

The Factors That Affect The Quality of Financial Reporting

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Abstract - This research was conducted against the background of a phenomenon at BPJS, namely the recovery of state finances caused by BPKRI's findings related to compliance with laws and regulations and the internal control system. This research was undertaken through a survey and was grounded based on existing theories, which were then developed into a research model in which the model in this study was designed to examine the quality of financial reporting with the application of the principles of good corporate governance, compliance with laws and implementation of internal control systems. This study aims to determine the effect of applying the principles of good corporate governance, compliance with legislation, and the application of internal control systems on the quality of financial reporting. SEM PLS is used as an analysis tool in this study. The research data used came from questionnaires collected using survey methods. The results of this study conclude that applying the principles of good corporate governance has a significant effect on the quality of financial reporting. Likewise, compliance with laws and implementation of internal control systems.

Keywords — *Quality of Financial Reporting, Application of Principles Good Corporate Governance, Compliance with Laws and Application of Internal Control System.*

I. INTRODUCTION

Law in the field of state finance No. 17 of 2003 concerning State Finances and Law No. 1 of 2004 concerning Examination of State Financial Management emphasizes the principle of management of State Finances that leads to best practice in achieving good governance. Good governance measures include using the results-oriented accountability principle, better known as performance accountability and transparency, in managing state finances. Employment social security organizing body organizes social security for workers, in the form of old-age insurance, a guarantee of termination of employment. BPJS Employment is a state agency that has the mandate to carry out universal social security coverage. The KPK recommendations suggest that the BPJS manage the TKI insurance scheme with a single risk management scheme. The government continues to encourage BPJS Employment so that its programs can provide benefits to the community optimally

BPK (IHPS I, 2018) found 10,154 findings which contained 15,434 problems, which included 7,890 (51.12%) non-compliance with laws and regulations valued at Rp 33.46 trillion and 7,544 (48.88%) problems with weaknesses in the internal control system, of the non-compliance issues, as many as 4,609 problems affected the financial recovery of the state/region/company (or financial impact) worth Rp 21.62 trillion. Based on these problems, the problem is formulated as follows: 1) Is there an effect of applying the principles of good corporate governance on the quality of financial reporting? 2) Is there an effect of compliance with laws on the quality of financial reporting? 3) Is there an effect of implementing the internal control system on the quality of financial reporting?

II. LITERATURE REVIEW

A. The Quality of Financial Reporting

The definition of quality, according to Mulyana (2010: 96), is: "Quality is defined as conformance to standards, measured based on the degree of non-conformity, and achieved through inspection". According to Kasmir (2013: 7), in a simple sense, financial statements are reports that indicate the company's financial condition at this time or in a certain period. The purpose of financial statements that show the company's current financial condition is the latest. The company's current condition is the company's financial condition at a certain date (for the balance sheet) and a certain period (for the income statement). Financial statements. Describe the company's financial items obtained in a period. To prepare quality financial reports, the use of management information systems is needed to reduce inaccuracy and error rates in preparing reports. Financial statements are used to determine the value of economic resources used to carry out company operational activities, assess financial conditions, evaluate the effectiveness and efficiency of an entity reporting, and help determine compliance with laws and regulations.

B. The Application of the Principles of Good Corporate Governance

Good Corporate Governance according to Tunggal (2013: 24), Corporate Governance is a system that regulates, manages, and oversees the process of controlling businesses to increase the value of shares, as well as a



form of attention to stakeholders, employees, and surrounding communities. Implement GCG consistently or make GCG principles as its operational foundation, which aims to improve the business success and accountability of the company to realize shareholder value in the long term while still taking into account the interests of other stakeholders and based on legislation and - ethical values. Implementation of a solid and responsible corporate management that is in line with the principles of democracy and an efficient market, avoiding misallocation of investment funds and preventing political and administrative corruption, carrying out budgetary discipline, and creating a legal and political framework for growing business activities.

C. The Compliance with Laws

Laws are written regulations that generally contain binding legal norms and are formed or established by a state institution or officially authorized through the procedures stipulated in a statutory regulation (Law No 12 of 2011). Meanwhile, according to Lunenburg (2012), compliance theory is an approach to organizational structure that integrates ideas from the classical model and management participation. It can be concluded that compliance is following or carrying out commands or rules that have been set. In an institution or agency, there are binding rules and must be implemented as a reference in carrying out company activities to regulate and discipline the elements of the company so that it runs following the objectives set out in the company implementation guidelines.

D. Internal Control System

According to Mulyadi (2013: 6), internal control is a part of the system that includes covering the organizational structure, methods, and coordinated measures to maintain organizational wealth. Check the accuracy and reliability of accounting data, encourage efficiency, and encourage compliance with management policies. While the definition of internal control according to COSO (2013: 3), namely: "Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement. Accounting Internal Control is made to prevent in-efficiency, which is to maintain the company's wealth and examine the accuracy of accounting data reported to the actual conditions to streamline the company's activities to take policies that are appropriate to the state of the company.

E. Conceptual Framework

Implementation of good corporate governance involves elements involved in company activities, where governance is expected to improve the company's performance. The Corporate Governance Mechanism greatly influences the setting and achievement of objectives, the formation and development of a work culture within the company. For the company, the Implementation of Corporate Governance in business processes is a solid foothold to realize the company's

vision and mission. The principles of Corporate Governance become a set of standards aimed at improving the company's image, efficiency, effectiveness, and social responsibility. Kadek & Devil's research (2018) states that applying the principles of good corporate governance has a significant influence on the quality of financial information.

Compliance with laws and regulations is reflected in illegal actions that occur or non-compliance with the provisions of the legislation found. Non-compliance with statutory provisions can cause material misstatement from information in financial statements or other financial data that is significantly related to the purpose of the audit. So an examination must be designed to detect it (BPK RI Regulation Number 1 of 2007). The results of Oka & Sudarno's research (2017) state that the weakness of the internal control system and the findings of non-compliance with statutory provisions harm the determination of BPK's audit opinion on LKPD. Dzulfikar et al. (2016) revealed the results of their research that the government's internal control system had a significant effect on the quality of financial statements. Other research conducted by Meiliana & Hari (2018) states that the application of internal control systems has a significant effect on the quality of financial statements.

The relationship between the application of good government governance, compliance with laws, the implementation of internal control systems, and the quality of financial reporting can be seen in the picture as follows:

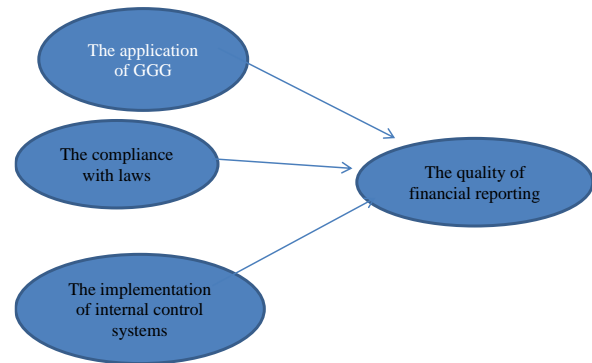


Figure 1. The Theoretical Model

Based on the thought framework described above, the following hypotheses can be arranged:

H1: There is an influence of the application of good corporate governance principles to the quality of financial reporting

H2: There is an effect of compliance with laws on the quality of financial reporting

H3: There is an influence of the implementation of the internal control system on the quality of financial reporting

III. METHOD

This research is an exploratory study with a causal study investigation where researchers want to find the cause of one or more problems (Uma Sekaran, 2007). In

this study, the effects of GCG principles, regulatory compliance, and Internal Controls systems will be tested on the quality of financial reporting. The population in this study were all employees in the BPJS Employment in the city of Tangerang. In this study, sampling techniques using saturated sampling techniques are done because members of the population have the same opportunity to be selected as a sample. So the researchers determined a sample of all BPJS Employment employees in the city of Tangerang, as many as 81 people who were considered representative samples of the population members. Data is processed using Partial Least Squares software which includes stages of the outer model (measurement model) to test the validity and reliability; Inner model (structural model) to see the relationship between construct, significance value, and R-square of the research model. The structural model is evaluated using R-square for the dependent construct and t-test and the significance of the coefficient of structural path parameters.

IV. RESULTS AND DISCUSSION

A. Description of Research Object

Based on the table below, it can be seen that the variable implementation of the principles of good corporate governance consists of 5 research dimensions which have an average score of 4.44. It can be interpreted that the application of good corporate governance in the BPJS employment in the Tangerang city area is already very high.

TABLE I
Description of Variables for the Implementation of Good Corporate Governance

No.	Dimension	Score
1	Transparancy	4.48
2	Accountability	4.47
3	Responsibility	4.27
4	Independency	4.74
5	Fairness	4.24
Average		4.44

Source: Primary data processed 2019

The compliance variable in legislation consists of 3 research dimensions with an average score of 4.39, as in the following table. This means that the implementation of the compliance variable in legislation in the BPJS Employment in the City of Tangerang is very good

TABLE III
Description of Variables of the Compliance in Laws

No.	Dimension	Score
1	Philosophy Foundation	4.43
2	Sociological foundation	4.39
3	Juridical Foundation	4.35
Average		4.39

Source: Primary data processed 2019

The variable implementation of the internal control system at the BPJS Employment agency in Tangerang has an average score of 4.35. It can be interpreted that BPJS Employment has implemented an internal control system very well.

TABLE IIIII
Description of Variables of the Implementation of the Internal Control System

No.	Dimension	Score
1	Control Environment	4.43
2	Risk Assessment	4.29
3	Control Activities	4.35
4	Information and Communication	4.36
5	Monitoring	4.30
Average		4.35

Source: Primary data processed 2019

Table 4 below explains that the variable quality of financial reporting at BPJS Employment agencies in the City of Tangerang region has an average score of 4.54. then it can be interpreted that BPJS Employment in the Tangerang city area produces very good financial reporting.

TABLE IVV
Description of Variables for the Quality in Financial Reporting

No.	Dimension	Score
1	Relevance	4.56
2	Reliability	4.49
3	Comparability	4.60
4	Understandability	4.51
Average		4.54

Source: Primary data processed 2019

B. Test of Validity and Reliability

The following are the results of the output factor loading construct The Influence of Good Corporate Governance Principles, Compliance with Laws and Internal Control Systems on the Quality of Financial Reporting on Smart PLS:

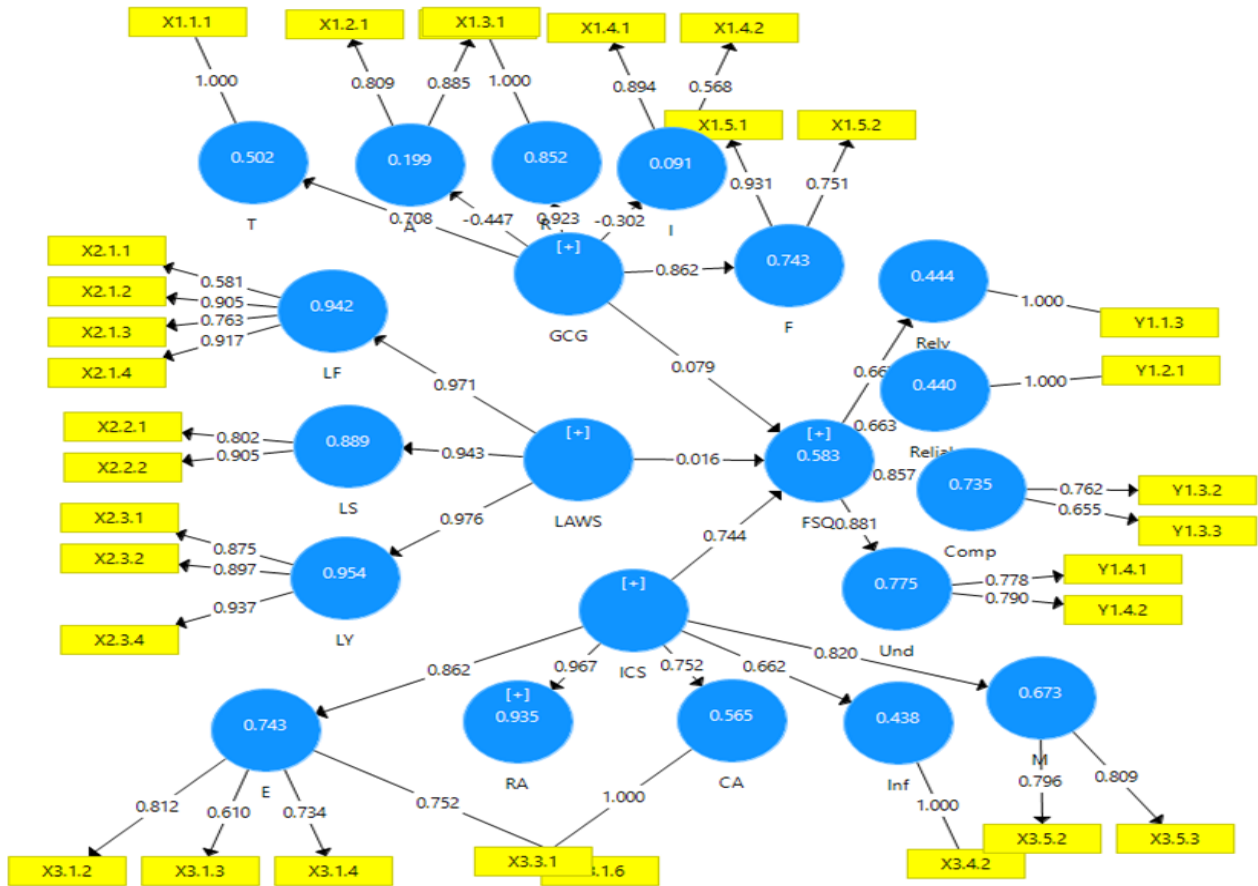


Figure 2 Diagram of Path & Loading Factor of Research Variables

Based on the output in the path diagram above, the loading factor meets convergent validity, which is the indicator value above 0.5. All loading factors are significant at the 5% level.

The reliability test results can be seen in the table below:

TABLE V
The reliability Test Results

Variable & Dimension	AVE	Cronbach's Alpha	Composite Reliability	Inf
The Application of Good Corporate Governance Principles (X1)	0.587	0.605	0.735	Reliable
The Compliance With Laws (X2).	0.606	0.913	0.933	Reliable

The Implementation of Internal Control Systems (X3)	0.555	0.889	0.906	Reliable
The Quality of Financial Reporting (Y)	0.573	0.644	0.754	Reliable

Source: Primary data processed 2019

The reliability output results above prove the variable implementation of the principles of Good Corporate Governance, Compliance with Laws, the Implementation of Internal Control Systems, and the Quality of Financial Reporting have Cronbach's Alpha above 0.6 and Composite Reliability above 0.7. This means that the indicators used in each dimension have good reliability or can measure the construct.

C. Evaluation of the goodness of fit structural model (inner model).

TABLE VI
R Square

Variable	R Square
The quality of financial reporting (Y)	0.597
Predictive Relevance (Q ²)	0.597

Source: Primary data processed 2019

D. Hypothesis test

To determine the significance of the effect of the application of the principles of Good Corporate Governance, Compliance with Laws, and the Implementation of Internal Control Systems on the Quality of Financial Reporting, see Table 7 below :

TABLE VII
Path Coefficients

Relationship Between Variables	Coefficient of Parameters	T Statistics	P Values	Information
The Application of GCG Principles => The QFR	0.679	3.671	0.002	Significantly influential
The Compliance With Laws => The QFR	0.816	3.087	0.001	Significantly influential
The Implementation of Internal Control Systems => The QFR	0.744	5.162	0.000	Significantly influential

Note: Significant at the 5% level

The path parameter coefficient obtained from the effect of the variable Application of Good Corporate Governance principles to the variable quality of financial statements is 0.679 with a statistical value of 3.671 > 1.66. There is an influence of the application of Good Corporate Governance principles to the quality of financial reporting. The path parameter coefficient obtained from the effect of the variable Compliance with Law on the variable quality of financial reporting is 0.816 with a statistical value of 3.087 > 1.66. There is the effect of compliance with laws on the quality of financial reporting. The path parameter

coefficient obtained from the influence of the variable Implementation of the Internal Control System on the variable quality of financial reporting is 0.744 with a statistical value of 5.162 > 1.66. There is an influence of the Application of the Internal Control System on the quality of financial reporting.

E. Discussion

Based on the results of hypothesis testing, the results show that applying the principles of good corporate governance has a significant effect on the quality of financial reporting; the direction of influence is positive. Research on the effect of applying the principles of good corporate governance to the quality of financial reporting has been carried out, including Kadek & Devil (2018), which states that the application of the principles of good corporate governance has a positive and significant influence on the quality of financial information. The same research results were also carried out by Oktarina et al. (2016), who stated that the application of GCG principles had a positive and significant effect on the quality of financial reporting. Hari & Caturida (2019) also states that applying the principle of good governance affects the quality of accounting information. Good, clean, open corporate governance will increase public trust. This means that the elements of good government governance, namely: transparency, accountability, responsibility, independence, and fairness, play a major role in improving the quality of financial reporting

The second hypothesis test shows that compliance with laws has a significant effect on the quality of financial reporting and the direction of its positive influence. This means that the higher the compliance with laws, the higher the quality of financial reporting. It can be interpreted that a high level of compliance in the application of regulations based on a philosophical foundation, a sociological foundation, and a well-implemented judicial foundation will improve the quality of financial reporting produced. The study results are not in line with research conducted by Oka & Sudarmo (2017), which states that obedience to legislation hurts the determination of BPK's audit opinion on LKPD.

The third hypothesis test shows the results that the application of the internal control system has a positive and significant effect on the quality of financial reporting. This shows that the internal control system that is applied properly in an agency, the quality of financial reporting will be better too. The study results are the same as the research conducted by Dzulfikar et al. (2016) revealed that the government's internal control system significantly influences the quality of financial statements. Other research conducted by Meiliana & Hari (2018) states that the application of internal control systems has a significant effect on the quality of financial statements. In IHPS I BPK RI (2018) that the main problem of compliance with the provisions of the laws and regulations related to non-compliance with the provisions of the legislation in the implementation of the National Social Security employment is acceptance other than late fees that have not been collected/received, potentially uncollectible

receivables, waste of price/expensiveness, and other issues of non-compliance. It can be concluded that the internal control system carried out by company management influences and can improve performance or financial reports made by an agency.

F. Conclusions

Based on the discussion described above, the following matters can be concluded:

The application of good corporate governance principles has a significant effect on the quality of financial reporting. The direction of this positive influence means the better the application of the principles of good corporate governance, the better the quality of financial reporting. The implementation of good corporate governance in the form of transparency, accountability, responsibility, independence, and fairness plays a role in producing good financial reports

Compliance with laws has a significant effect on the quality of financial reporting. The direction of influence is also positive, meaning that if the laws and regulations are adhered to properly, then the quality of financial reporting will also be good.

Implementing the internal control system has a significant effect on the quality of financial reporting. The direction of influence is also positive, meaning the better the application of the internal control system, the more the quality of financial reporting

G. Suggestion

BPJS Manpower leaders, especially in Tangerang, are expected to continue to improve good governance. Employee performance improves and increases public confidence, especially workers, to BPJS. It also improves compliance with existing regulations, especially management and services to the workforce. Also, an increase in applying a good directed and evaluated internal control system to improve the performance, services, and quality of financial reporting.

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