

How Does Governance, Individual Internal Factors and Supervisory Functions Affect the Quality of Savings and Loans Cooperative Financial Reports?

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ABSTRACT

Cooperatives are essentially a financial institution that functionally plays a major role in the running of the economy in micro- regions that cannot be reached by banks. In 2022 hundreds of cooperatives in Karangasem district will not carry out financial reporting which will have an impact on public confidence in the sustainability and security of cooperative financial conditions. The author aims to analyze empirically whether management, individual factors from the cooperative and the existence of supervisors can affect the quality of a financial report which will be an indicator of performance evaluation at the annual member meeting. Cooperatives in the sidemen sub-district of Bali province are used as research areas. The data was obtained directly from 30 respondents who are cooperative staff and come from ten active cooperatives in the sidemen area. Data collection was supported by a paper questionnaire and analyzed using the regression method. The results of the tests conducted found that corporate governance as measured by good corporate governance and individual factors as measured using education and level of understanding of accounting had a positive impact on the quality of financial reports in contrast to the function of the oversight body and individual factors as measured using work experience did not show any impact significant.

Keywords: quality of financial reports, Good Corporate Governance, Functions of the Supervisory Board, Individual Factors

INTRODUCTION

Indonesia is geographically formed from tens of thousands of islands and is the sixth ranked country in the world with the largest number of islands (dataindonesia.id). Economic equity and regional development is homework for the government. The formation of a new province and the issue of moving the state capital is one form of economic improvement so that it is evenly distributed across the various islands. The economy cannot run without supporting institutions that assist financial circulation in micro areas because the banking sector has not fully been able to reach villages in various regions.

One of the financial institutions that support the economy in small sectors such as districts or villages is cooperatives. Judging from Law No. 25 of 1992 in article 1 paragraph 1 it is clearly stated that cooperatives are a people's economic formation that can be established by people, groups or communities as a business entity. Article 33 paragraph 1 of the 1945 Constitution states, although cooperatives are founded by the community and for the community, operationally cooperatives must continue to be run professionally so that the main purpose of establishing a cooperative can be fulfilled and the sustainability of cooperatives can also last a long time so that they can broadly contribute to advancing the economy.

Cooperatives are unique compared to various other financial institutions. This uniqueness can be seen from the publication system and distribution of business profits, in Indonesia the advantage that can be felt by cooperative members is in the form of SHU (remaining results of operations) which in general companies can be in the form of dividends. Financial reports that reflect the financial condition of cooperatives in general will be published and a summary will be read at the member meeting which is held once a year (RAT), so that the public or members in particular can see the financial condition of the cooperative and assess the performance of the cooperative based on the financial reports published for members.

Seeing the importance of financial reports for members and other cooperative stakeholders, the quality of the financial reports produced is the main focus for members at the annual member meeting. Profits, assets, liabilities and various other important information are listed in the financial statements so that performance can be compared. In Bali Province there is a district located on the eastern tip of the island of Bali, the district is Karangasem district. In this district, banking financial institutions are quite common in downtown areas, but are quite limited to sub-district areas, so that cooperatives are still very much relied on by the community. Quoted from BaliPost.com on January 31 2022 there were 108 inactive cooperatives in Karangasem district which were recorded as coming from the Karangasem, rendang, Manggis, bendadem, kubu, selat and sidemen. This number is almost fifty percent of the total number of registered cooperatives, namely 326 cooperatives. What is of concern is that many active cooperatives do not hold annual member meetings so that financial reporting is hampered and their quality is questioned. With the condition that many cooperatives are not active, not carrying out publications through the annual member meeting makes quite a lot of people question the quality of financial reports published by cooperatives that are still operating.

Realizing financial reports that have good quality is of course supported by various factors, in theory accompanied by various previous findings there are several things that can support the formation of quality financial reports including cooperative management, individual factors and supervision in the cooperative itself. In terms of governance, the author uses good corporate governance as an indicator for evaluating cooperative governance. Good corporate governance itself is defined as a set of rules and principles

that contain various rules for various stakeholders in an organization, institution or institution. Good corporate governance based on Zarkasy (2008:38) contains five principles that can be applied in corporate governance including accountability, fairness, responsibility, independent and transparent. The findings in previous research related to good corporate governance and its relationship with the formation of the quality of financial reports were put forward by Mursidah (2018) who found that good corporate governance supports existing theories with significance on test results and is different from Meliani (2018) who found no the influence shown by good corporate governance as an indicator of governance on the quality of financial reports.

H1: Governance (GCG) has a positive impact on quality financial reports

Another factor is from the individual side, the authors use several factors such as education, the level of understanding of accounting and work experience that exists in cooperative operational staff as factors that support the formation of quality financial reports. Education is currently supporting a person in obtaining broader knowledge about a field of knowledge which is carried out academically in the process. Hasbullah (2012) also argued that education is also an individual effort to gain maturity, higher achievement in terms of mental and intelligence. The appropriate education owned by the individual will support the achievement of the goals of an institution where the individual is located.

H2: Individual factors (education) have a positive impact on quality financial reports

The next individual factor is the level of understanding of accounting, financial reports are closely related to the accounting process so that a good understanding of accounting can support the formation of quality financial reports. Astrayani (2017) states the level of understanding of accounting as an intelligence and individual understanding of aspects related to accounting so that the output (financial reports) produced can be minimal from errors or mistakes. This is supported by the findings of Priyatna (2015) and has a difference with the results of Pratiwi's test (2021), namely that there is no significance between the level of accounting understanding possessed by individuals and the quality of the financial reports produced.

H3: Individual Factors (Accounting Understanding) have a positive impact on quality financial reports

The last individual factor is work experience, working time according to Dewi (2018) is the length of time an individual has been in his profession, whether or not an individual has been working for a long time has an influence on his performance, experienced individuals have better problem solving than inexperienced individuals so that decisions are taken related to work would be wiser. This explanation is supported by the research results of Muzahid (2015) and differs from Eriva (2013) which states that work experience does not have any effect on the quality of financial reports.

H4: Individual factors (work experience) have a positive impact on quality financial reports

Moving on from governance and individual factors, the last factor is the function of the oversight body. The oversight role is determined and agreed upon by members at the annual member meeting. Cooperatives with a broad scope will require complex supervision and special competencies. Supervision with good competence can support the output of higher quality financial reports. This theory is supported by the findings of Sinaranata (2019) and differs from the findings of Nudilah (2016) where there is no influence relationship resulting from the function of the supervisory agency on the resulting financial reports.

H5: The function of the Supervisory Board has a positive impact on quality financial reports

LITERATURE REVIEWS

Signal Theory

The author uses signal theory as a basis for research, signal theory reflects various stakeholders in an agency, institution or organization. In operational management activities, an entity clearly has discretion over information related to an institution, in this case, a cooperative. Differences in access and information owned can trigger a gap or information asymmetry that can have a negative impact on stakeholders. In order to minimize the gaps that occur, an entity can publish related to the company's condition in the form of output, namely financial reports.

Publication of financial reports carried out by an entity, especially cooperatives, can be considered as a signal by stakeholders, especially members of cooperatives. So it is important for cooperatives to be able to provide quality information for each stakeholder through the preparation of quality financial reports. Good quality will be a good signal that can increase member trust.

Quality of Financial Statements

Financial statements are the output generated by a series of accounting processes. Financial reports can be used as a means of reporting to show information regarding the company's financial situation at a certain time or in a certain period. Financial statements are a communication tool that connects a business entity to other interested parties. It is important for a financial report to have good characteristics so that the purpose of publication can be achieved and avoid bias because in PSAK No. 1 (2015: 3) it is clearly stated that the function of delivering financial reports is not only to show financial performance but also to the cash flow of the entity along with the financial position where the information can be utilized and useful in making decisions for each party.

Based on this function, the quality of financial reports is very important. Quality financial reports are assumed to be a report that contains information related to a business entity so that what is to be conveyed can be easily understood and understood by all interested parties. The quality indicators listed in Government Regulation No. 71 of 2010 state that the measurement of the quality of a financial report can be seen from the comparability of financial reports, relevant, easy to understand and also reliable.

Good Corporate Governance

Corporate governance (GCG) is an important element in achieving the sustainability of a good business entity. Good corporate governance reflects how various parties (stakeholders), including investors, society, government, management and various other aspects, build mechanisms that lead to the same goal for the company. Each party is balanced with different rights and obligations but for good achievements for a business. In this case, good corporate governance provides principles that can assist companies in achieving business continuity, namely accountability in financial matters, transparency, upholding independence, responsibility and fairness so that good business governance will have an impact on every output produced by the company, one of which is in the form of reports. quality finance.

Individual Factors

Individual factors are factors that come from individuals involved in operational activities in a business entity. Individual factors can consist of various aspects, based on educational theory is one of the individual provisions that supports personal activities in the world of work. Education becomes a process and effort that is carried out consciously in order to study certain fields of knowledge or explore potential and self-development in order to achieve or achieve certain professions, education can also be formal and

informal (Wirawan, 2016: 3). In the end, every classification of education undertaken will still aim to produce individuals with noble traits,

In addition to education, a different individual aspect that can affect a financial report is the understanding of the financial report maker on accounting. A financial report is an end result of various accounting processes (recording, summarizing, processing, classifying, presenting). Individuals who have understanding and knowledge related to accounting can produce quality financial reports. A good understanding of accounting will help prepare financial reports to place appropriate standards and the right flow so that the characteristics of the reports produced will have high quality.

The last individual aspect is work experience, experience can be categorized as an advanced learning process from formal and informal education. Experience is obtained based on what an individual has lived in a certain measurable time, the length of a process and learning or professional activities carried out by individuals at work can be defined as work experience. Longer work experience can provide various advantages such as being able to detect early an intentional or unintentional error, being able to understand and have good problem solving, and being able to find the cause of an error in a job.

Supervisory Board Functions

Mulyadi (2012) defines a supervisory board as a party that has authority in terms of auditing various policies of a business entity, ensuring the effectiveness, efficiency of the company, whether or not it is operational in maintaining assets and their management to ensure the quality of reporting as information suggestions generated. Cooperatives as a line of business require optimal supervision to ensure that every operational activity runs according to the targets and vision and mission of the cooperative. The existence of a supervisor functions as an internal auditor who pays attention to every accounting standard and practice that is appropriate, besides that the supervisor can also be a liaison between cooperatives and independent auditors in terms of inspection. The cooperative supervisory board is elected by agreement of each member and announced at the time the performance report at the annual member meeting takes place. The existence of supervisors in cooperative bodies certainly has an impact on any information generated and contained in financial reports so that cooperatives with supervisory bodies can produce higher quality financial reporting.

RESEARCH METHOD

The author conducted a research study on cooperative financial institutions. Based on the phenomena that have been described on the sub-district background sidemen Karangasem was used as a research location because several cooperatives in the area were not active and did not report financially until the annual member meeting. The number of cooperatives used as samples is 10 savings and loan cooperatives that are actively operating and reporting financially. From 10 cooperatives, 3 respondents in accounting and finance positions were asked to fill out a paper questionnaire to measure each research indicator in order to obtain 30 total observations (n).

The collected data was processed and analyzed using the regression method with the SPSS program. The use of regression is based on this study which is causal in nature where the focus of the author is to determine the impact shown between two or more variables in a study or what is commonly called X (free) and Y (bound). The following is a picture of the research model along with the indicator table for each variable:

Figure 1

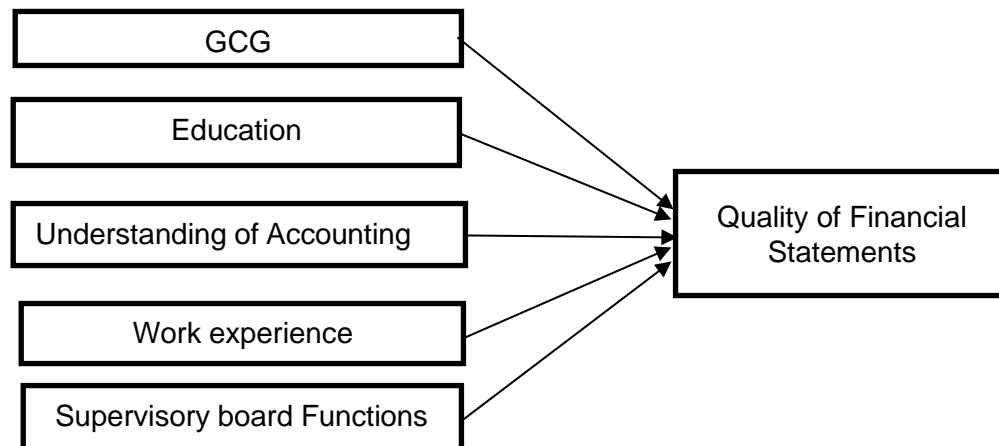


Table 1

Analysis	Variable	Measuring instrument
Governance	GCG	Transparent
		Accountability
		Responsibility
		Independent
		Fairness
Individual Factors	Education	Educational background
		Education Strata
		Periodic Education
	Accounting Understanding	Asset
		Debt
		Capital
	Work experience	Time period
		Field of Work
Supervisory Function	Oversight Functions Body	Experience Benefits
		Independent
		Professionality
		Examination Activities
Quality of Financial Statements		Relevant
		reliable
		Can be understood
		Comparable

Table 1 on the left above explains each factor used in the study, in the middle section is a variable that represents each research factor and in the column on the right is each assessment indicator listed on the questionnaire paper which will be filled in by the selected respondents.

RESULTS

Classical assumption testing

Table 2 will represent each result of testing a series of stages on the classical assumptions. The research will only be conducted in 2022 without a research timeframe

so that autocorrelation in the test series is not used. These results were obtained based on observations of a number of 30 (n) respondents as participants who were in accounting and financial positions from 10 cooperatives in the Sidemen District. The following is a representation of multicollinearity, normality and heteroscedasticity tests:

Table 2. Classical assumptions

Normality	Asymp Sig. (2-Tailed)	0.200	Normal
Multicollinearity	tolerance		Multicollinearity Free
	GCG	0.509	
	Education	0.514	
	Accounting Understanding	0.545	
	Work experience	0.759	
	Supervisory Function	0.713	
	VIF		Multicollinearity Free
	GCG	1,966	
	Education	1946	
	Accounting Understanding	1834	
	Work experience	1.317	
	Supervisory Function	1.402	
Heteroscedasticity	Significance		Free of Heteroscedasticity
	GCG	0.708	
	Education	0.162	
	Accounting Understanding	0.233	
	Work experience	0.192	
	Supervisory Function	0.251	

The first representation is testing at the normality stage, shown by the test results that the asym tailed points meet the criteria that exceed the significance standard by five percent so that the model that the author examines falls into the normal category. For the second representation, it is a test involving multicollinearity, at this testing stage there are two assessment indicators that must be ensured to state that the model is free from multicollinear symptoms (Sugiyono, 2019). Two indicators that must be looked at are on the tolerance side (more than five percent) and VIF points (more than ten percent) where the table shows that it escapes multicolline symptoms.

The last representation involves the heteroscedasticity test, the author's model can be said to meet the heteroscedastic standard when the resulting significance exceeds the lime percent threshold and it can be seen in the table that all the points generated have met the criteria for escaping heteros symptoms.

Hypothesis testing

Table 3. Regression Analysis and T results

Variables	coefficient	t-statistics	Significance	Conclusion
Constant	12110	3,557	0.002	
GCG	0.052	2,384	0.025	H1 is accepted
Education	0.088	2,099	0.047	H2 is accepted
Accounting Understanding	0.454	4,445	0.000	H3 is accepted
Work experience	-0.010	-0.082	0.935	H4 is rejected
Supervisory Function	0.134	1,439	0.163	H5 is rejected

The table representation starts from column t, each number explaining the resulting direction where of the five factors tested only work experience which shows a negative sign or negative direction while the other four aspects are positive. Turning to the significant column reflects every effect that is generated, each aspect shows a different point, the condition for being declared influential is when the point or score shown must be smaller than the threshold that becomes the provision, which is 5 percent. Based on the table, there are three aspects that meet the requirements while the other two aspects exceed the threshold so that they are displayed in the last column which is the conclusion of the hypothesis and research findings namely governance tested using GCG, along with two individual factors (education and understanding of accounting) impact, with a positive direction for quality financial statements.

DISCUSSION

The relationship between governance (GCG) and the quality of financial statements of savings and loan cooperatives sidemen Karangasem

The test representation shows that corporate governance (GCG) in theory and reality in the cooperatives studied has a good and also significant impact on quality financial reports. This finding is in line with signal theory where good management in terms of being transparent, accountable, responsible for every activity carried out by cooperatives as an institution based on law, independent in every decision and upholding fairness will have a good impact on creating a quality financial report. So that the better the management aspects the more positive the information generated for each interested party.

The relationship between individual factors (education) and the quality of financial statements of savings and loan cooperatives sidemen Karangasem

The series of tests shows that the second hypothesis from the aspect of individual education has significance for the creation of quality financial reports. Education is not always in the form of formal education at a leading educational institution, individuals who want to try to develop through informal education are also included in the education category because in essence every education has a goal to be able to produce intelligent, useful and clean-hearted individuals. The impact on an individual's education will have an effect when the individual is in a profession and work environment so that it is in accordance with the results of research conducted on savings and loan cooperatives that the better the education of the individual respondents studied, the higher the quality of the financial reports produced.

The relationship between individual factors (level of understanding of accounting) with the quality of savings and loan cooperative financial reports sidemen Karangasem

In Table 3 it can be seen that an individual's understanding of accounting gives good significance to the creation of a quality financial report. An understanding of accounting is very important for someone who has a profession in the field of accounting and finance, a good understanding of accounting will help the accounting process to be more in line with the standards and provisions because the individuals involved understand each flow according to the procedure so that the quality of the resulting financial reports will be higher quality than the financial reports produced without an understanding of the field of accounting itself.

The relationship between individual factors (work experience) with the quality of financial statements of savings and loan cooperatives sidemen Karangasem

Tests show that the individual aspects tested with work experience are the only individual aspects in this study that do not show any effect on the quality of the financial reports produced by the cooperatives studied. This can occur in a number of conditions, such as employees who have long or short work experience, if they cannot adapt properly to the progress of the system that supports the accounting process itself, it will not have any impact on the quality of the financial reports produced.

The relationship between the existence of a supervisory board and the quality of financial reports of savings and loan cooperatives sidemen Karangasem

The next finding is that the hypothesis test states whether or not there is a regulatory body in the savings and loan cooperatives studied does not have any impact on the resulting financial reports. This is possible because in reality cooperatives that are not active and do not carry out financial reporting as a whole have a supervisory board, it's just that other factors such as bad loans can actually have a significant impact on cooperatives so that cooperatives experience financial problems and do not report financially. so that the creation of good quality financial reports is not achieved.

CONCLUSION

The author concludes at the end of the study that there are several new findings in this study which ultimately support existing theories and research that has previously been carried out by several authors such as governance and individual factors (education and understanding of accounting) which have proven to have an influence in a positive direction for creating quality financial reports. The author also presents the test results related to the absence of impact from aspects of individual work experience and supervisory functions on the quality of a financial report on the sample savings and credit cooperatives.

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DECLARATION OF CONFLICTING INTERESTS

The author states that this research clearly cannot be concluded in general, the research subject is a savings and loan cooperative so that it cannot be equated with other financial institutions. Different results can also occur in different research years later, for research locations the subjects used are only those registered in the region sidemen Karangasem with the acquisition of data based on respondents who have been considered to meet the criteria for the author.

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