

## The Role of Internal Control System on Characteristics of Village Financial Reports

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**Abstract:** This study aimed to examine and analyze the effect of the Village Financial System, the Capacity of the village apparatus, and the internal control system has a significant positive effect on village financial reports inflation characteristics. In addition, it was also meant to test and analyze the influence of the internal control system as a moderating relationship between the Village Financial System and the Capacity of the village apparatus and characteristics of village financial reports. The samples of forty-four respondents. This study indicated that the Village Financial System, the Capacity of the village apparatus and internal control system, has a significant positive effect on village financial reports' inflation characteristics. At the same time, the internal control system shows no influence, unable to moderate the relationship between the Village Financial System and the Capacity of the village apparatus and the characteristic.

**Keywords:** Village Financial System, Capacity of the Village Apparatus, Internal Control, Characteristics of Village Financial Reports Inflation.

**Abstrak:** This study aimed to examine and analyze the effect of the Village Financial System, the Capacity of the village apparatus, and the internal control system has a significant positive effect on village financial reports inflation characteristics. In addition, it was also meant to test and analyze the influence of the internal control system as a moderating relationship between the Village Financial System and the Capacity of the village apparatus and characteristics of village financial reports. The samples of forty-four respondents. This study indicated that the Village Financial System, the Capacity of the village apparatus and internal control system, has a significant positive effect on village financial reports' inflation characteristics. At the same time, the internal control system shows no influence, unable to moderate the relationship between the Village Financial System and the Capacity of the village apparatus and the characteristic.

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## INTRODUCTION

Currently, village fund financial information is of public concern, especially with the circulation of news in the media that there are many misappropriations of village funds that are not in line with the village fund budget, which every year is programmed by the Government with a fantastic amount to develop village potential. The village fund budget

for 2019 is seventy trillion rupiahs, increasing two trillion compared to the village fund for 2020 of seventy-two trillion rupiahs. ([www.kemenkopmk.go.id](http://www.kemenkopmk.go.id), 2020).

Indonesia Corruption Watch (ICW) until semester I 2020 saw the most corruption occurring in the village fund budget. This problem is present in several villages due to the cycle of village financial management from the immature planning stage. The reported development implementation is not by the realities in the field, non-transparent reporting to the community, and accountability that is still in political governance.

(Mada et al., 2017) stated that the problem of misappropriation of village funds, such as the inadequacy of the accountability report made by the village government, such as expenditures that are not supported by adequate evidence, village funds are kept in banks, not in village treasury accounts. So that this problem does not occur, it is necessary to implement a financial reporting system that is appropriate to the plan, clear and specific to the needs of the community and refers to the principles of transparency and accountability.

Patampanua Subdistrict, located in Pinrang Regency, South Sulawesi, consists of several villages, including Leppangan Village and Mattiro Ade Village. Based on the researcher's preliminary survey with the Village Secretary of Leppangan, the total village income in 2018 was Rp. 1,754,549,000.00, and Mattiro Ade Village, the total village income in 2018 was Rp. 1,707,196,001.00. To manage a fund of this size, a commitment from the village government is required to build the village according to what the community needs.

Some residents questioned the allocation of village funds which was not transparent and did not support the people's needs. The management of village funds tends to focus on building infrastructure, bridges, and schools only. At the same time, the people hope to be given a loan for business capital that can improve their economy, whose priority depends on living only from rice fields. Even people who do not own rice fields only offer services to help the owners of the fields survive. Several residents admitted they were disappointed that they did not receive direct cash assistance at the Mattiro Ade Village Office in a recent phenomenon. According to residents, the village head did not explain the rejection of the file because the quota was full, even though the residents who felt they deserved it were not given BLT. (<https://www.simpulrakyat.co.id/2020>., April 2020). In Leppang village, the distribution of social assistance is directly monitored by the Head of the Patampanua Police not to be upset. (<https://perak-news.com/2020/06/09>).

To reduce the misuse of village funds, the community demands that village funds be transparent. It makes the village government have an obligation to publish financial information in the financial reports required by the users. The form of accountability for village financial management to the community affects government performance. (Permendagri No.113). The characteristics of financial reports are relevant, reliable, trustworthy, comparable to the previous period, and can be understood by readers. (Peraturan Pemerintah No.71, 2010).

One of the characteristics of village financial reports is the village financial system (Village Financial System) developed by BPKP in 2015, which aims to help village officials report their financial reports on time. (Rahmawati and Fajar, 2017). (Watulingas et al., 2019) state that another benefit of the Village Financial System is to control optimal village financial management. With the existence of the Village Financial System, the village government is younger in documenting data so that it feels efficient for financial managers. (Rusmiyanti, 2014). Village officials have been required to apply this Village Financial System since 2019.

(Gayatri and Latrini, 2018); (Herawati and Hayati, 2020) found that Village Financial System affected the quality of village financial reports. Users feel that the Village Financial

System is effective, starting from planning, budgeting, implementing, administering, reporting, and accountability and supervision. (Arfiansyah, 2020) also found that the Village Financial System application facilitates financial management from planning to reporting with features that the village needs. However, it was different. (Trisna and Wahyuni, 2019) found that internet access is a barrier to Village Financial System's effectiveness. The treasurer must have a strong internet signal to report financial data so that financial reports cannot be of quality because they always experience delays in reporting.

Another obstacle faced by village governments in producing financial reports according to their characteristics: the lack of village officials who can manage their finances properly. The capacity of village officials who will produce financial information can understand accounting or what they want to report. If they do not have accounting expertise, attend training because ability plays a significant role in producing characteristic financial reports. (Lisda et al., 2018).

(Ratih and Nurhasanah S, 2018) stated that the competence of the village apparatus will make it easier to manage village funds and produce quality financial reports. (Puspitasari and Purnama, 2018) found that competent regional apparatus tended to be easier to apply the Village Financial System, which would later produce maximum output on the characteristics of financial statements. While research conducted by (Astini et al., 2019) show different results, that is the ability of village financial managers does not affect the quality of financial reports because financial data as a factor that can affect financial information does not depend entirely on the quality of financial managers.

The internal control system can also affect the characteristics of financial statements. The benefits of internal control will provide feedback on organizational achievements and increase village government compliance with applicable legal rules. Within the scope of government, internal controls are designed to achieve organizational goals so that financial reporting can be achieved effectively. The research from (Ramadhani & Soerono, 2019) and (Anwar and Amin, 2020) found that the internal control system affects the quality of government financial reports. However, (Mokogina et al., 2017) found that the internal control system had a significant adverse effect on the quality of financial reports.

(Wineh et al., 2019) found that the internal control system moderates the relationship between the regional financial accounting system and the quality of OPD financial reports. Furthermore, optimal internal control is expected to be a mediator in overcoming the problem of low-quality government financial reports (Fauziyah, 2019). However, (Arista et al., 2018) found that internal control was unable to moderate the relationship between the application of the accounting system and the quality of financial reports.

Internal control can strengthen the characteristics of financial reports if the village financial manager has a background in accounting education or has the expertise gained from training on how to manage finances so that later they will be able to produce financial reports that have characteristics (PP No. 60 Tahun 2008). The research from (Suarmika and Suputra, 2016) and (Diansyah, 2019) found that internal control moderated apparatus competence with the quality of financial reports. However, (Inapty and Matiningsih, 2019) found that internal control did not moderate apparatus competence with the quality of financial reports.

Referring to the phenomenon and the results of previous research described above, it is the reason this research is essential. The characteristics of financial reports are a form of village government accountability to the community that should be reported transparently. To produce quality financial reports, the Village Financial System application was developed, which attracted the attention of the inspectors because the development of the

Village Financial System would facilitate financial reporting for village fund managers, which of course had to be supported by capable apparatus and could be monitored through an effective internal control system. Refers to research (Gayatri and Latrini, 2018), This study examines the application of the Village Financial System and the quality of village fund financial reports. Different from (Gayatri and Latrini, 2018), this study uses the variable capacity of the village apparatus and the internal control system as moderating variables.

## THEORITICAL REVIEW

**Agency Theory.** Agency theory developed by (Falistina, 2011) explains the form of accountability that can be seen from the actions of local governments in providing information on how their finances are managed as agents of the people as the principal. (Maruhun and Asmany, 2018) states that in agency theory, there are different interests. This research justifies that the excess information possessed by the village head and its apparatus is easy to use to commit fraud. Therefore, the Village Financial System application was developed so that the village government can efficiently complete its obligations to make proper financial management accountable with the competencies of the apparatus and the internal control system is helpful to control every village financial activity so that it does not go out of the corridor of regulations so that standards make financial reports.

Characteristics of financial reports as a reflection of village performance accountability. Financial report as the final result that summarizes village financial transactions for the current financial year. The financial report describes whether the village has succeeded or not implemented what has been targeted in the budget or the performance of the local village government. Financial reports that do not meet their characteristics tend to irregularities and errors in financial records that result in corrupt behavior or regulatory violations.

Village Financial System is intended for the Village Government to manage village finances to facilitate reporting and as a means of financial management control. The performance of village officials will improve, and community demands for accountability will be achieved. With the financial management Village Financial System application, it becomes easier for reporting. Just by entering data, it can produce many reports (Watulingas et al., 2019). (Kurnianto et al., 2019) found that paperless reporting has not been used since the existence of the Village Financial System, so that financial managers are no longer bothered, especially the Village Financial System application can be used for both villages that have internet access and those that have not. The research from (Rifandi, 2019) and (Luthfiani et al., 2020) found that the village financial system affects the quality of financial reports. (Junaid et al., 2018) found that the Village Financial System application increased village financial accountability because the data entry process was fast. Government accountability in financial reports was relevant and well structured. Therefore, Village Financial System is used as an essential element that affects the characteristics of village financial reports.

**H1:** Village Financial System positively and significantly affects the characteristics of village financial reports.

The capacity of village officials affects the characteristics of financial reports. Apparatus who understand accounting in processing finances can produce financial reports

by standards. On the other hand, village officials who do not understand how to process finances will produce financial reports published with misstatements. The research from (Lisda et al., 2018), (Ratih and Nurhasanah S, 2018), and (Rifandi, 2019) stated that the competence of village officials affected the quality of village financial reports. However, it is different from the research results (Widyatama et al., 2017) and (Manimpurung et al., 2018) prove that human resource capacity has no significant effect on the quality of financial reports. Employees from accounting backgrounds have not supported the quality of financial reports because the numbers are not evenly distributed among the agencies that need them. Therefore, the capacity of village officials is an essential factor that influences the characteristics of village financial reports.

**H<sub>2</sub>:** Capacity of the village apparatus positively and significantly affects the characteristics of village financial reports.

Internal control system as one of the important things that affect the characteristics of financial statements. The internal control system can control all activities of the village government in producing financial reports through reliable financial reports, safeguarding State assets, effective and efficient, and the government complies with regulations. (Ikyarti and Aprila, 2019). A good internal control system functions to reduce the risk of errors and protect the organization from fraudulent actions in the financial statements made so that published financial reports can be said to meet the characteristics. Research from (Ramadhani and Soerono, 2019) and (Anwar and Amin, 2020) found that the internal control system affects the quality of government financial reports. (Riyanita and Widiastuti, 2020) also proved that the internal control system significantly affects the quality of financial reports. The village government has made efforts to ensure that the activities carried out are by existing regulations so that errors in the presentation of accounting data are minimal and that the financial statements presented reflect the existing reality. However, (Mokogina et al., 2017) found that the internal control system had a significant negative effect on the quality of financial reports. The existing internal control system cannot guarantee the quality of financial reports because other factors are more important, such as the commitment of officials who should be more pro-public. Therefore, the internal control system is an important factor that affects the characteristics of village financial reports.

**H<sub>3</sub>:** Internal control system has a positive and significant effect on the Characteristics of Government Financial Statements.

To meet the needs of village financial managers, the Village Financial System application was developed as a medium for what village budget accountability has been used for. This Village Financial System helps managers process documents into reports that provide information to the public and users of financial information. A good Village Financial System is used to control the implementation of village government so that the financial reports can be said to have characteristics. (Hardiansyah, 2016) found that the internal control system controls the application to reduce the risk of recurring errors and ensures that the data entered by financial managers is accurate. Research from (Prasetya et al., 2017) found that supervision positively affects the quality of Village Financial System implementation. The better the supervision, the better the implementation of the Village Financial System system and has implications for the quality of financial reports (Kapriana and Agung, 2020) found that the government's internal control system was able to moderate

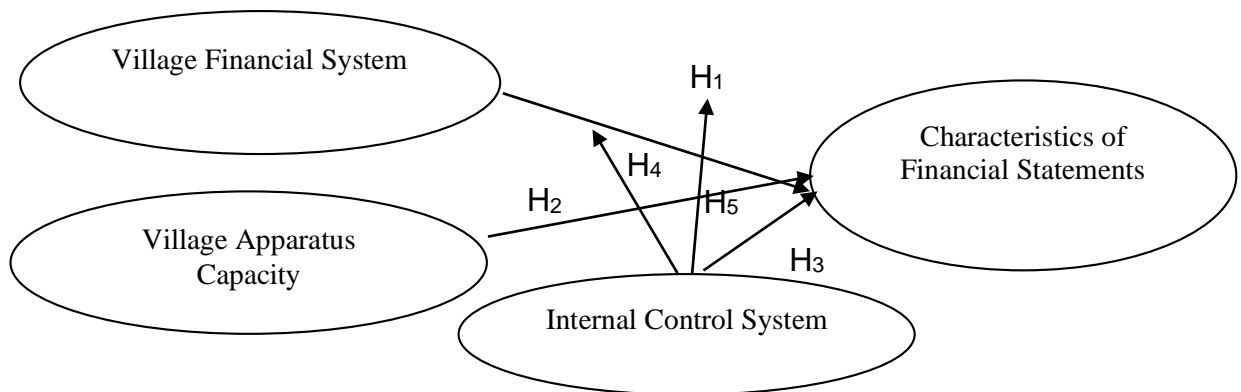


the relationship between the regional financial accounting system and the quality of financial reports. Therefore, the internal control system is a factor that can moderate the Village Financial System with the characteristics of village financial reports.

**H4:** Internal control system able to moderate Village Financial System on the Characteristics of Government Financial Statements.

The capacity of the financial apparatus will make their work complete on time, which will impact the timing of the presentation of financial statements. Apparatus who can process finances do not necessarily have a high organizational commitment to their institutions. If the apparatus does not have the capacity, then the apparatus will not work seriously to present financial reports according to the stipulated rules and time. (Hardiansyah, 2016) Moreover, (Suarmika and Suputra, 2016) found that the internal control system was able to moderate the competence of human resources on the quality of financial reports. SPI can control and supervise the apparatus to use their competence in producing quality financial reports. However, (Redjo, 2020) found that the internal control system could not moderate the relationship between Human Resources competence and the quality of financial reports. Therefore, the internal control system is a factor that can moderate the financial apparatus's capacity with the characteristics of village financial reports.

**H5:** Internal control system able to moderate the capacity of the financial apparatus to the Characteristics of Government Financial Statements.



**Figure 1.** Research Model

## METHODS

The research object is the village financial system, the capacity of the village apparatus, the external control system, and the characteristics of village financial reports. The data source used is primary data. The data were collected through a questionnaire distributed to the village apparatus of the Patampanua District, which was then given a score or score. The study population was village officials in Patampanua Subdistrict, Pinrang Regency, who received a budget ceiling above 1 billion rupiahs.

**Table 1.** Population

Village officials	Leppangan Village	Mattiro Ade. Village
1. Village head	1	1
2. village secretary	1	1
3. Village Treasurer	1	1
4. Head of Government Affairs	1	1
5. Head of Development Affairs	1	1
6. Head of People's Welfare Affairs	1	1
7. Head of Financial Affairs	1	1
8. KAURHead of General Affairs	1	1
9. Village chief	6	4
BPD	9	9
Total	23	21

Source: Data from Patampanua District, 2020

The sampling technique used census sampling, where all the population was sampled with a total of 44 village officials. This study will use a Pooled Least Square (PLS) method to interpret the data according.

## RESULTS

In this research the description of variables is reflected in the following table 2 :

**Table 2.** Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Village Financial System	44	2.80	5.00	4.2341	.57098
Capacity of the village apparatus	44	2.38	5.00	4.2775	.61397
Internal Control System	44	2.71	5.00	4.2695	.50333
Characteristics of village financial reports	44	2.63	5.00	4.1248	.60940
Valid N (listwise)	44				

Source: (primary data processed, 2020).

Based on table 2, descriptive statistics results were obtained from 44 respondents: Village Financial System variable has the lowest value 1 and the highest 5 with an average value of 4,2341 while the standard deviation value is 0,57098. The average respondent's answer is  $4,2341 > 3$ . It indicates that the respondent perceives the high Village Financial System. The standard deviation value of 0,57098 is smaller than the average value, indicating that the responses' results are not too far between respondents. The village apparatus variable's capacity has the lowest value 1 and the highest 5, with an average value of 4,2775, while the standard deviation value is 0,61397. The average respondent's answer is  $4,2775 > 3$ , which indicates that the respondent has a perception of the village apparatus's high capacity. The standard deviation value of 0,61397 is smaller than the average value, indicating that the responses' results are not too far between respondents. The internal control system variable has the lowest value 1 and the highest 5, with an average value of 4,2775, while the standard deviation value is 0,61397. The average respondent's answer is

4,2775 > 3, which indicates that the respondent has a perception of a high internal control system. The standard deviation value of 0,61397 is smaller than the average value, indicating that the responses' results are not too far between respondents. The characteristics of the village financial reports variable have the lowest value 1 and the highest 5 with an average value of 4,1248 while the standard deviation value is 0,60940. The average respondent's answer is 4,1248 > 3, which indicates that the respondent has a perception of the high Characteristics of village financial reports. The standard deviation value of 0,60940 is smaller than the average value, indicating that the responses' results are not too far between respondents.

**Table 3.** Loading Factor

Construct	Indicator	Outer Loading	Average Variance Extracted (AVE)
Village Financial System	X1.1	0,848	0,764
	X1.2	0,779	
	X1.3	0,880	
	X1.4	0,923	
	X1.5	0,851	
	X1.6	0,877	
	X1.7	0,910	
	X1.8	0,917	
Capacity of the village apparatus	X2.1	0,856	0,688
	X2.2	0,865	
	X2.3	0,917	
	X2.4	0,875	
	X2.5	0,838	
	X2.6	0,679	
	X2.7	0,750	
Internal Control System	Z1.1	0,927	0,787
	Z1.2	0,843	
	Z1.3	0,916	
	Z1.4	0,903	
	Z1.5	0,923	
	Z1.6	0,871	
	Z1.7	0,896	
	Z1.8	0,812	
Characteristics of village financial reports	Y1.1	0,905	0,769
	Y1.2	0,843	
	Y1.3	0,883	
	Y1.4	0,922	
	Y1.5	0,875	
	Y1.6	0,898	
	Y1.7	0,921	
	Y1.8	0,899	
	Y1.9	0,784	
	Y1.10	0,826	

Source: (primary data processed, 2020).

In this study, each indicator construct are higher than 0.50, it can be concluded that the fully estimate constructs have become a fit measuring tool.



**Table 4.** *Cronbach's Alpha dan composite reliability*

Variabel	Cronbach's Alpha	Composite Reliability
Village Financial System	0,956	0,963
Capacity of the village apparatus	0,923	0,939
Internal control system	0,961	0,967
Characteristics of village financial repotrs	0,966	0,971

Source: (primary data processed, 2020).

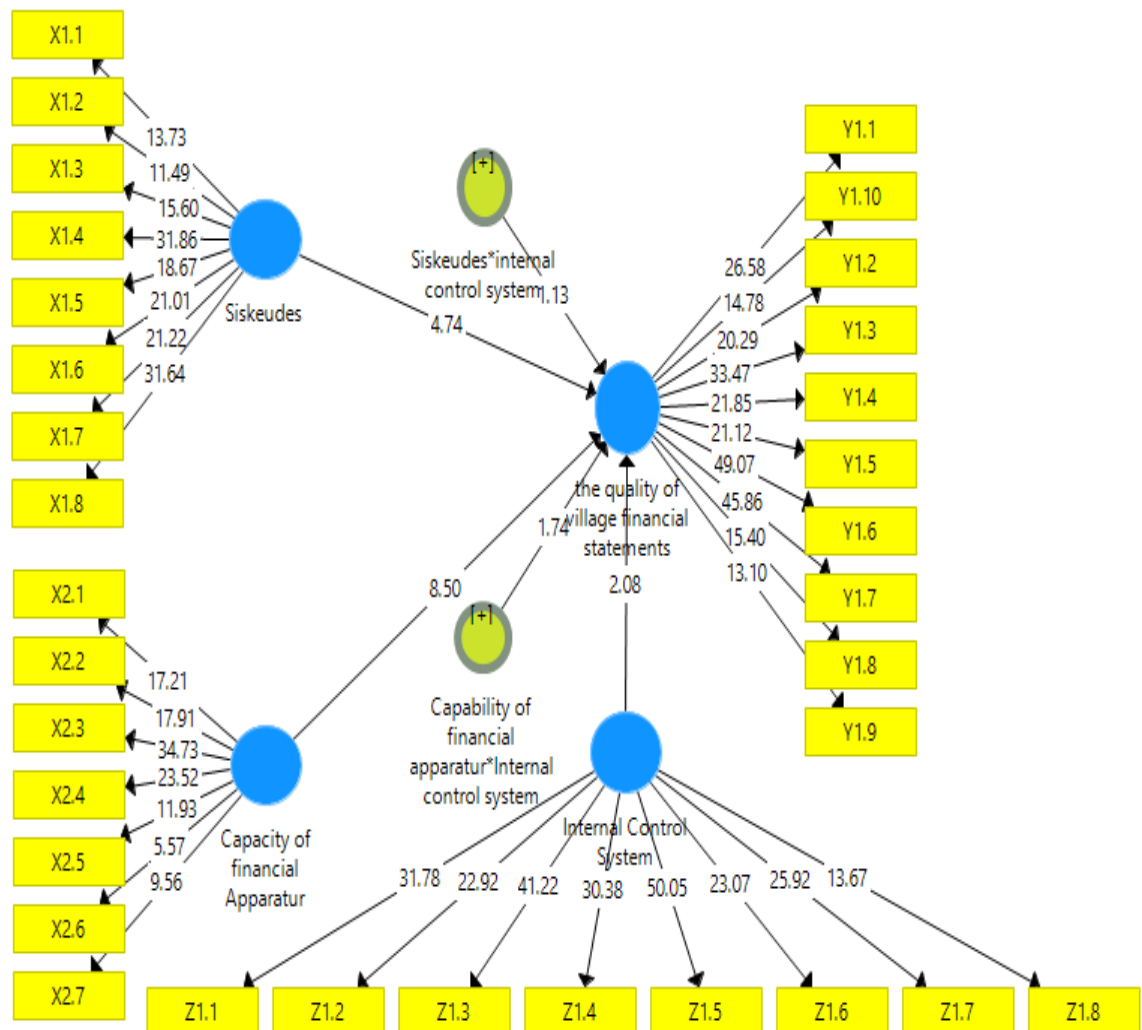
The results of composite reliability and Cronbach alpha show the value of each variable above the value of 0.70, which means that all instrument variables are reliable.

**Table 5.** R-Square Test

Construct	R-Square
Characteristics of village financial reports	0,989

Source: (primary data processed, 2020).

The R-Square value of variable Characteristics of village financial reports is 0,989, which means that Village Financial System, the capacity of the village apparatus, Village Financial System internal control system, and capacity of the village apparatus internal control system can explain the variance of Characteristics of village financial reports by 98,9% and 1,1% is influenced by other factors that are not investigated in this study.



**Figure 2.** Findings of Structural Model

Source: (primary data processed, 2020).

**Table 6.** Hypothesis Test Results

Variabel	Original Sample	Standard Error	T Statistics	P Values	Result
Village Financial System → Characteristics of village financial reports	0,362	0,353	4.663	0,000	Accepted
Capacity of the village apparatus → Characteristics of village financial reports	0,561	0,569	8.335	0,000	Accepted
Internal Control System → Characteristics of village financial reports	0,104	0,108	2.034	0,042	Accepted
Village Financial System *Internal Control System → Characteristics of village financial reports	-0,049	-0,030	0,936	0,350	Rejected
Capacity of the village apparatus * Internal control system → Characteristics of village financial reports	0,088	0,063	1,438	0,151	Rejected

Source: (primary data processed, 2020).

Table 6 shows that 1) the relationship between Village Financial System and Characteristics of village financial reports has a significant positive effect because the statistical value is greater than t table ( $4,663 > 1,683$ ) at the significance level of 5%. Therefore, the first hypothesis is Accepted; 2) the relationship between the Capacity of the village apparatus and Characteristics of village financial reports is a significant positive effect because the statistical value is greater than t table ( $8,335 > 1,683$ ) at a statistically of 5%. Thus, the second hypothesis is Accepted; 3) the relationship between the internal control system and Characteristics of village financial reports is a significant positive effect because the statistical value is greater than t table ( $2,034 > 1,683$ ) at the significance level of 5%. Therefore, the third hypothesis is Accepted; 4) the relationship between Village Financial System, Internal control system and Characteristics of village financial reports is not significant because the statistical value is smaller than t table ( $0,936 < 1,683$ ) at the significance not level of 5%. Thus, the fourth hypothesis is Rejected; 5) the relationship between the Capacity of the village apparatus, Internal control system, and Characteristics of village financial reports is not significant because the statistical value is smaller than t table ( $0,936 < 1,683$ ) at the significance not level of 5%. Therefore, the fifth hypothesis is Rejected.

## DISCUSSION

### The effect of Village Financial System on Characteristics of village financial reports.

The test results in this study show that the variables of the Village Financial System have a significant positive effect on the Characteristics of village financial reports. The positive impact of the existence of the Village Financial System makes the Village Government further improve performance so that it can produce effective and efficient financial reports. This result also means that the Village Financial System affects the performance of the Village Government by its objective of facilitating the work of the Village Government.

The result of this study is supported by the resulting research of (Watulingas et al., 2019) found that Village Financial System affects the quality of financial reports because, with the financial manager Village Financial System application, it becomes easier to report simply by entering data which can generate multiple reports. These results support the statement of (Luthfiani et al., 2020) that the Village Financial System is an information technology that is easily understood by users in processing village finances to obtain quality financial reports. This research is supported by research (Malahika et al., 2018) and (Kurnianto et al., 2019) found that the Village Financial System application made the village government independent in managing its village funds, the development of digital reporting through Village Financial System changed the form of reporting that was previously paperless and is no longer used, so that village officials are no longer bothered, especially the Village Financial System application can be used both for villages with internet access or not.

**The effect of Capacity of the village apparatus on Characteristics of village financial reports.** The test results in this study show that the variables of Capacity of the village apparatus have a significant positive effect on Characteristics of village financial reports. Village officials who have expertise or experience in finance will easily manage village funds properly, and the financial reports they produce have characteristics according to applicable standards. Village apparatus that can manage finances will perform good administration and will work optimally to avoid misstatements in the financial statements they make. This research is supported by research (Lisda et al., 2018) and (Ratih and Nurhasanah S, 2018) finding the competence of village officials influencing the quality of financial reports means that the expertise or desire of village officials to study in accounting will produce quality financial reports. These results support the statement (Sudarlan et al., 2019) which knowledge and skills as causality in fulfilling quality financial reports. (Anwar and Amin, 2020) also found that the capacity of the financial apparatus describes the work of the apparatus in managing financial reports with the knowledge, expertise, and length of work that determine the success of the characteristics of the financial statements it produces.

**The effect of Internal Control System on Characteristics of village financial reports.** The test results in this study show that the variables of the internal control system have a significant positive effect on the Characteristics of village financial reports. The internal control system can control all activities of the village government in producing financial reports through reliable financial reports, safeguarding State assets, effective and efficient, and the government complies with regulations. This research is supported by research (Lisda et al., 2018) and (Ramadhani and Soerono, 2019) found that the internal control system affects the quality of government financial reports. (Riyanita and Widiastuti, 2020) research from an excellent internal control system reduces the risk of errors. It protects the organization from fraudulent actions in the financial statements made so that published financial reports can be said to meet the characteristics.

**The effect of Village Financial System and internal control on Characteristics of village financial reports.** The test results in this study show that internal control as a moderating variable has not succeeded relationship between the Sisikeudes and Characteristics of village financial reports. Village Financial System helps managers process documents into reports that provide information to the public and users of financial information. A good Village Financial System is used to control the implementation of village government so that the financial reports can be said to have characteristics. The internal control system

plays a role in maintaining the accuracy of the data. (Suarmika and Suputra, 2016). However, the fact is that the current internal control system is not optimal in terms of controlling the activities that have been carried out by the village apparatus because there is still a misappropriation of village funds. The results of this study are supported by research results (Kapriana and Agung, 2020) found that the internal control system was unable to moderate the relationship between government accounting standards and the quality of financial reports. The internal control system has not been able to supervise the compliance of financial officials in preparing reports on time and according to standards. (Mokogina et al., 2017) stated that the internal control system, which has not been implemented optimally, will lack the quality of financial reports produced.

**The effect of Capacity of the village apparatus and internal control system on Characteristics of village financial reports.** The test results in this study show that internal control as a moderating variable has not succeeded relationship between the Capacity of the village apparatus and the Characteristics of village financial reports. The capacity of the financial apparatus will make their work complete on time, which will impact the timing of the presentation of financial statements. However, the fact is that there are still many village officials who cannot process finances because many have an educational background not from accounting and have not attended much training related to finance. The capacity of the apparatus will be maximized if supported by an adequate internal control system (Hardiansyah, 2016) found that the internal control system was unable to moderate the relationship between the Capacity of the village apparatus and Characteristics of village financial reports because the internal control system was not yet able to direct, supervise and measure the capacity of the village apparatus. This result is supported by (Redjo, 2020) who states that financial reports can be of quality without an adequate internal control system if the financial apparatus has the capacity. Conversely, if the village apparatus does not have the capacity, even though the internal control system is effective, it cannot guarantee the quality of the financial reports produced.

## CONCLUSION

This study found that direct testing of the Village Financial System, Capacity of the village apparatus, and internal control system had a positive and significant effect on the Characteristics of village financial reports. The internal control system as a moderating variable cannot moderate the relationship between the Village Financial System and the Capacity of the village apparatus and the characteristics of village financial reports. The sample in this study is still relatively small. It is only limited to the village apparatus Leppangan and Mattiro Ade, so this study suggests that further research add to and expand the area, the number of samples, and use new variables other than the variables in this study to better what aspect can affect Characteristics of village financial reports. The results of this study also expect that it can be taken into consideration for related village government to improve Characteristics of village financial reports further.

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