

Article

The Impact of Financial Accounting Standard Implementation and Internal Control Structure on Financial Report Quality and Annual Member Meetings

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Abstract: Cooperatives are proven to be able to make an important contribution to economic development which can improve a community's economy in terms of income increase. The purpose of this study is to examine the effect of Financial Accounting Standards for Entities Without Public Accountability (FAS-EWPA) implementation and internal control structure on cooperatives' financial report quality and annual member meetings in West Aceh regency, Aceh Province, Indonesia. The research uses a quantitative approach with census methods and a causality study. Unit of analysis is a cooperative employee in West Aceh regency, consisting of 69 cooperatives with the respondent being the administrator and head of the supervisory body. Data was collected by distributing questionnaires to 139 selected respondents. The number of questions consists of 46 items for all the chosen variables. The results of multiple linear regression analysis showed that FAS-EWPA implementation and internal control structure had a significant simultaneous effect and positive significant partial effect on financial report quality and annual member meetings. Based on these findings, it is hoped that cooperatives in the West Aceh regency can improve the implementation of FAS-EWPA and their respective internal controls so that the quality of cooperatives' financial reporting can keep improving.

Keywords: financial accounting standard; internal control structure; financial report quality; annual member meetings; west Aceh regency



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1. Introduction

The contribution of cooperatives is significant in developing the Indonesian economy, including in West Aceh regency, Aceh Province. Therefore, cooperatives must be managed professionally to grow and

develop so that the primary goal of cooperatives for the welfare of community members can be achieved. Based on Dinas Perindustrian dan Perdagangan Aceh (2020), the number of cooperatives dissolved in 2015 in the West Aceh regency was 68. Furthermore, in 2018 there were 49 cooperatives that were again disbanded based on the proposal of the agency in charge of cooperatives (Department of Industry, Trade, Cooperatives and SMEs of West Aceh regency). This is because the disbanded cooperative did not carry out the annual member meeting for three consecutive years or more. On average, these cooperatives do not have financial reports, are not active or have no business activities for the welfare of their members and are fictitious because they have unclear addresses and management.

The cooperative's financial report submitted at the annual member meeting contains information on all financial activities and the position of resources owned by the cooperative for a period (Arie et al., 2018; Atmadja et al., 2021). The competence of the supervisory apparatus and the quality of cooperative actors contribute to the problem of cooperative disabling, including 1) the wrong motivation in establishing cooperatives that only expect assistance; 2) there are still misunderstandings in the management of cooperatives that use cooperative legal entities for personal interests; 3) there is still a wrong pattern in managing cooperatives resulting in cooperative businesses not developing and even tend to experience a deficit; and 4) the development is still less than optimal due to the limited competence and commitment of the supervisors of cooperatives, both the service in charge of cooperatives and SMEs in the region and the Field Cooperative Extension Officer (FCEO). These problems can impact cooperatives, namely the occurrence of irregularities in financial statements, even though financial statements are needed as the responsibility of the management in the annual member meeting (Benston et al., 2006; Emeh & Ebimobowei, 2013; Van Greuning, 2006).

Preparing financial reports is one of the problems of cooperatives in the West Aceh regency. Therefore, the agency in charge of cooperatives in West Aceh district dissolved cooperatives that were not active and focused more on improving the quality of still active cooperatives. Financial reports by cooperatives aim to manage finances in cooperatives aimed at internal and external parties (Emeh & Ebimobowei, 2013; Keating & Frumkin, 2003; Rezaee, 2002). Cooperative financial reports must be prepared based on going concerns with the assumption that cooperatives must be able to maintain their business activities in the long-term and will not be liquidated in the short-term (Manurung, 2021). Implementing FAS-EWPA can make it easier for MSMEs to prepare financial reports. Thus, understanding the financial accounting standards of entities without public accountability is indispensable for preparing cooperative financial statements. Cooperative financial reports prepared based on FAS-EWPA will make the information presented easier to understand and have high relevance, reliability, and comparability (Song et al., 2010; Tschopp & Huefner, 2015).

Nasim et al., (2016) stated that if a cooperative body operates not in accordance with FAS-EWPA, the financial statements can mislead users. Therefore, the implementation of FAS-EWPA can affect the quality of cooperative financial reports. Likewise, the internal control system, which is the organizational structure, methods, and tools that are coordinated within a company in order to maintain the security of its assets, functions to oversee the duties and responsibilities of each part of the cooperative so that each part of the cooperative has its own duties and authorities. An internal control system that is not carried out properly can lead to fraud in the cooperative so that it will experience bankruptcy or become inactive (Lari, 2015).

Cooperatives in West Aceh regency are still experiencing low-quality financial reports and the failure to implement the annual member meeting which has resulted in many cooperatives being disbanded. Therefore, researchers want to know the impact of implementing FAS-EWPA and internal control structures on the quality of financial reports and Annual Member Meetings in cooperatives in West Aceh regency. Hopefully, this study can improve the application of FAS-EWPA and the internal control structure so that the quality of financial reporting at the annual meeting of members in the West Aceh district cooperative can be better.

2. Literature Review

Cooperatives are business entities consisting of voluntary people who provide benefits to small communities in fulfilling social justice and prosperity for all members to improve people's welfare (Kadir & bin Mhd Sarif, 2016; Wallace, 1999). Quality financial reports are structured financial reports regarding a good and quality financial position. The quality of financial statements can be reflected in the qualitative characteristics, which are normative measures that need to be realized in accounting information to fulfill its objectives. The normative prerequisites for financial statements to meet the desired quality are relevant, reliable, comparable, and understandable (Song et al., 2010; Tschopp & Huefner, 2015). Members' Meetings manifest the existence of a forum for cooperative members to discuss all organizational and cooperative

business interests to produce a good decision from most votes for the total number of members present (Birchall & Simmons, 2004; Camarinha-Matos & Afsarmanesh, 2004).

Entities use FAS-EWPA without public accountability, whereas entities without public accountability do not have significant public accountability and issue financial statements for general purposes for external users (Coy & Dixon, 2004). The implementation of FAS-EWPA is relevant to the World Bank recommendation, which states that each country has at least two accounting standards, namely, for public companies and non-public entities (Coy et al., 2001). Internal control is a system within the organization that applies various methods or other benchmarks with the aim that organizational activities run according to what is outlined (Bodiako et al., 2016).

There are several previous studies related to this research, namely research by Epstein & Jermakowicz (2010), Leuz & Wysocki (2016), Raza et al. (2022) and Zain et al. (2021) who found that the implementation of FAS-EWPA had a positive and significant effect on the quality of cooperative financial reports. Then research by Johl et al. (2013), Kewo & Afiah (2017), Setiyawati (2013), Sujana et al. (2020) showed that the internal control system has a positive and significant effect on the quality of financial reports. Further research by Abbott et al. (2004), Afify (2009), Ahmad et al. (2018), Goh (2008), Iatridis (2010), Mohamad Naimi et al. (2010), Nelson & Shukeri (2011), Schipper (2005) and Sukmono (2015) stated that the implementation of FAS-EWPA can affect the timeliness of the implementation of the annual member meeting. Research conducted by Hasibuan & Indayani (2019), Kiyieka & Muturi (2018) and Shabri et al. (2016) found that the internal control system has a positive and significant effect on the performance and implementation of cooperative member meetings. Then, the research by Afify (2009), Beasley (1996), Maria et al. (2019) and Ziemba & Oblak (2013) showed that improving the quality of financial reports is an essential factor in increasing the success of the implementation of annual member meeting.

3. Materials and Methods

This study analyzes the effect of FAS-EWPA implementation and internal control structures on the quality of financial reports and Annual Member Meetings in cooperatives in West Aceh, Aceh Province, Indonesia. The dependent variable in this study is the annual membership meeting, the mediating variable is the financial report quality, and the independent variable is the FAS-EWPA implementation and internal control structures. The data used in this study is primary data. Data collection techniques are based on the results of questionnaires from research respondents, where each variable uses an interval scale with a 5-point Likert scale model. Scores measured respondents' answers to the statements: strongly agree = 5, agree = 4, less disagree = 3, disagree = 2, and strongly disagree = 1. The population and sample are 69 cooperatives in the West Aceh district, with a total of 139 respondents which are the administrator and head of the supervisory body. The respondents who have filled out the questionnaire will then be identified based on age, gender, education, disciplines and length of work. The character of the respondents in this study raised issues regarding the effect of FAS-EWPA implementation and internal control structure on annual member meeting mediated by financial report quality.

Table 1. Characteristic of Respondents

Demography	Category	Frequency	Percentage
Age	20 - 30 Years	79	56.8
	31 - 40 Years	33	23.7
	41 - 50 Years	21	15.1
	>50 Years	6	4.3
Sex	Male	65	46.8
	Female	74	53.2
Education	High School	29	20.9
	Diploma	42	30.2
	Bachelor	60	43.2
Discipline	Postgraduate	8	5.8
	Accounting/Economics	40	28.8
Work Experience	Other	99	71.2
	1 - 5 Years	79	56.8
	6 - 10 Years	43	30.9
	11 - 15 Years	17	12.2

The regression equation used this paper are divided into three sub structural model. First sub structural model is written as follows:

$$AMM_i = \beta_o + \beta_1 FASI_i + \beta_2 ICS_i + \beta_3 FRQ_i + \varepsilon_i \quad (1)$$

$$FRQ_i = \beta_o + \beta_1 FASI_i + \beta_2 ICS_i + \varepsilon_i \quad (2)$$

$$AMM_i = \beta_o + \beta_1 FASI_i + \beta_2 FRQ_i + \beta_2 Mediated_FASI.FRQ_i + \varepsilon_i \quad (3)$$

$$AMM_i = \beta_o + \beta_1 ICS_i + \beta_2 FRQ_i + \beta_2 Mediated_ICS.FRQ_i + \varepsilon_i \quad (4)$$

where, AMM is annual member meetings, FASI is FAS-EWPA implementation, ICS is internal control structure, and FRQ is financial report quality.

4. Results and Discussions

The validity of research data was tested using the Pearson Product Moment Coefficient of Correlation. Based on the output of SPSS application, all 46 statements are declared valid where the R-count correlation value obtained in each statement is overall above the R-table value or critical value of product moment correlation. The critical value of 10% with N=227 is 0.165, so if the correlation value is greater than the critical value, then these statements are significant and valid. Results of validity of the coefficients obtained on each questionnaire from FAS-EWPA implementation, internal control structure, financial reporting quality and annual member meetings, overall are above the critical product moment value (Correlation Coefficient > 0.165) so that the questionnaire used can be stated valid.

Table 2. Result of validity testing using Cronbach Alpha.

Variables	No. of Items	Thresholds	Cronbach Alpha	Decision
Annual Member Meetings	10	0.600	0.687	Reliable
Financial Report Quality	10		0.687	Reliable
FAS-EWPA Implementation	9		0.677	Reliable
Internal Control Structure	23		0.790	Reliable

Table 2 displays the reliability testing using Cronbach's Alpha. The results of reliability test on the four variables, for AMM and FRQ each obtained a value (0.687), for FASI (0.677) and for ICS (0.790) where the value of Cronbach's alpha was greater than 0.6. Thus, we can conclude that the studied variables are reliable.

4.1. The effect of FAS-EWPA Implementation, Internal Control Structure and Financial Report Quality on Annual Member Meetings

As mentioned in the previous section, the primary purpose of this study is to examine effect of FAS-EWPA implementation, internal control structure and financial report quality on annual member meetings. The result of analysis, as seen in Table 3 below:

Table 3. Result the effect of FAS-EWPA implementation, internal control structure and financial report quality on annual member meetings.

Variable	Coefficient	Std. Error	t-stats	Prob.
Constant	1.096	0.542	2.022	0.045
FASI	0.249	0.084	2.964	0.004
ICS	0.347	0.111	3.126	0.002
FRQ	0.139	0.061	2.278	0.024
R-squared	0.453		F-statistic	11.587
Adj. R Square	0.187		Prob.	0.000

Dependent variable: Annual Member Meetings.

FAS-EWPA implementation was found to have a positive and significant effect toward annual member meetings. Probability value indicate significant effect at below 1 percent error level. Coefficient value obtained is positive 0.249 which shows that if FAS-EWPA implementation increase as much 1 value, annual member meetings will also increase as much 0.249 value. Several previous studies are in line with these findings, such as study by Abbott et al. (2004), Afify (2009), Ahmad et al. (2018), Goh (2008), Iatridis (2010), Mohamad Naimi et al. (2010), Nelson & Shukeri (2011), Schipper (2005) and Sukmono (2015) which also found that FAS-EWPA implementation had significant and positive effect toward annual member meetings.

Then, internal control structure was also found to have a positive and significant effect toward annual member meetings. Probability value indicate same significant effect at below 1 percent error level. Coefficient value obtained is positive 0.347 which shows that if internal control structure increase as much 1 value, annual member meetings will also increase as much 0.347 value. Several previous studies in line with these findings are study by Johl et al. (2013), Kewo & Afiah (2017), Setiyawati (2013), Sujana et al. (2020) that also found internal control structure had significant and positive effect toward annual member meetings.

Last, financial report quality was found to have same positive and significant effect toward annual member meetings. Probability value indicate significant effect at below 5 percent error level. Coefficient value obtained is positive 0.139 which shows that if financial report quality increase as much 1 value, annual member meetings will also increase as much 0.139 value. Previous studies that in line with these findings, such as study by Johl et al. (2013), Kewo & Afiah (2017), Setiyawati (2013), Sujana et al. (2020) which also found internal control structure had significant and positive effect toward annual member meetings.

4.2. The effect of FAS-EWPA Implementation, Internal Control Structure on Financial Report Quality

Furthermore, this study also examines the effect of FAS-EWPA implementation dan internal control structure toward financial report quality. The results of analysis, as seen in Table below:

Table 4. Result of effect of FAS-EWPA implementation, internal control structure on financial report quality.

Variable	Coefficient	Std. Error	t-stats	Prob.
C	1.453	0.528	2.751	0.007
FASI	0.290	0.084	3.452	0.001
ICS	0.355	0.013	3.148	0.002
R-squared	0.417		F-statistic	14.308
Adj. R Square	0.162		Prob.	0.000

Dependent variable: financial report quality (FRQ).

Table 4 indicates that FAS-EWPA implementation was found to have a positive and significant effect toward financial report quality. Probability value indicate very good significant effect at below 1 percent error level. Coefficient value obtained is positive 0.290 which shows that if FAS-EWPA implementation increase as much 1 value, financial report quality will also increase as much 0.290 value. Several previous studies in line with this findings are study by Epstein & Jermakowicz (2010), Leuz & Wysocki (2016), Raza et al. (2022) and Zain et al. (2021) that also found FAS-EWPA implementation had significant and positive effect toward financial report quality. Then, internal control structure was also found to have a positive and significant effect toward financial report quality. Probability value indicate same good significant effect at below 1 percent error level. Coefficient value obtained is positive 0.355 which shows that if internal control structure increase as much 1 value, financial report quality will also increase as much 0.347 value. Previous studies in line with this findings, such as study by Emeh & Ebimobowei (2013), Sujana et al. (2020) which also found that internal control structure had significant and positive effect toward financial report quality.

4.3. The Mediating Effect of FAS-EWPA Implementation and Internal Control Structure in the Relationship between Financial Report Quality and Annual Member Meetings

In addition, this study also examines the mediating role of FAS-EWPA implementation and internal control structure in the relationship between financial report quality and annual member meetings. The result of the mediating analysis as seen in Table as follow:

Table 5. Result the mediating role of FAS-EWPA implementation in the relationship between financial report quality and annual member meetings.

Variable	Coefficient	Std. Error	t-stats	Prob.
C	3.076	0.509	6.043	0.000
FASI	-0.626	0.155	4.038	0.000
FRQ	0.164	0.098	1.673	0.093
FRQ --> FASI --> AMM	0.165	0.023	7.173	0.000
R-squared	0.580		F-statistic	22.773
Adj. R Square	0.321		Prob.	0.000

Dependent variable: annual member meetings (AMM).

Table 5 shows the estimation result of mediating role of FAS-EWPA implementation in the relationship between financial report quality and annual member meetings. The mediated financial report quality coefficient value obtained is 0.165 and bigger than FAS-EWPA implementation coefficient value -0.626 which means financial report quality mediates the effect of FAS-EWPA implementation toward annual member meetings. Probability value also indicate very good significant effect at below 1 percent error level with correlation level reached 58.0 percent.

Table 6. Result the mediating role of internal control structure in the relationship between financial report quality and annual member meetings.

Variable	Coefficient	Std. Error	t-stats	Prob.
C	3.076	0.604	5.092	0.000
ICS	-0.916	0.181	-5.060	0.000
FRQ	0.228	0.096	2.375	0.019
FRQ--> ICS --> AMM	0.174	0.023	7.565	0.000
R-squared	0.585		F-statistic	22.448
Adj. R Square	0.328		Prob.	0.000

Dependent variable: annual member meetings (AMM).

Table 6 shows the estimation result of the mediating role of internal control structure in the relationship between financial report quality and annual member meetings. The mediated financial report quality coefficient value obtained 0.174 is bigger than internal control structure coefficient value -0.916 which means financial report quality also mediates the effect of internal control structure toward annual member meetings. Probability value indicate same good significant effect at below 1 percent error level with correlation level reached 58.5 percent.

5. Conclusions

Focus of this study was to examine the effect of Financial Accounting Standards for Entities Without Public Accountability (FAS-EWPA) implementation and internal control structure toward cooperatives financial report quality and annual member meetings in West Aceh regency, Aceh Province, Indonesia. The research uses a quantitative approach with census methods and causality study. Unit of analysis is cooperative employee in West Aceh regency, consisting of 69 cooperatives with the respondents are the administrator and head of the supervisory body. Data was collected by distributing questionnaires to 139 selected respondents. The number of questions consists of 46 items for all the chosen variables. The results of multiple linear regression analysis showed that FAS-EWPA implementation and internal control structure had a significant simultaneous effect and positive significant partial effect toward financial report quality and annual member meetings. Based on these findings, it is hoped that cooperatives in West Aceh regency can improve the implementation of FAS-EWPA and their respective internal controls so that the quality of cooperatives financial reporting can keep improving.

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