Quality of FS

by Hisar Pangaribuan

Quality of Financial Statement and the Factors That Influence It

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Abstract: This study aims to determine the effect of accounting standards, internal control systems and accounting information systems on the quality of the financial report. This quantitative study used a survey approach with a sample of 197 employees, using variance-based data analysis techniques. The results showed that applying accounting standards and internal control systems significantly affected the quality of the financial report. However, this was different with the application of accounting information systems. This implies that the application of accounting standards, internal control systems and accounting information systems are important in improving the quality of financial reports. This research provides important input contributions in efforts to improve the quality of financial reports.
Keywords: Accounting; System; Information; Quality; Internal Control; Financial Statement.

Abstrak: Penelitian bertujuan untuk mengetahui pengaruh penggunaan standar akuntansi, sistem pengendalian intern dan sistem informasi akuntansi terhadap kualitas laporan keuangan pada pegawai negeri sipil Biro Perencanaan dan Keuangan Lingkungan Badan Riset Dan Inovasi Nasional Thamrin. Penelitian ini merupakan studi kuantitatif dengan pendekatan suevei dengan sampel sebanyak 197 pegawai. Teknik analisis data penelitian menggunakan berbasis varian. Hasil penelitian menunjukkan bahwa penerapan standar akuntansi dan sistem pengendalian intern berpengaruh signifikan terhadap kualitas laporan keuangan. Namun, hal ini berbeda dengan penerapan sistem informasi akuntansi, hal tersebut berimplikasi bahwa penerapan standar akuntansi, sistem pengendalian intern dan sistem informasi akuntansi penting dalam meningkatkan kualitas laporan keuangan. Penelitian ini memberikan kontribusi masukan yang penting dalam upaya peningkatan kualitas laporan keuangan.
Kata Kunci: Akuntansi; Sistem; Informasi; Kualitas; Pengendalian Internal; Laporan Keuangan.

INTRODUCTION

In realizing good company performance, it is also necessary to improve financial reports to produce quality financial reports. Transparency and accountability of corporate financial management can be realized through the submission of corporate financial accountability reports that comply with the principles of being timely and prepared according to accounting standards (Saruno and Penawutkun, 2021). The quality of financial reports is the extent to which the financial reports presented show trustworthy and honest information. The quality of the information in the company's financial statements is strongly influenced by compliance with accounting standards (Costa et al., 2022). Apart from that financial reports must follow standards for good quality, the fact is that financial reports are still found to be below standard (Yusrina et al., 2017; Vignini, 2022).

Attention to the quality of reliable financial reports is important because it can impact management performance in government organizations (Nirwana and Haliah. 2018). Good-quality financial reports correlate positively with corporate integrity (Lee et al., 2022). Studies at universities found that the quality of financial reports significantly positively influences Good University Governance (Christina and Brahmana, 2021). It was even found that reliable, good-quality financial reports can increase information transparency for users of financial information (Gatea et al., 2021). The results of this study are expected to provide additional contributions in efforts to improve the quality of financial reports.

The government as a regulator tries to regulate and supervise financial reports issued to the public. One of the efforts to realize good state financial management in Indonesia is the submission of government financial reports prepared by applying government accounting standards. Government accounting standards are accounting principles that must be applied to obtain quality financial reports (Mentu and Sondakh, 2016).

The internal control system also influences the excellent quality of local government financial reports. The internal control system provides confidence in achieving effectiveness and efficiency in accounting, especially in creating quality financial reports. The high quality of local government financial reports is also determined by how good the internal controls are.

The Internal Control System has several essential elements in managing regional accountability: the control environment, control risk, control activities, information and communication. On the other hand, one of the factors that can create quality financial reports is the accounting information system (Darmawan, 2021). An accounting information system is a set of human and capital resources in an organization built to present financial information obtained from the collection and processing of financial data. Financial reports are produced based on sound input, good processes and good output. These three aspects must be integrated and sustainable as the foundation for a sound financial reporting system (Krupka et al., 2022). (Monteiro et al., 2021) find the important role of internal control quality and the quality of accounting information systems as a catalyst in the quality of the financial report.

Employees surely need help in the finance department to produce good-quality financial reports. The study was conducted to determine the effect of applying accounting standards, internal control systems, and accounting information systems on the quality of financial reports at the Office of Civil Servants, Bureau of Environmental Planning and Finance, National Research and Innovation Agency, Thamrin-Jakarta.

THEORETICAL REVIEW

Jensen and Meckling previously described a contractual relationship between agent and principal. The owner authorizes management as the agent to run the business so that the agent controls a wider range of information and data than the owner. This gap in the ownership of information and data is generally called information asymmetry, which is widely associated with disclosure theory. Principals who are company owners require good disclosure of company activities because they invest in the company (Santoso et al., 2022).

From the point of view of the owner as the principal, the agent entrusted with the trust is assumed to adhere to a different economic understanding. In the end, they are only concerned with themselves. Agents feel reluctant to disclose information that is not following the owner's expectations or detrimental to the owner, so there is a tendency to manipulate and change the numbers that should be in the annual financial reports (Abdalmuttaleb and Reyad, 2018).

Signaling theory outlines the importance of reports provided by management and issuers relating to decisions of parties outside the company. This information is important because it presents notes or descriptions of past, present and future company conditions regarding the company's sustainability (Yasar et al., 2020). Furthermore, Kaymaz et al. (2021) said that signaling theory suggests information asymmetry between agents and other parties interested in the information presented. This theory proposes how appropriate information on the company gives a signal or is conveyed to external parties. Signaling theory can also help companies (agents), owners (principals), and external parties reduce the intensity of information asymmetry by presenting the quality of the information in financial reports.

The financial report is one of the pieces of information presented by management in one form of report as a signal that helps disclosure. Good quality financial reports are financial reports presented by entities that in their financial reports have four characteristics, namely relevant, reliable, comparable and understandable. Relevance is when the information in the financial statements can influence users' decisions by helping them evaluate past or present events and predict the future, as well as confirming or correcting the results of their past evaluations (Zuca et al., 2022).

Accounting standards are standard guidelines for presenting good-quality financial reports. These standards are accounting principles applied in preparing and presenting financial reports (Agbodjo et al., 2021). Government accounting standards are accounting principles in preparing and presenting government financial reports (Miyauch and Sanada, 2019). Government accounting standards are requirements that have legal force to improve the quality of government financial reports in Indonesia. Government accounting standards are accounting principles that apply in preparing the presentation of government financial reports.

Contrarily, the International Auditing and Assurance Standards Board (2017) stated that the internal control system is a strategy that incorporates the organizational structure and all coordinated techniques and tools utilized within the corporation to uphold the protection of company property. Internal control systems also ensure that accounting data is accurate and precise, promote efficiency, and ensure that set management policies are followed.

The internal control system is an integral process of actions and activities that are carried out continuously by the leadership and all employees to provide adequate assurance for the achievement of organizational goals. In government, the results of the internal control system activities can contribute to increased effectiveness and efficiency, reliability of financial reporting, safeguarding State assets and compliance with laws and regulations (Peraturan Pemerintah RI No. 60 Tahun 2008). Internal control is needed so that it is easy to find or analyze existing problems or problems that may arise in the process of achieving goals so that the achievement of goals can be known (Pangaribuan et al., 2022).

Mulyadi (2017) stated the internal control system includes organizational structure, methods and measures that are coordinated to maintain organizational assets, check the accuracy and reliability of accounting data, and encourage efficiency and compliance with management policies.

Accounting information systems include processes, procedures and systems that capture accounting data from business processes, record accounting data into appropriate records, and process accounting data in detail by classifying, summarizing, consolidating and reporting summarized accounting data to internal and external users (Turner et al., 2017). Previously, (Mulyadi, 2017) said that an accounting information system is an organization of forms, records, and reports that are coordinated in such a way as to provide the financial information needed by management in order to facilitate company management.

The accounting information system is designed to carry out data processing activities and information reporting manually and computerized on financial-related activities. The accounting information system can also be summed up as sub-subsystems that work together and are responsible for each other. The accounting information system provides financial information and information obtained from transaction data for internal reporting purposes to managers for decision-making and shareholders, government, and other parties outside the company (Merino, 2018).

Furthermore, it was said that the accounting information system has four leading indicators, namely indicators of the level of timeliness, the level of flexibility, the level of cost efficiency and the level of auditing power (O'Donnell, 2019). Financial reports become a form of accountability for managing the entity's economic resources. Financial statements are a structured presentation of an entity's financial position and financial performance for a certain period (Ikatan Akuntan Indonesia, PSAK No.1).

Financial reports must be prepared based on applicable accounting standards so that they are of good quality, can be compared with financial reports in the previous period, and can also be compared with other companies. Good quality and good financial reports are urgently needed. Various benefits of good quality financial reports, among others, can increase voluntary disclosure (Pangaribuan et al., 2022), provide benefits to stakeholders (Dumisani, 2019), have a positive future impact on company size and growth (Astutie and Fanani, 2016) as well as other positive impacts.

The quality of financial reports is a dynamic condition related to products, services, processes and the environment that meet or exceed the minimum criteria required (Yusrina et al., 2017). Financial reports are a form of accountability report regarding the company's financial position, which is optimally prepared to be used as a reference in preparing a plan and making decisions (Mbir et al., 2020). (Saruno and Penawutkun, 2021), financial reports must be relevant, reliable, comparable and understandable. These four elements are related indicators in determining whether the financial statements are presented with good quality.

Application of Accounting Standards and Quality of Financial Statements. Financial Accounting Standards serve as a foundation for the process of creating financial reports, ensuring consistency in their presentation. Accounting standards also help users of financial statements understand and compare the financial accounts of various businesses, which in turn helps auditors (Dumisani, 2019). The use of accounting standards in the presentation of financial statements will provide comparability characteristics. The use of accounting standards in the presentation of financial statements will provide a high level of comparability, Improve the quality and reliability of the financial statements presented, so that it will impact a low cost of capital (Huang and Yan, 2020).

Applying an accounting standard relates to its importance in disclosing accounting information that describes financial performance in financial reporting. The application of accounting standards also aims to obtain good-quality financial reports (Pangaribuan et al., 2019). Previously (Ewert and Wagenhofer, 2016) say that although many have found that the use of accounting standards can increase disclosure and make information more symmetrical, the reality is that existing accounting standards tend to have the opposite effect. Namely, accounting standards reduce the information content of financial statements, making them more rigid, and disclosure tends to be limited.

(Ma et al., 2022), who researched banking in Pakistan, found that the application of the use of financial reporting standards (IFRS) would improve the quality of financial reports and even increase the efficiency and effectiveness of bank reporting. (Alawneh and Alawneh, 2022), who researched in Jordan, also found a positive and significant influence of the application of international financial standards (IFRS) on the quality and effectiveness of financial reporting in Jordan.

Research conducted by (Al-Tameemi et al., 2021), uses insurance company data to find out how far companies comply with using international accounting standards for financial market efficiency. The results show that the economic and legal environment heavily influences insurance companies, and companies that comply with the use of international accounting standards in preparing their financial reports produce more reliable quality financial reports and produce efficient financial markets.

(Walaa, 2021) has conducted research to find out the relationship between information quality and stock returns during the use of international accounting standards (IFRS) using data from DataStream, Osiris, International Telecommunication Union (ITU) and the World Bank databases from 2009 to 2014 across 24 emerging countries., with an event study approach. The results show a significantly positive increase in information quality with stock returns. Improving the quality of financial information is strongly supported by how companies apply well international accounting standards.

(Stirilita, 2021), who conducted research in Surabaya, Indonesia, with the research title The Effect of Application of Government Accounting Standards and Good Governance on the Quality of Financial Reports. The research results prove that application of Government Accounting Standards positively and significantly affect the Quality of Financial Statements. Previously, studies on the use of accounting standards in financial institution companies have shown that there is increasing adherence to the use of accounting standards in Islamic financial institution companies (Habib, 2019). Using accounting standards, especially for leasing companies, increases company value positively. This is due to an increase in the quality of financial reports and an increase in the level of confidence of users of financial reports presented by management (Hae, 2022).

H1: The application of Accounting Standards has a positive and significant effect on the quality of financial reports.

Internal Control System and Quality of Financial Reports. Internal control, as defined by the Treadway Commission's Committee of Sponsoring Organizations (COSO) report, is a procedure influenced by an entity's board of directors, management, and other staff members and intended to offer a reasonable level of assurance regarding the accomplishment of goals for operational effectiveness and efficiency, the accuracy of financial reporting, and compliance with applicable laws and regulations (Alam et al., 2019). The fundamental ideas considered in this situation are that internal control is a method for achieving objectives. People, including the policies and forms contained within, affect internal control. Therefore, internal control can only offer a reasonable level of certainty and not complete assurance (Le et al., 2021).

An internal control system is needed so that it is easy to analyze and find existing problems or problems that may arise in achieving goals so that the achievement of goals can be clearly identified. Implementing effective internal control affects increasing the disclosure of internal control itself. It positively improves the quality of financial reports and increases financial market performance, which is marked by increased corporate governance (Weli and Sjarief, 2018).

(Mangar et al., 2021) with the research title The Influence of Application of Accounting Information Systems, Quality of Human Resources and Internal Control Systems on the Quality of Financial Reports (Empirical Study of Regional Apparatus Organizations in Aru Islands Regency). The results their study have shown that the internal control system has a significant positive effect on the quality of financial statements. (Schrank, 2021) researched by shifting accountability from the auditor to the auditee using a game theory model. The results demonstrated that internal control and external audit could work well together. According to other research, the internal control system is primarily the auditee's duty rather than the auditor's, and an efficient internal control system enhances both the quality and accuracy of financial reporting.

(Bandiyono, 2020) researched to ascertain, using the internal control system as a moderator variable, the impact of budgeting participation on the caliber of financial reports. School principals, deputy principals, teachers, and committees from high schools and vocational schools throughout Tangerang were respondents for this quantitative study. The result proved that in terms of improving the quality of financial reporting, the internal control system has a significant impact on improving the quality of financial reporting. However, the budget participation variable has a moderate impact. The research conducted by (Janwarin and I Made, 2022) aims to determine the effect of the government's internal control system on the quality of financial reports with the role of moderating the organization's ethical climate. His research used a survey method and data collection on 80 Maluku Provincial Government's planning and finance department employees. The result implied that the government's internal control system has a positive and significant effect on the ethical climate of the organization, then. Furthermore, organizational ethics has a beneficial and sizable moderate influence on the accuracy of the company's financial statements.

H2: The internal control system has a positive and significant effect on the Quality of Financial Statements.

Accounting Information Systems and Quality of Financial Reports. An accounting information system is a mechanism designed to carry out data processing activities and report information both manually and computerized on activities related to finance. In utilizing a language and tools that are unique to accounting systems, data is processed to obtain information. The creation and dissemination of accounting data can be seen as a service that includes improving the quality of financial reporting. (Budacia and Budacia, 2022). (Dagiliene and Sutiene, 2019) surveyed companies incorporating a sustainability strategy into their core strategy. Their findings show that it is important and should be of particular concern for companies to implement an integrated sustainability accounting information system that can serve as a good practice model to help achieve sustainable goals. (Darmawan, 2021) conducted a case study at PT. Neuronworks Indonesia found that the implementation of an adequate accounting information system had an impact on improving the quality of financial reports.

(Cohen et al., 2022) recently researched to analyze citizens' perceptions of infographics and their ability to understand government financial reports. The study was carried out by exploratory analysis to obtain the participation of a group of citizens in three European countries through a questionnaire. The results show that infographics can improve citizens (even those with non-financial backgrounds) understanding of accounting and financial reports. It was also found that the right accounting information system can improve the quality of accounting information and make accounting reports easier to understand.

(Kwarteng and Aveh, 2018), conducted a survey method study of top company executives from various industrial sectors, using structural equation model data analysis, post hoc tests, and analysis of variance. The study demonstrated a statistically significant relationship between organizational culture on accounting information systems and corporate performance. The study's findings indicate that the accounting information system significantly influences both firm performance and the accuracy of financial reporting.

(Monteiro et al., 2021) conducted a study to investigate whether the Quality of Accounting Information Systems and the quality of the Internal Control System can affect the quality and usefulness of financial information using a survey approach of 381 managers in Portugal. The research was conducted using a structural equation approach. The results show that the quality of financial reporting is directly influenced by the quality of the internal control system and the quality of the accounting information system. It was also found that the quality of financial reporting can be a predictive variable on the usefulness of financial information and mediates the relationship between information systems and the usefulness of financial information. The research findings highlight the important role of internal control quality and accounting information systems as a catalyst in the quality of financial reporting and the usefulness of financial information.

(Mahartini et al., 2021) with the title The Influence of Application of Government Accounting Standards, Internal Control Systems, and Accounting Information Systems on the Quality of Financial Reports in the Karangasem Regency Government and the results of the study found that accounting information system variables have a positive effect on the quality of financial reports.

The current implementation of the accounting information system is subject to basic accounting and adopts computer technology in its processing to support the accuracy and timeliness of reporting. An adequate accounting information system will help process information in a timely manner and improve the quality of reporting, including financial reports (Cohen and Karatzimas, 2017).

H3 : The Accounting Information System has a positive and significant effect on the quality of financial reports.

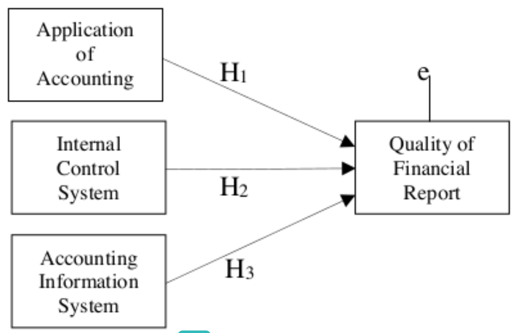

Figure 1. Research Model

Figure 1. The Research Model describes more about the phenomenon of the reports that occurred; paying attention to the quality of financial reports is of great interest. Even though it is expected that the financial reports presented are of good quality, in reality, many financial reports still need more accurate data. In addition, audits of financial accounts provided by management revealed many discrepancies (Mutschmann et al., 2022; Hela, 2022). This research establishes the research concept outlined in the Research Conceptual Overview, which explains how variables in applying accounting systems, internal control systems, and accounting information systems can contribute to forming the quality of financial reports. Some of the results of previous research found that applying accounting systems (Stirilita, 2021), internal control systems (Janwarin and I Made, 2022) and accounting information systems (Cohen and Karatzimas, 2017) positively correlates with the quality of financial reports.

METHODS

The type of study used is quantitative research with a survey approach. The sampling technique is generally carried out randomly; data collection uses research instruments, and data analysis is quantitative/statistical in nature to test the hypotheses that have been set. In general, survey research uses a questionnaire as data collection tool by taking samples from a population and using questionnaires as the main data collection tool.

The object under study is the application of accounting standards, internal control systems, accounting information systems, and quality of financial reports at the Civil Service Bureau of Planning and Environmental Finance of the National Research and Innovation Agency Thamrin-Jakarta.

This study measures the application of accounting standards based on the views of (Agbodjo et al., 2021); and the International Accounting Standards Board (2018), with regulatory measurement tools, human resources, and supporting systems and facilities. Internal control system measurements follow (Mulyadi, 2017), namely organizational structure, methods and measures, accuracy and reliability of accounting data, encouraging efficiency, and compliance with management policies. The accounting information system measurement follows (O'Donnell, 2019): timeliness, flexibility, cost efficiency and auditing power. Furthermore, the quality of financial reports follows the views of (Zuca et al., 2022), which is measured by relevance, reliability, comparability and understandability.

(Silaen, 2018), a population is the whole of objects or individuals with certain characteristics (traits) to be studied. The population is also called univum (universe), which means the whole can be animate or inanimate objects. The population in the research were employees at the Bureau of Environmental Planning and Finance, the National Research and Innovation Agency, Thamrin-Jakarta, with a total of 341 employees. The following is employee data at the Planning and Environmental Finance Bureau of the Thamrin-Jakarta National Research and Innovation Agency, namely:

Table 1. Description of Employees as Research Population

No.	Division/ Function Group	Main Work Unit	Number of Employees	Sample	
				Total	Percent
1.	Planning and Finance Head	Bureau of Planning and Finance	1	1	0.508
2.	Budget Manager	Bureau of Planning and Finance	108	41	20.812
3.	Monitoring and Evaluation	Bureau of Planning and Finance	19	10	5.076
4.	Finance	Bureau of Planning and Finance	213	145	73.604
	Total		341	197	100.000

Source: Decree on the Placement of Employees at the Environmental Planning and Finance Bureau of the National Research and Innovation Agency Thamrin- Jakarta (2022*)*

In determining the size of the sample, the authors used nonprobability sampling, where the method used was purposive sampling as showed **Table 1.** Of the total population of 341 employees at the Bureau of Environmental Planning and Finance, the National Research and Innovation Agency Thamrin- Jakarta. The research uses the Slovin in determining the size of the sample, namely:

$$n = \frac{N}{N(d)^2+1} \quad \text{.........} \quad (1)$$

Where: n is the number of samples, d is 95 percent precision value or at significant level of 5 percent, N is the number of populations, and 1 is the constant value.

So, when calculated from the formula, it is as follows:

$$n = \frac{341}{341(0.05)^2+1} \quad \text{.........} \quad (2)$$

$$n = \frac{341}{1.8525}$$

$$n = 184.075 \text{ (rounded to = 184)}$$

While the sample used in the study amounted to 197 employees from the existing population, which is almost 57.771 percent of the population. The description of the research sample as shown in the Table Description of Employees as Research Population is that one employee comes from the planning and finance head, 41 employees come from the budget manager division, ten employees come from the monitoring and evaluation division, and 145 employees come from the finance division. In percentage, the number of respondents was 73.640 percent from the Finance division, 20.812 percent from the Budget Manager division, 5.076 percent from the Monitoring and Evaluation division and 0.508 percent from the Planning and Finance Head. This research assumes that the respondents have a no different understanding of the object under study, so it is appropriate to answer each statement in the questionnaire submitted.

The type of data used in this research is primary data. Primary data, namely research data obtained directly into the field, to obtain respondents' answers describing the application of accounting standards, internal control systems and accounting information systems, as well as the quality of financial reports. The data collection method used is a questionnaire, which collects data by distributing questionnaires aimed at respondents to obtain responses to the object under study.

The data analysis technique of this research uses PLS (Partial Least Square) software, a variant-based structural equation model that can simultaneously test measurement and structural test models. From the results of the research collected, then the analytical method is presented as follows:

Measurement Models (Outer Model). The measurement model or outer model is carried out to test the validity and reliability of the research instrument. The validity test in this study used convergent validity and discriminant validity. Convergent validity is seen from the measurement model with reflected indicators which are assessed based on the correlation of the model between the component score/item score and the construct score calculated by PLS. If the correlation is more than 70 percent with the construct we want to measure, then the individual reflection measure is said to be high. For early-stage research, measurements with an outer loading value of 50 percent to 60 percent are considered sufficient.

Assessing discriminant validity with this method is by comparing the square root of the average variance extracted (AVE) value. The recommended value is that the AVE value must be greater than 50 percent. The AVE formula is:

$$AVE = \lambda i2\ \lambda i2 + ivar\ (\varepsilon i). \quad \ldots\ldots\ldots\ldots (3)$$

The recommended composite reliability value must be above 60 percent (Ghozali, 2018).

Structural Models (*Inner Model*). The structural model is used to predict the causality relationship between latent variables. The structural model was evaluated by looking at the percentage of variance explained by the R^2 value for the dependent variable using the Stone-Geisser Q-Square Test. The model equation is:

$$N = \beta O + \beta\eta + \eta\varepsilon + \zeta \quad (4)$$

Where η describes the endogenous (dependent) vector of the latent variable, ε is the vector of the residual variable. Each latent variable dependent of the latent variable can be specified as follows:

$$pc = \Sigma i\ \beta ji\ \eta i + \Sigma i\ \gamma jb\ \varepsilon b + \zeta j \quad (5)$$

Where βji and γjb are the path coefficients connecting endogenous predictors and exogenous latent variables ε and η along the range of indices i and b, and ζ is the inner residual variable. If the results produce an R^2 value greater than 0.200, it can be interpreted that latent predictors have a large influence on the structural level.

Hypotheses Testing. Hypotheses testing (β, γ, and λ) was carried out using the bootstrap resampling method developed (Ghozali, 2018). The size of the significance of the support of the hypothesis can be used by comparing the values of the t table and t statistics through the following decision-making criteria of: When the t statistic is higher than the t table, and the p values are higher than the significant level of five percent, Ha is accepted, and Ho is rejected. Hereafter, when the t statistic is lesser than or equal to the t table and p values higher than or equal to the significant level of five percent, then Ha is rejected, and Ho is accepted.

RESULTS

Data processing using Smart PLS performs model testing through outer and inner model testing. The outer model testing is the measurement model is used to determine the specification of the relationship between latent variables and their manifest variables; this test includes convergent validity, discriminant validity and reliability. Inner model testing is necessary to evaluate the final structural equation model.

Outer Model Testing. The model is said to meet convergent validity if it has a loading value of higher than zero point seven. The output shows the loading factor above the recommended value of zero point seven. However, in the scale development stage research, a loading of zero point six is still acceptable (Ghozali, 2018). So that the indicators used in this study have met convergent validity. The structural model in this study is shown in the **Figure 2**. Outer Model, Algorithm Testing.

In the outer model figure, it can be found that the contribution of the application of accounting standards, internal control systems and accounting information systems to the quality of financial reports is 0.958. This contribution consists of latent variables in the accounting standards' application, contributing to the variable quality of accounting reports of 0.709. The internal control system latent variable contributes 0.296 to the quality of financial reports, and the accounting information system latent variable contributes 0.003 to the quality of financial reports, In detail, the contribution is described as consisting of three channels.

The results of the descriptive research statistics, as presented in **Table 2**, show that there are 197 N research sample data. Respondents gave the perception of a minimum value of 1 and a maximum value of 5 for each variable applying accounting standards, internal control systems, accounting information systems, and quality of financial reports.

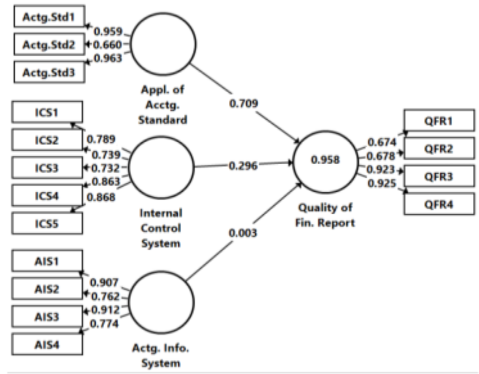

Figure 2. Outer Model, Algorithm Testing
Source: processed data

Table 2, was also found that the overall value of the standard deviation of the data is smaller than the average value, which means that the variability of the data is quite good; that is, it is below the average value.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Actg_Standar1	197	1.000	5.000	4.117	0.803
Actg_Standar2	197	1.000	5.000	3.965	0.634
Actg_Standar3	197	1.000	5.000	4.102	0.814
ICS1	197	3.000	5.000	3.980	0.562
ICS2	197	1.000	5.000	4.112	0.807
ICS3	197	2.000	5.000	3.970	0.646
ICS4	197	1.000	5.000	3.980	0.622
ICS5	197	1.000	5.000	3.934	0.615
AIS1	197	1.000	5.000	4.102	0.801
AIS2	197	2.000	5.000	3.975	0.575
AIS3	197	1.000	5.000	4.107	0.810
AIS4	197	2.000	5.000	3.981	0.576
QFR1	197	2.000	5.000	3.944	0.616
QFR2	197	1.000	5.000	3.944	0.607
QFR3	197	1.000	5.000	4.096	0.818
QFR4	197	1.000	5.000	4.112	0.793
Valid N (listwise)	197				

Source: results of processed descriptive data.

The first path coefficient, implementing the accounting standards with the quality of financial statements, obtained a positive path value of 0.709. This value indicates a relationship of 70.900 percent (0.709 x 100 percent). This result means that the better the accounting standards application, the higher the quality of financial reports, and vice versa.

The second path coefficient, obtained a path value of 0.296. This value indicates that the internal control standards have a positive relationship path with the quality of financial statements of 29.600 percent (0.296 x 100 percent) with the quality of financial statements. This result means that every application of internal control standards that gets better/improves significantly increases the quality of financial reports, and vice versa.

The third path coefficient, value is 0.003, which shows that there is still a positive path of 0.300 percent (0.003 x 100 percent) from the accounting information system to the quality of financial reports. This result means that implementing the accounting information system improves the quality of financial statements.

Discriminant validity is seen from the acquisition of the Average Variance Extracted (AVE) score with a critical limit of zero point five, and construct reliability is seen from the acquisition of Cronbach alpha and composite reliability scores with a critical limit of zero point six to zero point seven. Smart PLS output for Loading Factor can be seen in the Outer Loading table.

Table 3. Outer Loading

	Application of the Accounting Standards	**Internal Control System**	**Accounting Information System**	**Quality of Financial Reports**
Actg.Std1	0.959			
Actg.Std2	0.660			
Actg.Std3	0.963			
ICS1		0.789		
ICS 2		0.739		
ICS 3		0.732		
ICS 4		0.863		
ICS 5		0.868		
AIS1			0.907	
AIS 2			0.762	
AIS 3			0.912	
AIS 4			0.774	
QFR1				0.674
QFR 2				0.678
QFR 3				0.923
QFR 4				0.925

Source: Output of Smart PLS Program

Based on the Outer Loading Table data (see **Table 3**. Outer Loading), it is known that the lowest outer loading value in this study's outer model test results is 0.660 in the PSAK2 indicator. Referring to the predetermined outer loading limit of 0.700, in the research at the scale development stage, a loading of 0.600 is still acceptable. These results show that the model fulfills the convergent validity assumption because the lowest outer loading value is obtained at 0.651 which is above 0.600.

Data from the **Table 4.** Construct Validity and Reliability shows that the lowest AVE value of the variables is 0.641, which belongs to the internal control system variable. These results indicate that the three research variables have met the assumptions of discriminant validity because the lowest AVE value is obtained, more than 0.500. Meanwhile, in the results of Cronbach alpha and composite reliability, it is known that the lowest value is 0.818, which is owned by the variable quality of financial reports. Thus these results also prove that all variables meet the reliability construct assumption because the lowest Cronbach alpha and composite reliability values are above 0.700.

Table 4. Construct Validity and Realibility

	Cronbach's Alpha	**rho_A**	**Composite Reliability**	**Average Variance Extracted (AVE)**	***R Square***	***R Square Adjusted***
Quality of Financial Reports	0.818	0.859	0.881	0.656	0.958	0.957
Application of the Accounting Standards	0.829	0.877	0.903	0.760		
Accounting Information System	0.868	0.907	0.906	0.709		
Internal Control System	0.860	0.868	0.899	0.641		

Source: Output of Smart PLS Program

The results as presented in **Table 4.** have also shown that the R-square value for the variable quality of financial statements is 0.958. This acquisition explains that the percentage of the magnitude of the quality of financial reports is 95.800 percent. Meaning that the variable implementation of accounting standards, internal control systems and accounting information system variables contributed to the quality of financial reports by ninety five point eight percent. Other variables outside of this study influenced the remaining four point two percent.

Inner Model Testing. After testing the outer model, it is necessary to evaluate the final structural equation model (inner model). The inner model test of this research was carried out by looking at the path coefficient and R square values.

Testing of Hypotheses Result. This study has three hypotheses that need to be tested for truth. Testing the hypothesis of this study using the t-test, namely by comparing the value of the t statistic obtained from the bootstrapping test with the critical limit of the t-table value of 1.652. The results of the research hypothesis test are presented in **Table 5**. Direct Effect Testing Results.

Table 5. Direct Effect Testing Results

	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Conclusion
Application of the accounting standards--> Quality of financial reports	0.706	0.058	12.273	0.000*	supported
Internal control system --> Quality of financial reports	0.294	0.042	6.982	0.000*	supported
Accounting information system --> Quality of financial reports	0.009	0.063	0.043	0.966	not-supported

Note: *statistically significant at the 1 percent
Source: Output of Smart PLS Program

It is concluded that applying accounting standards positively significant affects the quality of financial statements with a t-statistic value of 12.273 above 1.653. The internal control system latent variable has a significant positive effect on the quality of financial statements, namely 6.982 above 1.653 (significantly influencing). At the same time, the accounting information system latent variable has no significant effect on the quality of financial statements, with a t-statistic value of 0.063 below 1.653.

In detail, the bootstrapping test presented can be explained that:

First hypothesis: From the original sample value of 0.706, a t-statistic value of 12.273 and a P-value of 0.000 is obtained. These results prove that applying of the accounting standards has a positive and significant effect on the quality of financial statements, with a relationship value of seventy point six percent (0.706 x 100 percent). The t statistic value of 12.273 above t table of 1.653, and the P-value of 0.000 below 0.010 proves that the first hypothesis of this study is accepted.

Second hypothesis: From the original sample value of 0.296, a t-statistic value of 6.982 and a P-value of 0.000 is obtained. These results prove that the internal control system has a positive and significant effect on the Quality of Financial Statements, with a relationship value of twenty nine point four percent (0.294 x 100 percent). The t-statistic value is 6.982 above t-table 1.653, and the p-value 0.000 below 0.010 proves that the second hypothesis of this study is accepted.

Third hypothesis: From the original sample value of 0.003, a t-statistic value of 0.009 below 1.653 and a p-value of 0.063 is obtained. These results prove that the accounting information system has no significant effect on the Quality of Financial Statements, with a relationship value of zero point nine percent (0.009 x 100 percent). The t-statistic value of 0.063 below t-table 1.653 and p-value 0.966 above 0.050 proves that the third hypothesis in this study is rejected.

DISCUSSION

When preparing financial reports, accounting rules must be used as accounting principles. This research has shown that the implementation of accounting standards significantly improves the quality of financial reports. Consequently, the confidence of the users of financial statements in the financial data utilized as a decision-making tool is growing. In the context of local government financial reports, when the local government financial reports are of good quality, it has an impact on increasing the level of public trust in local government leaders; the funds entrusted by the public to the government will be easier to collect (either in the form of taxes or other forms). The findings of this study were in line with previous research, which stated that adherence to the use of accounting standards in presenting financial reports could significantly improve the quality of financial reports (Habib, 2019; Stirilita, 2021; and Hae, 2022).

Improving the quality of financial reports is strongly influenced by selecting the right organizational structure, techniques and metrics, accuracy and reliability, promoting efficiency, and compliance as instruments for measuring the internal control system. Management, in particular, must pay attention so that employees can consciously and effectively comply with existing regulations and encourage employees to be efficient in their duties. This was conveyed because these two elements have the highest loading factor, which plays a greater role in determining an effective internal control system. This finding was in line with previous research, which has shown that effective internal controls are needed to improve the quality of financial reports (Bandiyono, 2020; Janwarin and I Made, 2022).

The accounting system as a method and procedure for collecting, clarifying, summarizing, and reporting information on a company's business and financial operational activities can help protect data, improve efficiency, generate real-time information, and improve the quality of financial reports. While The accounting information system is an important component of every company's financial office designed to collect and display accounting information. This system is designed to process financial and accounting data and produce financial reports that can be used by managers or other interested parties to make business decisions. A good accounting information system must be secure, maintain confidentiality, contain privacy principles and ensure information availability and integration. This study found that accounting information systems (as measured by timeliness, flexibility, cost efficiency and audit strength) do not significantly affect the quality of financial reports. This result differed from previous studies, which stated that accounting information systems significantly and positively affect the quality of financial reports (Cohen and Karatzimas, 2017; Mahartini et al., 2021). The results of interviews with the management of the entities observed bring awareness in the mastery of information technology and computers that employees are still very low, so they cannot support the effectiveness of implementing existing accounting information systems. (Cazazian, 2022) further finds that adopting the right technology can increase the effectiveness and performance of accounting information systems.

CONCLUSION

Financial accounting standards are the basic reference for management in presenting financial statements. The use of accounting standards in the presentation of financial statements will provide good comparability characteristics, illustrate the importance of disclosing accounting information, and make information more symmetrical, thereby increasing the quality and reliability of financial reports. This study has concluded that there is a positive and significant effect of the Application of Accounting Standards on the Quality of Financial Reports at the Planning and Environmental Finance Bureau of the National Research and Innovation Agency Thamrin-Jakarta.

Internal control is a procedure influenced by an entity's board of directors, management, and other staff members to offer reasonable assurance regarding accomplishing goals. Implementing effective internal control affects increasing the disclosure of internal control itself, improves the quality of financial reports, and further increases the implementation of corporate governance. This research has also proven that the internal control system positively and significantly influences the Quality of Financial Reports.

The accounting information system is designed to carry out data processing activities and information reporting manually or computerized in finance-related activities. The current implementation of the accounting information system is subject to an accounting basis and adopts computer technology in its processing to support accuracy, timeliness of reporting and fast changes in the business environment. The results described, the accounting information system has no significant effect on the quality of financial reports at the Planning and Environmental Finance Bureau of the National Research and Innovation Agency Thamrin-Jakarta. This insignificant effect is because employees still need to gain higher awareness of the use of information technology so that the accounting information system is seen as not having a significant effect on improving the quality of financial statements.

The results of this study have implications for the importance of continuous monitoring of the Application of Accounting Standards and the application of effective internal controls to produce good-quality financial reports. Other implications of this finding include that management must view human resources as an important asset in producing good quality financial reports; for this reason, human resources need to be trained in using computers to provide high productivity in presenting good quality financial reports.

This research is limited to using a sample of only employees at the Bureau of Environmental Planning and Finance, the National Research and Innovation Agency, Thamrin-Jakarta, and is limited to using only three exogenous variables in predicting the quality of financial statements. It is necessary to improve further research by taking samples of entities with different organizational characteristics or developing a more comprehensive research model to obtain more generalized results.

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