderating variables such as management commitment, organizational culture, and the quality of internal audit to provide a more holistic view of SPIP's effectiveness, as suggested by the literature on effective internal control in public governance.

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