

ANALYSIS OF THE IMPLEMENTATION OF ORGANIZATIONAL CULTURE, INTERNAL CONTROL SYSTEMS, IMPLEMENTATION OF GOOD CORPORATE GOVERNANCE PRINCIPLES, AND THEIR IMPACT ON THE QUALITY OF FINANCIAL REPORTS

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Abstract

This research begins with a phenomenon where fraud is related to the principles of Good Corporate Governance that are not implemented properly by the company. The low level of employee discipline towards organizational culture and the low internal control system are used as an opportunity to cheat by taking advantage of position and position. If these two things are carried out properly, the company can minimize fraud, which can affect the quality of reports. Here the researcher uses a quantitative approach through causal research. The population chosen by researchers is manufacturing companies in the consumer goods industry sector listed on the IDX in the 2021 period. The research sample used the accidental sampling method, comprising 64 manufacturing companies in the consumer goods industry sector and 85 respondents. The process of collecting primary data by utilizing a questionnaire. Data analysis and processing apply Smart PLS. His research proves that the internal control system has a significant positive influence on the principles of good corporate Governance but does not affect the quality of financial reports. Meanwhile, organizational culture significantly positively affects the principles of Good Corporate Governance and the quality of financial reports. The principles of Good Corporate Governance significantly positively affect the quality of financial reports.

Keywords: Internal Control System, Organizational culture, Good Corporate Governance, Quality of Financial Statements.

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INTRODUCTION

In Indonesia, an issue that is increasingly popular today is Good Corporate Governance. Companies widely use corporate Governance as reference material in operating the company. Currently, in the global world, the level of competition is getting tougher, and companies must be professional in managing their companies. However, this company, which has had many scandals, must show a professional attitude in managing the company.

For example, in October 2018, the Lippo Group company was caught in a corruption case following a red-handed operation by the Corruption Eradication Commission against the Regent of Bekasi Regency, Neneng Hasanah Yasin, because it was not criminal to bribe the Meikarta project permit. At that time, the Lippo Group issuer's shares collapsed, which resulted in losses for shareholders and investors.¹ Another bribery case occurred in April 2022 involving the Regent of Bogor Regency, Ade Yasin, to the West Java Regional Financial Reporting Agency (BPK) regarding an audit of the Bogor Regency Government's financial reports for the 2021 Fiscal Year. This occurred with the discovery that the BPK team representing West Java on several projects at the Bogor Regency Public Works Service was suspected of being in a process that deviated from the rules.²

This case occurred because of the weakness of the internal control system. Implementing an effective internal control system supports the company in protecting assets, increasing compliance with applicable laws, ensuring the accuracy of the availability of reports and information, and minimizing the risk of violations, losses, and deviations in the precautionary principle. In addition, the application of corporate Good Corporate Governance can also indicate to the public that the company is protected from fraudulent practices.

The influence of organizational culture on Good Corporate Governance principles has been studied by Syafrion³, Putu Han Widiatmika,⁴ and Mustafa Avcin⁵ who state that organizational culture has a significant positive influence on the implementation of Good Corporate Governance. The results of the study show that the better the organizational culture, the better the implementation of Good Corporate Governance. A good organizational culture will determine the creation of good corporate management, where one of the factors that can prevent fraudulent acts is high ethics and ethical culture. By increasing the organizational culture, fraud prevention can be done by implementing Good Corporate Governance principles. Meanwhile, the influence of organizational culture on the quality of financial reports has been studied by Widiatmika and Darma⁶

¹ Welly Hidayat, 'Kronologis Lengkap Suap Proyek Meikarta Di Kabupaten Bekasi', 2018, 2018 <<https://www.suara.com/news/2018/10/16/060100/kronologis-lengkap-suap-proyek-meikarta-di-kabupaten-bekasi>> [accessed 7 March 2023].

² Agung Sandy Lesmana, 'Kasus Bupati Ade Yasin, KPK Panggil Lima Pejabat Kabupaten Bogor Termasuk Kepala BPKAD Teuku Mulya', *Suara.Com*, 2022 <<https://www.suara.com/news/2022/05/13/122245/kasus-bupati-ade-yasin-kpk-panggil-lima-pejabat-kabupaten-bogor-termasuk-kepala-bpkad-teuku-mulya>> [accessed 7 March 2023].

³ Syafrion and others, 'Pengaruh Sistem Pengendalian Intern, Pengelolaan Keuangan Daerah, Komitmen Organisasi Dan Budaya Organisasi Terhadap Penerapan Good Governance (Studi Kasus Pada Satuan Kerja Perangkat Daerah Kota Solok)', *Jurnal Online Mahasiswa (JOM) Bidang Ilmu Ekonomi*, 2.2 (2015), 1–14.

⁴ Putu Han Widiatmika, and Gede Sri Darma, 'Good Corporate Governance, Job Motivation, Organization Culture Which Impact Company Financial Performance', *Jurnal Manajemen Bisnis*, 15.3 (2018), 82–99 <<https://doi.org/10.38043/JMB.V15I3.608>>.

⁵ Mustafa Avcin and Hasret Balcioglu, 'Corporate Governance: A Model of Modern Corporate Governance Framework for the Better Governance of Companies', *Developments in Corporate Governance and Responsibility*, 12 (2017), 207–34 <<https://doi.org/10.1108/S2043-052320170000012009/FULL/XML>>.

⁶ Manajemen dan Bisnis, Han Widiatmika, and Sri Darma.

and Nalukenge⁷ proved that organizational culture has a significant effect on financial performance. The implementation of organizational culture is improving so that the quality of the financial reports is also improving. At the same time, organizational culture can foster positive organizational fundamental values, such as upholding integrity and honesty, quality of work, appreciation, respect, and excellent service for transparency and openness of financial reporting information, ensuring that it is understandable, pertinent, dependable, and comparable. Meanwhile Ayem and Karlina found that organizational culture does not affect the quality of financial reporting.⁸

The effect of implementing an internal control system on Good Corporate Governance principles has been studied by Syafrion⁹, Siregar¹⁰, Yusyinar¹¹ and Al-Zwayalif¹² revealed that the internal control system has a significant positive effect on the implementation of Good Corporate Governance. Improved implementation of the internal control system so that the application of Good Corporate Governance principles will be more effective. There is a good internal control system so the level of fraud can be minimized and the implementation of Good Corporate Governance principles can be carried out properly. On the other hand, the implemented internal control system is not optimal and does not follow the rules of corporate Governance, so the level of fraud will be higher. Meanwhile, the effect of the internal control system on the quality of financial reporting has been studied by Syafrion¹³, Siregar¹⁴, Yusyinar¹⁵ Al-Zwayalif¹⁶, Dianita¹⁷,

⁷ Irene Nalukenge, Stephen Korutaro Nkundabanyanga, and Joseph Mpeera Ntayi, 'Corporate Governance, Ethics, Internal Controls and Compliance with IFRS', *Journal of Financial Reporting and Accounting*, 16.4 (2018), 764–86 <<https://doi.org/10.1108/JFRA-08-2017-0064/FULL/XML>>.

⁸ Sri Ayem and Lina Karlina, 'Pengaruh Teknologi Informasi, Budaya Organisasi Dan Kualitas Sistem Informasi Akuntansi Terhadap Kualitas Laporan Keuangan (Studi Kasus PT. Pegadaian Cabang Dompus Soriotu)', *PRIVE: Jurnal Riset Akuntansi Dan Keuangan*, 4.2 (2021), 1–13 <<https://doi.org/10.36815/PRIVE.V4I2.1167>>.

⁹ Syafrion and others.

¹⁰ Rini Maryuni dan Ongki Dessy Oliviani Hariyati, 'Pengaruh Audit Manajemen Dan Pengendalian Intern Terhadap Kinerja Perusahaan Dengan Good Corporate Governance Sebagai Variabel Intervening (Studi Pada PT. Jamsostek (Persero) Divisi Regional VI Jawa Barat', *Proceeding Seminar Nasional Dan Call For Papers Sancall 2013, 23 Maret 2013: 484-495.*, 549 (2013), 40–42.

¹¹ Darwanis Yusniyar and Syukriy Abdullah, 'Pengendalian Intern Terhadap Good Governance Dan... - Google Scholar', *Jurnal Magister Akuntansi Pascasarjana Universitas Syiah Kuala*, 5.3 (2016), 100–115.

¹² Inaam M. Al-Zwayalif, 'The Role of Internal Control in Enhancing Corporate Governance: Evidence from Jordan', *International Journal of Business and Management*, 10.7 (2015), 57–66 <<https://doi.org/10.5539/ijbm.v10n7p57>>.

¹³ Syafrion and others.

¹⁴ Hariyati.

¹⁵ Yusniyar and Syukriy Abdullah.

¹⁶ Al-Zwayalif.

¹⁷ Mirna Dianita, 'Role of the Internal Auditor Influence and Good Corporate Governance in Banking Financial Performance Against State Owned Corporation', *International Journal of Business and Administrative Studies*, 1.4 (2015), 176–79 <<https://doi.org/10.20469/IJBAS.1.10006-4>>.

Nalukenge¹⁸, Sumito¹⁹, Sitorus²⁰ and Setiyawati²¹ proved that the internal control system has a positive effect on the quality of financial reporting. The effectiveness of the internal control system can prevent accounting fraud so that the quality of financial reporting can be improved. If the internal control system is good, the quality of financial reporting will be good. But, Mokoginta²² proved that the internal control system significantly negatively affects the quality of government financial reporting.

The effect of the application of Good Corporate Governance principles on the quality of financial reports has been studied by Mulyanti and Rahma²³, Widiatmika²⁴, Yusniyar²⁵, Winarso²⁶, Dianita²⁷, and Setiyawati²⁸ proves that Good Corporate Governance has a positive effect on the quality of financial reporting. Implementing Good Corporate Governance principles can produce timely and accurate financial reports from relevant, material, and confidential information. The purpose of implementing Good Corporate Governance principles is to protect objectivity when operating a business in a transparent, accountable, responsible, independent, and fair manner. But, Utami²⁹ proves that corporate governance mechanisms do not affect financial performance and company value.

¹⁸ Nalukenge, Nkundabanyanga, and Ntayi.

¹⁹ Ngali Sumito, Hari Setiyawati, and Ratna Mappanyukki, 'Influence of Internal Audit and Internal Control System on Quality of the Financial Statement', *Proceedings of the Conference on International Issues in Business and Economics Research (CIIBER 2019)*, 2021, 26–31 <<https://doi.org/10.2991/AEBMR.K.210121.005>>.

²⁰ Eduward Tony Sitorus, Hari Setiyawati, and Ratna Mappanyuki, 'THE EFFECTIVENESS OF THE INTERNAL CONTROL SYSTEM ON THE QUALITY OF FINANCIAL STATEMENTS WITH THE IMPLEMENTATION OF INTERNAL AUDITS AS A MODERATION VARIABLE', *ICORE*, 5.1 (2020) <<http://jp.feb.unsoed.ac.id/index.php/Icore/article/view/1749>> [accessed 7 March 2023].

²¹ Hari Setiyawati and others, 'The Factors That Affect The Quality of Financial Reporting', *International Journal of Economics and Management Studies*, 7.1 (2020), 33–39 <<https://doi.org/10.14445/23939125/ijems-v7i1p105>>.

²² Novtania Mokoginta, Linda Lambey, and Winston Pontoh, 'PENGARUH SISTEM PENGENDALIAN INTERN DAN SISTEM AKUNTANSI KEUANGAN DAERAH TERHADAP KUALITAS LAPORAN KEUANGAN PEMERINTAH', *GOING CONCERN: JURNAL RISET AKUNTANSI*, 12.2 (2017), 874–90 <<https://doi.org/10.32400/GC.12.2.18282.2017>>.

²³ Khairaningrum Mulyanti and Niken Asyiami Rahma, 'PENGARUH PENERAPAN GOOD CORPORATE GOVERNANCE (GCG) TERHADAP KUALITAS LAPORAN KEUANGAN PADA PT IRON BIRD (BLUE BIRD GROUP)', *LAND JOURNAL*, 1.1 (2020), 42–53 <<https://doi.org/10.47491/LANDJOURNAL.V1I1.593>>.

²⁴ Manajemen dan Bisnis, Han Widiatmika, and Sri Darma.

²⁵ Yusniyar and Syukriy Abdullah.

²⁶ Widi Winarso, 'ANALISIS PENGARUH PENGENDALIAN INTERNAL SISTEM PENDAPATAN JASA DAN PENERAPAN GOOD CORPORATE GOVERNANCETERHADAP KUALITAS LAPORAN KEUANGAN', 2019 <<https://journal.stie-kusumanegara.ac.id/index.php/managerial/article/view/77/70>> [accessed 7 March 2023].

²⁷ Dianita.

²⁸ Setiyawati and others.

²⁹ Wiwik Utami and Rieke Pernamasari, 'Study on Asean Listed Companies: Corporate Governance and Firm Performance', *International Journal of Business, Economics and Law*, 19.5 (2019), 181–88.

The difference between this research and previous research is that the issuers sampled in previous research varied, including state-owned companies, regional-owned enterprises, regional governments, rural banks, and several private companies. Meanwhile, in this study, researchers wanted to examine the influence of organizational culture and internal control systems on Good Corporate Governance principles and their impact on the quality of financial reports as the dependent variable.

RESEARCH METHODS

The approach used by researchers is quantitative through causal research. The population is manufacturing companies in the consumer goods industry sector listed on the IDX. For the research sample, the researcher used the accidental sampling method, in which the technique of determining the sample was based on coincidence; that is, anyone who met could be used as a sample if it was judged that the coincidental individual was suitable as the data source. The number of samples is 64 companies, with a total of 85 respondents. The primary data is collected by submitting a questionnaire via Google Forms. Data analysis utilizes descriptive analysis techniques and is processed with the help of the Smart PLS 3.0 application by conducting data quality tests, namely validity and reliability tests (outer model), as well as the goodness of fit assessment of the structural model (inner model) which includes the coefficient of determination, predictive relevance, and also hypothesis testing. The operational definitions of the variables and measurements used are presented in Table 1:

Table 1. Variable Operationalization and Variable Measurement

| Variable | Indicator | Reference |
|---------------------------|---------------------------------------|--|
| Organizational Culture | 1. Innovation and risk-taking | Robbins and Timothy ³⁰ |
| | 2. Attention to detail | |
| | 3. Outcome orientation | |
| | 4. People orientation | |
| | 5. Team orientation | |
| | 6. Aggressiveness | |
| | 7. Stability | |
| Internal Control | 1. Control Environment | Romney and Steinbart ^{31,32} |
| | 2. Risk Assessment | |
| | 3. Control Activities | |
| | 4. Information & Communication | |
| Good Corporate Governance | 1. Monitoring and evaluating controls | (Peraturan Bank Indonesia No. 8/4/PBI/2006 2006; Ikatan Akuntan Indonesia 2016; OCDE 2004) ³³ |
| | 2. Transparency | |
| | 3. Accountability | |
| | 4. Responsibility | |

³⁰ Stephen P. Robbins and Tim. Judge, *Organizational Behavior* (Prentice Hall, 2011).

³¹ A. A. Arens, R.J. Elder, and M.S. Beasley, *Auditing & Jasa Assurance: Pendekatan Terintegrasi, 15th, Repository.Ump.Ac.Id* (Jakarta: Erlangga, 2015), xv.

³² COSO, *Internal Control — Integrated Framework*, 2013.

³³ 'Peraturan BI No. 8/4/PBI/2006 Tentang Pelaksanaan Good Corporate Governance Bagi Bank Umum [JDIH BPK RI]' <<https://peraturan.bpk.go.id/Home/Details/137705/peraturan-bi-no-84pbi2006>> [accessed 7 March 2023].

| | | |
|---------------------------------|--------------------|---|
| Quality of Financial Statements | 5. Independence | (Bachtiar and Nurfadilah 2019; Kieso and Weygandt. 2018; Ikatan Akuntansi Indonesia 2015) ³⁴³⁵ |
| | 6. Fairness | |
| | 1. Understandable | |
| | 2. Relevant | |
| | 3. Reliability | |
| | 4. Can be compared | |

Source: Data processed 2021

RESULT AND DISCUSSION

Variable Description

In the variable of implementing organization culture, the average value of the variable is very high, namely 3.955, as shown in Table 2 below:

Table 2: Variable Description of Organizational Culture Implementation

| No | Indicator | Mean | Standard Deviation | Category |
|----|----------------------------|---------|--------------------|----------|
| 1 | Innovation and risk-taking | 4,129 | 0,57 | High |
| 2 | Attention to details | 3,965 | 0,50 | High |
| 3 | Orientation on Results | 4,176 | 0,60 | High |
| 4 | Human Oriented | 3,965 | 0,23 | High |
| 5 | Team Orientation | 4,000 | 0,39 | High |
| 6 | Aggressiveness | 3,341 | 0,49 | Moderate |
| 7 | Stability | 3,647 | 0,43 | High |
| | Total | 27, 223 | 3,21 | |
| | Average | 3,889 | 0,46 | High |

Source: Primary data processed by Smart PLS 2021

Regarding the responses from the 14 statements regarding organizational culture, most respondents evaluated that organization culture was high (good). This means that the implementation of organizational culture in manufacturing companies in Indonesia, especially the consumer goods industry sector, is very good, which can effectively help companies form work behavior that is honest, innovative, and able to create a healthy work environment.

In the internal control system implementation variable, the variable average value is high, namely 3.904, as shown in Table 3:

Table 3. Variable Description Implementation of The Internal Control System

| No | Indicator | Mean | Standard Deviation | Category |
|----|---------------------|-------|--------------------|----------|
| 1 | Control Environment | 3,812 | 0,55 | High |
| 2 | Risk Assessment | 3,941 | 0,63 | High |

³⁴ Irmah Halimah Bachtiar and Nurfadila, *Akuntansi Dasar Buku Pintar Untuk Pemula - Irmah Halimah Bachtiar, Nurfadila - Google Books* (Yogyakarta: Deepublish, 2019).

³⁵ Ikatan Akuntan Indonesia, *Pernyataan Standar Akuntansi Keuangan*, 2011, xxx.

| | | | | |
|---|-----------------------------------|--------|------|------|
| 3 | Control Activities | 3,835 | 0,43 | High |
| 4 | Information & Communication | 3,988 | 0,58 | High |
| 5 | Monitoring and evaluating control | 3,941 | 0,54 | High |
| | Total | 19,517 | 2,73 | |
| | Average | 3,903 | 0,55 | High |

Source: Primary data processed by Smart PLS 2021

Based on the respondents' responses to the 27 statements related to the internal control system construct, the average of the internal control system variables is 3.904 and is deemed high. These results indicate that some respondents think that the internal control system needs to be better because some need to understand the purpose of the company's internal control system.

In the Good Corporate Governance Principles variable, the average value of the variable is very high, namely 3.894, as shown in Table 4:

Table 4: Variable Description of GCG Principles

| No | Indicator | Mean | Standard Deviation | Category |
|----|----------------|--------|--------------------|----------|
| 1 | Transparency | 3,882 | 0,54 | High |
| 2 | Accountability | 3,929 | 0,63 | High |
| 3 | Responsibility | 3,859 | 0,52 | High |
| 4 | Independence | 3,671 | 0,43 | High |
| 5 | Fairness | 3,894 | 0,56 | High |
| | Total | 19,235 | 2,68 | |
| | Average | 3,847 | 0,54 | High |

Source: Primary data processed by Smart PLS 2021

Referring to the respondents' responses from the 13 statements related to the construct of good corporate Governance, most respondents evaluated that good corporate Governance was already high (good). This means that the implementation of GCG in manufacturing companies in Indonesia, especially the consumer goods industry sector, is very good for creating a good and trustworthy corporate image to provide progress in company performance and profitability.

In the financial report quality variable, the average value of the variable is very high, namely 3.919, as shown in Table 5:

Table 5: Description of The Variable Financial Report Quality

| No | Indicator | Mean | Standard Deviation | Category |
|----|----------------|--------|--------------------|----------|
| 1 | Understandable | 3,671 | 0,46 | High |
| 2 | Relevant | 3,953 | 0,53 | High |
| 3 | Reliability | 3,988 | 0,57 | High |
| 4 | Comparable | 4,071 | 0,63 | High |
| | Total | 15,683 | 2,19 | |
| | Average | 3,920 | 0,55 | High |

Source: Primary data processed by Smart PLS 2021

Referring to the respondents' responses from the nine statements related to the construct of financial report quality, most of the respondents evaluated that financial

report quality was high (good). This means that the implementation of financial report quality in manufacturing companies in Indonesia, especially the consumer goods industry sector, is very good because it meets several standards, namely comparability, understanding, relevance, and reliability so that it can be used to describe company performance so that it can be used as a basis for decision making.

Convergent Validity

The convergent validity of the measurement model of reflexive indicators is stated based on the relationship between the item score and the construct score measured using PLS. The results of the loading factor for each indicator can be shown in the figure below:

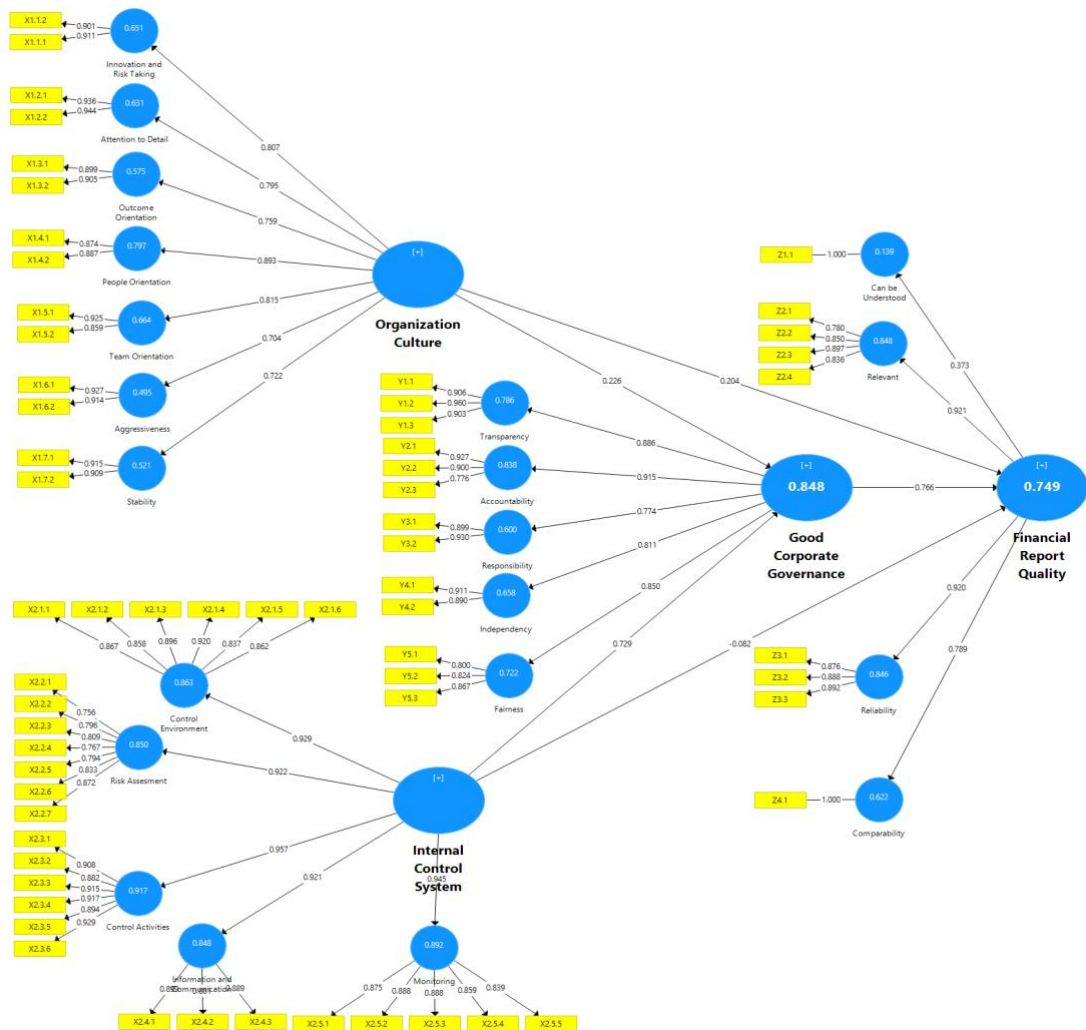


Figure 2. Second Order Confirmatory Factor Analysis (Loading Factor)

Source: Data processed 2021

The test results in Figure 2 are summarized and explained, namely:

Table 1: Loading Factor

| Variable | Dimension | Indicator | Loading Factor | Cut-Off | Information |
|----------|-----------|-----------|----------------|---------|-------------|
| | | X1.1.1 | 0,911 | 0,700 | Valid |

| Variable | Dimension | Indicator | Loading Factor | Cut-Off | Information |
|-------------------------------|----------------------------|---------------------|-----------------------|----------------|--------------------|
| Organizational Culture | Innovation and Risk Taking | X1.1.2 | 0,901 | | Valid |
| | | Attention to Detail | X1.2.1 | 0,936 | Valid |
| | | | X1.2.2 | 0,944 | Valid |
| | Outcome Orientation | X1.3.1 | 0,899 | Valid | |
| | | X1.3.2 | 0,905 | Valid | |
| | People Orientation | X1.4.1 | 0,874 | Valid | |
| | | X1.4.2 | 0,887 | Valid | |
| | Team Orientation | X1.5.1 | 0,925 | Valid | |
| | | X1.5.2 | 0,859 | Valid | |
| | Aggressiveness | X1.6.1 | 0,927 | Valid | |
| | | X1.6.2 | 0,914 | Valid | |
| | Stability | X1.7.1 | 0,915 | Valid | |
| | | X1.7.2 | 0,909 | Valid | |
| | Internal Control System | Control Environment | X2.1.1 | 0,867 | Valid |
| X2.1.2 | | | 0,858 | Valid | |
| X2.1.3 | | | 0,896 | Valid | |
| X2.1.4 | | | 0,920 | Valid | |
| X2.1.5 | | | 0,837 | Valid | |
| X2.1.6 | | | 0,862 | Valid | |
| Risk Assessment | | X2.2.1 | 0,756 | Valid | |
| | | X2.2.2 | 0,796 | Valid | |
| | | X2.2.3 | 0,809 | Valid | |
| | | X2.2.4 | 0,767 | Valid | |
| | | X2.2.5 | 0,794 | Valid | |
| | | X2.2.6 | 0,833 | Valid | |
| | | X2.2.7 | 0,872 | Valid | |
| Control Activities | | X2.3.1 | 0,908 | Valid | |
| | | X2.3.2 | 0,882 | Valid | |
| | | X2.3.3 | 0,915 | Valid | |
| | | X2.3.4 | 0,917 | Valid | |
| | | X2.3.5 | 0,894 | Valid | |
| | | X2.3.6 | 0,929 | Valid | |
| Information and Communication | | X2.4.1 | 0,899 | Valid | |
| | | X2.4.2 | 0,881 | Valid | |
| | | X2.4.3 | 0,889 | Valid | |
| Monitoring | | X2.5.1 | 0,875 | Valid | |
| | X2.5.2 | 0,888 | Valid | | |
| | X2.5.3 | 0,888 | Valid | | |
| | X2.5.4 | 0,859 | Valid | | |
| | X2.5.5 | 0,839 | Valid | | |
| Good Corporate Governance | Transparency | Y1.1 | 0,906 | Valid | |
| | | Y1.2 | 0,960 | Valid | |
| | | Y1.3 | 0,903 | Valid | |
| | Accountability | Y2.1 | 0,927 | Valid | |

| Variable | Dimension | Indicator | Loading Factor | Cut-Off | Information |
|--------------------------|-------------------|-----------|----------------|---------|-------------|
| | Responsibility | Y2.2 | 0,900 | 0,700 | Valid |
| | | Y2.3 | 0,776 | | Valid |
| | | Y3.1 | 0,899 | | Valid |
| | Independence | Y3.2 | 0,930 | | Valid |
| | | Y4.1 | 0,911 | | Valid |
| | Fairness | Y4.2 | 0,890 | | Valid |
| | | Y5.1 | 0,800 | | Valid |
| | | Y5.2 | 0,824 | | Valid |
| | | Y5.3 | 0,867 | | Valid |
| Financial Report Quality | Can be Understood | Z1.1 | 1,000 | 0,700 | Valid |
| | | Relevant | Z2.1 | | 0,780 |
| | Z2.2 | | 0,850 | | Valid |
| | Z2.3 | | 0,897 | | Valid |
| | Z2.4 | | 0,836 | | Valid |
| | Reliability | Z3.1 | 0,876 | | Valid |
| | | Z3.2 | 0,888 | | Valid |
| | | Z3.3 | 0,892 | | Valid |
| Comparability | Z4.1 | 1,000 | Valid | | |

Source: Processed results 2021 (Output SmartPLS 3.3.3)

Referring to the table, it can be seen that all second-order CFA loading factors show that the model meets the convergent validity requirements because the loading factor value is above 0.7. This means that all indicators are valid as measuring devices for each variable in all research variables, namely organizational culture, internal control system, Good Corporate Governance, and financial report quality.

Reliability Test

The reliability test is related to the accuracy and consistency of measuring results. The following is a table of test results in each dimension:

Table 7: Reliability Test

| | Cronbach's Alpha | Composite Reliability | Cut-Off | Information |
|-------------------------------|------------------|-----------------------|---------|-------------|
| Innovation and Risk Taking | 0,782 | 0,902 | 0,700 | Reliable |
| Attention to Detail | 0,869 | 0,938 | | Reliable |
| Outcome Orientation | 0,771 | 0,897 | | Reliable |
| People Orientation | 0,710 | 0,873 | | Reliable |
| Team Orientation | 0,750 | 0,887 | | Reliable |
| Aggressiveness | 0,820 | 0,917 | | Reliable |
| Stability | 0,797 | 0,908 | | Reliable |
| Control Environment | 0,938 | 0,951 | | Reliable |
| Risk Assessment | 0,909 | 0,928 | | Reliable |
| Control Activities | 0,957 | 0,965 | | Reliable |
| Information and Communication | 0,869 | 0,919 | | Reliable |
| Monitoring | 0,920 | 0,940 | | Reliable |

| | Cronbach's Alpha | Composite Reliability | Cut-Off | Information |
|-------------------|-------------------------|------------------------------|----------------|--------------------|
| Transparency | 0,913 | 0,945 | | Reliable |
| Accountability | 0,836 | 0,903 | | Reliable |
| Responsibility | 0,806 | 0,911 | | Reliable |
| Independence | 0,767 | 0,895 | | Reliable |
| Fairness | 0,776 | 0,870 | | Reliable |
| Can be Understood | 1,000 | 1,000 | | Reliable |
| Relevant | 0,862 | 0,906 | | Reliable |
| Reliability | 0,863 | 0,916 | | Reliable |
| Comparability | 1,000 | 1,000 | | Reliable |

Source: Primary data processed by Smart PLS 2021

The results of the construct reliability test, as presented in the table, show the Composite Reliability and Cronbach Alpha values of all latent variables > 0.70. Then all manifest variables in the measurement of latent constructs in the estimated model are considered reliable. Then it can continue to test the structural model (inner model).

Structural Model Analysis (Inner Model)

Structural model assessment is a stage that includes the coefficient of determination (R^2) along with predictive relevance (Q^2) and hypothesis testing.

Table 8: R-Square Test

| | R-Square | Information |
|-------------------------------|-----------------|--------------------|
| Good Corporate Governance (Y) | 0,848 | Strong |
| Financial Report Quality (Z) | 0,749 | Strong |

Source: Primary data processed by Smart PLS 2021

The test results shown in the table above produce a good corporate governance value of 0.848; this value is above 0.67, and this result is quite strong. These results explain that 84.4% of good corporate Governance is influenced by organizational culture and internal control systems. In comparison, the remaining 15.2% is influenced by other factors that researchers did not examine. While the second R^2 value of 0.749 exceeds 0.67, which is categorized as strong, this explains that organizational culture, internal control systems, and good corporate Governance influence 74.9% of financial report quality. At the same time, the remaining 25.1% were influenced by other factors that researchers did not investigate.

Hypothesis Testing

Statistical values are used in each path of partial direct influence to test the hypothesis. As for the picture of the path diagram in the hypothesis test:

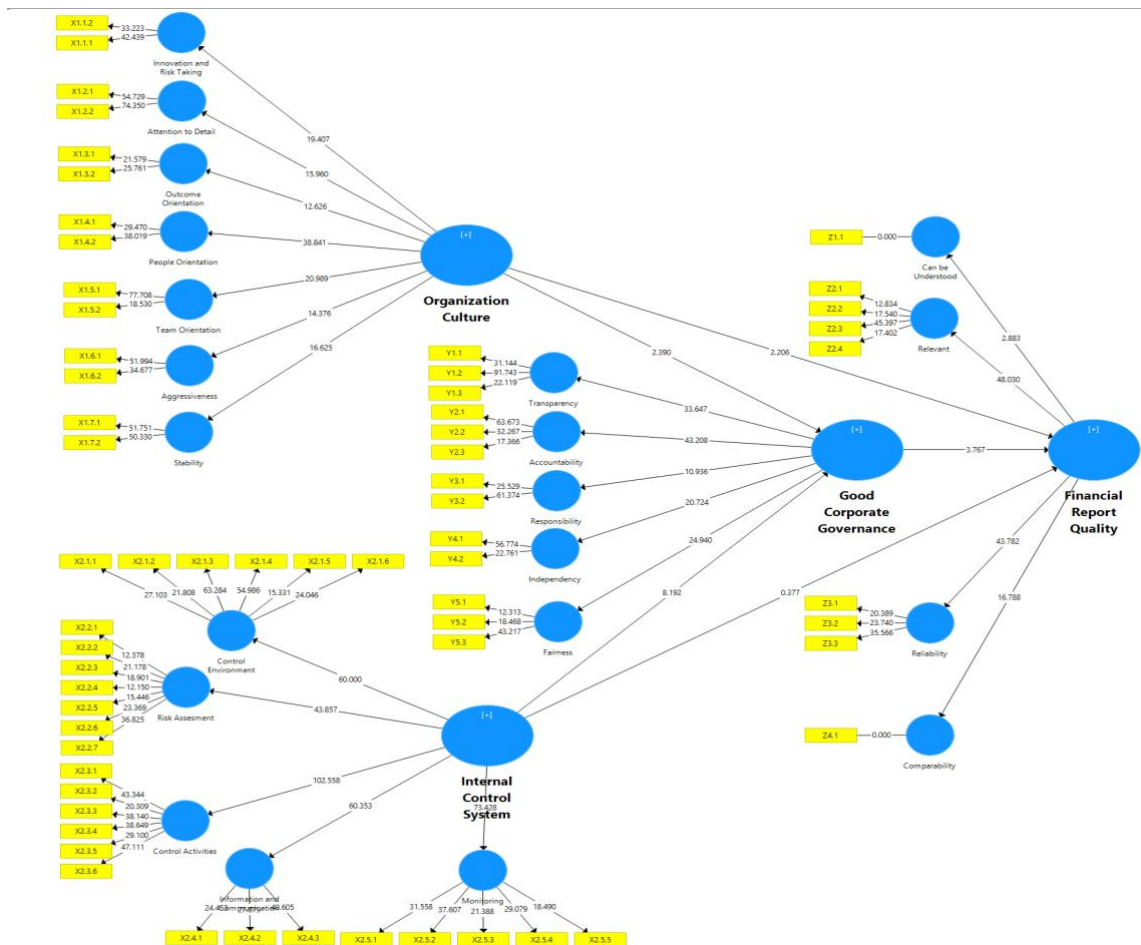


Figure 3. Hypothesis Testing

Source: Data processed 2021

Based on Figure 3 above, all dimensions in each variable have a T-statistic value of > 1.960 so that each variable can be measured. As a result, the correlation between constructs and dimensions is described in the following table:

Table 9: Hypothesis Testing Results

| | Original Sample | T-Statistics | P-Values | Information |
|---|-----------------|--------------|----------|--------------------|
| Organization Culture -> Good Corporate Governance | 0,226 | 2,390 | 0,017 | Significant Effect |
| Internal Control System -> Good Corporate Governance | 0,729 | 8,192 | 0,000 | Significant Effect |
| Organization Culture -> Financial Report Quality | 0,204 | 2,206 | 0,028 | Significant Effect |
| Internal Control System -> Financial Report Quality | -0,082 | 0,377 | 0,706 | No Effect |
| Good Corporate Governance -> Financial Report Quality | 0,766 | 3,767 | 0,000 | Significant Effect |

*) Significant at the 5% level

Source: Primary data processed by Smart PLS 2021

DISCUSSION

Implementing Organization Culture has a significant positive influence on Good Corporate Governance principles. This is supported by stakeholder theory which explains the improvement in organizational culture carried out by all members of the company's organization where employees are always required to prioritize teamwork, always innovate, and carry out work in detail so that employee performance has increased for that company goals will be realized. This study's results align with research results from Syafrion³⁶ and Widiatmika³⁷ which reveal that Organizational Culture significantly influences Good Corporate Governance principles.

Implementing the internal control system significantly positively affects Good Corporate Governance principles. These results support the agency theory in which shareholders can improve oversight and encourage managers to prevent acts of fraud in the hope that the better the implementation of the internal control system, the more effective the implementation of Good Corporate Governance principles will be. A good internal control system can minimize the level of fraudulent behavior, and the implementation of Good Corporate Governance principles can be carried out properly. The results of this study are consistent with the results of research from Syafrion³⁸, Siregar³⁹, Taha⁴⁰, Yusniyar⁴¹, Al-Zwyalif⁴² confirmed that the internal control system has a significant positive effect on the implementation of Good Corporate Governance.

Organizational Culture implementation has a significant positive effect on financial report quality. These results support agency theory in which organizational culture influences the work, behavior, and motivation of managers and their subordinates to achieve organizational performance. Where Organizational Culture can create good organizational fundamental values, for example upholding integrity and honesty, quality of work and appreciation, as well as respect and excellent service for transparency and openness of financial reporting information so that it is understandable, relevant, reliable, and comparable, this study's results align with the results of research from Widiatmika⁴³ and Nalukenge⁴⁴ proved that organizational culture has a significant effect on financial performance. Meanwhile, Ayem⁴⁵ explains that organizational culture does not affect the quality of financial reporting.

Implementing the internal control system has no effect on the quality of financial reporting. Because from the results of the respondents, there were several indicators of

³⁶ Syafrion and others.

³⁷ Manajemen dan Bisnis, Han Widiatmika, and Sri Darma.

³⁸ Syafrion and others.

³⁹ Hariyati.

⁴⁰ Irma Andi Taha, 'PENGARUH PENGENDALIAN INTERNAL TERHADAP PENERAPAN GOOD CORPORATE GOVERNANCE: STUDI KASUS PADA PERUSAHAAN AIR MINUM (PAM) TIRTA MANGKALUKU KOTA PALOPO', *Jurnal Akuntansi STIE Muhammadiyah Palopo*, 5.1 (2020) <<https://doi.org/10.35906/JA001.V5I1.530>>.

⁴¹ Yusniyar and Syukriy Abdullah.

⁴² Al-Zwyalif.

⁴³ Manajemen dan Bisnis, Han Widiatmika, and Sri Darma.

⁴⁴ Nalukenge, Nkundabanyanga, and Ntayi.

⁴⁵ Ayem and Karlina.

the internal control system whose data were not valid, namely commitment to ethical values, commitment to integrity values, the supervisory function of the board of directors, the independence of employee role management, and also risk assessment. This is, of course, impossible/biased because the respondents who gave answers on average had a bachelor's degree, and 66.2% had only worked for five years. The results of this study are consistent with the results of research from Mokoginta⁴⁶ proved that the internal control system has a significant negative effect on the quality of government financial reporting. While research by Yusniyar⁴⁷, Al-Zwyalif⁴⁸, Widiatmika⁴⁹, Dianita⁵⁰, Nalukenge⁵¹, Sumito⁵², Sitorus⁵³ and Setiyawati⁵⁴ proved that the internal control system has a positive effect on the quality of financial reporting.

Implementing Good Corporate Governance principles significantly positively affects financial report quality. These results support agency theory which explains the existence of Good Corporate Governance implementation as an effort to minimize agency financing. The principles of Good Corporate Governance include fairness, independence, responsibility, accountability, and transparency resulting in effective oversight as a deterrent to fraudulent management actions that can cause losses to shareholders. Good corporate Governance can increase the trust of investors. Shareholders, as owners, can be sure that the company's resources have been used efficiently and effectively. The results of this study are in line with the results of research from Mulyanti⁵⁵, Widiatmika⁵⁶, Yusniyar⁵⁷, Winarso⁵⁸, Dianita⁵⁹ and Setiyawati⁶⁰ proves that Good Corporate Governance has a positive effect on the quality of financial reports, while research by Utami⁶¹ proves that corporate governance mechanisms do not affect financial performance and company value.

CONCLUSION

The implementation of Organization Culture has a significant positive effect on the principles of Good Corporate Governance, where the better the Organization Culture, the better the implementation of Good Corporate Governance. A good Organizational Culture can be a determinant of creating Good Corporate Governance, which includes factors that can prevent fraudulent behavior, namely high ethics and ethical culture. Implementing the internal control system significantly positively affects Good Corporate

⁴⁶ Mokoginta, Lambey, and Pontoh.

⁴⁷ Yusniyar and Syukriy Abdullah.

⁴⁸ Al-Zwyalif.

⁴⁹ Manajemen dan Bisnis, Han Widiatmika, and Sri Darma.

⁵⁰ Dianita.

⁵¹ Nalukenge, Nkundabanyanga, and Ntayi.

⁵² Sumito, Setiyawati, and Mappanyukki.

⁵³ Sitorus, Setiyawati, and Mappanyuki.

⁵⁴ Sumito, Setiyawati, and Mappanyukki.

⁵⁵ Mulyanti and Rahma.

⁵⁶ Manajemen dan Bisnis, Han Widiatmika, and Sri Darma.

⁵⁷ Yusniyar and Syukriy Abdullah.

⁵⁸ Winarso.

⁵⁹ Dianita.

⁶⁰ Setiyawati and others.

⁶¹ Utami and Pernamasari.

Governance principles. The better the implementation of the internal control system, the more implementation of Good Corporate Governance principles will be more effective. The implementation of Organization Culture has a significant positive effect on financial report quality; the better the implementation of Organization Culture, the results of financial report quality are also getting better. Implementing the internal control system has no effect on the quality of financial reports. Because of the results of the respondents, there were several indicators from the internal control system whose data were not valid, namely commitment to ethical values, integrity values, the supervisory function of the board of directors, employee roles, management independence, and risk assessment. This is, of course, impossible/biased because the respondents who gave answers on average had a bachelor's degree, and 66.2% had only worked for five years. Applying Good Corporate Governance principles has a significant positive effect on financial report quality; the better the implementation of Good Corporate Governance principles, the better the quality of financial reporting. Implementing Good Corporate Governance principles can produce financial reports timely and accurately from material information, and nothing is hidden and relevant.

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