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Determinants of Internal Control System on the Financial Performance of Rural and Urban Land and Building Tax (PBB-P2) at the Regional Tax and Retribution Management Agency (BPPRD) of Jambi City

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Abstract

This study aims to analyze the influence of control environment, risk assessment, control activities, information and communication, and monitoring on financial performance. The research employs a descriptive quantitative approach. The sample selection was conducted purposively based on specific criteria. Primary data were collected through questionnaire distribution. Data analysis was performed using descriptive statistics and multiple linear regression with the assistance of SPSS software. The results indicate that, simultaneously, these factors have a positive and significant effect. However, partially, the control environment, risk assessment, and control activities do not have a significant impact on financial performance. Meanwhile, information and communication, as well as monitoring, have a positive and significant effect on financial performance.

Keywords: Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring, Financial Performance.

INTRODUCTION

Regional tax revenue plays a crucial role in financing local government expenditures, particularly in achieving regional autonomy. One of the most significant sources of regional revenue is the Rural and Urban Land and Building Tax (PBB-P2). In Jambi City, the realization of PBB-P2 revenue often does not meet the targeted amounts, indicating the need for better financial performance management. Internal control systems are essential to ensure efficiency, accountability, and accuracy in tax collection.

PBB-P2 is a key revenue source for local governments, contributing significantly to the Regional Original Revenue (PAD). However, its collection is often constrained by various factors, including low taxpayer compliance, inadequate monitoring mechanisms, and inefficiencies in administrative processes. Effective internal control systems can mitigate these challenges by ensuring proper risk management, control activities, and accurate financial reporting (Audi & Nurlaila, 2024).

Government regulations emphasize the importance of internal control in financial management. The Government Regulation No. 60 of 2008 on Government Internal Control System (SPIP) mandates that every government institution implements robust control mechanisms to enhance financial performance (Andina et al., 2023). The components of internal control, including control environment, risk assessment, control activities, information and communication, and monitoring, play a crucial role in ensuring tax revenue efficiency and effectiveness (Sukardi & Nurhani, 2021).

The effectiveness of an internal control system ensures that local governments can optimize their financial resources, minimize fraud, and enhance transparency. The failure of an internal control system can lead to financial losses, reduced efficiency, and mismanagement of resources. The implementation of a strong internal control system is necessary to ensure that

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every aspect of financial reporting and tax collection is carried out effectively and efficiently (Hafsah & Loka, 2021).

Previous studies Febro et al., (2024), suggest that a strong internal control system positively impacts financial performance. However, empirical findings vary, and some components of internal control, such as risk assessment and control activities, may not always contribute significantly. The lack of standardized implementation across different regions often results in inconsistent financial outcomes. The financial performance of local governments depends on how effectively they implement control mechanisms that ensure tax compliance and prevent leakages in revenue collection.

Another challenge in tax collection is the taxpayers' perception of taxation. Many taxpayers view taxation as a burden rather than a civic duty, leading to non-compliance or delays in tax payments. A well-functioning internal control system can help address these challenges by increasing public awareness, improving enforcement mechanisms, and ensuring better service delivery. The use of digital tax systems and automation in financial reporting can also improve efficiency and accountability in revenue management (Wuriasih et al., 2019).

This study aims to analyze the determinants of internal control systems on the financial performance of PBB-P2 at the Regional Tax and Retribution Management Agency (BPPRD) of Jambi City (Samsiah et al., 2023). By examining the effectiveness of internal control mechanisms, this research provides insights into improving tax revenue collection and financial accountability in local government institutions. It also aims to provide recommendations for policymakers on how to enhance financial management practices in regional tax administration (Sugiyono, 2024).

RESEARCH METHODS

This study employs a descriptive quantitative approach. The population consists of BPPRD Jambi City officials involved in PBB-P2 management. A purposive sampling technique was used to select respondents. Primary data were collected through questionnaires, while secondary data were obtained from BPPRD reports. The study utilizes multiple linear regression analysis with SPSS software to test the relationship between internal control components and financial performance (Ghozali, 2021).
The variables analyzed include:

1. Control Environment: The overall attitude and actions of management regarding control and ethical values.
2. Risk Assessment: Identification and evaluation of risks affecting financial performance.
3. Control Activities: Policies and procedures implemented to mitigate risks.
4. Information and Communication: Effective flow of relevant information within BPPRD.
5. Monitoring: Ongoing assessment of control system effectiveness.

RESULTS AND DISCUSSION

The research on internal control systems and financial performance in the collection of Rural and Urban Land and Building Tax (PBB-P2) at BPPRD Kota Jambi was conducted by distributing questionnaires to BPPRD employees. A total of 22 questionnaires were returned

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from the predetermined sample. Based on the multiple linear regression analysis using SPSS, the data were analyzed accordingly (Ghozali, 2021).

Validity Test

Variable	Statement	r tabel	r count	Sig	Decision
Control Environment (X1)	X1.1	0.444	0,755	0,001	Valid
	X1.2	0.444	0,633	0,002	Valid
	X1.3	0.444	0,660	0,001	Valid
	X1.4	0.444	0,725	0,001	Valid
	X1.5	0.444	0,617	0,002	Valid
	X1.6	0.444	0,560	0,007	Valid
Risk Assessment (X2)	X2.1	0.444	0,873	0,001	Valid
	X2.2	0.444	0,603	0,003	Valid
	X2.3	0.444	0,713	0,001	Valid
	X2.4	0.444	0,810	0,001	Valid
Control Activities (X3)	X3.1	0.444	0,600	0,003	Valid
	X3.2	0.444	0,801	0,001	Valid
	X3.3	0.444	0,847	0,001	Valid
	X3.4	0.444	0,524	0,012	Valid
	X3.5	0.444	0,635	0,001	Valid
	X3.6	0.444	0,617	0,002	Valid
Information and Communication (X4)	X4.1	0.444	0,763	0,001	Valid
	X4.2	0.444	0,584	0,004	Valid
	X4.3	0.444	0,625	0,002	Valid
	X4.4	0.444	0,689	0,001	Valid
	X4.5	0.444	0,713	0,001	Valid
Monitoring (X5)	X5.1	0.444	0,660	0,001	Valid
	X5.2	0.444	0,626	0,002	Valid
	X5.3	0.444	0,599	0,003	Valid
	X5.4	0.444	0,751	0,001	Valid
	X5.5	0.444	0,817	0,001	Valid
Financial Performance (Y)	Y.1	0.444	0,605	0,003	Valid
	Y.2	0.444	0,747	0,001	Valid
	Y.3	0.444	0,516	0,014	Valid
	Y.4	0.444	0,508	0,016	Valid
	Y.5	0.444	0,739	0,001	Valid
	Y.6	0.444	0,552	0,008	Valid
	Y.7	0.444	0,784	0,001	Valid
	Y.8	0.444	0,710	0,001	Valid

Based on the table, all research variable statements are valid, as indicated by r count > r table and significance < 0.05, making the instrument suitable for further analysis.

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Reability Test

No	Research Variable	Cronbach Alpha	Description
1.	Control Environment (X1)	0,737	Reliable
2.	Risk Assessment (X2)	0,741	Reliable
3.	Control Activities (X3)	0,798	Reliable
4.	Information and Communication (X4)	0,705	Reliable
5.	Monitoring (X5)	0,725	Reliable
6.	Financial Performance (Y)	0,799	Reliable

The reliability test results indicate that the variables Control Environment (X1), Risk Assessment (X2), Control Activities (X3), Information and Communication (X4), Monitoring (X5), and Financial Performance (Y) are reliable, as the Cronbach's Alpha value is greater than 0.60.

Multicollinearity Test

Independent Variable	Collinearity Statistic		Description
	Tolerance	VIF	
Control Environment (X1)	0,447	2.237	No Multicollinearity Detected
Risk Assessment (X2)	0,938	1.066	No Multicollinearity Detected
Control Activities (X3)	0,772	1.296	No Multicollinearity Detected
Information and Communication (X4)	0,455	2.196	No Multicollinearity Detected
Monitoring (X5)	0,794	1.335	No Multicollinearity Detected

The Tolerance value for each independent variable is greater than 0.10, and the VIF value is less than 10.00. Therefore, it can be concluded that there is no multicollinearity issue among the independent variables.

Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		22
Normal Parameters[a,b]	Mean	.0000000

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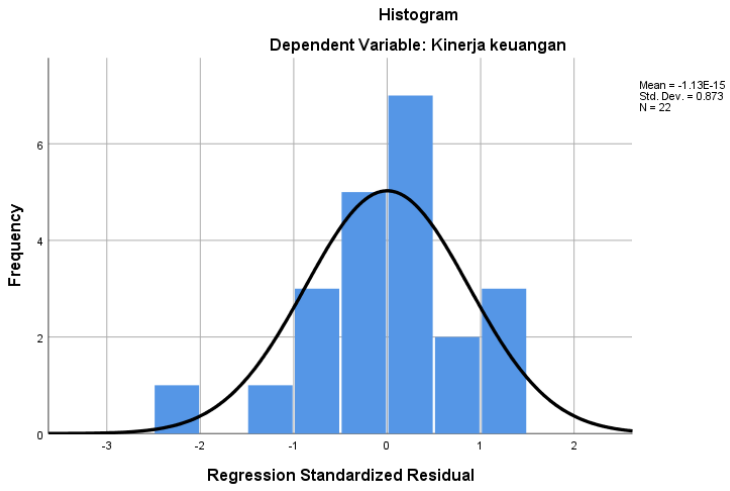
	Std. Deviation	1.76209599
Most Extreme Differences	Absolute	.095
	Positive	.076
	Negative	-.095
Test Statistic		.095
Asymp. Sig. (2-tailed)		.200[c,d]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
d. This is a lower bound of the true significance.		

A significance value of 0.200 > 0.05 indicates that the data in this study follows a normal distribution.

Histogram Chart



It is concluded that the residual values from the observed data are normally distributed, as indicated by the graph following a bell-shaped normal curve pattern.

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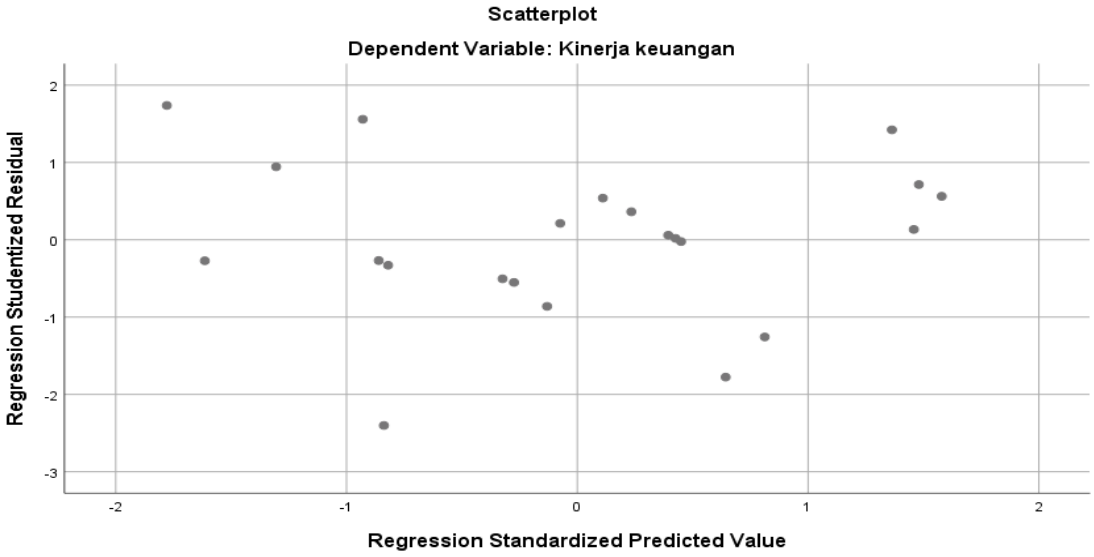
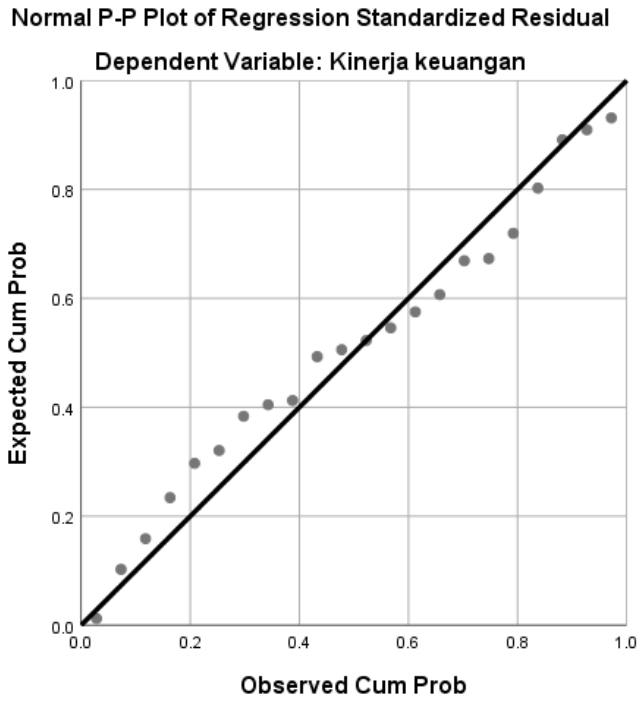


Probability Plot



The distribution of observed data, displayed in 22 plots corresponding to the sample size, shows a pattern spread around the diagonal line. This indicates that the observed data meets the normality assumption test.

Heteroscedasticity Test

In the scatterplot graph, the points are randomly distributed and spread both above and below zero on the Y-axis. This indicates that there is no heteroscedasticity in the regression model, meaning the data is homogeneous and the regression model is considered valid.

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Multiple Linear Regression Analysis Test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.426	6.455		-.221	.828		
	Control Environment (X1)	.141	.263	.110	.537	.598	.447	2.237
	Risk Assessment (X2)	.290	.262	.156	1.106	.285	.938	1.066
	Control Activities (X3)	-.073	.182	-.062	-.399	.695	.772	1.296
	Information and Communication (X4)	.835	.314	.537	2.658	.017	.455	2.196
	Monitoring (X5)	.550	.243	.356	2.260	.038	.749	1.335
a. Dependent Variable: Financial Performance (Y)								

The results of the multiple linear regression test indicate that among the five independent variables, only Information and Communication (p = 0.017) and Monitoring (p = 0.038) have a significant impact on financial performance, while Control Environment, Risk Assessment, and Control Activities do not show a significant effect. The negative constant (-1.426) suggests that without these factors, financial performance tends to be low. Therefore, enhancing Information and Communication as well as Monitoring plays a crucial role in improving financial performance.

Hypothesis Testing

Simultaneous Test (F-Test)

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	154.068	5	30.814	7.561	.001[b]
	Residual	65.205	16	4.075		
	Total	219.273	21			
a. Dependent Variable: Financial Performance						

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b. Predictors: (Constant), Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring.

A significance value of 0.001 < 0.05 and an F-calculated value of 7.561 > F-table value of 2.85 indicate that Control Environment (X1), Risk Assessment (X2), Control Activities (X3), Information and Communication (X4), and Monitoring (X5) simultaneously influence Financial Performance (Y).

Partial Test (T-Test)

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.426	6.455		-.221	.828
	Control Environment (X1)	.141	.263	.110	.537	.598
	Risk Assessment (X2)	.290	.262	.156	1.106	.285
	Control Activities (X3)	-.073	.182	-.062	-.399	.695
	Information and Communication (X4)	.835	.314	.537	2.658	.017
	Monitoring (X5)	.550	.243	.356	2.260	.038

a. Dependent Variable: Financial Performance

Based on the t-test results, only Information and Communication (X4) and Monitoring (X5) have a significant effect on Financial Performance, with significance values of 0.017 and 0.038 (less than 0.05) and t-calculated values greater than t-table (2.658 and 2.260 > 2.120), leading to the acceptance of H_1. Meanwhile, Control Environment (X1), Risk Assessment (X2), and Control Activities (X3) do not have a significant effect, as indicated by significance values greater than 0.05 and t-calculated values smaller than t-table, resulting in the acceptance of H_0. Therefore, enhancing Information and Communication as well as Monitoring plays a crucial role in improving Financial Performance.

Coefficient of Determination Test (R^2 Test)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.838[a]	.703	.610	2.01873

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a. Predictors: (Constant), Control Environment, Risk Assessment, Control Activities, Information and Communication, Monitoring.
b. Dependent Variable: Financial Performance

The Adjusted R-Square value is 0.610, indicating that 61% of the variation in Financial Performance can be explained by Control Environment (X1), Risk Assessment (X2), Control Activities (X3), Information and Communication (X4), and Monitoring (X5). Meanwhile, the remaining 39% is influenced by other factors not included in this research model.

CONCLUSION

The study concludes that internal control systems significantly impact the financial performance of PBB-P2 revenue collection in Jambi City. However, not all components of internal control contribute equally. While information and communication, as well as monitoring, positively influence financial performance, control environment, risk assessment, and control activities do not show significant individual effects. BPPRD should focus on enhancing information dissemination and monitoring strategies to optimize PBB-P2 revenue collection.

Additionally, the findings highlight the need for continuous improvements in training programs for tax officers and the adoption of digital tools to streamline tax administration. A more transparent and accountable system can foster higher compliance rates and improve financial performance. Future research should explore the role of policy changes and technological advancements in enhancing the efficiency of internal control systems within local government institutions.

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