

# The Effect of Local Government Information System (Sipd) Implementation on the Quality of Local Government Financial Reports

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## Abstract

*This study aims to conceptually analyze the role of the Local Government Information System (Sistem Informasi Pemerintahan Daerah/SIPD) in improving Financial Reporting Quality FRQ of local governments by synthesizing theories regulations and prior studies related to public sector information systems and financial reporting. This research adopts a conceptual paper method focusing on the development of a theoretical framework that explains the relationship between SIPD implementation and financial reporting quality dimensions namely relevance reliability comparability and understandability by aligning Government Accounting Standards with internationally recognized qualitative characteristics of financial reporting as emphasized by the Financial Accounting Standards Board FASB. The analysis indicates that SIPD as an integrated and mandatory national information system has strong potential to enhance FRQ through improved data integration standardized financial reporting processes and strengthened audit trails across local government entities. Looking forward this study expects that consistent SIPD implementation supported by adequate human resource competence reliable information technology infrastructure and regulatory stability will contribute to more transparent accountable and decision useful local government financial reports thereby strengthening public trust and supporting effective fiscal governance at the regional level. Conceptually this paper provides a theoretical foundation for future empirical research and policy evaluation regarding SIPD and its long term impact on the quality of local government financial reporting.*

**Keywords:** SIPD, Financial Reporting Quality (FRQ), Financial Accounting Standards Board (FASB).

## I. INTRODUCTION

The practice of good governance is the core of achieving transparent, and efficient local government management. Quality local government financial reporting is therefore an essential tool to promote public accountability in this context. Quality of financial reports is not merely based on the compliance with Government Accounting Standards (SAP), but also from the relevance, reliability, comparability and understandability of generated information. The central government has made the Local Government Information System (SIPD) digital space through Permendagri No. 70 of 2019 to be a platform for managing local finances as one form, this is expected to maintain and improve the quality of financial reports in all regions. (Ministry of Home Affairs, 2019).

Nonetheless, the evidence has shown that SIPD adoption has found multilevel resistance in different local government contexts. Several reports and analyses have been published; they detail obvious issues: low degree of technological readiness, uneven human resource preparedness for interoperable health information exchange, network failures, module changes systems and poor data integration between regional devices. Financial Reporting Among the chaos, reporting in many regions is being

delayed, along with a lot of problems existing due to non- data- back jobs and incorrect postings. The Regional Representative Office of BPK (BPKP) even more discovers regional governments that still have a Qualified Opinion and a Disclaimer of Observation, due to the weakness within the information systems as well as financial management. This state of affairs has drawn into question the success of SIPD adoption in enhancing local financial reporting quality (Indrayani, 2021a).

Academically, various studies have established determinants of the quality of local government financial reports including: competence of human resources, existence internal control system, application of information technology and use of accrual accounting (A. Firmansyah & Suparman, 2021). However, an obvious research gap exists; most existing studies still merely examine generic information systems like SIMDA, e-budgeting or other financial accounting systems yet not the SIPD as a national mandatory platform now. Moreover, previous research always evaluates the IS use technologically but not the depth of implementation, degree of fit and quality in aspects such as process integration or the relation between the system and all parts of financial reporting (Nasution & Si, 2021). This gap in the literature is a

significant limitation that requires additional investigation.

Therefore, the next gap is in quality of financial reports testing. Many prior researches also used BPK audit opinion only to indicate quality notwithstanding that the dimensions of financial report quality as per SAP consisted of relevance, reliability, comparability and understandability. Indeed, an information system like SIPD does not only influence opinion (as in the above structure and accuracy of financial report, but also usefulness of financial information) on which people have to base public decision. Research (B. Pratama & Setiawan, 2020), found that an integrated financial system can improve data accuracy and consistency, but there have not been many studies assessing how this integration works specifically in SIPD as a relatively new system. Now that the central government has chosen to make SIPD the only official system used in the planning, budgeting, administration, reporting processes, it is imperative this research be done. With modules getting updated every year, local authorities find it challenging to make amends. With little empirical examination, the impact of SIPD adoption becomes hard to determine so that policy for improving IS may not be pointed in the right direction. Studying the effect of SIPD implementation toward financial reports quality gives local governments opportunities to recognize barriers and enhance quality of all the business processes (Yuliani et al., 2022).

The contribution of this paper is its unique approach in analyzing the implementation of SIPD (as opposed to other factors such as information systems/technology) in relation to the quality local government financial reports. In this research, the focus is not only on system usage but also the level of implementation by measuring certain factors such as user perception, quality of functions, audit trails, data integration and support in terms of financial report preparation for each system. Moreover, this research as not only measured the quality of financial reports in terms of BPK opinion but also SAP dimension, therefore it described more comprehensively about SIPD's contribution to regional financial management (Nasution & Si, 2021).

From both academic angle and its practical meaning, this study will help to answer the question of how successful SIPD really is in improving financial report quality at local government level. Bearing in mind that there are indeed real problems, this study is of particular strategic importance in Indonesia. There are big gaps in academic research, a serious need for research urgency and a real originality to what has been done so far in government: as such it has practical meaning. Consequently, its objective is to support reforms at the bureaucracy level and thus to rejuvenate local

government financial management accountability mechanisms.

## II. RESEARCH METHOD

This study adopts a conceptual paper approach to analyze the relationship between the implementation of the Local Government Information (System Sistem Informasi Pemerintahan Daerah/SIPD) and Financial Reporting Quality (FRQ) in local governments. This method emphasizes theory development framework building and critical synthesis of prior literature rather than statistical testing. The analysis is conducted through a structured literature review of relevant regulations accounting standards and peer reviewed journal articles in the fields of public sector accounting information systems and financial reporting. By employing conceptual analysis normative reasoning and comparative evaluation this study explains how SIPD influences the qualitative characteristics of financial reporting including relevance reliability comparability and understandability as emphasized by the Financial Accounting Standards Board. This approach enables the formulation of conceptual propositions and policy relevant insights that may guide future empirical research and support evidence based improvements in local government financial management.

### A. Theory of Technology Acceptance Model (TAM)

The Technology Acceptance Model TAM explains that the acceptance and actual use of an information system are determined by perceived usefulness and perceived ease of use which influence users behavioral intentions toward the system. In the context of the Local Government Information System Sistem Informasi Pemerintahan Daerah SIPD perceived usefulness reflects the extent to which local government officials believe that SIPD improves the effectiveness and efficiency of financial management particularly in producing accurate timely and standardized local government financial reports. Perceived ease of use refers to the degree to which SIPD is perceived as easy to understand and operate without excessive effort which supports consistent system utilization throughout the local government financial reporting process and ensures optimal system performance (Davis, 1989).

The application of TAM in the public sector demonstrates that the success of government financial information systems is not solely determined by technological capability but is also shaped by users attitudes perceptions and behavioral intentions. When SIPD users perceive the system as useful and easy to use their intention to use the system increases which leads to more intensive and sustainable system utilization. Continuous utilization of SIPD supports integrated data processing reduces recording errors and improves data consistency

across organizational units thereby enhancing the quality of local government financial reports in terms of relevance reliability comparability and understandability in accordance with Government Accounting Standards and the qualitative characteristics of financial reporting emphasized by the Financial Accounting Standards Board (Davis et al., 1989; Venkatesh & Davis, 2000).

Furthermore TAM provides a strong theoretical foundation for explaining the relationship between SIPD implementation and Financial Reporting Quality FRQ in local governments. Positive user perceptions of SIPD encourage long term system adoption which strengthens internal control mechanisms improves data validation procedures and supports audit trail functions within financial reporting processes. Over time acceptance driven utilization of SIPD is expected to promote greater transparency accountability and decision usefulness of local government financial reports thereby enhancing overall financial reporting quality (DeLone & McLean, 2003).

## **B. Financial Reporting Quality (FRQ)**

Financial Reporting Quality FRQ refers to the extent to which financial statements provide information that is useful for stakeholder decision making by accurately reflecting an entity financial performance financial position and cash flows. High quality financial reports are characterized by relevance reliability comparability and understandability which enable users to evaluate financial accountability and assess the efficient use of public resources (Dechow et al., 2010). In the public sector context FRQ plays a crucial role in supporting transparency and accountability because government financial reports serve as a primary source of information for legislators auditors and the public. Compliance with Government Accounting Standards and alignment with internationally recognized qualitative characteristics of financial reporting as emphasized by the Financial Accounting Standards Board are therefore essential to ensure that financial information is decision useful and credible (FASB, 2018).

In local government settings Financial Reporting Quality is influenced by institutional and system related factors including the effectiveness of financial information systems internal control mechanisms and user competence. Prior studies indicate that weaknesses in system quality and internal controls may reduce the reliability and comparability of financial reports while effective systems enhance reporting outcomes (Fan & Wong, 2002; DeLone & McLean, 2003). Integrated financial systems such as the Local Government Information System Sistem Informasi Pemerintahan Daerah SIPD have the potential to improve FRQ by enhancing data accuracy timeliness and consistency

across reporting entities which reduces information asymmetry and supports more reliable and comparable financial reports (DeLone & McLean, 2003).

Empirical evidence indicates that the implementation of the Local Government Information System Sistem Informasi Pemerintahan Daerah SIPD plays a significant role in enhancing Financial Reporting Quality in local governments. Studies demonstrate that SIPD improves data accuracy timeliness and consistency through the integration of financial processes from planning to reporting which directly strengthens key FRQ dimensions including relevance reliability and comparability. By standardizing accounting structures and automating data processing SIPD supports the production of decision useful financial reports in accordance with Government Accounting Standards and the qualitative characteristics emphasized by the Financial Accounting Standards Board (Nasution & Muis, 2021; Pratama & Setiawan, 2020; FASB, 2018).

However the literature also suggests that improvements in Financial Reporting Quality resulting from SIPD implementation are contingent upon organizational and contextual factors. Limitations in information technology infrastructure user competence and internal control systems may constrain the effectiveness of SIPD in improving FRQ in several local governments. Reliable system operation supported by trained personnel and effective governance mechanisms significantly enhances report timeliness transparency and accountability which ultimately strengthens Financial Reporting Quality (Indrayani, 2021a; Firmansyah & Suparman, 2021; Yuliani et al., 2022).

## **C. Financial Information System On Financial Quality**

A Financial Information System plays a crucial role in determining financial reporting quality by enabling the systematic recording processing and presentation of financial data. An effective financial information system supports accuracy completeness and timeliness of financial information which are essential characteristics of high quality financial reports (Hall, 2016). In the public sector financial information systems function as the core infrastructure for managing public funds and ensuring accountability. Reliable systems allow governments to consistently apply accounting standards minimize manual errors and produce financial reports that are useful for decision making and public oversight (Hall, 2016).

The relationship between Financial Information Systems and Financial Reporting Quality can be explained through information system success theory. System quality information quality and service quality influence system use and

user satisfaction which ultimately affect organizational performance. When a financial information system provides accurate reliable and timely information it strengthens the relevance reliability comparability and understandability of financial reports. Conversely poor system integration weak internal controls and inadequate system reliability may lead to reporting delays inaccuracies and reduced credibility of financial information (DeLone & McLean, 2003).

In the context of local government financial management integrated financial information systems such as the Local Government Information System Sistem Informasi Pemerintahan Daerah SIPD are expected to enhance Financial Reporting Quality by standardizing accounting procedures and reinforcing internal control mechanisms. Automated transaction processing audit trails and real time data integration embedded in financial information systems reduce information asymmetry and improve transparency in financial reporting thereby increasing accountability and decision usefulness of financial reports (Romney & Steinbart, 2018; Yuliani et al., 2022).

Empirical studies reveal that Financial Reporting Quality among local governments varies significantly across provinces and districts depending on the level of institutional readiness and SIPD implementation. Research conducted in North Sumatra Province shows that municipalities such as Medan demonstrate relatively higher financial reporting quality due to consistent SIPD utilization supported by adequate information technology infrastructure and trained financial personnel (Nasution & Muis, 2021). Conversely studies in several regencies within Java and Sumatra report persistent issues including reporting delays data inconsistencies and incomplete disclosures which are largely attributed to limited technological capacity and frequent system adjustments at the local level (Indrayani, 2021a). Districts with stronger internal control systems and higher accounting competence among financial officers tend to achieve better compliance with Government Accounting Standards resulting in more reliable and comparable financial reports (Firmansyah & Suparman, 2021). Evidence from multiple regions further suggests that provinces and municipalities that consistently operate integrated financial information systems and maintain system reliability exhibit higher transparency accountability and understandability in their financial statements (Yuliani et al., 2022).

### III. RESULTS AND DISCUSSION

The quality of local government financial reports remains a central issue in public sector accountability, particularly following the nationwide implementation of the Local Government

Information (System Sistem Informasi Pemerintahan Daerah/SIPD). Empirical studies conducted in several Indonesian regions demonstrate that variations in Financial Reporting Quality FRQ are closely related to the effectiveness of SIPD implementation and institutional support. Research conducted in the City of Medan North Sumatra indicates that consistent use of SIPD contributes to more timely and accurate financial reporting and improves compliance with Government Accounting Standards which enhances the relevance of financial information produced by the local government (Nasution & Muis, 2021). In line with Government Accounting Standards the quality of financial reporting is assessed through relevance reliability comparability and understandability and the utilization of integrated systems such as SIPD facilitates faster more accurate and more organized reporting processes that support the achievement of these qualitative characteristics (Government of Indonesia, 2010).

In contrast studies conducted in several regencies in Java and Sumatra reveal that the quality of local government financial reports remains uneven despite formal SIPD adoption. Evidence shows that financial statements in a number of districts were submitted late and contained data inconsistencies due to limited technological infrastructure and frequent system changes which negatively affected the reliability and comparability of financial reports. These conditions indicate that SIPD implementation without adequate organizational readiness does not automatically lead to improved FRQ (Indrayani, 2021a).

From the perspective of the Financial Accounting Standards Board (FASB) high quality financial reporting is characterized by relevance and faithful representation supported by comparability verifiability timeliness and understandability. When local governments experience system instability or lack competent system users these qualitative characteristics are difficult to achieve. Empirical findings from district governments show that limited accounting competence among financial officers reduces the accuracy and understandability of financial reports even when SIPD is technically available which weakens overall FRQ (Firmansyah & Suparman, 2021; FASB, 2018).

Further evidence suggests that local governments with stronger internal control systems achieve higher financial reporting quality. Studies in several municipalities demonstrate that SIPD supported audit trails automated validation and standardized data processing improve the reliability and verifiability of financial information. These mechanisms reduce the risk of material misstatements and enhance comparability of financial reports across periods and across local governments which aligns with the qualitative



characteristics emphasized by the FASB (Pratama & Setiawan, 2020).

Research examining multiple provinces and municipalities confirms that system reliability and data integration significantly influence Financial Reporting Quality. Local governments that consistently operate integrated financial information systems produce financial reports with higher transparency clearer disclosures and improved timeliness which increases their decision usefulness for stakeholders. Conversely regions experiencing unstable system performance continue to face challenges in meeting qualitative reporting standards particularly in terms of reliability and understandability (Yuliani et al., 2022).

Differences in financial reporting quality among cities and regencies also reflect disparities in governance commitment and resource allocation. Large municipalities such as Medan tend to invest more in information technology infrastructure and staff training which supports more effective SIPD utilization and higher FRQ outcomes. In contrast smaller districts with limited fiscal capacity often struggle to maintain system performance and user competence resulting in lower quality financial reports (Nasution & Muis, 2021).

Overall the discussion indicates that SIPD has strong potential to enhance Financial Reporting Quality in local governments but its effectiveness depends on supporting factors including infrastructure readiness human resource competence and internal control effectiveness. When these conditions are met SIPD contributes positively to the relevance reliability comparability and understandability of financial reports as emphasized by the Financial Accounting Standards Board. Therefore variations in financial reporting quality across cities and regencies are not merely technical issues but reflect broader organizational and governance capacities that determine the success of financial information systems in the public sector (FASB, 2018).

#### IV. RECOMMENDATION

To enhance Financial Reporting Quality across local governments it is recommended that SIPD utilization be optimized to improve the relevance and timeliness of financial information through consistent data entry and integrated use of all financial management modules. Strengthening internal control mechanisms embedded in SIPD including automated validation audit trails and reconciliation procedures is essential to improve the reliability and faithful representation of financial reports while continuous training and capacity building for financial officers are necessary to ensure accurate system operation. To support comparability and understandability local governments should standardize accounting practices report formats and disclosures in

accordance with Government Accounting Standards and the qualitative characteristics emphasized by the Financial Accounting Standards Board. Future research is encouraged to empirically examine the impact of SIPD on Financial Reporting Quality by incorporating additional organizational and behavioral variables and by conducting comparative analyses across regions to further validate and extend the conceptual framework proposed in this study.

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