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Determinant Accounting Information Systems (AIS) Quality and the Quality of Financial Reports: An Analysis of Good Corporate Governance (GCG)

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Abstract: This study aims to examine the influence of Good Corporate Governance (GCG) on the Quality of Accounting Information Systems (AIS), the influence of the Quality of Accounting Information Systems (AIS) on the Quality of Financial Statements, and the direct influence of Good Corporate Governance (GCG) on the Quality of Financial Statements within the Bandung City Government. A quantitative method with a descriptive-verificative approach was applied. Data were collected through questionnaires distributed to 126 employees from work units responsible for financial management and information systems at the Regional Secretariat of Bandung City Government. Data analysis employed the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique using SmartPLS to test the relationships among variables. The findings reveal that Good Corporate Governance (GCG) has a positive and significant effect on the Quality of Accounting Information Systems (AIS) with a path coefficient of 0.921 ($t=53.43$, $p<0.05$), and the Quality of Accounting Information Systems (AIS) has a positive and significant effect on the Quality of Financial Statements with a path coefficient of 0.658 ($t=4.743$, $p<0.05$). However, Good Corporate Governance (GCG) does not have a significant direct effect on the Quality of Financial Statements (path coefficient=0.247, $p=0.109$), indicating that the relationship may be influenced by external factors such as audit quality, human resource competence, and organizational characteristics. In conclusion, enhancing the quality of financial statements is more effectively achieved through strengthening the quality of Accounting Information Systems (AIS), which serves as a mediating variable between GCG and the Quality of Financial Statements.

Keyword: Good Corporate Governance (GCG), Quality of Accounting Information Systems (AIS), Quality of Financial Reports.

INTRODUCTION

The quality of regional financial reports has become a critical concern for local governments in Indonesia. One important indicator of financial report quality is the audit opinion issued by the Supreme Audit Agency (BPK-RI). The highest opinion, Wajar Tanpa Pengecualian (WTP) or Unqualified Opinion, signifies that financial statements present all material matters fairly in accordance with Government Accounting Standards (SAP). Data from

BPK Jawa Barat reveals that Bandung City, previously holding the WTP opinion from 2018 to 2021, experienced a decline to Wajar Dengan Pengecualian (WDP) or Qualified Opinion in 2022 and 2023. This decline was primarily triggered by findings related to the mismanagement of fixed assets, particularly the unrecorded transfer of 14 infrastructure, facility, and public utility assets (PSU) valued at Rp187.9 billion (BPK, 2023).

Analysis of Bandung City's Regional Budget (APBD) from 2021 to 2023 reveals that while total regional revenue increased from Rp5.84 trillion (2021) to Rp6.90 trillion (2023), exceeding the target by 100.46% in 2023, capital expenditure realization also surged to 121.30%. Paradoxically, the assets resulting from such high expenditure had not been fully recorded or reported accountably, as evidenced by BPK's audit findings (DJPK Kemenkeu, 2023).

These phenomena indicate a need to evaluate two key factors: the implementation of Good Corporate Governance (GCG) and the quality of Accounting Information Systems (AIS) in the Bandung City Government. GCG, which encompasses principles of transparency, accountability, responsibility, independence, and fairness (TARIF), is recognized as a critical determinant of organizational performance and reporting quality (Muzdalifah, 2020). Meanwhile, an integrated and reliable AIS is essential in ensuring that every financial transaction and asset is recorded systematically and in real time, thereby supporting transparent and accountable financial reporting (Anggraeni et al., 2023).

Prior empirical studies present mixed findings regarding these relationships. While Rumbayan et al. (2023) and Halimatusadiah and Gunwan (2014) found that GCG positively influences AIS quality, Lestari et al. (2019) found no such influence. Similarly, while Lestari et al. (2020) and Anggraeni et al. (2023) confirmed that AIS quality positively affects financial report quality, Goo and Lamawitak (2021) and Ramadani et al. (2022) found no significant effect. This research gap motivates the present study. This study therefore aims to: (1) examine GCG implementation in Bandung City Government; (2) assess AIS quality in Bandung City Government; (3) evaluate financial report quality in Bandung City Government; (4) analyze the influence of GCG on AIS quality; (5) analyze the influence of AIS quality on financial report quality; and (6) analyze the direct influence of GCG on financial report quality.

METHOD

This study employed a quantitative research method with a descriptive-verificative approach, as outlined by Loso et al. (2024). The research was conducted at the Regional Secretariat of Bandung City Government. The population consisted of 182 employees across various departments (bagian) under the Regional Secretariat. Using Slovin's formula at a 5% error margin, 126 respondents were obtained as the sample. The sampling technique applied was Simple Random Sampling, whereby each population element has an equal probability of selection (Hair et al., 2016).

Data collection was carried out through questionnaires using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree). The questionnaire covered three main variables: (X) Good Corporate Governance measured by 15 indicators across five dimensions (Transparency, Accountability, Responsibility, Independence, and Fairness); (Y) Quality of Accounting Information Systems measured by 12 indicators across four dimensions (Integration, Flexibility, Reliability, and Accessibility); and (Z) Quality of Financial Reports measured by 12 indicators across four dimensions (Understandable, Relevant, Reliable, and Comparable).

Data analysis was performed using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS 3.0. The analytical procedure involved two stages: (1) evaluation of the outer model (measurement model) through convergent validity (outer loading > 0.70, AVE > 0.50) and discriminant validity (cross-loading), and reliability assessment (Composite Reliability > 0.70, Cronbach's Alpha > 0.70); and (2) evaluation of the inner model (structural model) through path coefficient analysis and bootstrapping for hypothesis testing, where the significance criterion is t-value > 1.658 and p-value < 0.05 (Abdillah and Hartono, 2015).

RESULTS AND DISCUSSION

Descriptive Analysis

Based on respondent characteristics, the majority were male (73.2%, n=92), aged 20–30 years (80.95%, n=102) and had worked for 6–10 years (60.32%, n=76). The descriptive analysis results of the three variables are summarized in Table 1.

Table 1. Descriptive Analysis Results of Research Variables

Variable	Total Cumulative Score	Maximum Score	Percentage (%)	Category
Good Corporate Governance (GCG)	7,602	9,450	80.4%	Agree – Strongly Agree
Quality of AIS (SIA)	5,924	7,560	78.4%	Agree
Quality of Financial Reports (LK)	5,996	7,560	79.3%	Agree

The GCG variable obtained a cumulative score of 7,602 out of a maximum of 9,450, placing it in the 'Agree to Strongly Agree' range on the continuum line. This indicates that employees of Bandung City Government perceive GCG as well-implemented. The highest-rated indicators include disclosure of information in accordance with accounting standards, compliance with professional ethics, and transparency in financial reporting, while the lowest-rated indicators include evaluation of management performance and clarity of management duties in financial reports.

The AIS quality variable obtained a score of 5,924, categorized as 'Agree,' signifying that the accounting information system is perceived as functioning well overall. Indicators such as data consistency, access policies, and service availability scored above average, while data accessibility, data accuracy, and system responsiveness were rated below average. The financial report quality variable scored 5,996, also categorized as 'Agree,' reflecting positive perceptions regarding accuracy, timeliness, and linkage with institutional policies, with some areas requiring improvement in relevance and comparative presentation.

Measurement Model (Outer Model) Results

The outer model was evaluated at two levels: indicator to dimension and dimension to variable. At the indicator-to-dimension level, all outer loading values exceeded 0.70, confirming convergent validity. Average Variance Extracted (AVE) values ranged from 0.655 (Accountability) to 0.839 (Accessibility), all above the 0.50 threshold. Composite Reliability (CR) values ranged from 0.849 to 0.940, all exceeding 0.70, indicating high reliability. Discriminant validity was confirmed as each construct's correlation with its own indicators was higher than with other constructs (cross-loading analysis).

At the dimension-to-variable level, all outer loadings exceeded 0.87 for all dimensions, with AVE values of 0.863 (GCG), 0.873 (AIS), and 0.820 (Financial Report Quality), all above 0.50. CR values were 0.969, 0.965, and 0.948 respectively. The results are presented in Table 2.

Table 2. Measurement Model Results – Dimension to Variable Level

Variable	Dimension	Outer Loading	CR	AVE	Validity	Reliability
GCG (X)	Transparency (X1)	0.924	0.969	0.863	Valid	Reliable
	Accountability (X2)	0.923			Valid	Reliable
	Responsibility (X3)	0.970			Valid	Reliable
	Independence (X4)	0.924			Valid	Reliable
	Fairness (X5)	0.901			Valid	Reliable
AIS (Y)	Integration (Y1)	0.947	0.965	0.873	Valid	Reliable
	Flexibility (Y2)	0.909			Valid	Reliable
	Reliability (Y3)	0.913			Valid	Reliable
	Accessibility (Y4)	0.968			Valid	Reliable
Financial Report (Z)	Understandable (Z1)	0.887	0.948	0.820	Valid	Reliable
	Relevant (Z2)	0.880			Valid	Reliable
	Dependability (Z3)	0.929			Valid	Reliable
	Comparable (Z4)	0.925			Valid	Reliable

Structural Model (Inner Model) and Hypothesis Testing

The structural model was evaluated using bootstrapping in SmartPLS to determine path coefficient significance. The results of hypothesis testing are presented in Table 3.

Table 3. Hypothesis Testing Results (Path Coefficients)

Hypothesis	Path	Coeff. (O)	STDEV	T-Value	P-Value	Decision
H1	GCG → AIS Quality	0.921	0.017	53.43	0.000	Supported
H2	AIS Quality → Financial Report Quality	0.658	0.139	4.743	0.000	Supported
H3	GCG → Financial Report Quality (direct)	0.247	0.154	1.607	0.109	Not Supported
H4	GCG → AIS → Financial Report Quality (indirect)	0.606	0.135	4.500	0.000	Supported

The inner model, or structural model, is employed to examine the relationships among latent variables in accordance with the proposed research hypotheses. The evaluation is conducted by assessing the path coefficients, t-statistics, and p-values obtained from the bootstrapping procedure. Information regarding the relationships between latent variables and their respective constructs is derived from the bootstrapping analysis results, which are presented in the path coefficients table and further illustrated in the standardized model figure.

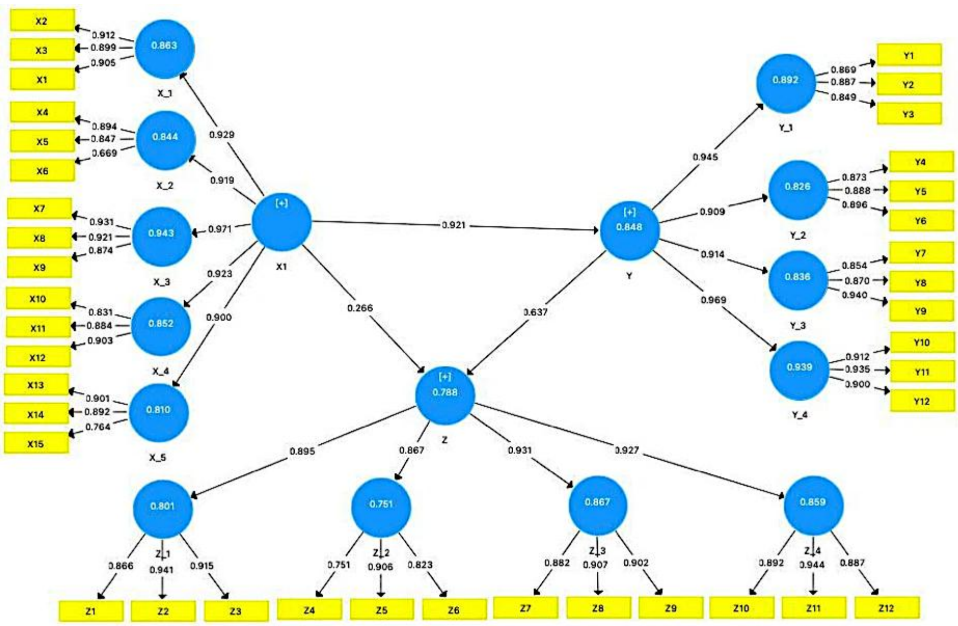

Figure 1. Standardized Model: Indicators to Dimensions

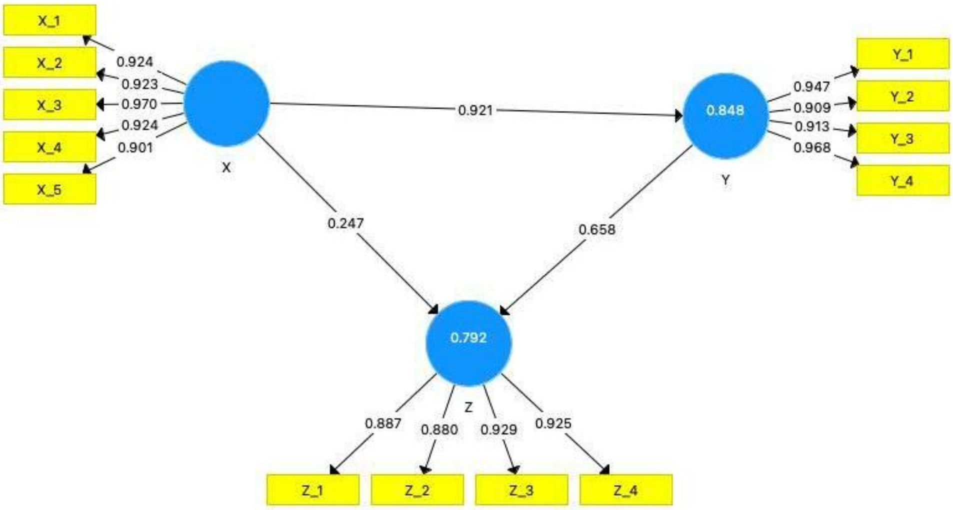

Figure 2. Standardized Model: Dimensions to Variables

The results of the hypothesis testing indicate that most relationships among the latent variables exhibit high path coefficient values, with t-statistics exceeding the critical threshold and p-values below 0.05, thereby demonstrating statistical significance. These findings confirm that the constructs employed in this study are capable of consistently explaining the latent variables and further support the validity of the proposed structural model.

1. **H1: The Influence of GCG on AIS Quality**

The test results demonstrate that GCG has a positive and significant influence on the quality of Accounting Information Systems (path coefficient = 0.921, $t = 53.43$, $p < 0.05$). This finding indicates that every improvement in the application of GCG principles — particularly transparency, accountability, responsibility, independence, and fairness — significantly strengthens AIS quality in the Bandung City Government. This result is consistent with Rumbayan et al. (2023), who found that GCG implementation positively affects AIS quality through the application of transparency and accountability principles in financial recording. Similarly, Halimatusadiah and Gunwan (2014) confirmed that GCG elements support the optimization of AIS through systematic phases of implementation and evaluation. Afriyani et al. (2022) also reinforced that GCG-driven transparency and accountability are key to producing reliable financial information. Conversely, this finding contradicts Lestari et al. (2019), who found that AIS quality was not influenced by GCG, suggesting that other organizational factors may play a more dominant role in some contexts.

2. **H2: The Influence of AIS Quality on Financial Report Quality**

The results confirm that AIS quality significantly and positively influences the quality of financial reports (path coefficient = 0.658, $t = 4.743$, $p < 0.05$). This demonstrates that a reliable, integrated, and accessible AIS produces financial reports that are more accurate, timely, understandable, and comparable. These findings align with Lestari et al. (2020), who reported that higher AIS quality leads to better accounting information quality, and with Anggraeni et al. (2023), who emphasized that a well-implemented AIS increases the quality of accounting information output. Pradana and Andayani (2021) similarly concluded that AIS quality significantly affects financial report quality. The practical implication is that areas of AIS improvement — such as data accessibility, integration, and system responsiveness — identified in the descriptive analysis should be prioritized to elevate financial reporting quality. This is especially relevant given that Bandung City's asset recording issues, which contributed to the WDP opinion, are directly linked to AIS deficiencies.

3. H3: The Direct Influence of GCG on Financial Report Quality

Contrary to theoretical expectations, the direct path from GCG to financial report quality was not statistically significant (path coefficient = 0.247, t = 1.607, p = 0.109 > 0.05). However, the indirect effect through AIS quality was significant (path coefficient = 0.606, t = 4.500, p < 0.05), suggesting that AIS serves as a crucial mediating variable in this relationship. This finding implies that GCG alone is insufficient to directly improve financial report quality without the support of a high-quality AIS as an intermediary mechanism.

This result is consistent with Ghina Kemala Dewi et al. (2021), who found GCG had no significant impact on financial performance, and with Istutik et al. (2023), who found no significant effect of audit committee a GCG component on financial report quality. Aprilia Salira and Andrian Budi Prasetyo (2024) similarly observed that while individual GCG elements are important, the overall effect may not be statistically significant in certain contexts. These convergent findings suggest that GCG's pathway to improving financial reporting quality is primarily mediated through institutional mechanisms such as AIS. Factors external to GCG, including audit quality, human resource competence, and organizational characteristics, may account for additional variance in financial report quality.

CONCLUSION

This study examined the influence of Good Corporate Governance (GCG) on the Quality of Accounting Information Systems (AIS) and its implications on the Quality of Financial Reports in the Bandung City Government, with 126 respondents using PLS-SEM analysis. The findings lead to the following conclusions.

First, GCG implementation in the Bandung City Government is perceived positively by employees, with scores in the 'Agree to Strongly Agree' range, indicating that principles of transparency, accountability, responsibility, independence, and fairness have been reasonably well-applied, with room for improvement particularly in management performance evaluation and independence indicators. Second, the quality of AIS is rated positively, with strengths in data consistency and access policies, though integration, adaptability, and data accuracy require further development. Third, the quality of financial reports is viewed favorably by respondents, reflecting adequate relevance, reliability, and comparability, although timeliness and use of performance indicators remain areas for improvement.

Fourth, GCG exerts a positive and significant influence on AIS quality (β=0.921, p<0.05), indicating that strong governance principles are fundamental enablers of AIS performance. Fifth, AIS quality positively and significantly influences financial report quality (β=0.658, p<0.05), confirming AIS as a critical link in the chain from governance to reporting excellence. Sixth, GCG does not have a significant direct effect on financial report quality (β=0.247, p=0.109) but exerts a significant indirect influence through AIS quality (β=0.606, p<0.05). This finding underscores the mediating role of AIS and suggests that improving financial report quality in the Bandung City Government should prioritize strengthening AIS as the primary pathway.

Practical recommendations include: conducting regular audits of information systems; integrating financial systems with asset recording mechanisms to address the root causes of the WDP audit opinion; strengthening transparent and accountable governance policies; developing adaptive and user-accessible AIS capabilities; and enhancing human resource competency in financial reporting. Future research should investigate the role of external factors such as audit quality and organizational characteristics as additional mediating or moderating variables.

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