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Unlocking Financial Reliability: Ais Contributions To Financial Statement Quality In Indonesian Retail Context

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ABSTRACT

This study examines the impact of Accounting Information Systems (AIS) on financial reporting quality in Indonesian retail firms while examining the moderating influence of internal control and user capability. Data from 110 employees in the accounting and finance departments of MSME-scale retail companies in Jakarta were analyzed using SEM-PLS. The findings underscore the significant role of AIS in enhancing financial reporting accuracy, timeliness, and completeness, thereby ensuring reliability and regulatory compliance. Moreover, internal control mechanisms were found to moderate AIS effects, safeguarding assets and enhancing operational efficiency within retail firms. Additionally, user capability emerged as a crucial moderator, influencing data interpretation and reporting timeliness. The study emphasizes the pivotal contribution of AIS to improving financial reporting quality in Indonesian retail contexts. Theoretical implications validate AIS's significance in financial reporting, while practical implications stress the importance of effective AIS implementation for retail firms. Future research avenues could explore additional factors impacting reporting quality and conduct cross-sector studies on AIS effects for a comprehensive understanding.

INTRODUCTION

Financial reporting is crucial in stakeholders' decision-making processes in the current business landscape. Investors, creditors, and other financial statement users depend on financial data quality and dependability to evaluate a company's financial success and stability (Franczak, 2019). Quality financial reports help investors choose a company by providing precise and dependable information. The retail industry in Indonesia is a vibrant and competitive sector, with numerous companies vying for market share (Marselia & Rivandi, 2023). However, in recent years, there has been growing concern about the quality of financial reporting in the retail industry (Dănescu & Stejerean, 2022). This worry emerges because accurate financial reporting is necessary to evaluate retail firm performance and make investment choices.

While the importance of high-quality financial reporting cannot be denied, it is essential to consider the opposing argument that the impact of financial reporting on the performance of retail companies in Indonesia may not be as significant as proponents suggest (Yulian et al., 2020). The retail

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industry is influenced by many factors, including consumer behavior, economic conditions, and competitive positioning, which may overshadow the direct impact of financial reporting quality. Critics argue that while accurate financial information is essential, it may not be the sole driver of a company's performance in the retail sector (Adeleye, 2022; Evans & Mathur, 2014). Other operational and strategic factors such as marketing initiatives, supply chain management, and customer service may play a more crucial role in determining the success of retail companies (Mabhungu & Van Der Poll, 2017). This perspective encourages a reassessment of the premise that the caliber of financial reporting has a direct and substantial influence on the performance of retail enterprises in Indonesia.

However, in Indonesia, many retail companies face challenges in maintaining the quality of their financial reports due to disintegrated accounting information systems. This issue has raised concerns about the reliability and transparency of financial information provided by these companies (Setiawan, 2016). Organizations must utilize high-quality accounting information systems due to today's accounting and financial environment's growing complexity and controversy. Several countries have studied how accounting information systems affect financial report quality. Internal control systems have a positive significant relationship with the quality of financial statements (Al-Attar, 2021; Teru et al., 2017; Wijayanti et al., 2023).

On the other side, many critics argue that the quality of financial reports depends more on the ethical standards and practices of the individuals and organizations involved in the financial reporting process rather than solely relying on the accounting information systems (Kane, 2004; Paşcu & Horomnea, 2012). They contend that even with the most advanced accounting information systems in place, the quality of financial reports will still be compromised if there is a lack of ethical behavior or intention to manipulate financial data.

Additionally, concerns have been raised about the potential for errors within the accounting information systems, which could ultimately impact the quality of financial reports (Han et al., 2017). Furthermore, some scholars have highlighted instances where companies with sophisticated accounting information systems still produce misleading or inaccurate financial reports due to management's deliberate manipulation or misrepresentation of financial data (Ahmed, 2020; Kardan et al., 2016).

Strong internal controls help mitigate the risk of errors, fraud, and non-compliance, ultimately enhancing the reliability and integrity of financial reports (Faisal et al., 2023). On the other hand, user capability refers to the knowledge, skills, and expertise of individuals responsible for utilizing financial information in decision-making processes (Wang et al., 2024). The effectiveness of an accounting information system depends not only on the design and functionality of the system but also on the ability of users to effectively utilize the system and interpret the information provided (Buljubašić & Ilgün, 2015; Kabuye et al., 2019).

On the contrary, some argue that while internal control and user capability are essential, they may not be the only determinants of the quality of financial reporting in retail companies in Indonesia. Other external factors, such as economic conditions, regulatory environment, and industry-specific challenges, may also significantly impact the accuracy and reliability of financial statements (Nasihin & Purwandari, 2022; Rakhman & Wijayana, 2019). For example, during periods of economic instability, retail companies may face challenges in accurately estimating inventory values, assessing the recoverability of assets, and predicting future cash flows, which can affect the overall quality of financial reporting.

Furthermore, external forces may limit user capability, such as a lack of access to training and educational resources, which can hinder their ability to effectively utilize financial information in decision-making processes. In addition to internal control and user competence, retail organizations must examine their operating environment and external issues that can affect financial reporting (Dănescu & Stejerean, 2022; Moridu, 2023; Torres & Garcia-Lacalle, 2021).

This study identifies a research gap regarding the significance of financial reporting quality on the performance of retail firms in Indonesia, by highlighting the debate between the importance of accurate financial reporting and other factors such as consumer behavior, economic conditions, and competitive strategies that may be more influential. The theoretical contribution of this study is to expand the understanding of financial reporting by including the role of ethical standards, external conditions, and user capabilities, and to question the direct correlation between financial reporting quality and firm performance. Practically, this study provides insights for retail firms, regulators, and policymakers to focus not only on accounting information systems and strong internal controls, but also on implementing financial ethical practices, enhancing user capabilities, and strengthening regulatory frameworks that consider economic and industry-specific challenges.

MATERIALS AND METHODS

This study employs a survey research methodology with a quantitative orientation. A survey was conducted to gather primary data from 110 employees employed at MSME-scale retail enterprises in Jakarta. The data collection method involved distributing questionnaires. Respondents refer to individuals employed in the accounting and finance department. The sample strategy employed is non-probability, specifically utilizing the convenience sampling method. The choice of convenience sampling technique is because it allows researchers to quickly and easily access relevant samples, especially in the context of Indonesia's vast and diverse retail industry. Given that this study focuses on analyzing the quality of financial reporting and other factors that influence the performance of retail companies, convenience sampling allows researchers to collect data from companies that are easy to reach and willing to participate, thus speeding up the data collection process. In addition, given constraints such as limited time, resources, and access to a wider population, this technique can be a practical solution to obtain a sample that is representative enough to describe the phenomenon under study, albeit with limitations regarding the generalizability of the results. The data analysis technique employs structural equation modeling partial least squares (SEM-PLS) with the use of smart-pls 3.3.3 software tools. Conducting tests on both the outside model and inner model is necessary to verify the suitability of the research model. Table 1 demonstrates that the instrument utilized is an augmentation derived from the work of other preceding researchers.

Table 1. Variable Instrument

Variable	Indicator	Item	Source
Accounting information systems	1. Utilization of AIS	12	(Mauliansyah & Saputra, 2019)
	2. Quality of AIS		
	3. AIS security		
	4. Supporting facilities		
Internal Control	1. Control environment	15	(Dewi et al., 2021)
	2. Risk assessment		
	3. Control activities		
	4. Information and communication		
	5. Monitoring		
User Capability	1. Knowledge	8	(Pujia et al., 2022)
	2. Attitude		
	3. Skills		
Firm performance	1. Planning	8	(Mauliansyah & Saputra, 2019)
	2. Investigating		
	3. Coordinating		
	4. Evaluating		
	5. Supervising		
	6. Staffing		
	7. Negotiating		
	8. Representation		

RESULTS AND DISCUSSION

Outer Model

Figure 1 shows that the results of testing convergent validity with loading factor parameters show that all of them have a value > 0.70, which can be concluded that all items meet the loading factor test criteria.

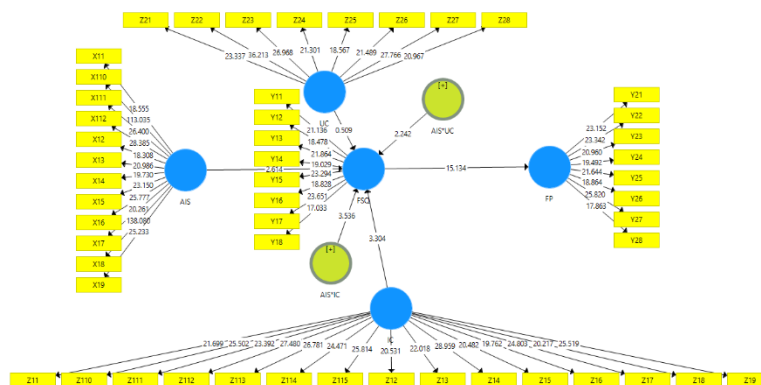


Figure 1. Full Model

In addition, convergent validity testing can also be done using the average variance extracted (AVE) parameter. Table 2 shows that the AVE value is > 0.5 , so it can be concluded that convergent validity with the AVE parameter has met the criteria (Hair et al., 2017).

Table 2. AVE Test

	Average Variance Extracted (AVE)
AIS	0.779
IC	0.771
UC	0.757
FP	0.742
FSQ	0.737

Table 3 shows that testing discriminant validity with cross-loading parameters has met the criteria. The indicator has a higher correlation value with its variable compared to its correlation value with other variables (Hair et al., 2017).

Tabel 3. Cross-Loading

	AIS	IC	UC	FSQ	FP
X11	0.846	0.600	0.702	0.667	0.713
X12	0.859	0.555	0.651	0.648	0.682
X13	0.861	0.600	0.634	0.630	0.721
X14	0.874	0.570	0.640	0.662	0.707
X15	0.872	0.663	0.751	0.765	0.706
X16	0.885	0.613	0.666	0.689	0.722
X17	0.856	0.543	0.611	0.530	0.661
X18	0.939	0.695	0.756	0.741	0.806
X19	0.878	0.608	0.668	0.659	0.699
X110	0.941	0.646	0.714	0.695	0.765
X111	0.880	0.579	0.663	0.625	0.712
X112	0.894	0.580	0.669	0.673	0.737
Z11	0.769	0.865	0.743	0.651	0.618
Z12	0.558	0.860	0.732	0.646	0.602
Z13	0.591	0.876	0.743	0.646	0.661
Z14	0.629	0.897	0.765	0.666	0.672
Z15	0.623	0.874	0.745	0.656	0.639
Z16	0.571	0.865	0.744	0.671	0.639
Z17	0.593	0.886	0.750	0.657	0.648
Z18	0.532	0.858	0.697	0.674	0.593
Z19	0.708	0.882	0.766	0.683	0.637
Z110	0.568	0.891	0.765	0.682	0.650
Z111	0.612	0.877	0.744	0.725	0.667
Z112	0.576	0.887	0.786	0.658	0.634
Z113	0.604	0.893	0.750	0.731	0.643
Z114	0.570	0.879	0.730	0.671	0.656
Z115	0.555	0.883	0.748	0.647	0.630
Z21	0.631	0.789	0.870	0.710	0.688
Z22	0.671	0.748	0.907	0.761	0.749

	AIS	IC	UC	FSQ	FP
Z23	0.674	0.727	0.876	0.721	0.699
Z24	0.612	0.742	0.861	0.700	0.653
Z25	0.634	0.702	0.849	0.647	0.655
Z26	0.687	0.743	0.866	0.745	0.748
Z27	0.648	0.722	0.876	0.704	0.686
Z28	0.800	0.750	0.856	0.715	0.711
Y11	0.638	0.645	0.680	0.856	0.700
Y12	0.604	0.761	0.694	0.846	0.691
Y13	0.688	0.647	0.759	0.883	0.723
Y14	0.615	0.612	0.672	0.856	0.736
Y15	0.786	0.666	0.723	0.862	0.724
Y16	0.644	0.642	0.684	0.855	0.715
Y17	0.626	0.657	0.731	0.877	0.711
Y18	0.600	0.626	0.691	0.834	0.677
Y21	0.727	0.584	0.707	0.668	0.874
Y22	0.716	0.698	0.715	0.723	0.870
Y23	0.683	0.636	0.692	0.714	0.867
Y24	0.690	0.611	0.668	0.657	0.862
Y25	0.720	0.622	0.683	0.694	0.856
Y26	0.673	0.576	0.669	0.681	0.851
Y27	0.727	0.665	0.713	0.867	0.874
Y28	0.687	0.611	0.689	0.647	0.837

Likewise, testing discriminant validity with Fornell-Larcker parameters has met the criteria. Table 4 shows that the correlation value between variables is greater than the correlation value between variables, so it can be concluded that the instrument met the validity criteria (Hair et al., 2017).

Table 4. Fornell-Larcker

	AIS	FP	FSQ	IC	UC
AIS	0.883				
FP	0.816	0.862			
FSQ	0.759	0.827	0.859		
IC	0.688	0.728	0.765	0.878	
UC	0.770	0.804	0.820	0.851	0.870

Furthermore, reliability testing with composite reliability and Cronbach parameters is carried out to test the instrument's consistency. Table 5 shows that all composite reliability and Cronbach alpha values on each variable have a value > 0.7, so it can be concluded that the instrument is consistent in measuring latent variables (Hair et al., 2017).

Table 5. Reliability Test

	Cronbach's Alpha	Composite Reliability
AIS	0.974	0.977
IC	0.979	0.981
UC	0.954	0.961
FP	0.950	0.958
FSQ	0.949	0.957

Inner Model

Inner model testing is carried out to determine whether this research model fits or meets the goodness-of-fit criteria. This study uses two goodness-of-fit parameters: the adjusted R Square value and the Standardized Root mean square (SRMR) value.

Table 7 shows that the adjusted R square value of the financial report quality variable is 0.799, meaning that accounting information, internal control and user capability can explain the financial report quality variable by 79.9% or in the strong category and the remaining 20.1% is explained by other variables.

Furthermore, the adjusted R square value is 0.68, meaning that the financial statement quality variable can explain the company performance variable by 68% or in the moderate category and the rest is explained by other variables. From the two adjusted R square values of the financial statement quality and company performance variables, it can be concluded that this research model is a fit.

Another goodness-of-fit parameter is the SRMR value. Table 7 also shows that the SRMR value of $0.070 < 0.08$ means that this research model is a confirmed fit or the estimated model can be used to predict the future related to these research variables.

Table 7. Goodness-of-Fit Test

	R Square Adjusted	SRMR (Estimated Model)
FP	0.680	0.070
FSQ	0.799	

Hypotheses Test

Table 8 shows that the accounting information system significantly affects the quality of financial statements. The statistical test results show a significance value of $0.009 < 0.05$, so it can be concluded that the first hypothesis is accepted.

Table 8. Hypotheses Test

	Original Sample (O)	T Statistics (O/STDEV)	P Values
AIS -> FSQ	0.243	2.614	0.009
AIS*IC -> FSQ	-0.963	3.536	0.000
AIS*UC -> FSQ	0.698	2.242	0.025
FSQ -> FP	0.827	15.134	0.000

Not only does the accounting information system directly affect the quality of financial statements, but the role of the company's internal control significantly moderates the effect of the accounting information system on the quality of financial statements. The statistical test results show that the significance value of $0.000 < 0.05$ means the second hypothesis is accepted.

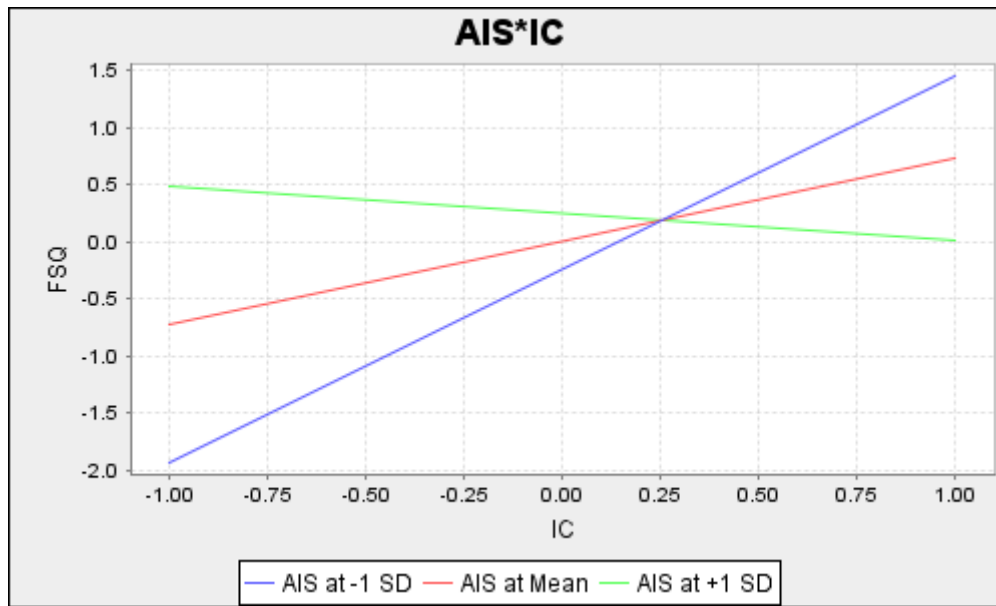


Figure 1. Simple Slope Analysis (AIS*IC)

Furthermore, Figure 2 displays a straightforward slope analysis graph in which the -1 SD (blue line) and +1 SD (green line) exhibit contrasting tendencies. This leads to the conclusion that internal control plays a significant moderating role in the impact of accounting information systems on the quality of financial statements.

The capacity of users plays a vital role in determining the influence of accounting information systems on the accuracy and reliability of financial accounts. The statistical test results show that the p-value is 0.025, which is below the significance level of 0.05. Thus, it can be inferred that the third hypothesis is supported.

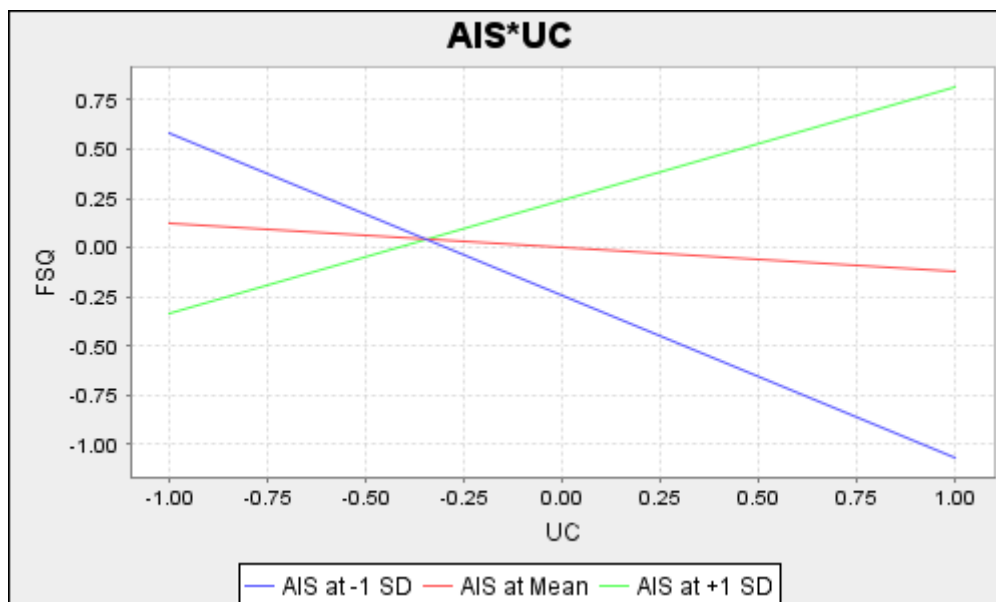


Figure 2. Simple Slope Analysis (AIS*UC)

Figure 3 displays a graph illustrating a basic slope analysis. The -1 SD line (blue) and +1 SD line (green) exhibit contrasting directions. This indicates that user capacity has a substantial role in moderating the impact of accounting information systems on the quality of financial statements.

Moreover, table 7 demonstrates that the caliber of financial statements has a substantial impact on the performance of a company. The statistical test findings show that the p-value is 0.000, which is lower than the significance level of 0.05. Therefore, the fourth hypothesis is accepted.

RESULTS AND DISCUSSION

AIS on Financial Report Quality

The findings demonstrated a considerable impact of AIS on the accuracy and reliability of financial accounts. An accounting information system is essential for the acquisition, documentation, retention, and manipulation of financial data. It converts raw accounting data into useful information used by decision-makers in the company (Nurhayati, 2022). Using a comprehensive and accurate accounting information system in retail companies significantly impacts the quality of financial reports (Al-Dalabih, 2018). Firstly, an effective accounting information system ensures the accuracy and reliability of financial data. This reduces the likelihood of errors and discrepancies in financial reports, resulting in more accurate and reliable information for stakeholders (Muliyati et al., 2020).

Secondly, an integrated and efficient accounting information system enhances the timeliness of financial reporting. With a well-designed system, data can be processed and presented in real time, allowing for prompt and up-to-date financial reports (Khasanah, 2022). Thirdly, an accounting information system improves the completeness and comprehensiveness of financial reports. The reports can capture, record, and include all relevant financial data, providing a comprehensive overview of the company's financial position and performance (Schwaiger & Abmayer, 2013).

Furthermore, an accounting information system facilitates compliance with regulatory requirements. It guarantees that financial reports are created in accordance with accounting standards and rules, hence minimizing the possibility of non-compliance and related penalties (Al-Ibbini, 2017). Another significant impact of an accounting information system on the quality of financial reports in retail companies is the improved decision-making process. With accurate and timely financial information provided by the accounting information system, management can make informed decisions regarding pricing strategies, inventory management, expansion plans, and resource allocation (Huang, 2019; Lipi et al., 2015). Additionally, an accounting information system in retail companies allows for practical financial analysis and performance evaluation. This helps identify strengths and weaknesses, allowing management to make necessary adjustments and improvements (Abu-Eker et al., 2019; Beaumont, 1989).

Internal Control Moderates AIS on Financial Report Quality

The results showed that internal control significantly moderated the effect of AIS on financial report quality. The internal control system helps prevent and detect errors, fraud, and irregularities in financial transactions. In the context of retail companies in Indonesia, internal control becomes particularly significant in moderating the influence of the accounting information system on the quality of financial reports (Faisal et al., 2023; Ria, 2023). Effective internal control is essential for assuring the precision and dependability of financial statements in retail enterprises (Teru et al., 2017).

Firstly, internal control helps protect the assets of retail companies. Implementing internal control measures, such as segregating duties and following proper permission procedures, helps to minimize the likelihood of asset misappropriation and theft (Simeon & Ifeanyichukwu, 2018). Secondly, internal control ensures the reliability of accounting reports. By implementing internal control measures, retail companies can verify the accuracy and completeness of financial information before it is included in the financial reports (Plotnikova & Rubanov, 2020).

Furthermore, internal control helps promote efficiency in retail companies. Effective internal control measures allow retail companies to streamline their processes and ensure that transactions are recorded accurately and promptly. This improves financial reporting efficiency and reduces the likelihood of errors or delays in producing financial reports (Mukhina, 2015; Ria, 2023).

In accounting information systems, internal control acts as a moderator in enhancing the quality of financial reports. Internal control helps to ensure that the information generated by the accounting information system is accurate, complete, and reliable. Furthermore, it aids in the identification of any vulnerabilities or shortcomings in the accounting information system and facilitates the implementation of suitable remedial measures (Teru et al., 2017; H. Yang, 2012). Additionally, internal control assists in promoting compliance with laws, regulations, and company policies. With a solid internal control system, retail companies can ensure that their accounting information system operates effectively and follows established guidelines (Plotnikova & Rubanov, 2020; Y. Yang & Gan, 2019).

Overall, internal control is a big part of keeping the accounting information system from having too much of an effect on the quality of financial records in Indonesian retail companies (Mukhina, 2015). In conclusion, internal control in the form of procedures and measures helps to protect assets, ensure reliable accounting reports, promote efficiency, encourage compliance with regulations and company policies, and enhance the overall quality of financial reports in retail companies.

User Capability Moderates AIS on Financial Report Quality

The results showed that user capability significantly moderates the effect of AIS on financial report quality. With user capability, individuals have the knowledge and skills to effectively utilize accounting information systems, ensuring that the data entered into the system is accurate and reliable (Adisanjaya, 2018; Aswar, 2020). Additionally, competent users can contribute to the continuous improvement of accounting information systems, identifying any shortcomings or issues and providing valuable feedback for system enhancements (Al-Ibbini, 2017).

Furthermore, user capability also affects the interpretation and analysis of financial data generated by accounting information systems. Users with high capability are more likely to have a deeper understanding of the financial information presented in the reports. They possess the ability to detect any discrepancies or irregularities in the data, so guaranteeing the dependability and openness of the financial reports (Lingga, 2020; Serhan, 2020). Moreover, user capability can also influence the timeliness of financial reporting. Users with high capability are more efficient and effective in accessing and analyzing the information, leading to timely reporting (J. Li, 2023; Sahi et al., 2022).

Financial Report Quality on Firm Performance

The results showed that the quality of financial statements affects company performance. Financial reporting is a crucial aspect of business operations, providing stakeholders with information about a company's financial performance and position (Ahmed, 2020). There are several reasons why the quality of financial reporting is so crucial for retail companies in Indonesia. Firstly, high-quality financial reports provide accurate and reliable information about the company's financial position, performance, and cash flows. This information is essential for stakeholders such as investors, creditors, and government agencies to make informed decisions about the company (Vishnani, 2017; Yi & Gan, 2019).

Before deciding to spend, investors look at the financial statements of a company to see how profitable it is and how likely it is to grow (Ogungbade et al., 2021). High-quality financial reports provide investors with transparency and assurance that the company's financial statements accurately reflect its proper financial health. The transparency of the company fosters trust and confidence among investors, hence attracting additional investment and facilitating the company's expansion (Roychowdhury et al., 2019). In addition, creditors use financial reports to evaluate a company's creditworthiness and ability to meet its financial obligations (Franczak, 2019). With high-quality financial reports, retail companies in Indonesia can demonstrate their financial stability and reliability to creditors, increasing their chances of obtaining favorable credit terms and securing additional funding (Sulasmiyati, 2020; Yulian et al., 2020).

Furthermore, high-quality financial reports also play a crucial role in complying with regulatory requirements and legal obligations. In Indonesia, there are regulations and standards set by government departments such as the Ministry of Finance and the Indonesia Stock Exchange that require companies to prepare accurate and reliable financial reports (Moridu, 2023). Compliance with these regulations helps retail companies avoid penalties, legal disputes, and reputational damage. Moreover, high-quality financial reports contribute to effective corporate governance (Harmoyo & Kurniawan, 2022). They inform shareholders and other stakeholders about the company's financial performance, risks, and opportunities. This transparency enables stakeholders to monitor and hold management accountable for their decisions and actions, promoting trust and confidence in the company's leadership (Garrett et al., 2014; Harymawan & Nurillah, 2017).

Additionally, high-quality financial reports enable effective decision-making within the company (Dănescu & Stejerean, 2022). The management depends on precise and dependable financial reports to assess the company's performance, pinpoint areas for enhancement, and formulate strategic decisions (Franczak, 2019). For example, by analyzing financial ratios such as return on investment and gross profit margin, management can assess the profitability and efficiency of different product lines or store locations and make informed decisions about resource allocation and expansion plans.

CONCLUSIONS AND SUGGESTIONS

This study reveals that accounting information systems (AIS) significantly influence the quality of financial statements. An AIS is essential in collecting, recording, storing, and processing financial data. The use of comprehensive and accurate accounting information systems in retail companies significantly impacts the quality of financial statements. First, an effective accounting information system ensures the accuracy and reliability of financial data. This reduces the likelihood of errors and discrepancies in financial statements, providing stakeholders with more accurate and reliable information.

Secondly, an integrated and efficient accounting information system improves the timeliness of financial reporting. With a well-designed system, data can be processed and presented in real time, allowing quick and up-to-date financial reports. Third, accounting information systems improve the completeness and comprehensiveness of financial statements. The reports can capture, record, and include All relevant financial data, providing a comprehensive picture of the company's financial position and performance. In addition, the accounting information system facilitates compliance with regulatory requirements. It guarantees that financial statements are created in accordance with accounting standards and regulations, hence minimizing the possibility of non-compliance and related penalties.

The theoretical implication confirms that AIS plays a significant role in influencing financial statement quality. In contrast, the practical implication is implementing and maintaining effective and efficient accounting information systems in retail firms. Suggestions for future research include further research to identify other factors that may affect financial statement quality and cross-sector research to understand how AIS affects financial statement quality across different types of firms.

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