

Antecedents of Accounting Culture and Consequences on Financial Reporting Quality: the Mediating Role of Quality Audit

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ABSTRACT

The study investigates the impact of accounting culture on financial reporting quality, with audit quality as a mediating factor. Using a quantitative, positivist approach, the research examined 60 internal auditors through a saturated sampling method. Results show that accounting culture positively influences financial reporting quality directly and through audit quality. Key findings highlight the importance of enhancing professionalism, motivation, adaptability, and transparency in accounting culture to improve financial reporting standards. Managerial implications emphasize fostering a strong accounting culture, maintaining transparency, and ensuring high audit quality to enhance stakeholder trust, prevent manipulation, and improve financial management. The study contributes to theories such as Accounting Culture Theory, which underscores the role of values and norms in promoting ethical practices; Positive Accounting Theory, which links audit quality to preventing errors and manipulation; and Stakeholder Theory, which stresses the importance of transparency in strengthening relationships and trust among stakeholders.

INTRODUCTION

The quality of financial reporting plays a vital role in building a strong foundation of communication and trust between companies and stakeholders (Özer et al., 2024). However, accounting scandals have driven the need to improve the relevance of financial reporting (Klai, 2011), due to the manipulation of financial statements and then triggering corporate bankruptcy which damages public confidence in the quality of financial statements (Mi et al., 2024). The accounting scandals that became phenomenal in the late 20th century to the early 21st century revealed the involvement of auditors in financial fraud conspiracies, often related to the consulting services they provided to the companies being audited (Albrecht et al., 2016). This problem occurs in the banking sector, almost 50% of fraud cases occur in state-owned banks, with 80% of the perpetrators at the management level, most of which are triggered by problems with the quality of financial statements (Yelvionita et al., 2019). This condition is also reflected in Indonesia, where 9.2% of financial statement fraud cases contributed to a total loss of IDR 242,260 billion (AFCE, 2020).

The problem at Bank Banten is a significant decline in cash and operating income, which reflects the company's weakening financial condition. The decrease in cash from IDR 166,984 million in 2019 to only IDR 30,011 million in 2020 indicates liquidity difficulties. In addition, the decrease in operating income of IDR 40,628 million in 2020 indicates a worsening business performance. This condition is most likely influenced by the decline in investor confidence in Bank Banten, which can be caused by the bank's inability to maintain stable financial performance or lack of transparency in its operations. This loss of trust can have wider implications, such as difficulty in obtaining funding, pressure on day-to-day operations, and an increased risk of overall institutional failure.

The practice of financial reporting fraud, indicating fraud and forgery in banks has been on an increasing trend even though control measures are imposed on troubled banks in commercial banks rather than in merchant banks (Ahmed et al., 2014). According to Wells (2017), Falsification, alteration, or manipulation of financial records, supporting documentation, or business transactions is one of the various ways that financial statement fraud can occur. (2) The deliberate omission of accounts, transactions, events, or other important information from the presentation of financial statements. (3) Willful misuse of accounting rules, guidelines, and practices for measuring, identifying, reporting, and disclosing business transactions and economic events. (4) Willful failure to disclose and provide information about the accounting rules and guidelines that are applied while creating financial statements.

Although auditors may suspect fraud or identify complex fraudulent events, due to limited capabilities and experience, efforts to detect fraudulent financial statements are less than expected (Yao et al., 2019). Fraud and failure give rise to the assumption that auditors lack expertise. Auditor expertise is emphasized in the context of audit quality (Sikka, 2017).

The issue of accounting problems where financial statements are made has flexibility according to different situations so that fraudulent practices that occur in accounting are influenced by accounting culture (Atayan & Taner, 2022). The main problem in accounting culture is the tendency to prioritize certain interests, such as meeting management or investor expectations compared to correct accounting principles so that with a weak accounting culture, manipulation of financial data becomes a common occurrence, both to cover losses and to show financial statements that are better than they actually are. Another problem is the low level of awareness of the importance of accounting culture. Achieving short-term financial targets is often prioritized over the accuracy and transparency of financial statements.

This leads to practices such as creative accounting or even financial statement fraud. Based on the problems at PT Bank Pembangunan Daerah Banten Tbk, the research gap and theoretical gap of this study. The study's theoretical and research gaps are based on the issues at PT Bank Pembangunan Daerah Banten Tbk and the divergent ideas of Hofstede, Gray, and Schwartz, who discovered a connection between international accounting methods and cultural values (Koleynik, 2013). However, it just describes the cultural norms that accountants adhere to; it doesn't go into great detail regarding how culture and accounting methods relate to one another. Exist in the divergent research philosophies of Hofstede, Gray, and Schwartz, who discovered a connection between international accounting methods and cultural values (Koleynik, 2013). However, it just describes the cultural norms that accountants adhere to; it doesn't go into great detail regarding how culture and accounting methods relate to one another.

In accounting practices culture is difficult to identify and its relationship with culture and accounting practices cannot be examined directly. The framework on the theory of cultural accounting from Gray's classified culture with four groups of accounting factors. But Gray's framework does not fully conclude about the relationship of culture to accounting (Tie & Zhao, 2016). For that, this study develops accounting culture in accounting practices that are related to the implementation of audit quality and financial reporting quality so that there are efforts.

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Furthermore, Stakeholder Theory does not take into account all stakeholders; it solely takes into account stockholders (Özer et al., 2024). However, the influence of traditional culture on audit may be more accurately reflected in the impact of audit quality. This study does not confirm the impact's wide-ranging effects; rather, it only examines pertinent literature on the subject of culture's influence on audit (Wu, 2019). There is an attempt to carry out fresh research because the aforementioned study demonstrates that there is no more research on accounting culture and audit quality.

The recommendations from this series of studies can theoretically enrich the literature on the relationship between accounting culture, financial reporting quality, and audit quality. Practically, the results can be used by regulators, auditors, and organizations to design policies that strengthen a healthy accounting culture and improve audit quality, thereby creating more reliable financial reports.

LITERATURE REVIEW

The Impact of Accounting Culture (BA) on the Quality of Financial Reporting (KPK)

Cultural characteristics in banking have a direct impact on the financial statements prepared by internal auditors. The values adopted by banks, as well as norms considered acceptable in the workplace, influence the application of accounting standards and procedures used (Herath & Carlis, 2017). In globalization, the effect of national culture makes an important contribution to financial reporting disclosures. Research findings show that in evaluating the internal control of audit clients, collectivist culture auditors revise beliefs better when finding additional audit evidence that is relatively favorable compared to individualist culture auditors (Sim, 2009). The work by Gray et al. (2015) adds to the body of literature in at least two ways and has a number of general ramifications for regulators and standard setters. First, our research indicates that even when uniform, superior principles-based reporting standards are adopted, discrepancies in international accounting continue to exist. According to this finding, which is in line with the opinions of Bradshaw & Miller (2008) and Sunder (2009), the implementation of a standard set of reporting guidelines may not always result in accounting harmonization because different banking institutions may have different informal institutional factors and cultural values, which could lead to accounting differences.

In addition, the study of Hope et al., (2008) stated that national culture can be a determinant of the standard of financial reporting since it affects the selection of bank auditors. But according to Hidayah & Zarkasyi's (2017) research, culture has little bearing on the caliber of accounting data. Since accounting culture affects internal auditors' compliance while evaluating financial reporting and applying accounting rules, it has a beneficial impact on the caliber of financial reporting. However, no research has measured the quality of accounting culture as a research variable. Though no study has used accounting culture as a research variable to measure the quality of financial reporting, it is expected that accounting culture affects the quality of financial reporting based on this description.

The Role of Audit Quality in Mediating the Effect of Accounting Culture on Financial Report Quality

The formation of accounting culture due to the impact of social values on accounting culture and accounting values so that culture influences the national accounting system and accounting practices (Tie & Zhao, 2016). Financial reporting is significantly influenced by cultural dimensions because accounting practices and financial reporting are largely products of their environment that are potentially useful for users of accounting information as additional information about the possibility of material errors in reporting on finances (Tapang & Bessong, 2012). In this instance, however, no research has been done on how accounting culture affects financial reporting quality, which is mediated by audit quality.

METHODOLOGY

Methodology of Research Quantitative research is the research methodology employed. The internal auditor of Banten Province's PT Bank Pembangunan Daerah Banten Tbk serves as the research population 60 internal auditors in all. Saturated samples are used in the sampling procedure. Because the object is in line with the phenomenon to be examined, namely the antecedents of accounting culture and effects on financial reporting quality, research subjects that are directly targeted at the appropriate demographic are predicted to produce the anticipated study results: the function of mediation in use research tools (questionnaires) to assess quality. SEM (structural equation model analysis) and PLS (partial least squares) are used to analyze data.

RESEARCH RESULT

Results

The results of the PLS-SEM analysis of antecedents of accounting culture and consequences on financial reporting quality: the mediating role of audit quality are shown in the figure below.

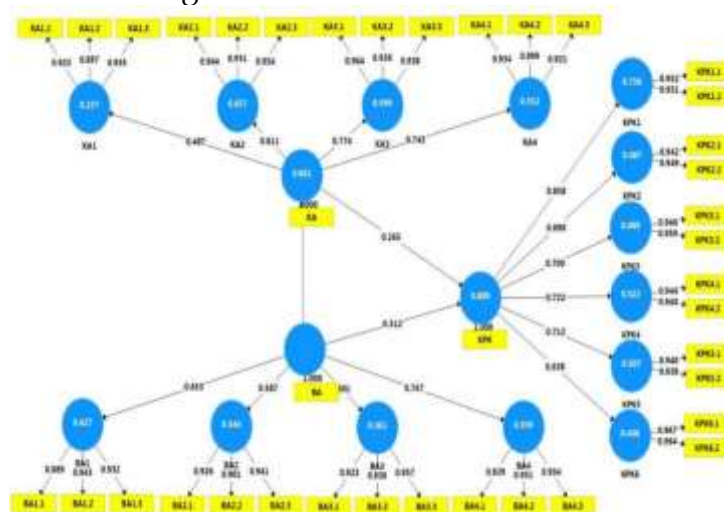


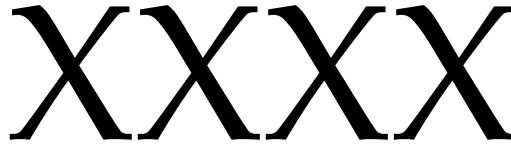
Figure 1. Full Model Results of Outer Model Factor Loading Values and Inner Model Path Coefficient Values

Source: SmartPLS Output

Measurement Model Analysis (Outer Model)

All constructs exhibited good validity and reliability, according to convergent validity testing, which looked at composite reliability and Cronbach Alpha > 0.70 (reliable) and AVE value > 0.5 (valid).

Table 1. Validity and Reliability Test



Structural Model Analysis (Inner Model)

Analysis of Structural Models (Inner Model)

Using R-Square Analysis (R2) as a measure of the structural model's predictive potential, the measurement model can be classified as strong, moderate, or weak based on R2 values of 0.75, 0.50, and 0.25. With a strong category, the data yielded a R square value of 0.889 (88.9%), with the remaining 11.1% falling outside the study model.

Table 2. R-Square (R2)

Endogenous construct variables of KPK	R-Square	R-Square Adjusted
	0,889	0,881

A single metric for assessing the joint performance of the measurement model (outer model) and the structural model (inner model) is the goodness of fit (GoF) analysis, or GoF index. The criterion for GoF values is 0.10 for GoF small, 0.25 for GoF medium, and 0.36 for GoF large. The Goodness of Fit value is determined by the GoF calculation using the Tanenhaus et al. algorithm, which takes the square root of the average AVE value of 0.920 and the average R2 of 0.514. (GoF) of 0.688, indicating that the large requirement is met by this model.

$$GoF = AVE \times R^2$$

$$GoF = 0.473$$

$$GoF = 0.920 \times 0.514 \quad GoF = 0.688$$

Results

The results of the significance test using t-statistics and p-values are arranged in a hypothesis testing table.

Table 3. Hypothesis Testing Results



DISCUSSION

The findings of empirical hypothesis testing demonstrate that the quality of financial reporting as a consequence factor is positively and significantly impacted by accounting culture as an antecedent component. This conclusion builds on the research of Hope et al. (2008), which demonstrates that a strong accounting culture is a crucial foundation for preserving the caliber of regional banks' financial reporting. As markers of the Banten Regional Development Bank's accounting culture, professionalism, optimism, adaptability, and transparency all contribute to the development of the values and tenets that underpin high-quality accounting procedures. Professional accounting culture, on the other hand, places a strong emphasis on doing work with honesty, protecting the privacy of financial data, and abiding by ethical norms. The findings of empirical hypothesis testing demonstrate that the quality of financial reporting as a consequence factor is positively and significantly impacted by accounting culture as an antecedent component. The idea that sound accounting procedures may assist banks in accomplishing their objectives and overcoming obstacles is reflected in the optimism of accounting culture. By fostering a culture of flexibility in accounting, accountants may adjust to modifications in regulations and guidelines without compromising the standard of reporting. A transparent accounting culture, on the other hand, places a strong emphasis on providing accessible and understandable financial reporting, which facilitates stakeholders' comprehension of the financial situation.

The relationship with Stakeholder Theory is relevant because good quality financial reports are essential to meet the needs of various parties who have an interest in the bank, such as investors, customers, government, and regulators. The research findings that show that accounting culture influences the quality of financial reports can be seen in how a healthy accounting culture at Bank Banten can improve transparency and accuracy in financial reporting, which in turn increases stakeholder trust. If Bank Banten implements a good accounting culture, which prioritizes integrity, professionalism, and transparency, then the financial reports presented will be more reliable and in accordance with applicable standards. This allows stakeholders, such as investors and regulators, to obtain clear information about the bank's financial position, which helps them in decision making. In addition, in Positive Accounting Theory, a good accounting culture at Bank Banten plays an important role in directing the behavior of accountants and auditors to record and report in accordance with applicable accounting principles, although there is an incentive to present more profitable financial reports in the short term, but professional ethics and integrity will prevent the practice of financial report manipulation.

The role of audit quality is proven to mediate the influence of accounting culture on the quality of financial statements. This finding is a development of the studies of Tapang & Bessong (2012) and Tie & Zhao (2016). Positive audit quality ensures that the financial statements presented by Bank Banten are in accordance with applicable accounting standards, such as PSAK or IFRS, and the role of qualified auditors verifies that the accounting procedures applied are in accordance with regulations and reflect an accurate and reliable financial position. This shows that audit quality functions to ensure that the accounting culture underlying the preparation of financial statements is properly translated into accounting practices that comply with established standards. In addition, good audit quality also plays a role in mitigating the risk of manipulation and errors in financial statements, with competent auditors evaluating the internal control system and accounting practices at Bank Banten to ensure that financial statements are free from material errors or manipulation, thus acting as a controller to prevent negative influences that may arise from external or internal pressures that encourage inappropriate reporting.

CONCLUSIONS

Accounting culture significantly and favorably affects the caliber of financial reports, either directly or through the caliber of audits. The study's novel conclusions are that enhancing a more professional, upbeat, flexible, and transparent accounting culture will improve the quality of financial reporting.

ADVANCED RESEARCH

This study has limitations in interpreting its findings. First, this study only focuses on Bank Pembangunan Daerah Banten, so the results cannot be fully generalized to other financial institutions. Second, it does not consider changes or developments in accounting and auditing practices that may occur over time. Future research directions by developing the application of professional ethics to strengthen the integrity and accuracy of financial reports.

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