JASa (Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi)
ISSN 2550-0732 print / ISSN 2655-8319 online
Vol. 10 No. 2 / August 2026
DOI;10.36555/jasa.v10i2.3081

The Influence of Payroll Systems and Internal Control on Employee Performance

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ABSTRACT

This study examines the effects of the Payroll System and Internal Control on the performance of outsourced employees at PT Geo Dipa Energi Unit Patuha 1 Bandung. The study is motivated by inconsistencies in payroll practices for outsourced workers and weaknesses in internal control within state-owned enterprises, which may affect employee performance. A quantitative survey approach was employed involving 40 outsourced employees selected through simple random sampling. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The results indicate that the Payroll System has a positive and significant effect on Employee Performance ($\beta = 0.314$; $T = 2.838$; $p = 0.005$), supporting H1. Internal Control also has a positive and significant effect on Employee Performance ($\beta = 0.649$; $T = 7.639$; $p < 0.001$), supporting H2. The coefficient of determination ($R^2 = 0.741$) shows that the Payroll System and Internal Control jointly explain 74.1% of the variance in Employee Performance. Internal Control demonstrates the stronger effect, indicating that effective control mechanisms play an important role in strengthening accountability, operational discipline, and employee performance. The findings highlight the importance of integrating reliable payroll procedures with effective internal control to support the performance of outsourced employees in the state-owned geothermal energy sector.

ARTICLE INFO

Article history:
Submitted: 06 August 2026
Revised: 27 August 2026
Accepted: 28 August 2026
Published: 30 August 2026

Keyword:
Employee Performance
Internal Control
Outsourced Employees
Payroll System
PLS-SEM

To cite this article (APA Style):
First Author, Second Author & Third Author. (2025). The title of the article uses sentence case style. JASa : Jurnal Akuntansi, Audit dan Sistem Informasi Akuntansi. Vol 10 (1), p.440-447.
https://doi.org/10.36555/jasa.v10i2.3081

INTRODUCTION

A payroll system is an important component of an organization's accounting information system because it governs the calculation and distribution of employee compensation. An effective payroll system consists of integrated procedures that enable organizations to record attendance, calculate salaries and deductions, process overtime and other compensation components, and distribute payments accurately and on time. Proper payroll procedures are also essential for controlling labor costs and reducing the risk of errors, misunderstandings, and irregularities in payroll administration (Srihandoko et al., 2024; Sugiarti et al., 2024). Therefore, the quality of the payroll system may influence employees' perceptions of fairness and organizational reliability, which in turn can affect their work performance.

In addition to an effective payroll system, internal control is essential for ensuring that organizational activities are performed in accordance with established objectives and procedures. Internal control is a process implemented by the board of directors, management, and other organizational personnel to provide reasonable assurance regarding the achievement of operational, reporting, and compliance objectives (Utami et al., 2023). Based on the COSO Framework, internal control consists of five integrated components: control environment, risk assessment, control activities, information and communication, and monitoring (Irdawati & Mulyadi, 2022). These components support

p-ISSN : 2550-0732
e-ISSN : 2655-8319

asset protection, the accuracy and reliability of financial information, operational effectiveness and efficiency, and compliance with applicable policies and regulations (Pemerintah Republik Indonesia, 2008; Fitriani & Hidayah, 2021).

Employee performance reflects the extent to which employees successfully carry out their responsibilities within a specified period in terms of both work quality and quantity (Adhari, 2021). Employee performance is therefore an important indicator of organizational effectiveness because the achievement of organizational objectives depends substantially on the ability of employees to perform their duties accurately, efficiently, and consistently. In the context of outsourced employees, performance may also be influenced by the quality of administrative systems and organizational controls because employment arrangements involve coordination between employees, outsourcing service providers, and client organizations. This issue is particularly relevant in Indonesian state-owned enterprises (SOEs), where outsourced employment arrangements may create challenges related to payroll administration and internal control. Reports have indicated differences in payroll practices for outsourced workers, including issues related to overtime compensation and payment arrangements determined by agreements between outsourcing providers and client companies (Tempo.co, 2025). BPS data for 2023, as reported by BSP Alih Daya (2025), also indicate that 62% of outsourced workers expressed dissatisfaction with their working conditions. Furthermore, the Audit Board of the Republic of Indonesia (BPK RI, 2013) identified weaknesses in internal control systems within state-owned enterprises. These conditions highlight the importance of reliable payroll administration and effective internal control in supporting accountability as well as employee performance.

PT Geo Dipa Energi Unit Patuha 1 Bandung operates in the state-owned geothermal energy sector and employs outsourced workers to support its operational activities. Preliminary observations indicated several issues related to payroll administration and the implementation of internal control that may affect outsourced employee performance. Previous studies provide evidence of relationships among these variables. Shintia and Riduwan (2021), Purnama (2020), and Patraini et al. (2021) reported that payroll-related accounting information systems positively influence employee performance. Similarly, Ruliyanti and Siahaan (2021), Wijaya and Priono (2022), and Gaffar (2022) found that effective internal control contributes positively to employee performance. Despite these findings, previous studies have generally examined payroll-related systems and internal control separately or have been conducted in organizational settings different from outsourced employment in the state-owned geothermal energy sector. Limited empirical evidence is therefore available regarding the simultaneous effects of the Payroll System and Internal Control on the performance of outsourced employees. This gap is important because outsourced employment involves a relatively complex relationship among employees, outsourcing providers, and client organizations, particularly in relation to payroll administration, working-hour records, responsibilities, and control procedures.

Accordingly, the novelty of this study lies in examining the Payroll System and Internal Control simultaneously using Partial Least Squares Structural Equation Modeling (PLS-SEM) and comparing their relative contributions to Employee Performance among outsourced employees at PT Geo Dipa Energi Unit Patuha 1 Bandung. This study is expected to extend the empirical literature on payroll governance and internal control by providing evidence from the outsourcing context within the state-owned geothermal energy sector. From a practical perspective, the findings are also expected to provide useful information for management in improving payroll procedures, strengthening internal control, and enhancing outsourced employee performance.

Based on the research problem and the empirical evidence discussed above, the following hypotheses are proposed:

H1: The Payroll System has a positive and significant effect on Employee Performance.

H2: Internal Control has a positive and significant effect on Employee Performance.

METHODS

This study employed a quantitative approach with a survey method using a descriptive and verificative research design. The descriptive analysis was used to describe respondents' perceptions of the research variables, while the verificative analysis was conducted to test the hypothesized relationships between the Payroll System, Internal Control, and Employee Performance. The study was conducted at PT Geo Dipa Energi Unit Patuha 1 Bandung, with data collected from March to June 2026.
The study examined two independent variables and one dependent variable. The *Payroll System (X1)* was measured using five dimensions: related functions, documents used, accounting records, system procedures, and internal control elements (Fibiyanti, 2021). ***Internal Control (X2)*** was measured based on the five components of the COSO Framework, consisting of control environment, risk assessment, control activities, information and communication, and monitoring (Irdawati & Mulyadi, 2022). Meanwhile, Employee Performance (Y) was assessed through five dimensions: work quality, work quantity, timeliness, effectiveness, and teamwork ability. All indicators were measured using a five-point Likert scale ranging from 1 to 5, with a total of 48 measurement items across the three constructs.
The population consisted of 75 outsourced employees at PT Geo Dipa Energi Unit Patuha 1 Bandung. The minimum sample size was determined using a power analysis approach referring to Hair et al. (2022), which resulted in a minimum requirement of 37 respondents. To ensure an adequate number of observations for the analysis, the sample was rounded to 40 respondents. Respondents were selected using simple random sampling, providing each member of the population with an equal opportunity to be included in the study.
Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4. The analysis consisted of two main stages: evaluation of the measurement model (*outer model*) and evaluation of the structural model (*inner model*). The measurement model was assessed using indicator loadings, with values above 0.70 considered acceptable, convergent validity, discriminant validity using the Fornell–Larcker criterion and the Heterotrait–Monotrait (HTMT) ratio, as well as internal consistency reliability using Composite Reliability and Cronbach's Alpha, with threshold values above 0.70.
The structural model was subsequently evaluated using the coefficient of determination (R^2), path coefficients, T-statistics, p-values, and effect size (f^2). The significance of the hypothesized relationships was assessed through a bootstrapping procedure with 5,000 subsamples, following the PLS-SEM evaluation procedures recommended by Hair et al. (2022). This analytical approach was used to determine the magnitude and significance of the effects of the Payroll System and Internal Control on Employee Performance.

RESULTS AND DISCUSSION

The respondent profile shows that the 40 participants were distributed across several work units, consisting of Maintenance (30%), Operations (25%), Security (20%), Administration (15%), and other units (10%). In terms of length of service, most respondents had worked for 1–3 years (45%), followed by those with less than one year of service (30%) and more than three years (25%). This distribution indicates that the sample represents employees with varying functional backgrounds and levels of work experience.
The descriptive analysis shows that the Payroll System obtained a mean score of 3.33, Internal Control 3.41, and Employee Performance 3.38, all of which fall within the Adequate category. These results indicate that respondents generally have favorable perceptions of the payroll system, internal control, and employee performance, although several aspects still require improvement. The largest improvement opportunity in the Payroll System was identified in the System Procedures dimension, with an actual score of 65.4% and a gap of

p-ISSN : 2550-0732
e-ISSN : 2655-8319

34.6%. Meanwhile, within Internal Control, the Control Activities dimension recorded an actual score of 66.6% and a gap of 33.4%. These findings suggest that management should place greater attention on strengthening payroll procedures and control activities to ensure more consistent implementation, clearer processes, and better support for employee performance.

Outer Model Evaluation

Outer loading test results show that all indicators meet the threshold of 0.70, except indicator PI3 (Organizational Structure, outer loading = 0.497) which was eliminated from the model. The remaining indicators meet validity criteria. Table 1 presents the construct reliability and validity results.

Table 1. Construct Reliability and Validity Results

Variable	Cronbach's Alpha	Composite Reliability	AVE
Payroll System (X1)	0.927	0.941	0.728
Internal Control (X2)	0.912	0.928	0.618
Employee Performance (Y)	0.944	0.954	0.742

Source: Primary data processed with SmartPLS 4 (2026)

All three variables meet Composite Reliability (> 0.70) and Cronbach's Alpha (> 0.70) thresholds, with AVE values exceeding 0.50, confirming convergent validity is fulfilled. Discriminant validity based on the Fornell-Larcker criterion and HTMT ratio confirms all variables are distinct constructs with no overlapping measurement.

Inner Model Evaluation

Collinearity test (VIF) results show VIF values for Payroll System (1.698) and Internal Control (1.698) are below the 5.0 threshold, confirming no multicollinearity problem. Table 2 presents the coefficient of determination results.

Table 2. Coefficient of Determination (R^2)

Variable	R^2	R^2 Adjusted	Category
Employee Performance (Y)	**0.741**	**0.727**	**Strong**

Source : Primary data processed with SmartPLS 4 (2026)

The R^2 value of 0.741 indicates that the Payroll System and Internal Control together explain 74.1% of the variation in Employee Performance, with the remaining 25.9% explained by variables outside the model. This is categorized as strong according to Hair et al. (2022). Table 3 presents the path coefficient and bootstrapping results.

Table 3. Path Coefficient and Bootstrapping Results (5,000 Subsamples)

Path	β	T-Statistics	p-value	Decision
Payroll System → Employee Performance	0.314	2.838	0.005	H1 Accepted
Internal Control → Employee Performance	0.649	7.639	0.000	H2 Accepted

Source: Primary data processed with SmartPLS 4 (2026)

 p-ISSN : 2550-0732
e-ISSN : 2655-8319

Table 4. Effect Size (f²)

Path	f²	Category
Payroll System → Employee Performance	0.269	Medium Effect (0.15 – 0.35)
Internal Control → Employee Performance	1.144	Large Effect (> 0.35)

Source: Primary data processed with SmartPLS 4 (2026)

DISCUSSION

Effect of Payroll System on Employee Performance (H1)

The results of hypothesis testing indicate that the Payroll System has a positive and significant effect on Employee Performance among outsourced employees at PT Geo Dipa Energi Unit Patuha 1 Bandung (β = 0.314; T = 2.838; p = 0.005). Since the T-statistic is greater than 1.96 and the p-value is below 0.05, H1 is supported. The positive path coefficient indicates that improvements in the payroll system are associated with improvements in employee performance. In other words, the more accurate, transparent, timely, and consistently implemented the payroll system is, the more likely outsourced employees are to demonstrate better performance. The descriptive findings provide additional insight into this relationship. The Payroll System obtained a mean score of 3.33 and was categorized as Adequate, indicating that employees generally have a favorable perception of the existing payroll practices. However, this result also shows that the payroll system has not yet reached an optimal level. In particular, the System Procedures dimension recorded an actual score of 65.4%, leaving a gap of 34.6%. This finding suggests that improvements are still required in the consistency and clarity of payroll procedures, including the recording of attendance and working hours, salary calculation, overtime compensation, deductions, authorization, and payment processes. From an accounting perspective, the payroll system is an important part of the accounting information system because it integrates employee-related functions, source documents, accounting records, payroll procedures, and internal control mechanisms. An effective payroll system produces accurate and reliable information regarding employees' compensation rights and labor costs. For outsourced employees, this aspect is particularly important because payroll administration may involve coordination between the outsourcing service provider and the client company. Clear and consistent payroll procedures can therefore reduce uncertainty regarding salary calculations, overtime payments, deductions, and other compensation entitlements. A reliable payroll system may also contribute to employee performance by strengthening employees' perceptions of fairness and organizational reliability. When employees receive compensation accurately and on time and clearly understand how their salaries and other benefits are calculated, the likelihood of misunderstandings and dissatisfaction can be reduced. This condition allows employees to concentrate more effectively on their work responsibilities rather than on payroll-related concerns. Consequently, improvements in payroll administration can support better work discipline, productivity, timeliness, and overall job performance.

The findings are consistent with Shintia and Riduwan (2021), Purnama (2020), and Patraini et al. (2021), who reported a positive relationship between accounting information systems and employee performance. The consistency of these findings indicates that reliable accounting information, including payroll-related information, can support employees in performing their duties more effectively. However, the present study extends previous evidence by specifically demonstrating the role of the payroll system in the context of outsourced employees within a state-owned geothermal energy company. Therefore, the payroll system should not be viewed merely as an administrative mechanism for calculating and paying salaries. It also functions as an important managerial and accounting information mechanism that supports fairness, transparency, accountability, and employee performance. For PT Geo Dipa Energi Unit Patuha 1 Bandung, the findings imply that management should particularly strengthen payroll procedures by ensuring clear documentation, accurate working-hour records, transparent calculation of salaries and overtime, consistent authorization procedures, and timely payment. Improvements in these areas are expected to reduce payroll-related uncertainty and provide a more supportive environment for outsourced employees to perform effectively.

Effect of Internal Control on Employee Performance (H2)

The results of hypothesis testing indicate that Internal Control has a positive and significant effect on Employee Performance ($\beta = 0.649$; $T = 7.639$; $p < 0.001$). Therefore, H2 is supported. The positive path coefficient indicates that stronger internal control is associated with better employee performance. Compared with the Payroll System ($\beta = 0.314$), Internal Control shows the stronger influence, with a path coefficient more than twice as large. In addition, the effect size of $f^2 = 1.144$ indicates a large substantive effect, suggesting that internal control plays a major role in explaining variations in employee performance. From a management accounting perspective, effective internal control improves the accuracy, reliability, and timeliness of information used for performance evaluation, labor cost calculation, and operational decision-making. Reliable information enables management to monitor employee activities, evaluate the use of resources, identify deviations, and take corrective action when necessary. In the context of outsourced employees, this is particularly important because their work arrangements involve coordination between the outsourcing provider and the client company, which requires clear responsibilities, accurate working-hour records, and consistent supervision. The five components of the COSO Framework—control environment, risk assessment, control activities, information and communication, and monitoring—work together as an integrated control system. A strong control environment establishes clear authority and responsibility; risk assessment helps management identify potential operational and payroll-related risks; control activities ensure that established procedures are followed; information and communication provide employees and management with reliable information; and monitoring allows management to evaluate whether the control system is functioning effectively. Through these mechanisms, internal control can reduce errors, prevent irregularities, improve accountability, and strengthen employee discipline (Anggraini et al., 2025). These conditions can ultimately improve employee performance because employees work within a clearer, more structured, and accountable environment. When duties, procedures, supervision, and performance expectations are clearly defined, employees are more likely to perform their responsibilities consistently and effectively. This finding also explains why Internal Control has a stronger effect than the Payroll System in this study: employee performance is influenced not only by compensation practices, but also by the broader organizational mechanisms that regulate, monitor, and support daily work activities. The findings are consistent with Ruliyanti and Siahaan (2021), Wijaya and Priono (2022), and Gaffar (2022), who reported that stronger internal control systems contribute positively to employee performance. The present study extends these findings by showing that internal control is particularly important in the context of outsourced employees in a state-owned geothermal energy company. Therefore, internal control should not be viewed merely as an administrative compliance mechanism, but as an important managerial instrument for strengthening accountability, operational discipline, information reliability, and employee performance. From a practical perspective, PT Geo Dipa Energi Unit Patuha 1 Bandung should strengthen the implementation of internal control, particularly in the areas of control activities, supervision, communication, and monitoring. Clearer procedures, more accurate working-hour records, consistent authorization, and regular evaluation of outsourced employee activities are expected to reduce operational irregularities and support more sustainable improvements in employee performance.

CONCLUSION

The results of this study show that the payroll system has a positive influence on the performance of outsourced employees at PT Geo Dipa Energi Unit Patuha 1 Bandung. An accurate, transparent, and consistent payroll system can increase employee confidence, reduce dissatisfaction, and support better work performance. Clear procedures related to salary calculation, overtime payments, deductions, and other employee rights are therefore important in maintaining employee productivity. Internal control also has a positive and stronger influence on employee performance. The consistent implementation of the five COSO components helps clarify responsibilities, strengthen supervision, improve information reliability, and reduce operational irregularities. This finding indicates that employee performance is influenced not only by compensation practices but also by the effectiveness of organizational control and governance. Overall, integrating a reliable payroll system with effective internal control can create a more transparent, accountable, and disciplined working environment. Therefore, PT Geo Dipa Energi Unit Patuha 1 Bandung should continuously improve payroll procedures and strengthen internal control to support sustainable improvements in outsourced employee performance.

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