

## Analysis of Factors Affecting the Quality of Financial Statements

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Financial reports can be useful and beneficial for internal and external parties as a decision-making tool, so the financial statements must be of high quality. The purpose of this study was to analyse the influence of the ability of employees on the quality of financial reports, analyse the effect of internal control on the quality of financial reports and analyse the influence of employee capabilities and internal controls on the quality of financial statements. The population in this study is part of SPI and the accounting section for industrial companies in the city of Bandung. Samples were carried out by convenience sampling with certain respondents obtained from several industrial companies in the city of Bandung. The questionnaire was used to collect research data. The analytical tool used in this study is multiple regression analysis; T test and F test. The results of the study show that the ability of employees influences the quality of financial statements, internal control influences the quality of financial statements and the ability of employees and internal controls affect the quality of financial statements.

**Key words:** *Employee capability, internal control and quality of financial statements.*

### Introduction

Management accountability tools for the company, during the company's effective operations are financial statements. Besides that, the financial statements are used by internal parties and external parties as a decision-making tool. The financial statements of an information will be useful if the information provided is timely for decision makers before the information loses its capacity to influence decision making (Hanafi and Halim, 2005).

In order for the financial statements to be useful and to be used as a decision-making tool by internal and external parties, the financial statements must be presented fairly. Financial

statements that are presented fairly indicate a presentation that is useful, reliable, honest and trustworthy (Hussain, Abidin, Kamaruzaman & Shawtari, 2018) .

Financial statements can be presented fairly if the financial statements have certain characteristics. If a financial report has these characteristics, it shows that the financial statements are of high quality (Tabor, 2018). This is consistent with the theory put forward by Yadiati (2017), namely that for financial statements to be used as expected by the user, the financial statements must be prepared by meeting certain characteristics or requirements (Meyer, 2018). Financial statements that have the characteristics of being reliable, relevant, understandable, comparable, materiality, substance outperform, healthy, complete, timely and balanced between costs and benefits, this is in accordance with SAK-ETAP (IAI; 2013 ) namely that quality financial statements must have the following qualitative characteristics as follows: understandable, relevant, materiality, reliability, substance outperforms, healthy considerations, completeness, comparability, timely and balance between costs and benefits (Nobanee, 2018). This is in line with the results of research conducted by Novatiani, Rusmawan and Asikin (2017).

In the case of PT. KAI Tbk, there was data manipulation in its financial statements in 2005 where PT. KAI Tbk announced a profit of Rp. 60.9 billion which should have been a loss of Rp. 63 billion (Liputan 6, 2006). In the case of PT. KAI Tbk, its financial statements were not reliable; where unreliable financial statements indicate that the financial statements are not qualified. One of the main factors that can affect the quality of financial statements is the presence of employees who have the ability in their fields, namely having skills, behavioural attitudes and knowledge. This is in line with the results of research conducted by Novatiani and Roosaleh (2016) which states that reliability of financial information is influenced by employee competency. According to Bastian (2010), preparation of quality financial information requires human resources who master government accounting. Other factors that can affect the quality of financial statements are adequate internal control, this is consistent with the theory put forward by Yadiati (2017) that effective internal control will be able to improve the quality (reliability) of financial reporting. Research conducted by Herawati (2014) concluded that there was a significant influence between the control environment, risk assessment, control activities, information and communication, and monitoring of the quality of financial reports.

This research aims to analyse the influence of the ability of employees on the quality of financial reports, analyse the effect of internal control on the quality of financial reports and analyse the influence of employee capabilities and internal control on the quality of financial statements.

## **Literature Review**

### ***Employee Ability***

According to Hutapea and Thoha (2008), employee competencies include knowledge, skills and behavioural attitudes.

### ***Internal Control***

Internal control is very important in a company,

According to Gondodiyoto (2007), internal control components include: 1). control activity, 2). control environment, 3). information and communication, 4). risk assessment and 5). Monitoring

### ***Quality of Financial Statements***

Quality financial reports have qualitative characteristics. According to SAK-ETAP (IAI, 2013) states that the qualitative characteristics of information in financial statements include: 1). Materiality, 2). reliability. 3). understandable, 4). relevant, 5). on time, 6). can be compared, 7) the balance between costs and benefits, 8). healthy consideration, 9). Completeness and 10) substance.

## **Research Method**

According to Sugiyono (2012) the descriptive method of definition is the method used to describe or analyse the results of research but not used to make broader conclusions

### ***Population and Research Sample***

The population in this study is the employees of SPI and accounting departments who work in industrial companies in the city of Bandung.

Sampling techniques using convenience sampling that is the SPI employees and the accounting department of each industrial company were not all willing to fill out the questionnaire, so the sample in this study was part of SPI and the accounting department for industrial companies in Bandung, that were willing to fill out questionnaires.

### ***Data Collection Techniques***

Data collection techniques used are:

1. Primary data by way of a questionnaire
2. Secondary data by means of library research

### **Research Results and Discussion**

#### ***Effect of Employee Capability on the Quality of Financial Statements***

The results of the t test obtained a tcount value of 2.645 while the value of t table was 2.080. This shows that t count > t table ( $2.645 > 2.080$ ) which means that the ability of employees influences the quality of financial statements.

Based on the result of the study, the ability of employees (variable X1) has a positive value of 0.448. This means that an increase in the ability of employees (variable X1) of 1 unit will increase the quality of financial statements by 0.448. From the results of the analysis of the coefficient of determination we obtained a value of 40.56%, meaning that the ability of employees (X1) affects the quality of financial statements (Y) by 40.56% and the remaining 59.44% is influenced by other factors. Thus, the knowledge, skills and behavioural attitudes possessed by employees in Bandung City industrial companies can affect the quality of financial reports. This is in line with the results of research conducted by Novatiani and Roosaleh (2016) which states that reliability of financial information is influenced by employee competency. This is also in accordance with the theory put forward by Bastian (2010), that preparation of quality financial information requires human resources who master government accounting.

#### ***Effect of Internal Control on the Quality of Financial Statements***

The results of the t test obtained a t value of 4.315 while the t table value is 2.080. This shows that t count > table ( $4.315 > 2.080$ ), which means that internal control affects the quality of financial statements.

The results of the study show that internal control (variable X2) has a positive value of 0.734. This means that an increase in internal control (variable X2) of 1 unit will increase the quality of financial statements by 0.734 units. From the results of the analysis of the coefficient of determination, we obtained a value of 49.30%, meaning that internal control (X2) affects the quality of financial statements (Y) by 49.30% and the remaining 50.70% is influenced by other factors.

Thus, the environmental control activities of information and communication control, risk assessment and monitoring conducted by industrial companies in the city of Bandung can affect the quality of financial statements. Thus, environmental control activities, information control and communication, risk assessment and monitoring carried out by industrial companies in the city of Bandung can affect the quality of financial statements. This is in line with research conducted by Herawati (2014) which concluded that there was a significant influence between the control environment, risk assessment, control activities, information and communication, and monitoring of the quality of financial reports. This is also in accordance with the theory put forward by Yadiati (2017) that effective internal control will be able to improve the quality (reliability) of financial reporting.

### ***Effect of Employee Ability and Internal Control on the Quality of Financial Reports***

The f test results obtained an f count value of 27.040 while the f table value is 3.21. This shows that  $f \text{ count} > f \text{ table}$  ( $27.040 > 3.21$ ), which means that the ability of employees and internal controls affect the quality of financial statements.

From the results of the determination coefficient analysis we obtained a value of 55.8%, meaning that the ability of employees (1) and internal control (X2) affects the quality of financial statements (Y) by 55.8% and the remaining 44.2% is influenced by other factors.

Thus, knowledge, skills and attitudes that are part of the ability of employees and control activities, control environment, information and communication, risk assessment and monitoring which are elements of internal control can affect the quality of financial statements. The financial statements made by industrial companies in the city of Bandung have qualified. This means that their works have qualitative characteristics which include: materiality, reliability, understandability, relevant, timely, comparable, the balance between costs and benefits, consideration of health, completeness and substance outperforms. This is in accordance with SAK-ETAP (IAI, 2013) stating that the qualitative characteristics of information in financial statements include: 1). Materiality, 2). reliability, 3). understandable, 4). relevant, 5). on time, 6). can be compared, 7) the balance between costs and benefits, 8). healthy consideration, 9). Completeness and 10). Substance.

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## **Conclusions and Suggestions**

### ***Conclusion***

Based on the results of the study, it can be concluded that:

1. The ability of employees influences the quality of financial statements. These results indicate that knowledge, skills and attitudes are already owned by employees in industrial companies in the city of Bandung. This means that the ability of employees, in Bandung City industrial companies, improves the quality of financial reports.
2. Internal control influences the quality of company reports. These results indicate that control activities, control environment, information and communication, risk assessment and monitoring conducted by industrial companies in the city of Bandung can affect the quality of financial statements. This means that better internal controls that are will improve the quality of financial statements.
3. The ability of employees and internal controls affect the quality of financial statements. These results indicate that the better the ability of employees and internal controls, the more it will improve the quality of financial reports. The financial statements that have been made by industrial companies in the city of Bandung are of a high quality which means they have qualitative characteristics which include: materiality, reliability, understandability, relevance, timely, comparable, a balance between costs and benefits, healthy consideration, completeness and substance outperforming form

### ***Recommendations***

Based on the results of the study there are things that can provide input and improvement, namely:

- 1). For some industrial companies in the city of Bandung, they can improve skills for employees, because, due to the results of the questionnaire, answers from respondents regarding skills shows that there are still improvements to be made.
- 2). For further researcher, we should examine other factors that can affect the quality of financial statements.

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