

## Application of Good Corporate Governance Principles to the Quality of Financial Statements

Thadeus Fransesco Quelmo Patty<sup>1</sup>, Pipiet Niken Aurelia<sup>2</sup>, Siktania Maria Diliiana<sup>3</sup>

<sup>1,2,3</sup>Faculty of Economics and Business, Nusa Nipa University, Maumere, Indonesia

---

### ABSTRACT

---

#### *Corresponding Author:*

Thadeus Fransesco Quelmo  
Patty,  
Faculty of Economics and  
Business,  
Nusa Nipa University,  
Maumere, Indonesia.  
Email:  
genalpatty@gmail.com

This study aims to determine the effect of the application of good corporate governance principles on the quality of financial statements of the Wair Pu'an Drinking Water Regional Public Company, Sikka Regency. The data collection technique in this study used questionnaires distributed by 64 employees which were then processed using the SPSS 25 program. The analytical method for testing hypotheses is multiple linear regression analysis. The results of the statistical test t (partial) show that Transparency (X1) has a significant effect on the quality of financial statements (Y), Accountability (X2) has a significant effect on the quality of financial statements (Y), Accountability (X3) has a significant effect on the quality of financial statements (Y), independence (X4) has an insignificant effect on the quality of financial statements (Y), fairness (X5) has an insignificant effect on the quality of financial statements (Y). Based on statistical test F (simultaneous) shows that Transparency (X1), Accountability (X2), Accountability (X3), Independence (X4), and Fairness (X5) have a significant effect on the Quality of Financial Statements.

**Keywords:** Good Corporate, Governance, Quality of Financial Statements

---

### 1. INTRODUCTION

Each company presents financial statements as a form of accountability to interested parties. The purpose of financial statements is to provide information regarding the financial position, performance, and changes in the financial position of a company that is useful for a large number of users in making economic decisions. Information in financial statements must be presented correctly and honestly by revealing the facts that are of interest to many parties. Thus, financial statements are required to be presented with high integrity.

Financial statements are the final part of an accounting process that is prepared to provide information to parties in need such as potential investors, and potential creditors, which is expected to be used for decision-making in a business (Mitan et al., 2021). Financial statements must also be presented honestly and fairly, free from bias, and not misleading so that they are reliable. In addition, financial statements must be complete and neutral, impartial to anyone. Then financial statements must be comparable between periods so that users can identify trends in the company's financial position and performance (Abdul Wahab et al., 2011). The main factor affecting the integrity of financial statements is the structure of corporate governance. The corporate governance structure is a concept proposed to improve company performance through supervision or monitoring of management performance and ensuring management accountability to stakeholders based on the regulatory framework (Hardianingsih, 2010).

Good Corporate Governance is a set of regulations that regulate relationships between various interested parties (stakeholders) to achieve company goals. Good Corporate Governance is intended to regulate the relationships in the company's strategy and to ensure that errors that occur can be corrected immediately. To achieve the above objectives, the implementation and management of PDAMs must be based on the principles and principles of a sound corporate economy. For this reason, in the future perspective, the management of BUMD management, including PERUMDAAM (Regional Public Drinking Water Company), Wair Pu'an, and Sikka Regency is expected to be able to adopt the principles of Good Corporate Governance in its implementation.

The previous research conducted by Yasmeen & Hermawati, (2015) entitled *The Effect of Good Corporate Governance on the Quality of Financial Reporting in Manufacturing Companies*. The result of the research is that leverage affects the quality of financial statements while the board of commissioners, institutional ownership, managerial ownership, and age of the company do not affect the quality of financial statements. Furthermore, the previous research conducted by Mulyanti & Rahma, (2020) entitled *The Effect of the Implementation of Good Corporate Governance on the Quality of Financial Statements at Pt Iron Bird (Blue Bird Group)*. The result of the research is that there is an influence between the application of good corporate governance on the quality of financial statements.

Regional Public Drinking Water Companies are different from pure private companies that are always profit-oriented. One of the objectives of the Regional Public Drinking Water Company is to participate in implementing regional development and national economic development by providing clean, healthy drinking water and meeting health requirements for the community in an area which is also a form of service provided by the government to the community.

The problem found by the researcher is the weak application of good corporate governance principles, which has an impact on decreasing the quality of financial statements at the Wair Pu'an Drinking Water Regional Public Company. One of the characteristics of the quality of financial statements is that they are relevant. The information must be relevant to meet the needs of users of financial statements in the decision-making process. However, what happened to the Wair Pu'an Drinking Water Regional Public Company is irrelevant.

In the sense that financial statements can be said to be of high quality if the current year's profit can be a good indicator of the company's profit in the future. But in fact, the Wair Pu'an Regional Public Drinking Water Company seen in the Income Statement suffered losses from 2016 to 2020. Where losses increased from 2018 to 2020. Therefore, the decision that needs to be taken by the Wair Pu'an Drinking Water Regional Public Company is to re-evaluate so that the reliability of the financial statements can be accounted for.

Thus, the quality of financial statements depends on how much effort the company has in making improvements to the system and governance. To make quality reports, it is necessary to implement good corporate governance so that transparency and accountability can be created in the presentation of financial statements. This shows the importance of implementing good corporate governance to measure the quality of financial statements.

Based on the background of the above problem, the author is interested in conducting a research entitled "*The Effect of the Application of Good Corporate Governance Principles on the Quality of Financial Statements of Public Companies of Wair Pu'an Drinking Water Area, Sikka Regency*".

## **2. LITERATUR REVIEW AND HYPOTHESIS DEVELOPMENT**

### **a. Literature Review**

#### **1) Agency of Theory**

Agency theory is one of the foundations used to understand good corporate governance. Jensen & Meckling, (1976) in Erni (2005) define agency theory as the relationship between agents (management of a business) and principals (business owners). In an agency relationship, there is a contract in which one or more persons (principal) instruct another person (agent) to perform a service on behalf of the principal and authorize the agent to make the best decision for the principal. Mobilala & Herawati, (2013) define good corporate governance as a concept based on agency theory, so it is expected to function as a tool to provide confidence to stakeholders.

The implication of agency theory in this study is that the agent, in this case, the Wair Pu'an Drinking Water Regional Public Company is expected to work as well as possible for the benefit of the principal, namely the Sikka District Government so that Wair Pu'an Drinking Water PERUMDA becomes one of the regional-owned business units engaged in the distribution of clean water to the general public, can be trusted to act by the public interest by carrying out its duties and functions appropriately, plan and carry out the tasks entrusted to the employees of PERUMDA Wair Pu'an Drinking Water so that the management objectives of PERUMDA Wair Pu'an Drinking Water can be achieved optimally.

#### **2) Financial Statements**

Accounting is the art of recording, classifying, and interpreting events and obligations of a financial nature in a precise way and with instructions or expressed with money and interpretation of things arising from these events. Every transaction can be measured by the value of money, recorded and processed in such a way, the final report is presented in the value of money.

---

In this case, there are several definitions of financial statements, including the following: according to Kusnadi (2002) the definition of the financial statement is a financial list made at the end of a period derived from records of company activities during a certain period consisting of balance sheets, income statements, profit balance statements, cash flow statements and statements of changes in capital.

### **3). Good Corporate Governance**

Good Corporate Governance is a corporate management system designed to improve company performance, protect the interests of stakeholders, and improve compliance with laws and regulations and generally accepted ethical values. Definition of Good Corporate Governance according to the Regulation of the Minister of SOEs Number Per-01 / MBU / 2011 dated August 1, 2011 Article 1 concerning the Implementation of Good Corporate Governance in SOEs. The definition of good corporate governance based on this regulation is the principles that underlie a company's management process and mechanism based on laws and regulations and business ethics.

The definition of good corporate governance according to Tunggal, (2012: 24) Corporate Governance is a system that regulates, manages, and supervises the business control process to increase the value of shares, as well as a form of attention to stakeholders, employees, and the surrounding community.

principle of accountability, which contains the company's obligation to present and report all activities, especially in the field of financial administration transparently and fairly to interested parties. And it is the responsibility of management through effective supervision with the establishment of an audit committee. The audit committee has the main task of protecting shareholders or other interested parties by reviewing the reliability and quality of financial statements, operational reports, and parameters used to measure, classify and present these reports(Aksa & Ririn, 2011).

Mayangsari (2003) stated that financial statements are the main element for the realization of corporate governance. And failures in realizing corporate governance can be reduced by the existence of an adequate financial reporting system so that corporate governance indirectly affects the existence of financial statements that are required to have quality where the quality of the financial statements presented shows true and honest information.

From the above understanding, it can be concluded that there is a relationship between the application of the principles of good corporate governance and the quality of financial statements. Where financial statements are the main element for the realization of good corporate governance is a concept that emphasizes the importance of shareholders' rights to obtain information correctly, accurately, and on time. As well as the company's obligation to disclose accurately, timely, and transparently regarding all company performance, ownership, and stakeholders. It is expected to produce integrity in financial statement information which ultimately increases the confidence of financial statement users.

### **b. Hypothesis Development**

Good corporate governance is a system and set of regulations that regulate the relationship between various interested parties with laws and regulations and ethical values to achieve company goals. Good corporate governance can help create a conducive relationship between elements in an organization to improve its performance of the organization (Soraya & Suardana, (2018). In addition to affecting organizational performance, the implementation of good corporate governance can improve the quality of financial statements because the implementation of good corporate governance can reduce risks resulting from management actions that tend to benefit oneself.

The principles of good corporate governance applied in company management will be a reference for companies in taking various steps and decisions that allow better company management, to improve the quality of the company's financial statements by having quality employees. The principles of good corporate governance consist of transparency, accountability, responsibility, independence, and fairness.

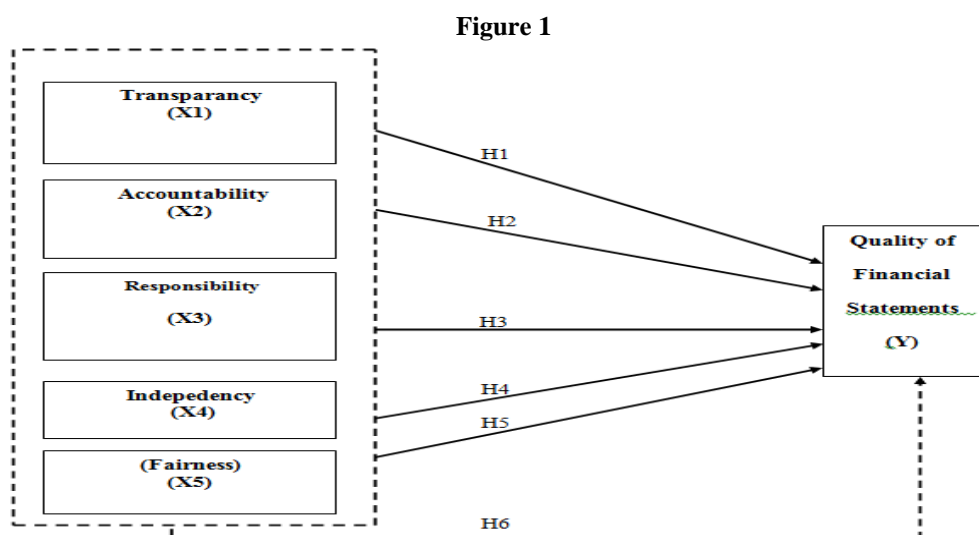
Transparency According to Martha, (2014) is a principle of GCG that is currently in the public spotlight, where transparency is a principle that guarantees access or freedom for everyone to obtain information about the responsibility of the company organization to interested parties. Concerning the quality of financial statements, the principle of transparency manages how management can manage risk to ensure all risks can be managed at a tolerable time that will affect the quality of the company's financial statements. By increasing the transparency of information regarding the company's financial performance regularly and on time and correctly.

Accountability is a fundamental requirement to prevent abuse of delegated authority and ensure authority is directed to the achievement of goals that are widely accepted with a level of efficiency, effectiveness, and honesty (Martha, 2014). Companies should create an audit committee to strengthen internal supervision by supervisory bodies. The role of internal audit can help in improving the company's financial performance. Internal audits will provide input to management on errors and shortcomings so that the quality of financial statements will be better.

Accountability, namely the conformity of company management to applicable laws and regulations and healthy corporate principles, by fulfilling responsibilities to society and the environment and referring to laws and regulations and healthy corporate principles as guidelines for company management, is expected to improve the company's image and financial performance which has an impact on the sustainability of the company in the long term (Martha, 2014). Fulfillment of corporate responsibility as a business entity in society to all stakeholders who cover matters related to the regulation of relations between the company and all stakeholders to realize a good company. Thus, the company will become professional and ethical, avoiding abuse of power, so that it will improve the quality of the company's financial statements in a better direction.

Independence is a condition where the company is managed professionally without conflict of interest and the influence of pressure from any party that is not following applicable laws and regulations and sound corporate principles (Suci & Khairani, 2013). Employees in carrying out functions, duties, and responsibilities in managing company activities are free from pressure or influence, both from inside and outside the company. In carrying out their work, employees believe in themselves more so that their performance is more reliable.

According to Martha, (2014) fairness is justice and welfare in fulfilling the rights of stakeholders arising based on applicable agreements and laws. Fairness refers to fairness and equality in fulfilling the rights of stakeholders arising as a result of applicable agreements and regulations. Fairness regulates how to determine the roles and responsibilities of management in managing each of its accountability tasks so that the company's financial performance will be more stable and produce quality financial statements. Based on the description above, we can be connected between independent variables and dependent variables in this study described in Figure 1 below:



Transparency is a principle that provides access or freedom for everyone to obtain information about the company's accountability to interested parties. To maintain objectivity in conducting business, companies must provide material and relevant information in a way that is easily accessible and understood by stakeholders (Putri et al., 2017).

Previous research that supports this research is a research conducted by Devi & Ratnadi (2018) entitled The Influence of Good Corporate Governance Principles on the Quality of Financial Information of PDAM Buleleng Regency. The results of his research are the principles of transparency, accountability, accountability, independence, and fairness have a positive effect on the quality of financial information. Information disclosure within the company to interested parties will increase stakeholder trust in the company so that it can improve the company's financial performance. By agency theory, this shows that more transparency in the company in disclosing information about the company's state causes an increase in principal trust, and the quality of the company's financial statements will increase as well. Based on the description above, the following hypothesis is formulated:

---

**H1: The principle of transparency has a positive and significant effect on the quality of the financial statements of PERUMDA Drinking Water Wair Pu'an Kab. Sikka**

Accountability is the clarity of functions, structures, systems, implementation, and responsibilities so that the company can be managed effectively. Therefore, the company must be managed correctly, and measurably, and follow the interests of the company while considering the interests of stakeholders (Putri et al., 2017).

Previous research that supports this research is a research conducted by Devi & Ratnadi (2018) entitled The Influence of Good Corporate Governance Principles on the Quality of Financial Information of PDAM Buleleng Regency. The results of his research are the principles of transparency, accountability, accountability, independence, and fairness have a positive effect on the quality of financial information.

Clarity of structure, function, and authority in the company will make the company's managers run effectively and have an impact on improving financial performance. Agency theory shows that the clearer the authority and function of implementation and accountability of the organizational structure in the company, the company manager will be carried out effectively and increase principal trust to ultimately improve the quality company's financial performance. Based on the description above, the following hypothesis is formulated:

**H2: The principle of accountability has a positive and significant effect on the quality of the financial statements of PERUMDA Drinking Water Wair Pu'an Kab. Sikka**

Responsibility is the suitability and attitude of the company in managing its business based on applicable laws and regulations. To improve their performance, companies must understand and comply with regulations and carry out responsibilities to society and the environment so that they can maintain business continuity in the long term and get recognition as good corporate citizens (Putri et al., 2017).

Previous research that supports this research is a study conducted by Giri & Supadmi (2020) entitled The Effect of the Application of GCG Principles on the Perception of Financial Information Quality of PERUMDA Tirta Sewaka Darma Drinking Water. This research proves that the principles of transparency, accountability, accountability, independence, and fairness have a positive and significant effect on the quality of financial information.

Companies that obey and comply with applicable laws and regulations and carry out responsibilities based on laws and regulations can have an impact on improving the company's financial performance. By agency theory, this shows that complying with all existing regulations and carrying out responsibilities to principals can have an impact on company growth which has an impact on improving the quality of financial statements. Based on the description above, the following hypothesis is formulated:

**H3: The principle of responsibility has a positive and significant effect on the quality of the financial statements of PERUMDA Drinking Water Wair Pu'an Kab. Sikka**

Independence is a company's attitude when making a decision return without being bound by any party or dominating party. The company must have an objective attitude or be free from the interests of parties that can harm the company. To expedite the implementation of GCG, companies must be managed independently so that each company organ does not dominate the other and cannot be intervened by other parties (Putri et al., 2017).

Previous research that supports this research is a study conducted by Giri & Supadmi, (2020) entitled The Effect of the Application of GCG Principles on the Perception of Financial Information Quality of PERUMDA Tirta Sewaka Darma Drinking Water. This research proves that the principles of transparency, accountability, accountability, independence, and fairness have a positive and significant effect on the quality of financial information.

The management of a company that is managed without having a conflict of interest from other parties that can harm the company and is managed objectively can have an impact on improving the company's financial performance. By agency theory, this shows that conflicts of interest in company management can have an impact on increasing principal trust and quality of company financial statements and ensuring that the company has been objective in its management. Based on the description above, the following hypothesis is formulated:

**H4: The principle of independence (independence) has a positive and significant effect on the quality of the financial statements of PERUMDA Wair Pu'an Drinking Water, Sikka Regency**

Fairness is fairness and equality by the company in fulfilling the interests of existing stakeholders based on agreements and applicable laws and regulations. This principle is a driving factor that can control and guarantee fair treatment of various interests in the company. In carrying out its activities, the company must always pay attention to the interests of shareholders and other stakeholders based on the principles of fairness and equality (Putri et al., 2017).

The previous research that supports this research is a study conducted by Hemawan et al., (2020) entitled *The Influence of the Internal Control System, and Good Corporate Governance on the Quality of BPRS Financial Statements in the Working Area of the Malang Financial Services Authority Office*. The result of his research is that the internal control system does not have a significant effect on the quality of financial statements. Meanwhile, good corporate governance has a positive effect on the quality of financial statements.

Companies should be obliged to pay attention to the rights of stakeholders based on the principles of fairness and equality without unfair treatment of the company, which can later have an impact on improving the company's financial performance. Agency theory shows that company managers pay attention to the rights of principals and treat them fairly based on the principles of fairness and equality, to improve the quality of the company's financial statements. Based on the description above, the following hypothesis is formulated:

**H5: The principle of fairness has a positive effect on the quality of the financial statements of PERUMDA Drinking Water Wair Pu'an Kab. Sikka**

According to Dewi & Dwijaputri (2014) the application of GCG principles in company management is very important because it will directly provide clear direction for the company to enable responsible decision-making and enable better company management, to improve company performance. The success of corporate governance implementation does not only depend on existing principles and regulations but depends on the integrity and quality of existing human resources. Improving the work performance that has been achieved by the company in a certain period and stated in the financial statements of the company concerned.

The previous research that supports this research is a study conducted by Hemawan et al., (2020) entitled *The Influence of the Internal Control System, and Good Corporate Governance on the Quality of BPRS Financial Statements in the Working Area of the Malang Financial Services Authority Office*. The result of his research is that the internal control system does not have a significant effect on the quality of financial statements. Meanwhile, good corporate governance has a positive effect on the quality of financial statements.

In the implementation of GCG principles in the company, there are parties involved in the company have clear responsibilities following applicable regulations, to encourage more democratic, more accountable, more transparent organizational management, and increase confidence that companies and other organizations can contribute these benefits in the long run. In agency theory in this case, the company's financial performance will increase, so the principle of corporate governance is expected to improve the quality of employees which ultimately increases confidence in the work of employees. Based on the description above, the following hypothesis is formulated:

**H6: The application of GCG (Good Corporate Governance) principles has a positive effect on the quality of PERUMDA's financial statements Wair Pu'an Drinking Water, Sikka Regency**

### **3. RESEARCH METHOD**

According to Sugiyono (2014: 115), population is a generational area consisting of objects or subjects that have certain quantities and characteristics set by researchers to be studied and then draw conclusions. The population in this study is employees at the Wair Pu'an Drinking Water Regional Public Company of Sikka Regency totaling 103 people.

The sample used in this study is purposive sampling, which is a sampling technique with certain considerations (Sugiyono, 2018). Where the sample is used if it meets the following criteria:

1. Wair Pu'an Drinking Water Regional Public Company in Sikka District.
2. Employees of the Wair Pu'an Drinking Water Regional Public Company, General Administration Section, Finance and Engineering Section.

3. Includes permanent employees and non-permanent employees.

So the sample used in this study amounted to 64 people. Descriptive statistical analysis is carried out by calculating respondents' perceptions, with the following formula:

$$PS - p = \left( \frac{\bar{X} PS - p}{5} \right) \times 100$$

Information:

$PS - p$  = Respondent's perception category

$\bar{X} PS - p$  = Average score for respondents' perceptions

5 = Highest score on the Likert scale

According to Levis (2013: 173), the five categories of decision-making to measure the perception of respondents' answers are as follows:

**Table 1 Achievement of maximum scores for respondents' perceptions**

No.	Maximum Score Achievement Percentage	Category
1	$\geq 20 - 36$	Very Lacking
2	$> 36 - 52$	Not Good
3	$> 52 - 68$	Enough
4	$> 68 - 84$	Good
5	$> 84 - 100$	Excellent

Multiple linear regression analysis according to Helmi & Lutfi (2014: 166) is used to determine how much influence the independent variable (good corporate governance, namely transparency, accountability, responsibility, independence, and fairness) has on the dependent variable (quality of financial statements), with the formula:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + e$$

Where :

Y = Quality of Financial Statements

X1 = Transparency

X2 = Accountability

X3 = Liability

X4 = Independence

X5 = Fairness

a = Konstanta (price Y when X = 0)

b1, b2, b3, b4, b5 = Regression Coefficient

e = Standard Error

## 4. RESULTS AND ANALYSIS

### a. Research Results

The results of multiple linear regression analysis using the SPSS.25 program can be shown in table 2 below:

**Table 2 Analisis Regresi Coefficients<sup>a</sup>**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics Tolerance
	B	Std. Error	Beta			
1	(Constant)	,094	3,357		,028	,978
	X1	,232	,114	,148	2,030	,047
	X2	,778	,179	,409	4,341	,000
	X3	,608	,161	,338	3,786	,000
	X4	,207	,137	,107	1,509	,137
	X5	,299	,223	,124	1,339	,186

Source: Data Processed

Multiple linear regression equation model from the results of data analysis in table 2 as follows:

$$Y = 0,094 + 0,232X_1 + 0,778X_2 + 0,608X_3 + 0,207X_4 + 0,299X_5 + e$$

## **b. Discussion**

### **1) Principle of Transparency on the Quality of Financial Statements**

Testing of the hypothesis is carried out by testing the significance of the coefficient of the Transparency variable (X1). The magnitude of the regression coefficient is 2.030 and the significance value is 0.047. At the level of  $\text{sig.}\alpha = 5\%$ , then the regression coefficient is significant because it is  $0.047 < 0.05$  which means rejecting  $H_0$ . Based on the results of the test above, it can be concluded that transparency (X1) has a significant effect on the quality of financial statements (Y) so the initial hypothesis ( $H_a$ ) in this study is accepted. This is consistent with the ratio of  $t_{\text{count}}$  with the  $t_{\text{table}}$  where the value of  $t_{\text{count}}$  is 2.030 and the  $t_{\text{table}}$  for df 58 is 2.00. The value of  $t_{\text{count}} > t_{\text{table}}$ , it can be concluded that the variable transparency Significant effect on the quality of financial statements.

The higher the level of transparency of financial statements in PERUMDA Drinking Water Wair Puan Sikka Regency, the quality of the financial statements produced will increase. PERUMDA Air Minum Wair Puan knows more about information related to the company, so to avoid information inequality, information disclosure or transparency is needed. Transparency provides open and honest financial information to the Sikka District Government based on the consideration that the Sikka District Government has the right to know openly and thoroughly the accountability of WAIR Puan Drinking Water PERUMDA in the management of the resources entrusted to it.

The results of this study are in line with research conducted by Darmawan & Abdi (2017) which states that transparency has a significant effect on the quality of financial statements, which means that to improve the quality of financial statements it is necessary to carry out transparency in the company. The Company shall provide sufficient, accurate, and timely information to interested parties. Furthermore, research conducted by Devi & Ratnadi, (2018) stated that the principle of transparency has a positive effect on the quality of financial statements, which means that the more transparent the company is in disclosing information the meaning that it can increase trust for interested parties in the company so that it will improve the quality of the company's financial statements. In addition, there is a study conducted by Giri & Supadmi, (2020) states that transparency has a positive and significant effect on the quality of financial statements, which means that the higher the level of transparency of financial statements, the quality of the financial statements produced will increase.

### **2) The Effect of Accountability Principles on the Quality of Financial Statements**

Testing of the hypothesis is carried out by testing the significance of the coefficient of the Accountability variable (X2). The magnitude of the regression coefficient is 4.341 and the significance value is 0.000. At the level of  $\text{sig.}\alpha = 5\%$ , then the regression coefficient is significant because it is  $0.000 < 0.05$  which means rejecting  $H_0$ . Based on the results of the test above, it can be concluded that accountability (X2) has a significant effect on the quality of financial statements (Y) so the initial hypothesis ( $H_a$ ) in this study is accepted. This is consistent with the comparison of  $t_{\text{count}}$  with the  $t_{\text{table}}$  where the value of  $t_{\text{count}}$  is 4.341 and the  $t_{\text{table}}$  for df 58 is 2.00. The value of  $t_{\text{count}} > t_{\text{table}}$ , it can be concluded that the variable accountability Significant effect on the quality of financial statements..

The higher the level of accountability of financial statements at PERUMDA Air Minum Wair Pu'an, the quality of the financial statements produced will increase. The clearer application of authority, rights, obligations, and responsibilities in the company can improve the quality of the company's financial statements. Company owners and company management have different interests so management must be accountable for the orders given by company owners. The Wair Pu'an Drinking Water PERUMDA will be responsible for the orders given if the Sikka District Government as the giver of the order can give clear duties, and authorities and pay attention to the rights of the Wair Pu'an Drinking Water PERUMDA. Therefore, PERUMDA Air Minum Wair Pu'an can carry out its duties well, resulting in good-quality financial statements.

This research is in line with research conducted by Darmawan & Abdi (2017) which states that accountability has a significant effect on the quality of financial statements, which means that if companies have good accountability, the quality of financial statements will also be better. Furthermore, research conducted by Kadek Devi dan Ni Made Ratnadi (2018) stated that the principle of accountability has a positive effect on the quality of financial statements, which means that the clearer the application of company rights and responsibilities, the better the quality of financial statements. In addition, there is a study conducted Gede Rudi dan Ni Supadmi (2020) which states that accountability has a positive and significant effect on the quality of financial statements, which means that the higher the level of accountability of financial statements, the quality of the financial statements produced will increase.



---

### **3) The Effect of the Principle of Accountability on the Quality of Financial Statements**

Testing of the hypothesis is carried out by testing the significance of the coefficient of the variable Responsibility (X3). The magnitude of the regression coefficient is 3.786 and the significance value is 0.000. At the level of  $\text{sig.}\alpha = 5\%$ , then the regression coefficient is significant because it is  $0.000 < 0.05$  which means rejecting  $H_0$ . Based on the results of the test above, it can be concluded that accountability (X3) has a significant effect on the quality of financial statements (Y) so the initial hypothesis ( $H_a$ ) in this study is accepted. This is consistent with the ratio of  $t_{\text{count}}$  with  $t_{\text{table}}$  where the value of  $t_{\text{count}}$  is 3.786 and  $t_{\text{table}}$  for df 58 is 2.00. The value of  $t_{\text{count}} > t_{\text{table}}$ , it can be concluded that the variable liability Answers have a significant effect on the quality of financial statements.

The more compliant PERUMDA Wair Pu'an Drinking Water with laws and regulations means, in carrying out responsibility for company finances, it must be able to provide information that is by the expectations of stakeholders so that accountability can improve the quality of PERUMDA Wair Pu'an Drinking Water's financial statements. PERUMDA Air Minum Wair Pu'an, acting according to the wishes of the Sikka District Government to achieve the company's goals, so is said that PERUMDA Wair Pu'an Drinking Water will comply and be responsible for company regulations to achieve common goals, therefore, will improve the quality of the company's financial statements.

This research is in line with research conducted by Darmawan & Abdi (2017) which states that accountability has a significant effect on the quality of financial statements, which means that companies can survive and be sustainable if managed professionally specifically in managing financial statements. Furthermore, research conducted by Devi & Ratnadi, (2018) stated that the principle of accountability has a positive effect on the quality of financial statements, which means that the more compliant the company is with laws and regulations, can improve the quality of financial statements. In addition, there is a study conducted by Giri & Supadmi, (2020) states that accountability has a positive and significant effect on the quality of financial statements, which means that the higher the level of accountability of financial statements, the quality of the financial statements produced will increase.

### **4) Principles of Transparency on the Quality of Financial Statements**

Testing of the hypothesis is carried out by testing the significance of the coefficient of the Independence variable (X4). The magnitude of the regression coefficient is 1.509 and the significance value is 0.137. At the level of  $\text{sig.}\alpha = 5\%$ , then the regression coefficient is insignificant because  $0.137 > 0.05$  which means accepting  $H_0$ . Based on the results of the test above, it can be concluded that independence (X4) has an insignificant effect on the quality of financial statements (Y) so the null hypothesis ( $H_0$ ) in this study is accepted. This is consistent with the ratio of  $t_{\text{count}}$  to  $t_{\text{table}}$  where the value of  $t_{\text{count}}$  is calculated to be 1.509 and the  $t_{\text{table}}$  for df 58 is 2.00. The value of  $t_{\text{count}}$  is calculated  $< t_{\text{table}}$ , it can be concluded that the variable independence has an insignificant effect on the quality of financial statements.

The variable of independence has an insignificant effect on the quality of financial statements. This is because, in PERUMDA Air Minum Wair Pu'an, employees who work are not by their field of expertise, as can be seen from the last education history of the average high school diploma. Therefore, making financial statements is not timely. Therefore, PERUMDA Air Minum Wair Pu'an is expected to pay attention to the educational history or expertise of each employee so that they can be responsible for tasks in the field of expertise.

This research is contrary to research conducted by Darmawan & Abdi (2017) which states that independence has a significant effect on the quality of financial statements. Furthermore, research conducted by Devi & Ratnadi, (2018) states that the principle of independence has a positive effect on the quality of financial statements, which means that the more independent the company is in managing the company, the quality of financial statements will increase. In addition, there is a study conducted by Giri & Supadmi, (2020) states that independence has a positive and significant effect on the quality of financial statements, which means that the higher the level of independence of financial statements, the quality of the financial statements produced will increase.

### **5) Principles of Transparency on the Quality of Financial Statements**

Testing of the hypothesis is carried out by testing the significance of the coefficient of the Reasonableness variable (X5). The magnitude of the regression coefficient is 1.339 and the significance value is 0.186. At the level of  $\text{sig.}\alpha = 5\%$ , then the regression coefficient is insignificant because  $0.186 > 0.05$  which means accepting  $H_0$ . Based on the results of the test above, it can be concluded that fairness (X5) has an insignificant effect on the quality of financial statements (Y) so the null hypothesis ( $H_0$ ) in this study is accepted. This is consistent with the ratio of  $t_{\text{count}}$  to  $t_{\text{table}}$  where the value of  $t_{\text{count}}$  is 1.339 and  $t_{\text{table}}$  for df 58 is 2.00. The value of  $t_{\text{count}}$  is calculated  $< t_{\text{table}}$ , it can be concluded that the variable fairness has an insignificant effect on the quality of financial statements.

Fairness variables have an insignificant effect on the quality of financial statements. This is because the Wair Pu'an Drinking Water PERUMDA has not been optimal in decision-making related to the results of the income statement which shows losses every year, from 2016 to 2020. So there needs to be an evaluation from the company with stakeholders to provide input and express opinions regarding company losses, judging from respondent data based on the last education in the high school category of as many as 53 people, it is necessary to pay attention to employee recruitment according to needs and areas of expertise, and delays in responding to complaints from customers, such as broken water meters, after customers report to the company but have not immediately handled but waited a few days and then followed up the complaint so it needs to improve service to customers and on time.

This research is contrary to research conducted by Darmawan & Abdi (2017) which states that fairness has a significant effect on the quality of financial statements. Furthermore, research conducted by Devi & Ratnadi, (2018) stated that the principle of fairness has a positive effect on the quality of financial statements, which means that in managing their business, companies must be based on fairness and equality, then the quality of financial statements will increase. In addition, there is a study conducted by Giri & Supadmi, (2020) states that fairness has a positive and significant effect on the quality of financial statements, which means that the higher the level of fairness of financial statements, the quality of the financial statements produced will increase.

## **6) Principles of Transparency on the Quality of Financial Statements**

From the results of the SPSS test, it can be seen that the calculated F value is 34.615 and significant at 0.000. From the results of the simultaneous test (test F) above, it can be seen that together the independent variables, namely transparency, accountability, accountability, independence, and fairness have a significant influence on the dependent variable, namely the quality of financial statements. This is evidenced by the probability value of 0.000 which has a value smaller than 0.05. This means that together the five independent variables used in this study have a significant effect on the quality of financial statements. This is consistent with the comparison results between the  $F_{\text{count}}$  and the  $F_{\text{table}}$ . The  $F_{\text{count}}$  is 34.615 and the  $F_{\text{table}}$  is 2.37.  $F_{\text{count}}$  value calculate  $> F_{\text{table}}$ , it can be said that together the independent variables of transparency (X1), accountability (X2), accountability (X3), independence (X4), and fairness (X5) have a significant effect on the dependent variable, namely the quality of the financial statements used in this study.

The test result of the coefficient of determination ( $R^2$ ) obtained is 0.727. This means that 72.7% of the variation in the quality of financial statements can be explained by the five independent variables in this study, while the remaining 27.3% is explained by other variables that were not used in this study. This explains that the variable quality of financial statements can also be explained by other variables such as internal control systems, financial accounting standards, company size, and profit management.

PERUMDA Air Minum Wair Pu'an must provide easy access to information related to the contents of the company's annual report that must be known to the public, besides that it also needs openness in problem-solving and decision-making to realize transparency in the availability of information obtained on time and accurately. Regarding the accountability of PERUMDA Drinking Water, Wair Pu'an must have competent employees in their areas of expertise and be responsible in each division to provide the truth of financial information. In addition, the performance accountability of PERUMDA Wair Pu'an Drinking Water must meet the services and regulations for the provision of clean water to the community transparently and reasonably. Based on the independence of PERUMDA Air Minum Wai. r Pu'an has not been optimal in recruiting employees following their field of expertise. As well as evaluating every activity in the company by involving stakeholders in decision-making so that it affects the quality of financial statements seen from financial reporting in a timely, complete, honest, verifiable manner, comparable to other entities, previous periods, and can be understood by users of financial statements.

This research is in line with research conducted by Hemawan et al., (2020) which states that GCG principles have a significant effect on the quality of financial statements, which means that the existence of GCG that is done well will affect the quality of financial statements. Furthermore, research conducted by Mulyanti & Rahma, (2020) stated that GCG principles have a positive effect on the quality of financial statements, which means that GCG greatly affects the quality of financial statements and will improve for the better. In addition, there is also a study conducted by Tanjung & Sari, (2020) which states that GCG variables have a positive effect on the quality of financial statements.

## **5. CONCLUSION**

Based on the results of data analysis and discussion, it can be concluded that transparency has a significant effect on the quality of financial statements, accountability has a significant effect on the quality of financial statements, accountability has a significant effect on the quality of financial statements, partial

independence has an insignificant effect on the quality of financial statements, fairness partially has an insignificant effect on the quality of financial statements and 72.7% The variation in the quality of financial statements can be explained from the five independent variables in this study, while the remaining 27.3% is explained by other variables that were not used in this study. This explains that the variable quality of financial statements can also be explained by other variables such as internal control systems, financial accounting standards, company size, and profit management.

Future research is expected to develop this research by using other methods in researching Good Corporate Governance, for example through in-depth interviews with respondents, so that the information obtained can be more varied than questionnaires. It can also increase the number of research variables that have not been used in this study, such as internal control system variables, financial accounting standards, company size, and profit management.

## REFERENCES

- Abdul Wahab, E., Zain, M., & James, K. (2011). Political Connections, Corporate Governance and Audit Fees in Malaysia. *Managerial Auditing Journal*, 26(5), 393–418.
- Aksa, & Ririn. (2011). *Manajemen Pemasaran Jasa*. Ghalia Indonesia.
- Darnawan, D., & Abdi, D. (2017). Pengembangan Metode Peningkatan Kualitas Laporan Keuangan Pada PT Pelabuhan Indonesia IV Berbasis Good Corporate Governance di Kota Parepare. *Jurnal Ekonomi Pembangunan STIE Muhammadiyah Palopo*, 3(2).
- Devi, K. T. W., & Ratnadi, N. M. D. (2018). Pengaruh Prinsip-Prinsip Good Corporate Governance Pada Kualitas Informasi Keuangan Pdam Kabupaten Buleleng. *E-Jurnal Akuntansi*, 23(3).
- Dewi, K. K., & Dwijaputri, I. M. A. (2014). Pengaruh Penerapan Prinsip-Prinsip GCG Pada Kinerja Keuangan Lembaga Perkreditan Desa Kabupaten Gianyar Bali. *E-Jurnal Akuntansi*, 7(3).
- Erni, M. (2005). Analisis Dampak Struktur Kepemilikan Hutang Dalam Mengontrol Konflik Keagenan. *Jurnal Ekonomi Dan Bisnis Indonesia*, 20(1), 57–59.
- Giri, G. R. H. P., & Supadmi, N. L. (2020). Pengaruh Penerapan Prinsip GCG pada Persepsi Kualitas Informasi Keuangan PERUMDA Air Minum Tirta Sewaka Darma. *E-Jurnal Akuntansi*, 30(2).
- Hardianingsih, P. (2010). Pengaruh Independensi, Corporate Governance, dan Kualitas Audit Terhadap Integritas Laporan Keuangan. *Kajian Akuntansi*, 2.
- Helmi, S. S., & Lutfi, M. (2014). *Analisis Data*. USU Press.
- Hemawan, D. W., Diana, N., & Mawardi, M. C. (2020). Pengaruh Sistem Pengendalian Internal, dan Good Corporate Governance Terhadap Kualitas Laporan Keuangan BPRS di Wilayah Kerja Kantor Otoritas Jasa Keuangan Malang. *E-Jurnal Ilmiah Riset Akuntansi*, 9(11).
- Jensen, M., & Meckling, W. H. (1976). Theory Of The Firm: Managerial Behavior, Agency Cost And Ownership Structure. *Journal Of Financial Economics*, 3, 305–360.
- Kusnadi. (2002). *Konflik Sosial Nelayan: Kemiskinan dan Perebutan Sumber Daya Perikanan*. LKis.
- Levis, L. R. (2013). *Metode Penelitian Perilaku Petani*. Ledalero.
- Martha, W. (2014). *Pengaruh Transparansi dan Akuntabilitas terhadap Kinerja Instansi Pemerintah pada Dinas Kota Bandung*. Universitas Widyatama.
- Mayangsari, S. (2003). Pengaruh Keahlian Audit dan Independensi terhadap Pendapat Audit: Sebuah Kuasieksperimen. *The Indonesian Journal of Accounting Research (IJAR)*, 6(1).
- Mitan, W., Dilliana, S. M., & Meyer, R. T. (2021). Pengaruh Fraud Diamond Terhadap Kecenderungan Kecurangan Laporan Keuangan pada Koperasi Kredit Sube Huter. *Jurnal Ilmiah Wahana Pendidikan*, 7(5), 212–217. <https://doi.org/https://doi.org/10.5281/zenodo.5521568>
- Mobilala, A., & Herawati, J. (2013). Kinerja Keuangan Perusahaan Sebelum dan Sesudah Penerapan Good Corporate Governance (Studi Kasus Pada PT Kimia Farma,tbk). *Jurnal Ilmiah Mahasiswa Fakultas Ekonomi Dan Bisnis*, 01(02).
- Mulyanti, K., & Rahma, N. A. (2020). Pengaruh Penerapan Good Corporate Governance Terhadap Kualitas Laporan Keuangan Pada PT Iron Bird. *Logistic And Accounting Development Journal*, 1(1).
- Putri, I. G. A. M. A. D., Ulupui, I. G. K. ., & Wirawati, N. G. P. (2017). Pengaruh Good Corporate Governance dan Budaya Tri Hita Karana Pada Kinerja Bank Perkreditan Rakyat. *Jurnal Ilmiah Akuntansi Dan Bisnis*, 12(1).
- Rustanto AE, T Sandjaya & W Andayani. (2023) The Governance Reform In The Coaching Services Of Prisoners In The Correction Centers (A Study At The Sukamiskin Class I Correction Center). *Jurnal Manajemen Pelayanan Publik* 6 (2), 240-252.
- Soraya, B. E., & Suardana, K. A. (2018). Budaya Organisasi Sebagai Pemoderasi Pengaruh Good Corporate Governance pada Kinerja Keuangan Bank Pembangunan Daerah Bali. *E-Jurnal Akuntansi*, 23(3), 2414–2443. <https://doi.org/https://doi.org/10.24843/EJA.2018.v23.i03.p30>
- Suci, Y. F., & Khairani, S. (2013). Pengaruh Penerapan Prinsip Good Corporate Governance terhadap Kinerja Perusahaan pada PT Kereta Api (PERSERO Divisi Regional III Sumatera Selatan. *Jurnal Penelitian STIE MDP*.
- Sugiyono. (2014). *Metode Penelitian Pendidikan Pendekatan Kuantitatif, Kualitatif, dan R&D*. Alfabeta.
- Sugiyono. (2018). *Metode Penelitian Kuantitatif, Kualitatif, dan R&D*. Alfabeta.
- Tunggal, A. W. (2012). *Audit kecurangan dan akuntansi forensik*. Harvarindo.
- Yasmeen, D., & Hermawati, S. (2015). Pengaruh Good Corporate Governance Terhadap Kualitas Pelaporan Keuangan Pada Perusahaan Manufaktur. *Jurnal Ilmiah Ekonomi Bisnis*, 20(1).