

The Influence of Leadership Ethics, Accounting Understanding, Utilization of Accounting Information Systems, Internal Control Systems, and Organizational Culture on the Quality of Financial Statements of Savings and Loan Cooperatives in Tabanan District

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Abstract:
Purpose:

This study aims to analyze the effect of leadership ethics, level of accounting understanding, utilization of accounting information systems, internal control systems and organizational culture on the quality of financial statements at KSP in Tabanan District, Tabanan Regency.

Methodology:

The population in this study were all employees who worked at KSP Tabanan District, Tabanan Regency, namely 225 employees. The sampling method used a purposive sampling method with 135 employees. The data analysis technique used is multiple linear regression analysis.

Findings:

The results of this study indicate that leadership ethics, level of accounting understanding, and organizational culture do not affect the quality of financial reports in savings and loan cooperatives. At the same time, the use of accounting information systems and internal control systems has a positive effect on the quality of financial reports in savings and loan cooperatives in Tabanan District, Tabanan Regency.

Implication:

Expanding the literature on factors that influence the quality of financial reports in non-bank financial institutions, especially savings and loan cooperatives.

INTRODUCTION

Indonesia's economic growth has shown a consistent upward trend over the years. This growth is evident across several sectors, such as industry, trade, and banking. In 2022, the national GDP growth reached 5.31%, the highest level since 2014 (bps.go.id). Most Indonesians heavily depend on financial institutions to either obtain financial support or manage surplus funds. Although banks have traditionally been the dominant option, cooperatives have increasingly become a trusted alternative for credit services and fund management in recent years. Strengthening the role of cooperatives and micro, small, and medium enterprises (MSMEs) is a strategic approach to boosting national economic resilience and employment opportunities. Indonesia's economy is not solely driven by large enterprises but also relies significantly on smaller businesses that exhibit greater resilience in times of economic uncertainty. According to Law No. 17 of 2012 concerning Cooperatives, a cooperative is a legal entity established by individuals or other cooperatives, with segregated member assets used as capital to run a business in accordance with the values and principles of cooperatives.

The primary goal of cooperatives is to improve the welfare of their members and society at large while functioning as an integral part of a fair and democratic national economy. Types of cooperatives listed in Article 82 of the law include consumer cooperatives, producer cooperatives, service cooperatives, and savings and loan cooperatives. Savings and loan cooperatives (KSPs) act as non-bank financial institutions that provide public services, such as offering loans and acting as safekeeping entities for public funds. They play an essential role in

providing capital for the real sector, including agriculture, trade, industry, and other sectors involving MSMEs. Consequently, KSPs must be able to produce high-quality financial reports that are transparent, reliable, and useful for stakeholders. Due to the risk of financial fraud within cooperatives—stemming from poor oversight and weak internal controls—high-quality financial reporting becomes vital. Fraud in cooperatives typically occurs in three forms: (1) financial statement fraud, (2) corruption, and (3) asset misappropriation.

The quality of financial statements reflects the accuracy and transparency of an entity's financial condition. Therefore, the presence of competent human resources in accounting is necessary. Inadequate bookkeeping practices can lead to poor decision-making and, ultimately, financial collapse. It has occurred in several cooperatives in Tabanan District, such as Koperasi Sari Ajeg Mandiri and Koperasi Sembilan Sembilan, which faced financial scandals and legal consequences due to manipulation and reporting failures. To ensure the quality of financial reporting, various influencing factors need to be considered. These include leadership ethics, accounting comprehension, the use of accounting information systems, internal control mechanisms, and organizational culture. Each of these elements contributes in different ways to the production of reliable and transparent financial reports.

Agency Theory. Agency theory generally explains the relationship between two parties in a company, namely the principal and the agent. The principal acts as the party that grants authority, while the agent is the party that receives and carries out that authority. According to Jensen and Meckling (1976) in Zuliarti (2012), agency theory is defined as a contract in which one or more persons (the principals) engage another person (the agent) to perform some service on their behalf, which involves delegating some decision-making authority. Based on this theory, financial statements produced by cooperative managers (as agents) serve as tools to assure the principal (e.g., members or communities) regarding how their funds are managed. The quality of these reports is critical for maintaining trust.

Leadership ethics refers to the guidelines that regulate employee behavior and attitudes at work. Leaders with strong ethics and capabilities tend to guide the organization more effectively. Studies by Sudhani (2021) and Yanti (2019) reveal a positive relationship between leadership ethics and the quality of financial reporting. Therefore, the first hypothesis is H1: Leadership ethics positively and significantly influence the quality of financial statements of savings and loan cooperatives in Tabanan District.

Individuals with strong accounting knowledge are more likely to produce accurate financial reports. Studies by Sayekti et al. (2023), Yanti (2019), Sudhani (2021), and Andari et al. (2022) confirm that accounting understanding has a positive influence on financial reporting quality. Thus, the second hypothesis is H2: Accounting understanding positively and significantly influences the quality of financial statements of savings and loan cooperatives in Tabanan District.

Accounting Information Systems (AIS) play a critical role in the preparation of timely and accurate financial reports. According to Riyadi (2020), the utilization of AIS increases data processing efficiency and enhances financial information quality. Supporting studies include Sayekti et al. (2023), Dewi (2020), and Saputra (2022). The third hypothesis is H3: The utilization of accounting information systems positively and significantly influences the quality of financial statements of savings and loan cooperatives in Tabanan District.

Internal controls ensure that an organization's resources are used effectively and protect the integrity of financial reporting. According to Rakmawan (2019), effective internal control systems support planning, evaluation, and decision-making processes. Studies by Aprianti (2022), Anggreni (2022), and Lestari and Dewi (2020) support this. The fourth hypothesis is H4: Internal control systems positively and significantly influence the quality of financial statements of savings and loan cooperatives in Tabanan District.

Organizational culture reflects the values, norms, and behaviors within a company that contributes to achieving its objectives. According to Nural and Tanjung (2020), a strong culture promotes transparency and accountability in reporting. Research by Anggreni (2022), Mariyana (2023), and Andari et al. (2022) supports this

view. The fifth hypothesis is H5: Organizational culture positively and significantly influences the quality of financial statements of savings and loan cooperatives in Tabanan District.

METHODS

This research was conducted at savings and loan cooperatives (KSP) located in Tabanan District, Tabanan Regency, which consists of 45 KSP units. The objects of the research included the heads of cooperatives, accounting staff, and human resource personnel at these cooperatives. The population comprised 225 employees, and a purposive sampling technique was used to select 135 respondents.

All variables in this study were measured using a 5-point Likert scale. The options ranged from "strongly agree" (5) to "strongly disagree" (1).

According to Manuaba (2018), leadership ethics are measured by the following indicators: Leadership attitude, Decision making, and Responsibility of the leader.

Accounting understanding, as defined by Manuaba (2018), is measured through indicators such as Assets, Liabilities, and Capital. The utilization of accounting information systems, as outlined by Irzal Tawaqal (2017), is measured by Data processing efficiency, Data validity, Computerized processes using appropriate software and hardware, Integrated reporting, Maintenance and repair of equipment, Supporting resources in the finance/accounting department, User training and skill development.

Internal control systems, based on Sari (2022), are measured by Control environment, Risk assessment, Control activities, Information and communication, and Monitoring.

Organizational culture, according to Ayem (2021), is measured through Leadership behavior, Emphasis on organizational mission, Learning process, and Motivation.

Lastly, the quality of financial statements, according to Sari (2022), is measured by indicators such as Relevance, Reliability, and Comparability.

The general form of the multiple linear regression equation used in this study is:

$$KLK = \alpha + \beta_1EP + \beta_2TPA + \beta_3PSIA + \beta_4SPI + \beta_5BO + e$$

RESULTS AND DISCUSSION

Multiple Linear Analysis.

Table 1. Multiple Linear Analysis.

Model		Coefficients ^a				Collinearity Statistics		
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Tolerance	VIF
		B	Std. Error	Beta				
1	(Constant)	5.789	2.202		2.629	.010		
	EK	.022	.100	.016	.224	.823	.356	2.809
	TPA	-.133	.134	-.070	-.989	.324	.366	2.729
	PSIA	.587	.107	.548	5.481	<.001	.183	5.450
	SPI	.382	.090	.403	4.264	<.001	.205	4.867
	BO	.020	.133	.010	.146	.884	.359	2.784

a. Dependent Variable: KLK

Based on the Table, the multiple linear regression equation can be formulated as follows:

$$KLK = 5.789 + 0.022EK - 0.133TPA + 0.587PSIA + 0.382SPI + 0.020BO$$

The interpretation of the above regression equation is as follows:

- 1) The constant value of 5.789 indicates that if Leadership Ethics (EK), Accounting Understanding (TPA), Utilization of Accounting Information Systems (PSIA), Internal Control Systems (SPI), and Organizational Culture (BO) are all zero (0), then the Quality of Financial Statements (KLK) is 5.789.
- 2) The regression coefficient of Leadership Ethics (EK) is 0.022, with a significance value of 0.823, which is greater than 0.05. It means that leadership ethics has no significant effect on the quality of financial statements (KLK).
- 3) The regression coefficient of Accounting Understanding (TPA) is -0.133 with a significance value of 0.324, which is greater than 0.05. It implies that accounting understanding shows a negative and insignificant effect on the quality of financial statements (KLK).
- 4) The regression coefficient of the Utilization of Accounting Information Systems (PSIA) is 0.587, with a significance value of less than 0.001, which is smaller than 0.05. It indicates that the utilization of accounting information systems has a positive and significant effect on the quality of financial statements (KLK).
- 5) The regression coefficient of Internal Control Systems (SPI) is 0.382, with a significance value of less than 0.001, which is smaller than 0.05. It indicates that internal control systems have a positive and significant effect on the quality of financial statements (KLK).
- 6) The regression coefficient of Organizational Culture (BO) is 0.020 with a significance value of 0.884, which is greater than 0.05. It suggests that organizational culture does not have a significant effect on the quality of financial statements (KLK).

The Influence of Leadership Ethics on the Quality of Financial Statements. The test results show that the leadership ethics variable has a regression coefficient of 0.022 and a significance value of 0.823, which is greater than 0.05. Thus, leadership ethics do not influence the quality of financial statements in Savings and Loan Cooperatives, and therefore H1 is rejected. These findings indicate that a leader's ethics do not significantly affect the quality of financial statements. This may be due to the fact that financial reporting already follows established accounting standards. For example, in the Savings and Loan Cooperatives in Tabanan District, the leaders generally exhibit good ethical conduct, show concern for their employees, and demonstrate high commitment in carrying out their duties. However, the quality of financial statements remains low. Therefore, the overall ethical behavior of cooperative leaders does not necessarily correlate with the quality of financial statements.

This result is in line with previous studies conducted by Anggreni (2022), Andari et al. (2022), and Utami (2024), which also found that leadership ethics do not influence the quality of financial statements in Savings and Loan Cooperatives.

The Influence of Accounting Understanding on the Quality of Financial Statements. The test results show that accounting understanding has a regression coefficient of -0.133 and a significance value of 0.324, which is greater than 0.05. It implies that accounting understanding has declined and does not significantly affect the quality of financial statements in Savings and Loan Cooperatives, and therefore H2 is rejected. The findings suggest that the level of accounting understanding does not significantly affect the quality of financial reports, as most Savings and Loan Cooperatives in Tabanan District already utilize systems that comply with applicable accounting standards. For instance, 30 Savings and Loan Cooperatives have adopted computerized bookkeeping systems, while 15 cooperatives still use manual methods such as Excel. These systems facilitate the preparation of financial statements, rendering individual levels of accounting understanding less impactful on the quality of the reports produced.

This finding aligns with the research conducted by Anggreni (2022) and Feby (2022), which concluded that accounting understanding does not significantly affect the quality of financial statements in Savings and Loan Cooperatives.

The Influence of the Utilization of Accounting Information Systems on the Quality of Financial Statements. The test results show that the variable of accounting information systems utilization has a regression coefficient of 0.587, a t-value of 5.481, and a significance level of less than 0.001, which is below 0.05. Therefore, the utilization of accounting information systems positively affects the quality of financial statements in Savings and Loan Cooperatives, and H3 is accepted. It indicates that the use of accounting information systems facilitates work processes and supports the implementation of internal control systems that help prevent fraud and identify potential risks. The more optimally these systems are utilized, the higher the quality of the resulting financial statements.

It is also supported by agency theory, which emphasizes the role of agents in presenting accountable financial information. Well-integrated and computerized systems connected to reliable internet networks are capable of producing high-quality financial information that meets qualitative characteristics, thereby allowing agents to provide accountable reporting to users of financial statements.

These findings are consistent with the studies by Sayekti et al. (2023), Saputra (2022), Lestari and Dewi (2020), and Indrawan and Dewi (2022), which concluded that the utilization of accounting information systems has a positive influence on the quality of financial statements in Savings and Loan Cooperatives.

The Influence of Internal Control Systems on the Quality of Financial Statements. The test results show that the internal control systems variable has a regression coefficient of 0.382, a t-value of 4.264, and a significance level of less than 0.001, which is below 0.05. Thus, internal control systems positively affect the quality of financial statements in Savings and Loan Cooperatives, and H4 is accepted. The findings indicate that internal control systems are procedures designed to ensure the accuracy of information and protect the organization's assets from misuse. These procedures must comply with legal and regulatory standards and be properly implemented by all employees. The effective application of internal control systems in the Savings and Loan Cooperatives in Tabanan District has significantly influenced the quality of financial reporting. Effective internal control creates reliable financial reports, enhances compliance with regulations, and minimizes fraud in financial reporting. The objective of improving financial report quality can be achieved through the effective implementation of internal control systems.

This result is supported by studies conducted by Aprianti (2022), Anggreni (2022), Lestari and Dewi (2020), Agustini (2023), and Indrawan and Dewi (2022), which state that internal control systems have a positive impact on the quality of financial statements in Savings and Loan Cooperatives.

The Influence of Organizational Culture on the Quality of Financial Statements. The test results show that the organizational culture variable has a regression coefficient of 0.020, a t-value of 0.146, and a significance level of 0.884, which is greater than 0.05. Therefore, organizational culture does not affect the quality of financial statements in Savings and Loan Cooperatives, and H5 is rejected. The results suggest that the strength or weakness of organizational culture does not influence the quality of financial reports since organizational culture is not directly related to the reporting process. Furthermore, culture is not built overnight—it develops over the years—while financial reporting adheres to accounting principles such as transparency, openness, and accountability. For instance, Savings and Loan Cooperatives in Tabanan District may have strong organizational cultures, such as clear visions and missions and effective teamwork, but still produce financial reports of poor quality. It suggests that the strength of organizational culture in these cooperatives does not necessarily affect the quality of their financial reporting.

These findings are in line with the research by Patty (2019) and Parwati (2024), which also concluded that organizational culture does not influence the quality of financial statements in Savings and Loan Cooperatives.

CONCLUSION

This study aims to determine whether leadership ethics, accounting understanding, utilization of accounting information systems, internal control systems, and organizational culture affect the quality of financial statements of Savings and Loan Cooperatives (KSP) in Tabanan District, Tabanan Regency. The sampling technique used is purposive sampling, with a total sample of 135 employees consisting of heads of cooperatives, accounting staff, and human resources staff at KSPs in Tabanan District, Tabanan Regency.

Based on the research results and analysis conducted, the following conclusions can be drawn:

- 1) Leadership ethics do not affect the quality of financial statements of Savings and Loan Cooperatives (KSP) in Tabanan District, Tabanan Regency. The results indicate that the level of leadership ethics within KSPs in Tabanan District does not influence the quality of their financial statements.
- 2) Accounting understanding does not affect the quality of financial statements of Savings and Loan Cooperatives (KSP) in Tabanan District, Tabanan Regency. The findings suggest that the level of accounting understanding possessed by employees of KSPs in Tabanan District does not influence the quality of the financial statements produced.
- 3) The utilization of accounting information systems has a positive effect on the quality of financial statements of Savings and Loan Cooperatives in Tabanan District, Tabanan Regency. The results indicate that the extent to which KSPs utilize accounting information systems in Tabanan District significantly influences the quality of financial statements. Therefore, the greater the utilization of accounting information systems by KSPs, the better the quality of the financial statements they produce.
- 4) Internal control systems have a positive effect on the quality of financial statements of Savings and Loan Cooperatives in Tabanan District, Tabanan Regency. The results indicate that the strength of internal control systems within KSPs in Tabanan District affects the quality of financial reporting. Hence, the more robust the internal control systems implemented by KSPs, the better the quality of their financial statements.
- 5) Organizational culture does not affect the quality of financial statements of Savings and Loan Cooperatives (KSP) in Tabanan District, Tabanan Regency. The findings suggest that the strength or weakness of organizational culture in KSPs in Tabanan District does not influence the quality of their financial statements.

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