

The Internal Control And Financial Statements As Moderating Of Ethical Climate

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Abstract: This study aims to analyze the effect of the government's internal control system on the government of financial statements quality with the moderating role of the ethical climate of the organization. The survey method was conducted on 80 employees of the planning and finance division of the Maluku Provincial Government who participated in this study. Research data in the form of survey questionnaires were collected and analyzed using smart PLS. The results of this study indicate that the government's internal control system and ethical climate of the organization have a positive and significant effect on the government of financial statements quality. The variable of the government's internal control system has a positive and significant effect on the ethical climate of the organization. The ethical climate of the organization variables can moderate the effect of the government's internal control system on the government of financial statements quality in a positive and significant way.

Keywords: Government Of Financial Statements Quality; Government's Internal Control System; Ethical Climate Of The Organization.

Abstrak: Penelitian ini bertujuan untuk menganalisis pengaruh sistem pengendalian intern pemerintah terhadap kualitas laporan keuangan dengan peran moderasi iklim etika organisasi. Metode survei dilakukan terhadap 80 pegawai bagian perencanaan dan keuangan Pemprov Maluku yang berpartisipasi dalam penelitian ini. Data penelitian berupa kuesioner survei yang dikumpulkan dan dianalisis menggunakan smart PLS. Hasil penelitian ini menunjukkan sistem pengendalian intern pemerintah dan iklim etis organisasi berpengaruh positif dan signifikan terhadap kualitas laporan keuangan pemerintah. Variabel sistem pengendalian intern pemerintah berpengaruh positif dan signifikan terhadap iklim etis organisasi. Variabel iklim etis organisasi dapat memoderasi pengaruh sistem pengendalian intern pemerintah terhadap kualitas laporan keuangan pemerintah secara positif dan signifikan.

Kata Kunci: Kualitas Laporan Keuangan Pemerintah; Sistem Pengendalian Intern Pemerintah; Dan Iklim Etis Organisasi.

INTRODUCTION

Decentralization of regional autonomy opens up space for regions to manage their own government affairs, including regarding regional financial management. Law of the Republic of Indonesia, Number 23 of 2014 concerning Regional Government hints at the authority of each region to regulate its own government affairs, including the management of regional finances according to the principle of regional government autonomy (chapter 1, article 1 paragraph 2). Autonomous regional financial management requires the government to implement accountability. Accountability is a form of accountability for resource management and policies implemented by local governments (Government Regulation of the Republic of Indonesia Number 71 of 2010 concerning government accounting standards). Disclosure of financial statements is a form of relevance of accountability specifically financial accountability (Bradford et al., 2020). The purpose of public sector entities' financial statements is to provide information about reporting entities that is useful for accountability and decision-making purposes (IFAC, 2014).

Local governments are expected to implement transparency and accountability in the implementation of public affairs through quality financial reports (Bradford et al., 2020). The Local Government Financial Statement (LKPD) is a form of accountability for the use of the Regional Budget (APBD) as stipulated in article 1 paragraph 2, Regulation of the Minister of Home Affairs Number 4 of 2008 concerning Guidelines for the Implementation of Reviews on Local Government Financial Statements. Indicators of the quality of government financial statements can be seen from the opinions of external auditors, namely the Financial Audit Agency (BPK) for the presentation of government financial statements, consisting of central government financial statements (LKPP), ministry/institution financial statements (LKKL), and local government financial statements (LKPD) (Ramandei et al., 2020)

The phenomenon of inadequate financial statement quality is an obstacle faced. The Audit Board of the Republic of Indonesia (BPK RI) in the Overview of the Results of the Semester Examination (IHPS) for the first semester of 2019 and 2020 showed a list of categories of Local Government Financial Statements (LKPD) that experienced a decrease in opinion from Reasonable Without Exception (WTP) to Reasonable with Exceptions (WDP) in the LKPD in 2014 and 2018. The financial statements of the regional government of Maluku province are included in the LKPD category which received WDP opinions so that there needs to be continuous improvement in accordance with the recommendations of the BPK (BPK, 2019). The cause of the audit opinion results is the inadequate implementation of the internal control system in financial management (BPK, 2019).

Government financial statements are expected to have quality elements that can be used in decision making (Ramandei et al., 2020) relating to entity accounting information (Cohen et al., 2017). Government Regulation of the Republic of Indonesia, No. 71 of 2010 concerning government accounting standards hints at the quality of financial statements through the use of qualitative characteristics of financial statements, namely relevant, reliable, comparable and understandable. The International Accounting Standards Board (IASB) revealed that the important principle for assessing financial reporting of quality relates to the commitment to achieving goals and the quality of information disclosed in the financial statements (Herath and Albarqi, 2017) and (Elayan et al., 2016).

Quality financial reports can be realized if the ethical behavior of the organization is applied consistently and even the possibility of overcoming agency conflicts and realizing organizational governance (Elayan et al., 2016). The ethical climate of the organization formed is expected to influence behavior directed towards the interests of the organization and improve the perception of external stakeholders about the organization (Newman, 2017). Decision making in organizations is strongly influenced by ethical conditions, both in the individual and the organization as an effort to contribute to the company's strategic position, identity and reputation, culture and work climate, as well as financial performance through the application of policies and procedures (Chen et al., 2018). Internal control is a policy and procedure that aims to assist organizations in achieving the effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations (Azizal et al., 2015) and (Said et al., 2016).

There are many studies on internal control systems with the quality of financial statements, but the results of the research show that there are gaps in empirical research results. Research conducted by (Djalil et al., 2017); (Julita and Susilatri, 2018) and (Dewi et al., 2019) showed that the implementation of the government's internal control system has a significant effect on the quality of government financial statements. However, the results of the research are different from the research results of (Gamayuni, 2018) and (Nurlis and Yudiati, 2017), which shows the opposite, namely that the implementation of the government's internal control system has no effect on the quality of government financial statements. The gap in the results of the research can be studied further by including the ethical climate of the organization as an intervening variable. Thus, it is hoped that the role of the ethical climate of the organization can support the implementation of an internal control system in supporting quality financial reports. The ethical climate of the organization formed is expected to influence behavior directed towards the interests of the organization and improve the perception of external stakeholders about the organization (Myer et al., 2016).

This research aims to provide empirical evidence on the effect of the government's internal control system on the financial statements quality moderated by the ethical climate of the organization. The results of this research can confirm the gaps in the results of the research conducted and see if there is a role in the role of the ethical climate of the organization. The ethical climate of the organization can be created through organizational policies and procedures in improving financial performance (Elayan et al., 2016).

There are two expected contributions from this research. First, this research is expected to contribute to the literature in confirming in the results of the internal control system research on the quality of financial statements using the ethical climate variable of the organization as a moderating variable. Second, this research can contribute to policymakers in local governments to continue to strive for the implementation of an internal control system and a good ethical climate of the organization. This condition can be consistently pursued to meet financial accountability through quality financial statements.

THEORETICAL REVIEW

Internal Control System. The internal control system consists of policies and procedures designed to provide management with proper certainty that the company has achieved its

goals and objectives. These policies and procedures are often called controls, and collectively form the internal control of those entities (Arens et al., 2017).

Internal control is designed by management and carried out by personnel at all levels of the organization, in order to achieve the goals and objectives of the organization by guaranteeing the efficiency and effectiveness of operating processes, the reliability of financial records, and compliance with applicable regulations. The Committee of Sponsoring Organizations (COSO) defines internal control as a process undertaken by the board of directors, management, and personnel of other entities to provide reasonable assurances regarding the achievement of objectives in (1) the effectiveness and efficiency of operations (2) the reliability of financial reporting and (3) compliance with applicable laws and regulations (Zamzani and Faiz, 2018) and (Djasuli et al., 2020).

Government Regulation No. 60 of 2008, article 1, states that the Government's Internal Control System (SPIP) is an integral process in actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations (Elayan et al., 2016); (Idawati and Eleonora, 2020).

The important elements of the Government's Internal Control System according to Government Regulation No. 60 of 2008, consist of elements of the control environment, risk assessment, control activities and information and communication.

Ethical Climate of the Organization. Ethical climates develop as a result of organizational policies, and practices exert significant influence on the ethical decision making of organizational members and their subsequent attitudes and behavior at work (Newman et al., 2017). An ethical climate can help shape organizational ethics in the decision-making process and help all employees perform their ethical obligations within the organization (von Walter et al., 2016). Ethical climate gives us information about the 'ethics' or 'ethical norms' of an organization and is one of many dimensions that make up a work climate, which partly captures the impact of the socialization processes that occur after an individual becomes a member of an organization (Borry, 2017).

The socio-cultural environment, organizational forms, and specific histories of the organization were identified as determinants of the ethical climate (Demirtas and Akdogan, 2015). (Victor and Cullen's, 1988) conceptualization led them to divide the ethical climate into three categories, namely, egoism, virtue, and principle with three locus of analysis (individual, local, and cosmopolitan) to determine the sources of ethical reasoning in an organization (Newman et al., 2017). Ethical climate refers to the shared perception among members of an organization or part of an organization about correct behavior and arises when members believe that certain forms of ethical reasoning or behavior are expected standards or norms for decision making within the company (Borry, 2017).

Financial Statements Quality. The quality characteristics of financial statements are contained in financial information (financial statements) which are useful in making decisions about reporting entities based on information in the financial statements (financial information). The financial statements provide information about the economic resources of the reporting entity and the impact of transactions or other conditions that alter those economic resources (SFAC 8, chapter 3).

Relevant and faithful representation are the two main qualities of financial information that are useful in decision making. Relevant financial information is information that is able to make a difference in a decision by having predictive value in the future as a result of input to the process and having a confirmatory value that can provide feedback on previous evaluations. Financial information must be able to represent relevant economic phenomena in both words and numbers precisely according to faithful representation. In order for financial information to correctly represent economic phenomena, financial information must be complete including all the information needed by users to understand the phenomenon being described in its description and explanation, neutral or impartial and free from error in the process used to generate the reported information (SFAC 8, chapter 3).

Government Regulation of the Republic of Indonesia, No. 71 of 2010 concerning government accounting standards states that the qualitative characteristics of government financial statements must be relevant, free from misleading understandings or material errors, information can be compared and can be understood (Lamonisi, 2016).

Hypotheses Development

Implementation of the Government's Internal Control System and the Government of Financial Statements Quality. The Government's Internal Control System (SPIP) is an integral process for effective and efficient actions and activities to strive for the reliability of financial reporting, security of state assets, and compliance with laws and regulations (Idawati and Eleonora, 2020). The implementation of an internal control system carried out by the organization can consistently improve the quality of financial statements, as produced in the research (Djalil et al., 2017); (Julita and Susilatri, 2018) and (Dewi et al., 2019).

The purpose of implementing an internal control system is to present reliable data, improve operational efficiency, encourage the implementation of existing policies, protect local government assets, encourage compliance with established policies and improve the quality of financial statements (Hasanah and Siregar, 2021). Based on this, the hypothese proposed in this research is:

H1: The implementation of the government's internal control system has a positive affect on the government of financial statements quality.

Ethical Climate of the Organization and Government of Financial Statements Quality. Organizations that promote ethical behavior in the context of the organization's vision and mission, structure, and strategy in order to protect public resources and to increase accountability, the organization can strengthen organizational ethics, transparency, and professionalism (Said and Omar, 2014) and (Said et al., 2016). The commitment to continue to strive for ethical behavior in the organization will ideally focus on how to involve the members of the organization both business and public in seeking accountability and compliance with regulations (Erakovich and Kolthoff, 2016).

The implementation of ethical aspects can produce quality financial statements and free from errors (Ogbonna and Ebimobwei, 2012) and (AS Tarawneh and GA Altarawneh, 2019). The quality of financial statements can be measured by their elements, such as relevance, reliability, understandability, comparability, and timely in delivering financial

statements (Aifuwa et al., 2018). The quality of financial statements can be found when the process of preparing financial statements prioritizes ethical behavior in accordance with applicable rules and standards (Aifuwa et al., 2018). Based on this, the hypothese proposed in this research is:

H2: The ethical climate organization has a positive affect on the government of financial statements quality.

Implementation of Government's Internal Control System, Ethical Climate of the Organization and Government of Financial Statements Quality. The implementation of the internal control system also greatly affects the quality of financial statements (MarinaPalimbong et al., 2018). The quality of the organization's internal control system is the product of the quality of the process and the value of the integrity and ethics of the organizational personnel who implement it in the organizational environment (Ayagre, 2017). The implementation of an internal control system can provide adequate confidence in achieving organizational goals through effective and efficient activities, reliability of financial reporting, and regulatory compliance (MarinaPalimbong et al., 2018). Based on this, the hypotheses proposed in this research are:

H3: The government's internal control system has a positive affect on the ethical climate of the organization.

H4: The ethical climate of the organization can moderate the affect of the implementation of the government's internal control system on government of financial statements quality.

METHODS

This research was a quantitative study using survey data. The survey was conducted on employees of the planning and finance subdivision at each UPTD of the Maluku provincial government. Validity and reliability tests to test the quality of data followed by path analysis using the partial least square. The research model is shown in figure 1.

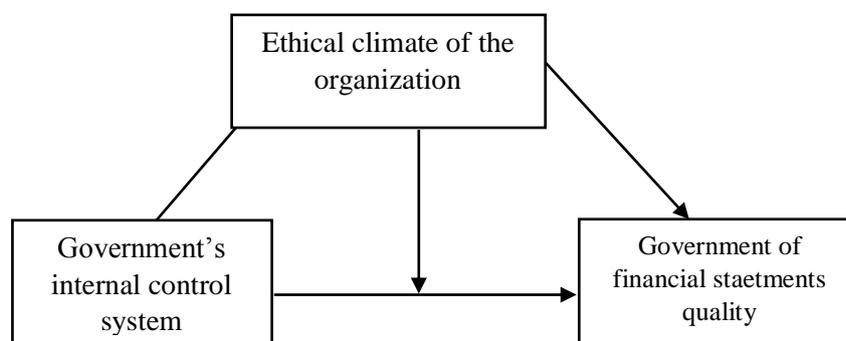


Figure 1. Research Model

Figure 1 is shows the path analysis model using the moderating variables in this study. The laten variable dependent used in this research is the government of financial staetments quality. The laten variable independent used in this research is the Government’s Internal Control System (SPIP). The moderating variable in this research is the ethical climate of the organization.

This research was conducted at the office of planning and finance in each UPTD of the Maluku provincial government. As many as 80 employees of the planning and finance department in each UPTD of the Maluku provincial government participated in this study.

Table 1. Variable Operational Measurement

Variable	Indicator
Government’s internal control system (GIC)	Control environment
	Risk assessment
	Control activities
	Information and communication
	Internal control monitoring
Ethical climate of the organization (ECO)	Self-interest
	Company’s profit
	Efficiency
	Friendship
	Team Interest
	Social Responsibility
	Personal Morality
	Rules, Standard Operating Procedures
	Laws, Professional Codes
Government of financial statements quality (GFQ)	Relevant
	Reliable
	Comparable
	Understandable

Source: Data processed

Table 1 shows the variables and indicators that will be used in this study. The laten dependent variable in this research is the government of financial statements quality. The operational definition of the government of financial statements quality variable in this research is a normative measure that needs to be realized in accounting information so that it can meet its objectives, namely relevant, reliable, comparable, and understandable (Government Regulation of the Republic of Indonesia, No. 71 of 2010). 9 items of statements are used on the quality of government of financial statements quality as carried out by (Djalil et al., 2017); (Julita and Susilatri, 2018) and (Dewi et al., 2019).

The laten independent variable in this research is the Government’s Internal Control System (SPIP) in accordance with Government Regulation No.60 of 2008. The Government Internal Control System in this research is an integral process through the environment of

control, risk assessment, control activities, information and communication, as well as monitoring internal control of actions and activities carried out continuously by the leadership and all employees to provide adequate confidence in the achievement of organizational goals through effective and efficient activities, reliability of financial reporting, security of state assets, and compliance with laws and regulations within the central and local governments (SPIP No.60 of 2008). 24 items of statements are used in the government's internal control system in accordance with research conducted by (Djalil et al., 2017); (Julita and Susilatri, 2018) and (Dewi et al., 2019).

The moderating laten variable in this research is the ethical climate of the organization by (Victor and Cullen, 1987). Ethical work climate is a shared performance perception of ethical behavior in an organization into three categories, namely, egoism, virtue, and principle with three locus of analysis (individual, local, and cosmopolitan) to determine the sources of ethical reasoning in an organization (Newman et al., 2017). The creation of an ethical work climate in such organizations is formed at an individual, local and cosmopolitan level. 33 items of statements are used in the ethical climate of the organization public sector according to research conducted by (Sabiou et al., 2018) and (Goebel and Weißenberger, 2017).

Variable measurements for all alignment items use the Likert scale. The Likert scale with these five points is “never” given a score of 1, “rarely” scored 2, “sometimes” given a score of 3, “often” given a score of 4, and “always” given a score of 5 on each statement item of the research instrument.

RESULTS

Questionnaire data containing research statements were collected from 80 participating respondents. Data analysis with the Smart PLS program (Version 3.0) through several stages of analysis. The first stage is outer loadings for validity test for the research construct. Second stage is analysis Cronbach's Alpha, Composite Reliability and AVE Test for reliability test research construct. Third stage is analysis total effect for direct effect and specific indirect effects.

Table 2. Outer Loading Validity Test

Variables	Outer Loadings	Information
Government's internal control system (GIC)	GIC1.2	0.725 Valid
	GIC1.3	0.762 Valid
	GIC1.4	0.703 Valid
	GIC1.5	0.799 Valid
	GIC1.6	0.746 Valid
	GIC1.7	0.605 Valid
	GIC1.8	0.636 Valid
	Ethical Climate of the Organization (ECO)	ECO1.2
ECO 1.3		0.792 Valid
ECO 1.4		0.673 Valid

	ECO 2.1	0.746	Valid
	ECO 2.2	0.702	Valid
	ECO 3.2	0.762	Valid
	ECO 3.3	0.812	Valid
	ECO 3.4	0.672	Valid
	ECO 4.1	0.751	Valid
	ECO 4.2	0.694	Valid
	ECO 4.4	0.789	Valid
	ECO 5.1	0.806	Valid
	ECO 5.3	0.693	Valid
Government's of Financial Statements Quality (GFQ)	GFQ 1.1	0.664	Valid
	GFQ 1.2	0.797	Valid
	GFQ 1.3	0.821	Valid
	GFQ 1.4	0.744	Valid
	GFQ 2.1	0.760	Valid
	GFQ 2.2	0.663	Valid
	GFQ 3.1	0.661	Valid

Source: Data processed PLS

Based on the table 2 above, all research dimensions have a value above 0,600 so it can be stated that all research dimensions are valid and can be used as predictors in this test.

Besides the construct validity test, a construct reliability test was also conducted. The construct reliability test was carried out with two criteria, namely Cronbach's alpha and composite reliability. The construct is declared reliable if Cronbach's Alpha value is above 0,700 and composite reliability is above 0,700 (Ghozali, 2014). The results of the reliability test can be seen in the following table.

Table 3. Reliability Test

	Cronbach's Alpha	Composite Reliability	Results
Ethical Climate of the Organization	0.941	0.949	Reliable
Government's Internal Control System	0.855	0.890	Reliable
Government's of Financial Statements Quality	0.880	0.907	Reliable

Source: Data processed PLS

Based on the table above, it can be concluded that all constructs have good reliability so that they can be used for testing structural models.

The structural model was evaluated using R-square for the dependent variable. The assessment of the model with PLS begins by analyzing the R-square for each dependent latent variable. The interpretation is the same as the interpretation in the regression. Changes

in R-square can assess the effect of certain independent latent variables on the latent dependent variable whether it has substantive.

Table 4. R-Square Construct Variables

	R Square	R Square Adjusted
Government's of financial statements quality	0.829	0.825

Source: Data processed PLS

Table 4 shows that the R-Square value for the government's financial statements quality variable is 0,829, which means it is in the medium category. R-square value the government's of financial statements quality variable is 0,829 or 82,900 percent. This shows that the variable government's of financial statements quality can be explained by the variable government's internal control system and ethical climate of the organization with a moderating variable of 82,900 percent. In comparison, the remaining 17,100 percent can be explained by other variables not found in this study. The proposed hypothesis is made by testing the structural model (inner model) by looking at the path coefficients which show the parameter coefficients and the statistical significance value of t. The significance of the estimated parameters can provide information about the relationship between research variables. The limit for rejecting and accepting the hypothesis is the value of significant (ρ less than 0,050). The table 5 below presents the estimated output for structural model testing.

Table 5. Hypothesis Testing based on Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ((O/STDEV))	P Values
GIC -> GFC	0.901	0.902	0.035	25.743	0.000
ECO -> GFC	0.626	0.555	0.270	2.323	0.021
GIC -> ECO	0.933	0.934	0.025	37.403	0.000

Source: Data processed PLS

Based on table 5, it can be seen that the government's internal control system (GIC) and ethical climate of the organization (ECO) variables have a positive and significant effect on the government of financial statement quality (GFQ). The original sample value is (0.626; 0.901) meaning that and likewise, the government's internal control system (GIC) has a positive and significant effect on the ethical climate of the organization (ECO) with the original sample value is (0.933). The value of the coefficient parameter (t is 25.743; 2.323) with a value of significant (0.000; 0.021) is less than the standard-value (0.050). Thus, it can be said that the government's internal control system has a significant positive direct effect on the government of financial statements quality. The first hypothesis proposed is acceptable, and the ethical climate of the organization has a significant positive direct effect on the government of financial statements quality. The second hypothesis proposed is acceptable.

Government's internal control system (GIC) have a positive and significant effect on the ethical climate of the organization (ECO) variables. The original sample value is (0.933), and the value of the coefficient parameter (t is 37.403) with a value of significant (0.000) is less than the standard -value (0.050). The third hypothesis proposed is acceptable.

Table 6. Hypothesis Testing based on Moderating Effect

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
GIC -> ECO -> GFQ	0.717	0.617	0.262	2.741	0.006

Source: Data processed PLS

Based on table 6, the ethical climate of the organization (ECO) variable a value of significant (0.006) is less than the standard-value (0.050). The value of the coefficient parameter (t = 2.741) and the original sample value is (0.717). Thus, it can be said that the ethical climate of the organization (ECO) is a moderating variable that strengthens the relationship between the government's internal control system (GIC) and the government of financial statements quality in a positive and significant way. Increasing the implementation of the government's internal control system will improve the government's financial statements quality if moderated by the ethical climate of the organization (ECO).

DISCUSSION

Based on the results of the PLS analysis, it was obtained that the government's internal control system (GIC) and ethical climate of the organization (ECO) variables have a positive and significant effect on the government of financial statement quality (GFQ). The government's internal control system (GIC) has a positive and significant effect on the ethical climate of the organization (ECO). The ethical climate of the organization (ECO) is a moderating variable that strengthens the relationship between the government's internal control system (GIC) and the government of financial statements quality in a positive and significant way.

The results of this study confirm the four hypotheses proposed, all of which have a positive and significant effect. Several indicators of the latent variables of the government's internal control system, ethical climate of the organization, and the government of financial statement quality that meet the outer loading standard values for the validity and reliability of survey data. The survey method, however, is not without problems. One element of the problem is related to the reliability and validity of survey data because of the psychological effects of respondents that affect measurement. Respondents' responses to survey questions correlate with an individual's tendency to participate in the survey and the comfort and sensitivity of the topic issue with regard to their answers (Fox, 2016).

An indicator of the independent variable government's internal control system that meets the value of the outer loading standard, namely the control environment. Control environment is related to the organization's commitment to develop employee competencies, conducive leadership, the formation of organizational structures according to

needs, the delegation of authority and responsibility is carried out appropriately, the organization implements human resource development policies, the organization realizes the role of an effective government internal control apparatus; and the organization maintains good working relationships with relevant government agencies.

Indicators of the moderating ethical climate of the organization that meet the outer loading standard values are self-interest, company or organization's profit, efficiency, friendship, team interest and social responsibility. Self interest is concerned with personal ethical awareness. The ethical climate is formed due to the tendency of personal desire to achieve a career of work as well as a position. This condition makes each individual try to protect their own interests. Personal ethical decisions will be made by each individual to achieve what is best for themselves. The ethical climate formed due to interests that benefit the organization arises due to the ethical normative rules contained in the organization. The goal of achieving organizational profits efficiently forms an ethical climate that causes each member of the organization to show his or her concern for the organization. Ethical normative rules of organizations can help members of the organization both through friendly relations and team interest partners recognize organizational norms from the ethical climate that are perceived as supporting aspects for organizational goals (Liu et al., 2018). The beneficial objectives of the interests of the organization lead all members of the organization to form an ethical climate through mutual attention to each other's good; respect the decisions of each individual, cooperate with each other in the work team and have a sense of social responsibility for the interests of the organization, customers and the public.

The indicator of the dependent variable is the government of financial statement quality that meets the value of the outer loading standard, which is relevant, reliable and comparable. Relevant financial statements are aspects of the quality of financial statements that can help report users meet their expectations, help report users predict the future, and financial statements that are delivered on time and contain complete accounting information. Reliable financial statements mean that the organization's financial statements contain truthful and testable information. Comparable financial statements contain accounting information that can be compared between periods.

The implementation of the government's internal control system through the control environment will increase the government of financial statement quality. Government organizations have internal control system regulations. The application of the control environment can be done through the development of apparatus resource competencies, creating conducive leadership in the bureaucracy, forming organizational structures as needed, delegation of authority and responsibility carried out appropriately, organizations realizing the role of effective government internal control apparatus and fostering good working relationships with relevant government agencies. The implementation of the control environment will affect the quality of relevant government financial facilities, and is reliable and comparable. The results of this study are in accordance with research conducted by (Djalil et al., 2017); (Julita and Susilatri, 2018) and (Dewi et al., 2019) w although the differences in the results of the study are found in the number of variable indicators of the government's internal control system and government of financial statement quality which are not all supportive. Research conducted by (Djalil et al., 2017); (Julita and Susilatri, 2018) and (Dewi et al., 2019) showed that the government's internal control system with five indicators, namely control environment, risk interpretation, accounting information system and communication, control activities, and monitoring has

a significant positive effect on government of financial statements quality with the indicators being relevant, reliable, comparable and understandable financial statements.

The ethical climate of the organization have a positive and significant effect on the government of financial statement quality. The ethical climate of the organization is formed from the self-interest of each apparatus, as well as through friendly relations as partners in the work team. This ethical climate is directed through normative rules of government organizations to support organizational goals as a social responsibility of the apparatus that benefits the organization in an efficient manner. One of the goals of government organizations is to realize accountability as the financial performance of the organization through quality financial reports that are relevant, reliable and comparable. The results of this study are supported by research conducted by (Sabiu et al., 2018) which shows that the ethical climate can significantly mediate the relationship between performance appraisal and organizational performance. The ethical climate indicators of the organization used are benevolence, egoism and principled. In addition, the results of this study are in accordance with the research conducted (Goebel and Weißenberger, 2017) that the ethical climate of organizations can mediate the influence of personnel controls, cultural controls employees on trusts and organizational performance. The ethical climate of the organization indicators used are different from the indicators in this study. (Goebel and Weißenberger, 2017) used one indicator with four ethical climate of the organization questions based on the research of (Arnaud, 2010; 2006), (Willauer, 2005), (Henri, 2006), and (Grafton et al., 2010) related to the ethical awareness of individual employees, the collective ethics of the organization, mutual trust among employees, and trust in the organization.

The government's internal control system has a positive and significant effect on the ethical climate of the organization. The application of government's internal control system through the control environment can affect the formation of an ethical climate. The government's internal control system is a normative rule as a regulation to regulate the ethical climate of the apparatus. Control environment can direct the formation of an ethical climate from the self-interest of each apparatus, as well as through friendly relations as partners in the work team. The ethical climate formed through normative rules in the internal pegendalian system gives rise to working in the interests that benefit the organization in an efficient manner. The results of this study are supported by research conducted by (Kamaliah et al., 2018) which shows that internal control is an ethical policy that can be used to safeguard assets, prevent whistle-blowing and fraud and help government program managers achieve desired results through effective management of public resources.

The ethical climate of the organization is a moderating variable that strengthens the relationship between the government's internal control system and the government of financial statements quality in a positive and significant way. The establishment of an ethical climate of self-interest of each apparatus, as well as through friendly relations as partners in the work team can support organizational goals. The ethical climate in government organizations through normative rules, namely the internal control system, gives rise to the social responsibility of the apparatus to work for interests that benefit the organization in an efficient manner. The interests of the organization are related to the goals of the organization, one of which is realizing relevant financial statements, and reliable and comparable. The results of the study that show the role of organizational ethical climate moderation are in accordance with research conducted by (Liu et al., 2018), namely the perceived ethical climate can moderate organizational identification positively related to

internal whistle-blowing intentions. In contrast to this study, the study conducted by (Liu et al., 2018) used fourteen ethical climate items adopted and modified from the research of (Tsai and Huang, 2008).

CONCLUSION

The purpose of this study was to analyze the effect of the government's internal control system on the government of financial statements quality with the moderating of the ethical climate of the organization. There are three reasons why this research was conducted. First, there is a phenomenon about the importance of implementing financial accountability through improving the quality of government financial statements. Second, there is a research gap that shows the discrepancy between the results of the government's internal control system research on the government of financial statements quality. Third, include the ethical climate of the organization as an effort to analyze its role in moderating the implementation of the government's internal control system on the government of financial statements quality, especially in Maluku Province.

The results of this study indicate three things. First, the government's internal control system and ethical climate of the organization have a significant positive direct effect on the government of financial statements quality. The results of this study confirm the first and second hypotheses proposed. Second, the government's internal control system has a significant positive effect on the ethical climate of the organization. The results of this study confirm the third hypothesis proposed. Third, the ethical climate of the organization can indirectly moderate the implementation of the government's internal control system on the quality of government financial reports, which is a significant positive. The results of this study confirm the fourth hypothesis proposed.

Limitations of Research. This research is far from perfect because it has research limitations, including: (1) This research has not been able to reach all regional tools related to the administration and management of assets and finances in Maluku province. Because there are some bodies that are not willing to be used as research sites, so there is a possibility that the expected research results are not optimal. (2) This study used a survey method with the dissemination of questionnaires without interviews. It is helpful to collect data with a list of oral questions through interviews. (3) The primary data of this study are sourced from the respondents' answers, the correctness of the data or answers depends on the psychological state and honesty of the respondents. (4) This study only produces several indicators from the three variables used, namely the government's internal control system, the ethical climate of the organization, and the government of financial statement quality.

Suggestions. The results of this study can be used as input to local governments and researchers. The results of this study can be input for local governments to continue to strive for the implementation of an internal control system and strive for the establishment of a good organizational ethical climate for all apparatuses. This condition can be consistently pursued to meet financial accountability through the government of financial statement quality with the characteristics of government financial statements that are relevant, reliable, understandable and comparable.

The topic and results of this study can be input for subsequent researchers to be able to include other variables that are considered relevant to the topic of this study besides that the research can be expanded to other government agencies so that the research results can be used to generalize an event.

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