Exploring the Role of Internal Control Systems in Financial Statement Quality under Coercive Pressure in Government Entities

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Abstract
Objective - This study examines the influence of coercive pressure on financial statement quality and the mediating role of internal control systems in central government accounting entities of ministries/institutions partnering with the State Treasury Service Office of Malang (KPPN Malang).

Design/Methodology - The research sample was collected by purposive sampling questionnaire with an 84.38% return rate. It comprised 216 respondents of staff and managers responsible for preparing financial statements in central government work units of ministries/institutions partnering with KPPN Malang. Research data were analyzed using the Partial Least Squares (PLS) technique to predict the relationships between coercive pressure, financial statement quality, and the mediating role of internal control systems.

Results - It was found that coercive pressure positively influences financial statement quality. Coercive pressure has a positive effect on internal control systems, and internal control systems have a positive impact on financial statement quality. Meanwhile, internal control systems can mediate the relationship between coercive pressure and financial statement quality.

Research limitations/implications - The research findings have practical implications that suggest coercive pressures from stakeholders demanding high-quality financial statements should be responded to by implementing effective internal control systems to ensure the quality of presented financial statements.

Novelty/Originality - The novelty of this research lies in examining the mediating role of internal control systems in the relationship between coercive pressure and financial statement quality, which has not been discussed in existing studies.

Keywords: Central government accounting entities, coercive pressure, financial statement quality, internal control systems

1. Introduction

As a form of accountability and transparency in state financial management, the central government in Indonesia prepares financial statements (Pangaribuan et al., 2023). The central government financial statements are not only used as a basis for economic decision-making but also for social and political decisions (Government Regulation No. 71, 2010). The decisions are generally strategic and concern the welfare of the wider community. Although opinions on the financial statements of the central government in Indonesia show increasingly improved results, many audit findings still indicate weaknesses in internal control systems and compliance with regulations (BPK, 2023b). The Summary of Audit Results for the Second Semester of 2022 issued by the Supreme Audit Institutions (BPK) shows that in the central government, there were 260 findings of weaknesses in the internal control system, 268 non-compliance findings amounted to IDR11.12 trillion, and 86 performance findings amounted to IDR11.15 trillion (BPK, 2023a). These audit findings indicate that efforts for improvement still

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need to be made to enhance financial statement quality, especially central government financial statements.

Indonesia's central government and legislative bodies have issued various legal products such as state financial laws, government regulations, and their derivatives to ensure that central government-prepared financial statements meet the specified quality standards. According to Government Accounting Standards, the characteristics of quality financial statements are relevant, reliable, comparable, and understandable (Government Regulation No. 71, 2010). State financial laws mandate the establishment of BPK as an independent body responsible for conducting state financial audits. The government also establishes the internal government supervisory apparatus tasked with oversight within the government. The public information disclosure law also lets the public criticize published government financial statements.

The issuance of regulations and establishment of institutions focused on ensuring financial statement quality, along with criticism from the public, can create pressure on financial statement preparers. Central government accounting entities, as the smallest entities preparing financial statements, are highly likely to experience this pressure. Government organizations adhere to bureaucratic governance and hierarchy, so higher organizational policies must be followed by organizations underneath (Pan & Fan, 2023). The pressure faced is generally coercive. Coercive pressure can come from formal or informal pressure from other organizations or societal cultural expectations (DiMaggio & Powell, 1983). According to institutional theory, organizations adjust to the isomorphic pressures they face to gain legitimacy from stakeholders (Ashworth et al., 2007). Preparing high-quality financial and non-financial reports is a response to the pressure arising from stakeholder demands (Vitolla et al., 2019).

Although coercive pressure is commonly exerted on government organizations, studies examining the influence of coercive pressure on financial statement quality in government entities are still limited. Previous studies have mostly focused on private sector companies and small and medium-sized enterprises (Asiri et al., 2020; Iredele et al., 2020; Martínez-Ferrero & García-Sánchez, 2017; Nguyen, 2022; Pertiwi et al., 2022; Sappor et al., 2023; Vitolla et al., 2019). Furthermore, previous studies have not been able to explain how coercive pressure affects financial statement quality. One potentially effective way to respond to coercive pressure to improve financial statement quality is by implementing internal control systems. Internal control systems ensure adherence to standards and regulations, thus enhancing accountability in managing public resources (Nogueira & Jorge, 2017). The study by Kabuye et al. (2021) found that isomorphic forces can improve the strength of internal control over financial reporting. Previous research has also proved that internal control systems can enhance financial statement quality (Anto & Yusran, 2023; Hammood & Dammak, 2023; Jatmiko et al., 2020; Mutoharoh & Ifada, 2023; Pangaribuan et al., 2023; Pham et al., 2022; Puspahani et al., 2022).

The research gap in this study is the limited number of studies examining the influence of coercive pressure on financial statement quality, especially in government entities, and the lack of research examining factors that can explain the relationship between coercive pressure and financial statement quality. Therefore, this study aims to examine the influence of coercive pressure on financial statement quality in central government accounting entities. As a novelty, this study also examines the role of internal control systems in mediating the influence of coercive pressure on financial statement quality. This research contributes to institutional theory and provides insights into how coercive pressure can affect central government financial statement quality. This study is crucial to enhance the quality of financial statements produced by the central government of Indonesia. The rest of this paper is structured into several sections. A literature review is presented first, followed by the theoretical framework and hypothesis development. The research methodology, including the measurement of variables used, is then described, followed by the presentation and discussion of results. The final section concludes the research findings.

2. Literature Review, Theoretical Framework, and Hypothesis Development

2.1 Literature Review

The institutional theory states that changes in organizational structure occur due to processes that render organizations similar, known as isomorphism (DiMaggio & Powell, 1983). This theory provides broad and complex insights into isomorphic processes within organizations, asserting that organizations can be influenced by various institutional pressures arising from their external environment (Munir & Baird, 2016). According to this theory, there are three types of isomorphic pressures experienced by organizations. They are coercive pressure, which arises from external coercion; mimetic pressure, which arises from uncertainty leading to imitation; and normative pressure, which arises from professionalization (Ashworth et al., 2007). Common pressure faced by government organizations is coercive pressure, as these organizations adhere to bureaucratic governance and hierarchy, emphasizing compliance with legal regulations. Coercive pressure on government organizations aims to encourage the presentation of quality financial statements. According to institutional theory, organizations adjust to the isomorphic pressures they face to gain legitimacy from stakeholders (Ashworth et al., 2007). Therefore, government organizations strive to present quality financial statements to meet stakeholder expectations.

Previous studies examining the influence of coercive pressure on financial statement quality, particularly in government organizations, are still limited. Jatmiko & Setiawan (2020), in their study conducted in the Special Region of Yogyakarta, found that external pressure can enhance financial reporting transparency because regulations have legal consequences if not complied with. Research on international companies listed in The Forbes Global 2000 found that coercive pressure from strong legal traditions and law enforcement can increase the decision to provide assurance on sustainability reports (Martínez-Ferrero & García-Sánchez, 2017). Studies by Nguyen (2022) on manufacturing companies in the pulp and paper industry in Vietnam, Asiri et al. (2020) on non-financial companies listed in eight Middle East and North Africa (MENA) countries, and Iredele et al. (2020) on oil and gas, manufacturing, and mining companies in South Africa found that coercive pressure drives the adoption of environmental management accounting. Pertiwi et al. (2022) found empirical evidence in Indonesian companies indicating that coercive isomorphism increases the adoption of the sustainability embeddedness of integrated reporting. Sappor et al. (2023) conducted research on Small and Medium Enterprises (SMEs) in the northern sector of Ghana, indicating that coercive isomorphism drives the adoption of the International Financial Reporting Standard (IFRS) for SMEs. Furthermore, a study by Vitolla et al. (2019) on international companies in Europe, Asia, America, Africa, and Oceania found that stakeholder pressure can enhance the quality of integrated reporting as an adaptive response to gain legitimacy.

Internal control systems are integral procedures to ensure organizational objectives are attainable through efficient and effective operations, trustworthy financial reporting, asset protection, and adherence to regulations (Government Regulation No. 60, 2008). Regarding the role of internal control systems in explaining the relationship between coercive pressure and financial statement quality, there are previous studies that may be relevant. A case study by Alsharari (2022) at Jordan Customs found that coercive pressure is the most influential driving force on risk management practices, an important component of internal control systems. Wijethilake et al. (2017) also conducted a case study on a large-scale multinational garment manufacturing organization headquartered in Sri Lanka, indicating that management control systems can provide strategic responses to institutional pressures for sustainability. Munir & Baird (2016) found empirical evidence in banks and financial institutions operating in Australia indicating that coercive pressure can increase the use of multidimensional performance measures, fundamental elements of management control, due to strict supervision from national and transnational regulators. Furthermore, a study by Kabuye et al. (2021) on microfinance institutions in Uganda found that enhancing internal controls over financial reporting is a response to gaining legitimacy due to the isomorphic forces faced.

Previous studies have also proved the correlation between internal control systems and financial statement quality. Studies by Anto & Yusran (2023) on the Kendari City government, Jatmiko et al. (2020) on the Brebes Regency government, and Mutoharoh & Ifada (2023) on the Kudus Regency government found that effective internal control systems can enhance financial statement quality. Puspahani et al. (2022) researched universities in Indonesia, while Pham et al. (2022) focused on non-business public units in Vietnam. Both studies found that implementing internal control systems can minimize fraud, thereby improving financial statement quality. Hammood & Dammak (2023) found empirical evidence in commercial banks in Iraq indicating that internal control systems can enhance financial statement quality because training has been conducted in implementing internal control systems. Furthermore, a study by Pangaribuan et al. (2023) on the National Research and Innovation Agency also found that internal control systems can enhance financial statement quality due to compliance with regulations and efficiency in performing tasks.

2.2 Theoretical Framework and Hypothesis Development

2.2.1 The influence of coercive pressure on financial statement quality

Based on institutional theory, organizations adjust to isomorphic pressures to gain legitimacy from stakeholders (Ashworth et al., 2007). Preparing high-quality financial and non-financial reports is a response to the pressure arising from stakeholder demands (Vitolla et al., 2019). The preparation of government financial statements is generally accompanied by coercive pressure because government organizations follow bureaucratic governance and hierarchy, so higher organizational policies must be followed by subordinate organizations (Pan & Fan, 2023). Coercive pressure drives government organizations to present quality financial statements to meet stakeholder expectations. Regulations related to financial reporting compel organizations to comply with applicable regulations. Subordinate organizations must also follow instructions from superiors. Previous research has found that stakeholder pressure triggers adaptive responses to gain legitimacy by enhancing the quality of integrated reporting (Vitolla et al., 2019). Coercive pressure from strong legal traditions and law enforcement can also increase the decision to provide assurance on sustainability reports (Martínez-Ferrero & García-Sánchez, 2017). According to Nguyen (2022), Asiri et al. (2020), and Iredele et al. (2020), coercive pressure stemming from an enhanced environmental legal system can drive the adoption of environmental management accounting. Sappor et al. (2023) provided empirical evidence that coercive pressure arising from certain systems and institutions compels SMEs to adopt IFRS for SMEs. Furthermore, research findings by Jatmiko & Setiawan (2020) also concluded that external pressure can enhance financial reporting transparency because regulations have legal consequences if not complied with.

H1. Coercive pressure has a positive influence on financial statement quality.

2.2.2 The influence of coercive pressure on internal control systems

Internal control systems consist of integral procedures to ensure the achievement of organizational goals (Government Regulation No. 60, 2008). Internal control systems can provide stakeholders with adequate confidence in achieving organizational objectives. Hence, the appropriate internal control structure is crucial for organizations (Kabuye et al., 2021). Based on institutional theory, organizations adjust to isomorphic pressures to gain legitimacy from stakeholders (Ashworth et al., 2007). Coercive pressure from stakeholders prompts organizations to respond by implementing effective internal control systems to meet organizational objectives. According to Munir & Baird (2016), coercive pressure can encourage using multidimensional performance measures, which are fundamental elements of management control. Previous research has also found that isomorphic forces can enhance the strength of internal controls over financial reporting as a response to gain legitimacy (Kabuye et al., 2021).

H2. Coercive pressure has a positive influence on internal control systems.

2.2.3 The influence of internal control systems on financial statement quality

Internal control systems ensure adherence to standards and regulations, thus enhancing accountability in managing public resources (Nogueira & Jorge, 2017). Based on institutional theory, organizations adjust to isomorphic pressures to gain legitimacy from stakeholders (Ashworth et al., 2007). Effective internal control systems, through compliance with relevant standards and regulations, can help organizations maintain their legitimacy in the eyes of stakeholders by ensuring that the financial statements presented are high quality, accurate, and reliable. The effective implementation of internal control systems provides sufficient confidence in the accuracy of financial statements (Anto & Yusran, 2023). Internal control systems can improve the quality of financial reporting information by preventing potential budget mismanagement and fraudulent activities (Mutoharoh & Ifada, 2023; Puspahani et al., 2022). Previous studies have provided empirical evidence that internal control systems encourage compliance with regulations and efficiency in performing tasks, thereby enhancing the quality of the resulting financial statements (Hammood & Dammak, 2023; Jatmiko et al., 2020; Pangaribuan et al., 2023).

H3. Internal control system has a positive influence on financial statement quality.

2.2.4 The mediating role of internal control systems in the influence of coercive pressure on financial statement quality

Internal control systems can minimize fraud occurrences, thus enhancing financial statement quality (Pham et al., 2022; Puspahani et al., 2022). Internal control systems are designed to ensure organizational goals are attainable through efficient and effective operations, trustworthy financial reporting, asset protection, and adherence to regulations (Government Regulation No. 60, 2008). Based on institutional theory, organizations adjust to isomorphic pressures to gain legitimacy from stakeholders (Ashworth et al., 2007). Coercive pressure from stakeholders for quality financial statements drives organizations to respond by implementing effective internal control systems to ensure the quality of the financial statement is presented. According to Munir & Baird (2016), coercive pressure can encourage using multidimensional performance measures, which are fundamental elements of management control. Previous research has also found that isomorphic forces can enhance the strength of internal controls over financial reporting as a response to gain legitimacy (Kabuye et al., 2021). Furthermore, stakeholder pressure triggers adaptive responses to gain legitimacy by enhancing the quality of integrated reporting (Vitolla et al., 2019). Coercive pressure from strong legal traditions and law enforcement can increase the decision to provide assurance on sustainability reports (Martínez-Ferrero & García-Sánchez, 2017). Moreover, previous studies have provided empirical evidence that internal control systems can encourage the presentation of quality financial statements. The effective implementation of internal control systems provides sufficient confidence in the accuracy of financial statements (Anto & Yusran, 2023). Internal control systems can improve the quality of financial reporting information by preventing potential budget mismanagement and fraudulent activities (Mutoharoh & Ifada, 2023; Puspahani et al., 2022).

H4. Internal control systems mediate the influence of coercive pressure on financial statement quality

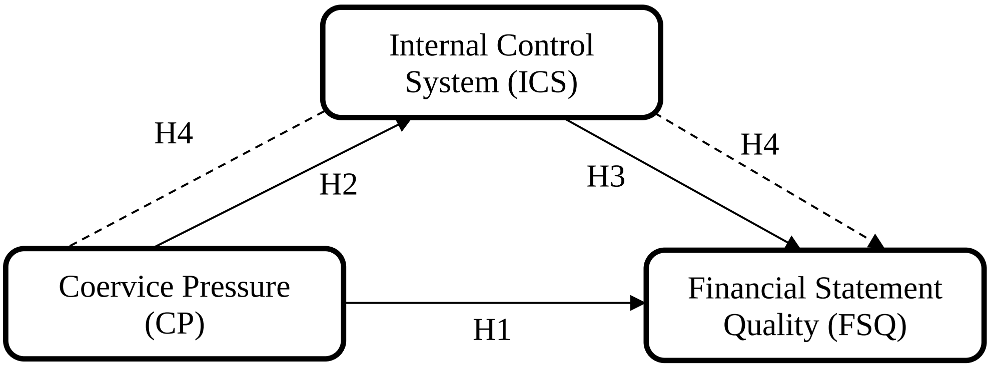

Figure 1. Conceptual Framework

3. Research Method

This research employs quantitative methods. The population comprises 165 staff and 165 managers involved in financial reporting in accounting entities or work units of ministries/institutions partnered with the State Treasury Service Office of Malang (KPPN Malang). Its area covers Malang City, Batu City, Pasuruan City, Malang Regency, and Pasuruan Regency. The work units include various institutions such as schools, universities, hospitals, military, police, courts, land agencies, tax offices, and other central government offices. The work units partnering with KPPN Malang were selected as the population because they have the highest number of partnering work units in East Java. KPPN Malang is a representative of the Ministry of Finance in the region responsible for disbursing funds from the state budget and ensuring the implementation of the central government's accounting and financial reporting system by verifying financial and accounting data from its partner institutions.

The sample was chosen using a purposive sampling method with the criteria that the staff and managers work in active work units and manage assets. Active work units that manage assets present complete and comprehensive components of financial statements and financial statement items. The population of this research is known to be 330 people. The Yamane formula is applicable for estimating the minimum sample size in research studies with a known population size (Sugiyono, 2019). With a sampling error of 5%, based on this formula, the minimum sample size required for this research is 181 people.

This study relies on primary data obtained through online questionnaire distribution. The number of questionnaires distributed was 256, consisting of 128 active units managing assets, each receiving two questionnaires. The number of returned questionnaires was 216, with an 84.38% return rate, comprising 118 staff and 98 manager respondents. All returned questionnaires can be used, thus meeting the minimum required sample size.

The instruments used in this study were developed based on previous studies and applicable regulations. The variable of financial statement quality utilized measurements from Puspahani et al. (2022) and Government Regulation No. 71 of 2010, representing qualitative characteristics of financial statements. The indicators include relevant, reliable, comparable, and understandable, totaling 14 statement items. The variable of coercive pressure utilized measurements from Jatmiko & Setiawan (2020), modified according to the research context. The indicators include regulations, ministerial demands, attention from the Government Internal Supervisory Apparatus, audits by the Supreme Audit Institution, and public criticism, totaling 5 statement items. The variable of the internal control system utilized measurements from Puspahani et al. (2022) and Government Regulation No. 60 of 2008. The indicators include control environment, risk assessment, control activities, information and communication, and monitoring, totaling 27 statement items. Each statement item was evaluated using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The five-point Likert scale provides a moderate number of options and offers a neutral option, facilitating respondents in completing the questionnaire. Furthermore, the operationalization of variables is presented in Table 1.

Table 1. Operazionalization of Variables

Variable	Definition	Indicator
Financial Statement Quality (FSQ)	Financial statements that meet the qualitative characteristics according to Government Accounting Standards (Government Regulation No. 71, 2010).	1. Relevant; 2. Reliable; 3. Comparable; 4. Understandable.
Coercive Pressure (CP)	Formal and informal pressure originates from other organizations with higher authority or public criticism (DiMaggio & Powell, 1983).	1. Regulations; 2. Ministerial demands; 3. Attention from the Government Internal Supervisory Apparatus; 4. Audits by the Supreme Audit Institution; 5. Public criticism.
Internal Control System (ICS)	Integral procedures are used to ensure that organizational objectives are attainable through efficient and effective operations, trustworthy financial reporting, asset protection, and adherence to regulations (Government Regulation No. 60, 2008).	1. Control environment; 2. Risk assessment; 3. Control activities; 4. Information and communication; 5. Monitoring.

The research data were processed using the Partial Least Squares (PLS) technique with the assistance of SmartPLS version 3.2.9 software. PLS is a statistical approach based on variance employed in Structural Equation Modeling (SEM). The PLS technique was chosen because this research involves latent or unobserved variables. PLS utilizes the variances of all indicators to predict the relationships within the model, specifically focusing on forecasting the dependent variables (Hair et al., 2022). The testing conducted included measurement model evaluation, structural model evaluation, direct hypothesis testing, and indirect hypothesis testing. The structural equation in this study is presented as follows.

$$\mathrm{ICS} = \gamma_1 \mathrm{CP} + \varepsilon \quad (1)$$

$$\mathrm{FSQ} = \gamma_2 \mathrm{CP} + \gamma_3 \mathrm{ICS} + \varepsilon \quad (2)$$

FSQ is Financial Statement Quality, CP is Coercive Pressure, and ICS is Internal Control System.

4. Results and Discussion

4.1 Respondent's Demographics

Table 2 illustrates that the majority of participants in this study are male. The age of respondents indicates that they are in the productive age group, with the highest number falling in the 30-40 age range. Based on employment status, most respondents have permanent employment status, with the highest number being civil servants. The respondent's service length (in their current unit) shows that most have worked more than three years, indicating sufficient work experience in their respective units. The educational level of respondents shows that the majority have attained a bachelor's degree. Additionally, the academic qualifications of respondents indicate that the majority do not have a background in accounting or economics.

Table 2. Respondent's Demographics

Description	Total	Percentage
Gender:		
Male	135	62.50%
Female	81	37.50%
Age:		
< 30 years	29	13.43%
30-40 years	78	36.11%
41-50 years	84	38.89%
> 50 years	25	11.57%
Employment status:		
Civil Servants	164	75.93%
Military personnel (non-civil servants)	21	9.72%
Police officers (non-civil servants)	10	4.63%
Contractual employees	21	9.72%
Length of Service (in current unit):		
< 1 year	5	2.31%
1-3 years	41	18.98%
> 3 years	170	78.70%
Educational Level:		
High School	34	15.74%
Diploma	14	6.48%
Bachelor's Degree	125	57.87%
Master's Degree	41	18.98%
Doctoral Degree	2	0.93%
Academic Qualification:		
Accounting	38	17.59%
Economics	42	19.44%
Other	136	62.96%

4.2 Descriptive Statistics

The mean values in Table 3 indicate that most respondents agree that the prepared financial statements meet the qualitative characteristics of financial statements and that the components of the internal control system have been implemented. Respondents also tend to agree that coercive pressure is faced when preparing financial statements. The standard deviation values also indicate no significant difference in respondent answers. Further analysis suggests that relevant indicators in the financial statement quality have the lowest values, indicating that the relevance of the presented financial statements is perceived as insufficient. Most respondents also assess that there are still weaknesses in risk assessment in implementing the internal control system, where risk assessment indicators have the lowest values. The values of indicators for coercive pressure indicate that pressure from the Supreme Institution is perceived as the strongest pressure in financial statement preparation, while pressure from the public is perceived as the weakest.

Table 3. Descriptive Statistics

Variable	Minimum	Maximum	Mean	Standard Deviation
Financial Statement Quality (FSQ)	4.31	4.66	4.56	0.57
Coercive Pressure (CP)	4.23	4.55	4.47	0.64
Internal Control System (ICS)	4.20	4.56	4.44	0.65

4.3 Measurement Model Evaluation

The testing conducted in the measurement model evaluation includes validity and reliability tests. Validity testing indicates the accuracy of the research instrument in measuring latent variables. This test comprises convergent validity and discriminant validity testing.

Convergence validity testing requires that indicators measuring the same latent variable have high correlations. The parameters used are the outer loading values and the Average Variance Extracted (AVE). The outer loading value must be above 0.7, and the AVE value must be above 0.5. Hair et al. (2022) state that outer loading values below 0.4 should be deleted, while outer loading values between 0.4 and 0.7 should not be deleted if the AVE value is above the threshold. The test results indicate that the outer loading values range from 0.558 to 0.915, and the AVE value is above 0.5. Based on the mentioned criteria, no research indicators need to be deleted, and convergence validity has been achieved.

Discriminant validity testing requires that indicators measuring different latent variables should not have high correlations. The parameter used is the Heterotrait-Monotrait Ratio (HTMT). The HTMT value is more accurate in testing discriminant validity (Hair et al., 2022). The HTMT value must be below 0.90 to meet discriminant validity. The test results in Table 4 show that the HTMT values are below 0.90, thus satisfying discriminant validity.

Reliability testing indicates whether the research instrument has consistently measured a latent variable. The parameters used are Cronbach's alpha and composite reliability. The values of these two parameters should be above 0.7 for further research (Hair et al., 2022). The test results in Table 5 show that both parameters are above 0.7, thus meeting the reliability criteria. Overall measurement model evaluation indicates that all variables are valid and reliable, allowing for hypothesis testing to proceed.

Table 4. Discriminant Validity Test Results

Variable	FSQ	CP	ICS
FSQ			
CP	0.832		
ICS	0.880	0.830	

Table 5. Reliability Test Results

Variable	*Cronbach's Alpha*	*Composite Reliability*
FSQ	0.949	0.955
CP	0.898	0.927
ICS	0.982	0.983

4.4 Structural Model Evaluation

In structural model evaluation, the coefficient of determination (R^2) determines the variation in independent variables explaining the dependent variable. The R^2 value of the internal control system variable in Table 6, at 0.608, indicates that 60.8% of the variation in the internal control system variable can be explained by the coercive pressure variable, while the remaining 39.2% is accounted for by other variables beyond the scope of the research model. The R^2 value of the financial statement quality variable in Table 6, at 0.750, indicates that 75% of the variation in the financial statement quality variable is explained by the coercive pressure and internal control system variables, while the remaining 25% is accounted for by other variables beyond the scope of the research model.

Table 6. The Coefficient of Determination

Variable	R Square
ICS	0.608
FSQ	0.750

4.5 Direct Hypothesis Testing

Hypothesis testing in this research employs one-tailed hypothesis testing with a significance level of 5%. Direct hypotheses are supported if the t-statistic value surpasses 1.65, the p-value is less than 0.05, and the path coefficient is positive (Hair et al., 2022). The testing results of hypotheses 1, 2, and 3 in Table 7 indicate that the t-statistic values surpass 1.65, and the p-values are 0.000 (below 0.05). The study findings indicate that coercive pressure positively influences financial statement quality, coercive pressure positively influences the internal control system, and the internal control system positively affects financial statement quality. Based on these results, this study successfully supports hypotheses 1, 2, and 3.

Table 7.
Direct Hypothesis Test Results

Hypothesis	Hypothesis Direction	Path Coefficient	t-statistics	p-values	Conclusion
H1: CP → FSQ	+	0.270	3.800	0.000	Supported
H2: CP → ICS	+	0.781	22.537	0.000	Supported
H3: ICS →FSQ	+	0.640	9.950	0.000	Supported

4.6 Indirect Hypothesis Testing

Indirect hypotheses are supported if the t-statistic value surpasses 1.65 and the p-value is less than 0.05. The testing results of hypothesis 4 in Table 8 indicate that the t-statistic value surpasses 1.65, and the p-value is 0.000 (below 0.05). The research findings show that the internal control system can mediate the influence of coercive pressure on financial statement quality. Based on these results, this study successfully supports hypothesis 4.

Table 8.
Indirect Hypothesis Test Results

Hypothesis	Path Coefficient	t-statistics	p-values	Conclusion
H4: CP → ICS → FSQ	0.500	8.646	0.000	Supported

4.7 The Influence of Coercive Pressure on Financial Statement Quality

The research findings reveal that the higher the coercive pressure, the higher the quality of the financial statement. This finding aligns with institutional theory, which suggests that organizations strive to gain legitimacy from stakeholders by adjusting to the isomorphic pressures they face. The preparation of government financial statements is typically accompanied by coercive pressures due to government organizations adhering to bureaucratic governance and hierarchy. Regulations related to financial reporting compel organizations to comply with applicable regulations, and subordinate organizations must follow instructions from superiors. Coercive pressure drives government organizations to present high-quality financial statements. The production of high-quality financial statements is a response to the coercive pressures faced to gain legitimacy from stakeholders. These research findings support the study by Vitolla et al. (2019), which revealed that stakeholder pressure positively influences integrated reporting quality as an adaptive response to gain legitimacy. The findings also support the study by Martínez-Ferrero & García-Sánchez (2017), which proved that coercive pressure positively influences the decision to provide assurance on sustainability reports.

4.8 The Influence of Coercive Pressure on Internal Control Systems

The research findings indicate that the higher the coercive pressure faced, the more effective the implementation of internal control systems. This finding supports institutional theory, which suggests that organizations strive to gain legitimacy from stakeholders by adjusting to the isomorphic pressures they face. Internal control systems can provide stakeholders with adequate confidence in achieving organizational goals. Coercive pressure from stakeholders drives organizations to respond by implementing effective internal control systems to meet organizational goals. These research findings support the study by Munir & Baird (2016), which found that coercive pressure positively influences the use of multidimensional performance measures, a fundamental element of management control. These findings also support the study by Kabuye et al. (2021), which found that isomorphic forces positively influence internal controls over financial reporting as a response to gain legitimacy.

4.9 The Influence of Internal Control Systems on Financial Statement Quality

The research findings indicate that the more effective the implementation of internal control systems, the higher the quality of the financial statement. This finding aligns with institutional theory, which suggests that organizations strive to gain legitimacy from stakeholders by adjusting to the isomorphic pressures they face. Internal control systems are designed to provide adequate confidence in achieving organizational goals, including presenting reliable financial statements. Effective internal control systems, through compliance with relevant standards and regulations, can help organizations maintain their legitimacy in the eyes of stakeholders by ensuring that the financial statements provided are of high quality, precision, and reliability. These research findings support the studies by Mutoharoh & Ifada (2023) and Puspahani et al. (2022), which found that internal control systems can improve the quality of financial reporting information by preventing potential budget mismanagement and fraud. These findings also support the study by Pangaribuan et al. (2023), which found that internal control systems encourage compliance with regulations and efficiency in performing tasks, thereby enhancing the quality of the resulting financial statements.

4.10 The mediating role of internal control systems in the influence of coercive pressure on financial statement quality

The research findings indicate that internal control systems can mediate the influence of coercive pressure on financial statement quality. This finding is consistent with institutional theory, which implies that organizations seek legitimacy from stakeholders by adjusting to isomorphic pressures. Internal control systems are designed to provide adequate confidence in achieving organizational goals, including presenting reliable financial statements. Coercive pressure from stakeholders for high-quality financial statements drives organizations to respond by implementing effective internal control systems to ensure the financial statement's quality. These research findings support the study by Kabuye et al. (2021), which found that isomorphic forces positively influence internal controls over financial reporting as a response to gain legitimacy. The findings also support the research by Vitolla et al. (2019), which revealed pressure from stakeholders triggers adaptive responses to gain legitimacy by enhancing the quality of integrated reporting. Furthermore, this research supports previous studies indicating that internal control systems have the capacity to improve the quality of financial reporting information by preventing potential budget mismanagement and fraudulent activities (Mutoharoh & Ifada, 2023; Puspahani et al., 2022). These findings have practical implications suggesting that coercive pressures from stakeholders demanding high-quality financial statements should be responded to by implementing effective internal control systems to ensure the quality of presented financial statements.

5. Conclusion and Limitation

This study found that presenting high-quality financial statements is an organizational response to coercive pressures to gain stakeholder’s legitimacy. Organizations strive to obtain legitimacy from stakeholders by adjusting to isomorphic pressures following institutional theory. The study also found that coercive pressures can drive the implementation of effective control systems, and effective internal control systems can enhance financial statement quality. Internal control systems can mediate the relationship between coercive pressure and financial statement quality. Applying internal control systems has proven effective in dealing with coercive pressures to produce high-quality financial statements. Internal control systems are designed to provide adequate confidence in achieving organizational goals, including presenting high-quality financial statements. These findings have practical implications suggesting that coercive pressures from stakeholders demanding high-quality financial statements should be responded to by implementing effective internal control systems to ensure the achievement of these objectives.

The findings of this study need to be interpreted cautiously due to the limitations inherent in this research. The research was only conducted on work units from ministries/institutions partnered with KPPN Malang. Hence, the findings cannot be generalized to all work units from ministries/institutions across Indonesia. Future research could replicate this study in other regions to examine the consistency of coercive pressure in influencing financial statement quality and the mediating role of internal control systems.

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