Factors Affecting the Quality of Financial Statements on Lembaga Perkreditan Desa in Payangan Regency

Ni Luh Putu Widhiastuti*, Ni Luh Gde Novitasari, Ni Wayan Rika Yanti

Universitas Mahasrarswati Denpasar, Indonesia

Abstract

The purpose of this study is to find out the effect of compliance with accounting standards, information system support, internal audit functions, leadership ethics and level of accounting understanding on the quality of financial Statements. The population of this study was 93 respondents in LPD Payangan Regency. The results of this study indicate that compliance with accounting standards, internal audit function, leadership ethics have a positive effect on the quality of financial Statements, while information system support, and the level of accounting understanding have no effect on the quality of financial statements. Further research can develop this research by using other variables that in theory have an influence on the quality of financial statements, such as professionalism and work experience.

*Corresponding author:
E-mail: utuwidhiastuti@unmas.ac.id

1. Introduction

According to Thomas (2017:35) the quality of a company's financial statements depends on how much information the company produces can be useful for users and how the company prepares financial statements based on a conceptual framework and basic principles and accounting objectives. The quality of the financial statements can be reflected in the health of the company or not. A healthy company has good quality financial reports without any deviations.

The problem with the Lembaga Perkreditan Desa, Payangan District, Gianyar Regency, is that employees are not good at presenting financial statements. Employees backdate, even though it's past the end of the month. This causes accounting information to be hampered and has an impact on decreasing the quality of the resulting financial reports. The first factor that is thought to affect the quality of financial statements is compliance with accounting standards. Sukrisno (2017: 90) states that compliance with accounting standards is a condition that is created and shaped through a process of a series of behaviors regulating the preparation of financial statements. Compliance with accounting standards is an important factor in the preparation of quality financial statements.
statements. The existence of a standard is very beneficial for both the management as the fund manager and the company's activities because it can record, summarize, and report all the results of the company's operational and financial activities in a standard and transparent manner. Raras Research (2019) and Lestari (2020) shows that compliance with accounting standards and the quality of financial reports has a positive effect. Meanwhile, Septiana (2017) stated that compliance with accounting standards has a negative effect on the quality of financial reports.

Information system support is the next factor that is thought to affect the quality of financial reports. Malayu (2018:45) states that information system support is an activity that has an impact and directs a system in processing data or transactions in order to produce useful information for the company in terms of the effectiveness of planning, controlling, analyzing, making decisions, and presenting financial statements. Lestari’s research (2020) found a positive influence between information system support and the quality of financial reports. Meanwhile, Septiana (2017) and Mahartini (2020) state that there is a negative relationship between information system support and the quality of financial reports.

The function of the supervisory body is the third factor that is thought to affect the quality of financial reports. According to Danamik (2018:156) the function of the supervisory body is to ensure that every employee can be responsible for carrying it out as well as possible his duties. Their performance is controlled by the operational system and applicable procedures, so that errors and irregularities can be exposed. Research by Andika (2016), Mahartini and Muliarta (2020) shows that the function of the supervisory body has a positive influence on the quality of financial reports. Unlike Lestari (2020) which says the function of the supervisory body has a negative effect on the quality of financial reports. Nudilah (2016) shows that the function of the supervisory body has no effect on financial statements quality ones.

The fourth factor that is thought to affect the quality of financial reports is leadership ethics. Kalshoven (2017: 90) states that leadership ethics are the principles, beliefs and values of right and wrong describing the basis of organizational behavior, thus formulating the basis on which leaders influence employees in achieving organizational goals. Without effective leadership ethics, the balance of the organization can be disrupted. The leadership ethics applied by organizational leaders in running the organization itself can provide added value for improving self-character, especially in mental and spiritual robustness, thus, employees tend to trust their leaders or superiors because employees feel that their superiors are able to apply societal norms and values within a company or organization. The research of Andika and Kulsum (2016), Mahartini and Muliarta (2020) states that leadership ethics has a relationship positive on the quality of financial statements. Raras (2019) shows that leadership ethics has a negative effect on the quality of financial reports. Nudilah (2016) states that leadership ethics cannot affect the quality of financial reports.

The last factor that is thought to affect the quality of a financial report is the level of accounting understanding. Muliono (2018:23) states that the level of accounting understanding shows the level of a person's ability to understand accounting both as a set of knowledge and as a process or practice. Accounting understanding is a person who has intelligence and understands correctly from the process of recording accounting transactions to becoming financial reports that have quality in accordance with applicable guidelines or standards. Research by Septiana (2017) and Raras (2019) found that the level of accounting understanding has a positive effect on the quality of financial reports. Meanwhile, Muliarta (2020) shows that the level of accounting understanding has a negative effect on the quality of financial reports. Nudilah (2016) and Pratiwi (2021) show that the level of accounting understanding cannot affect the quality or not of the financial statements produced.

The old institutional theory can be defined as a theory that explains how a company develops and survives when it is in a competitive environment full of competitors, as well as studies how companies satisfy stakeholders (Widyawati, 2012). Hasibuan in Santoso (2018), states that the
main point of institutional economics is to look at economics with a single social science unit, such as psychology, sociology, politics, anthropology, history and law.

Huisen (2017:23) states that compliance with accounting standards can direct for someone to comply with applicable regulations, it is the same as a company that strives to present financial reports in a timely manner because apart from being a company's obligation to submit financial reports on time, it will also be very beneficial for stakeholders. Compliance with the timeliness of submission of financial reports has been clearly stated in the basic framework for preparing and presenting financial reports, that timeliness is one of the characteristics that must be complied with in order to present relevant financial reporting. The sooner information is disclosed, the more relevant the information will be for users of financial statements. Research by Kartika (2016) and Sella (2019) shows that adhering to accounting standards has a positive relationship with quality financial reports. Based on the results of these studies then to improve the quality of financial reports, employees must comply with existing accounting standards. Based on the theoretical basis in the empirical study of the results of previous research, the first hypothesis is presented as follows:

**H1:** Compliance with accounting standards has a positive effect on the quality of financial statements at LPD Payangan regency.

Krismiaji (2010:4) states that an accounting information system is a system that processes data and transactions in order to produce useful information for planning, controlling, and operating a business. This opinion is also supported by Marshall and Paul (2014:10) that the accounting information system is a system that starts from collecting, recording and storing, and processing data to produce information that can be used in decision making. So with the support of information systems, it can simplify and minimize errors in the preparation of financial statements so that they can produce quality financial reports. Research by Wibawa (2017), Sella (2019), Lestari (2020), and Pebriantari (2021) found a positive influence between information system support and quality financial reports. These results indicate that with the increasing support for information systems, the value of the information generated will also increase. If the support for the accounting information system is carried out adequately, the financial statements presented are also of high quality. Based on the theoretical basis in the empirical study of previous research results, the second hypothesis is formulated as follows:

**H2:** Information system support has a positive effect on the quality of financial statements at LPD Payangan Regency.

According to Nurjaya, et al., (2011: 97) the role of the supervisory body is an active supervision to oversee operational policies, accounting practices, financial reporting and become a liaison between managers and external auditors. LPD supervision is a party that helps ensure that financial reports are prepared properly effectively without any fraud so that quality and accurate financial reports can be obtained. So that with adequate internal control and being able to guarantee that in carrying out operations, abuse of authority by various parties can be prevented which could harm the company and lead to unhealthy practices. To produce quality financial reports, the internal oversight body can act as an internal auditor who will control the financial reports so that there is no data manipulation in the financial reports. Sinaranata and Sella (2019), Pebriantari and Novarini (2021) conducted research on the effect of the supervisory body's function on the quality of financial reporting, the results of which show a positive influence. The existence of a supervisory body can indirectly control the process of making financial reports so that it has an impact on increasing the quality of the resulting financial reports. Based on the theoretical basis in the empirical study of the results of previous research, the third hypothesis is compiled as follows:
H3: The function of the internal audit has a positive effect on the quality of financial statements in LPD Payangan Regency.

Ethics is a branch of philosophy of moral values and values that determine human behavior in life (Awatara, 2011). A leader must unite the various skills, experience, personality and motivation of each individual he leads as an effective leader or not based on their satisfaction from work experience as a whole, so that the acceptance of the leader’s direction or request largely depends on the expectations of his followers. This is due to cultural influences which state that employees are often asked to follow instructions and orders from their superiors. So when their superiors ask these employees to manipulate financial statements, employees who are subordinates will tend to follow the orders of their superiors even though it is actually against the norms and ethics that exist in society. Meanwhile, if the superior who holds a high position has good ethics, then the employee will feel that the superior is able to apply the norms and values of society within the company. The research of Novarini and Pratiwi (2021) shows that leadership ethics has a positive effect on the quality of financial reports. The higher the leadership ethics possessed by the leader in leading employees, the better the quality of the financial reports made by employees in the finance department because employees feel safe and without pressure at work. Based on the theoretical basis in the empirical study of previous research results, the fourth hypothesis is formulated as follows:

H4: Leadership Ethics has a positive effect on the quality of financial statements in LPD Payangan Regency.

Comprehension is a person’s ability to understand and understand the meaning and intent of the material being studied. Understanding of accounting is one of the keys in the provision and use of financial reports. In making financial reports, an accountant must understand the contents of the report, so that he can make decisions about what to take. If an accountant does not have an understanding of accounting, it will be difficult to understand and make decisions in financial reporting, and will hinder the preparation and lack of quality in financial reporting due to a lack of understanding of accounting for accountants so that the delivery of reports is inaccurate. Research by Wibawa (2017), Sinaranata (2019), Novarini and Pratiwi (2021) shows that the level of accounting understanding has a positive effect on quality financial statements. This means that the more someone understands accounting, the better the quality of the financial statements prepared because someone who have good skills in grouping items or transactions in the preparation of financial reports. Based on the theoretical basis in the empirical study of the results of previous research, the fifth hypothesis is compiled as follows:

H5: The level of accounting understanding has a positive effect on the quality of financial statements in LPD Payangan Regency.

2. Materials and Methods

This research was conducted at the Lembaga Perkreditan Desa located in Payanga District, Gianyar Regency. The number of LPDs in Payangan District, Gianyar Regency, is 31 LPDs. According to Sugiyono (2017: 118), saturated sample is a sampling technique when all members of the population are used as samples. Questionnaires were given to the leadership, internal audit and accounting, with 1 person from 31 LPDs each, so the number of respondents was 93 people. The research model in this study as follows:
The equations of the multiple linear regression model used are:

\[ KLK = \alpha + \beta_1 KTSA + \beta_2 DSI + \beta_3 FBP + \beta_4 EK + \beta_5 TPA + e \]  

Where:
- KLK: Quality of financial statements
- KTSA: Compliance with accounting standards
- DSI: Information system support
- FBP: Internal audit functions
- EK: Leadership ethics
- TPA: Level of accounting understanding
- \( \alpha \): Constant
- \( \beta_1, \beta_2, \beta_3, \beta_4, \beta_5 \): Regression coefficient
- \( e \): Error

The variable in this study is compliance with accounting standards is one of the behaviors that must be upheld by the values of obedience and adherence to the basic rules and concepts that have become guidelines and have become provisions/stipulations in the accounting field. Compliance with accounting standards uses indicators: presentation of financial statements, notes to financial statements, error correction. The questionnaire was adopted from research conducted by Novarini (2021).

Information system support is a system whose activities start from processing, data and transactions to produce useful information for planning, controlling and operating. Information system support using indicators: system quality, information quality, service quality. The questionnaire was adopted from research conducted by Novarini (2021).

The function of the Supervisory Board is to audit financial reports because the important benefits of these financial reports require that internal supervisors be extra careful in examining the financial statements presented. Good financial reporting is financial reporting that meets the objectives of the reporting. The function of the Oversight Body uses indicators: responsibility, education and authority. The questionnaire was adopted from research conducted by Novarini (2021).

Leadership Ethics is the ethics of a leader in determining what attitude will be taken in the presentation of financial statements. Leadership Ethics is measured using a Likert scale as outlined in the questionnaire. By using indicators: ethical standards, as a catalyst and integrity. The questionnaire was adopted from research conducted by Novarini (2021).
The level of understanding of accounting is the level of a person’s ability to understand accounting either as a set of knowledge, or as a process or practice. With good and reliable accounting knowledge, the quality of financial reporting will avoid information errors due to a lack of knowledge about understanding accounting. Leadership Ethics uses indicators: understanding the level of assets, understanding of debt, understanding of capital. The questionnaire was adopted from research conducted by Novarini (2021).

The quality of financial reports is a report that can provide information about the company’s achievements in a period and provide information that can be known by users. The quality of financial reports using indicators: relevant, reliable, comparable and understandable. The questionnaire was adopted from research conducted by Novarini (2021).

3. Results and Discussion

Descriptive Statistical Results

Descriptive statistics is a method of analyzing data, in order to obtain an orderly picture of an event. The results of the descriptive statistical test are shown in Table 1 below:

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>KTSA</td>
<td>93</td>
<td>10.00</td>
<td>15.00</td>
<td>12.6237</td>
<td>1.25900</td>
</tr>
<tr>
<td>DSI</td>
<td>93</td>
<td>26.00</td>
<td>40.00</td>
<td>32.6237</td>
<td>3.32616</td>
</tr>
<tr>
<td>FBP</td>
<td>93</td>
<td>13.00</td>
<td>29.00</td>
<td>23.2043</td>
<td>3.22544</td>
</tr>
<tr>
<td>OAK</td>
<td>93</td>
<td>22.00</td>
<td>30.00</td>
<td>25.9032</td>
<td>2.10106</td>
</tr>
<tr>
<td>Landfill</td>
<td>93</td>
<td>14.00</td>
<td>30.00</td>
<td>23.4301</td>
<td>3.07655</td>
</tr>
<tr>
<td>KLK</td>
<td>93</td>
<td>24.00</td>
<td>35.00</td>
<td>30.0215</td>
<td>2.65796</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>93</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Result of Multiple Linear Regression Analysis

Multiple linear analysis is used to measure the strength of the relationship between two or more variables and also shows the direction of the relationship between the dependent variable and the independent variable. The test results can be seen in Table 2 as follows:

<table>
<thead>
<tr>
<th></th>
<th>Coefficientsa</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>14.097</td>
</tr>
<tr>
<td>KTSA</td>
<td>0.952</td>
<td>0.224</td>
</tr>
<tr>
<td>DSI</td>
<td>0.068</td>
<td>0.078</td>
</tr>
<tr>
<td>FBP</td>
<td>0.265</td>
<td>0.069</td>
</tr>
<tr>
<td>EK</td>
<td>0.398</td>
<td>0.138</td>
</tr>
<tr>
<td>TPA</td>
<td>0.106</td>
<td>0.073</td>
</tr>
</tbody>
</table>

a. Dependent Variable: KLK

Based on Table 2, a multiple linear regression equation is obtained as follows:

KLK = + 0.952KTSA + 0.068DSI + 0.265FBP + 0.398EK + 0.106TPA + e............(1)

Classic assumption test Results

Normality test using the Kolmogorov-Smirnov test with an Asymp.Sig (2-tailed) value of 0.086 which is greater than 0.05 so it can be concluded that the data used in this study is normally distributed. Heteroscedasticity test by regressing the absolute residual value can be seen in the sig
column if the value of the independent variables used in this study has a value greater than 0.05, so it can be concluded that the variables used do not experience symptoms of heteroscedasticity. The multicollinearity test is seen from the tolerance value of all independent variables having a value above 0.10, while the VIF value of all independent variables has a value below 10. This means that there is no correlation between the independent variables.

**Model Feasibility Test**

The accuracy of the sample regression function in estimating the actual value can be measured from the Goodness of fit. Statistically, it can be measured from the statistical value of F, the coefficient of determination, and the statistical value of t. Here are some of these results:

**F Statistic Test**

The F-count value of 15.536 with a significance value of 0.000 is smaller than 0.05, then the model is acceptable. The results concluded that Compliance with Accounting Standards (KTSA), Information System Support (DSI), Functions of the Internal Audit (FBP), Leadership Ethics (EK), and Level of Accounting Understanding (TPA) simultaneously affect the Quality of Financial statements (KLK).

**Coefficient of Determination (R²)**

The adjusted R square value is 0.441 or 44.1% which means that Compliance with Accounting Standards (KTSA), Information System Support (DSI), Internal audit Functions (FBP), Leadership Ethics (EK), and Accounting Understanding Level (TPA) are able to explain The Quality of Financial Statements (KLK) is 44.1% and the remaining 55.9% is explained by other factors outside the model.

**t Statistics Test**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>t-statistic</th>
<th>Sig.</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>14.097</td>
<td>4.917</td>
<td>0.000</td>
<td></td>
</tr>
<tr>
<td>Compliance with Accounting Standards (KTSA)</td>
<td>0.952</td>
<td>4.243</td>
<td>0.000</td>
<td>H1 is Accepted</td>
</tr>
<tr>
<td>Information System Support (DSI)</td>
<td>0.068</td>
<td>0.875</td>
<td>0.384</td>
<td>H2 is Rejected</td>
</tr>
<tr>
<td>Function of the Internal Audit (FBP)</td>
<td>0.265</td>
<td>3.829</td>
<td>0.000</td>
<td>H3 is Accepted</td>
</tr>
<tr>
<td>Leadership Ethics (EK)</td>
<td>0.398</td>
<td>2.893</td>
<td>0.005</td>
<td>H4 is Accepted</td>
</tr>
<tr>
<td>Level of Accounting Understanding (TPA)</td>
<td>0.106</td>
<td>1.451</td>
<td>0.150</td>
<td>H5 is Rejected</td>
</tr>
</tbody>
</table>

Based on the results of the t statistical test, it can be explained as follows:

The t-statistic test value of Compliance with Accounting Standards (KTSA) is 4.243 with a significance value of 0.000 which is smaller than 0.05. This means that Compliance with Accounting Standards (KTSA) has a positive effect on the Quality of Financial statements (KLK), so H1 Accepted.

The t-statistic test value of Information System Support (DSI) is 0.875 with a significance value of 0.348 which is greater than 0.05. This means that Information System Support (DSI) has no effect on the Quality of Financial statements (KLK), so H2 rejected.

The t-statistic test value of the Function of the Internal Audit (FBP) is 3.829 with a significance value of 0.000 which is smaller than 0.05. This means that the function of the Internal Audit (FBP) has a positive effect on the Quality of Financial statements (KLK), so that H3 Accepted.

The t-statistic test value of Leadership Ethics (EK) is 2.893 with a significance value of 0.005 which is smaller than 0.05. This means that Leadership Ethics (EK) has a positive effect on the Quality of Financial statements (KLK), so that H4 Accepted.
The t-statistic test value of the Accounting Understanding Level (TPA) is 1.451 with a significance value of 0.150 which is greater than 0.05. This means that the level of accounting understanding (TPA) has no effect on the quality of financial statements (KLK), so H5 Accepted.

**The Effect of Compliance with Accounting Standards on the Quality of Financial Statements**

Compliance with accounting standards has a positive effect on the quality of financial statements, so the first hypothesis (H1) which states that the variable of compliance with accounting standards has a positive effect on the quality of accepted financial statements. These results explain that accountants have complied with accounting standards in presenting financial statements, thereby increasing the quality of financial statements. The more obedient accountants to accounting standards, the better the tendency of the quality of the financial statements produced. Compliance with accounting standards is a guideline for preparing financial statements, so that financial accounting standards are an important factor that can improve the quality of the resulting financial statements to be relevant, reliable, and trustworthy and can be used as a basis for decision making.

**The Effect of Information System Support on the Quality of Financial Statements**

Information system support has no effect on the quality of financial statements, so the second hypothesis (H2) which states that the information system support variable has a positive effect on the quality of financial statements is rejected. The results showed that the support of the information system had no effect on the quality of financial reports. This is because system users have understood the stages in the system development process, so the presence or absence of information system support will not affect the quality of financial statements. Although there is no support from the information system, it will not be an obstacle because accounting already knows what users need without the need for information system support to run smoothly. Therefore, information system support does not affect the quality of financial statements at Lembaga Perkreditan Desa in Payangan Regency. The results of this study are supported by research conducted by Novarini and Pratiwi (2021) which shows that information system support does not affect the quality of financial statements.

**The Influence of the Functions of the Internal Audit on the Quality of Financial Statements**

The function of the Internal audit has a positive effect on the quality of financial statements, so the third hypothesis (H3) which states that the variable of the function of the internal audit has a positive effect on the quality of financial statements is accepted. The results show that the role of the internal audit function is to actively supervise operational policies, accounting practices, financial reporting, and be a liaison between managers and auditors. The internal control structure is very important to be implemented in the LPD because the internal control structure in its application is not only to ensure that all provisions have been carried out according to applicable regulations, but also function as a supervisor, both in collecting excess funds that exist in the community, and also in expanding credit and manage the spread of risk, so that credit is not only centered on one debtor or on one particular group of debtors. It aims to be of good quality and smoothly. Internal audit function in LPD is a party that helps ensure that financial reports are prepared effectively without fraud, so that quality and accurate financial reports statements can be obtained. The results of this study are supported by research conducted by Sinaranata and Sella (2019), Pebriantari and Novarini (2021) which show that the function of the internal audit has a positive effect on the quality of financial statements.

**The Influence of Leadership Ethics on the Quality of Financial Statements**

Leadership ethics has a positive effect on the quality of financial statements, so the fourth hypothesis (H4) which states that the leadership ethics variable has a positive effect on the quality of financial statements is accepted. The results showed that leadership ethics had a positive effect
on the quality of financial statements. This is because the ethics of a leader at the Lembaga Perkreditan Desa are already good, so the company runs well and develops. The financial reports made by the LPD cannot be engineered by employees, as long as the leader has good ethics, and is followed by his employees, so that leadership ethics is very important in determining the quality of LPD financial statements. The higher the ethics of an LPD leader, the better the quality of the financial statements presented will be.

Pratiwi (2021) which shows that leadership ethics has a positive effect on the quality of financial statements.

The Influence of the Level of Accounting Understanding on the Quality of Financial Statements

The level of accounting understanding has no effect on the quality of financial statements, so the fifth hypothesis (H5) which states that the variable level of accounting understanding has a positive effect on the quality of financial statements is rejected. The results showed that the level of accounting understanding had no effect on the quality of financial statements. This is because currently the development of accounting applications in making quality financial reports is very much and the price is also affordable and some are even free. The existence of this application will help an accountant in making quality financial reports more efficiently and on time. Therefore, the understanding of accounting owned by Lembaga Perkreditan Desa employees who are tasked with making financial reports does not affect the quality of financial statements. The results of this study are supported by research conducted by Novarini and Pratiwi (2021) which shows that the level of accounting understanding has no effect on the quality of financial statements.

4. Conclusion and Suggestions

Based on the results of the discussion that has been described, the conclusion is that compliance with accounting standards, supervisory agency functions and leadership ethics has a positive effect on the quality of financial Statements at the Lembaga Perkreditan Desa in Payangan Regency. Meanwhile, information system support and level of accounting understanding have no effect on the quality of financial statements at the Lembaga Perkreditan Desa in Payangan Regency.

This study still has limitations because it only examines Compliance with Accounting Standards, Information System Support, Internal audit Functions, Leadership Ethics and Accounting Understanding Levels on Quality of Financial Statements. In addition, the sample used is only the Lembaga Perkreditan Desa Payangan District, Gianyar Regency and the object being sampled is still limited in terms of the area of the population.

Suggestions that can be given are for further researchers to be able to research and examine more deeply other factors, such as professionalism and work experience that were not examined in this study that could affect the quality of financial reports. In addition, further researchers are expected to expand the research location by conducting research in all LPDs in Gianyar Regency.

References


