

CHAPTER I

INTRODUCTION

1. Background of the Study

Indonesia is an archipelago country located between the Australian and Asian continental mainland. With a total of around 17,508 islands among which were epitomized by five salient islands namely Sumatra, Java, Kalimantan, Sulawesi, and Papua. It stretches as vast as it spans from the very tip of Sabang in Aceh province in Sumatra to the very end of Merauke in Papua, the most last one of its territory and yet become the first one that catches the earliest rays of the rising sun. It is the fourth most populous country in the world with more than three hundreds of ethnic groups spreading across its land, representing their eminent depiction of distinctive culture. From this perspective, the country has become an attractive destination for its inviting business and of its high stakes investment venture. Considering this, Indonesia's immense economic potency is primed for more prosperous future.

As one of Asia's most apparent influential powerhouse, Indonesia has become an economically transitioning country in the global emerging market. In connection therewith the country's abundant natural resources, developing participants of specialized vocational and well-trained young workforce, as well as a massive growing domestic market, strengthens Indonesia with vibrant possibilities to hold a great potential towards

improving investment for a higher profile. Indeed, in the last five years, Indonesia has become one of the world's most stable economy countries. The expansion of this feasibility should be imminent in the future. Given this circumstance, where much of the economic success is because of the growing middle class, for which within that proportion individuals are more available for consumption and capable of owning property. Those in the middle class may also have earnings rivaling the nobles, therefore the combination of their incomes and expenditures could have helped at forming an economic resilience and hence improving the country's financial and investment demographic.

Through the upward mobility aspirations within the country's economy and its society's lifestyle, the presumption of owning a resident is an increasing segment. The Indonesian population households may generate a sufficient income and savings for propensity to budget for buying a property. Underlying the country's positive dynamic in its economy, Indonesia burgeoning development is supported by its population demand towards greater confidence in the long term investment. In such a case, investing in property will be a good choice of retaining an asset. Within the residential property market, the prices and demand will remain increasing every now and then. The advantages include fewer risk, full control over the investment, and a hedge against inflation. This is due to the fact that property is an investment that builds with time. Consider it as an estate, a physical asset that has an impending value that is ever-increasing in prices

and equity, and that in connection with inflation, it became an absolute lateral to keep up with. Furthermore, investing in property has given the privilege to decide about everything to settle with it. Thus, the transformation of the country's expansion expect strong gains from the real estate industry.

The real estate industry is consisted of residential, commercial and industrial real estate, as well as land. This industry can fluctuate, like all other markets, depending on local economies, interest rates, inflation and other circumstances. In the mid-2000s, the industry faced major crisis when the commercial real estate market fluctuated. The economy has stabilized in the following years, although the real estate industry will always fluctuate as stated before. As Indonesia is a developing country, the needs for real estate transactions are higher. Nowadays, the demand for offices, houses and apartments kept on increasing as people need space for homes and businesses.

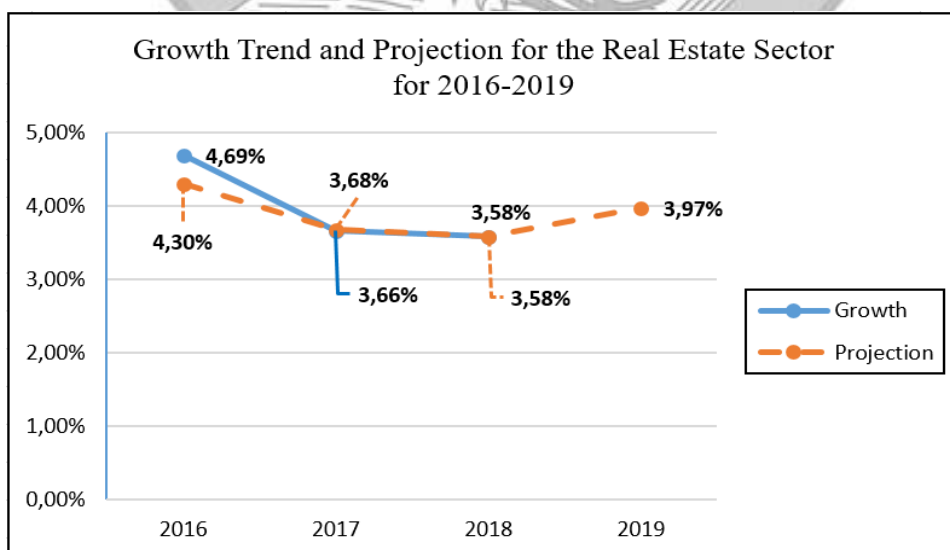


Figure 1.1 Growth Trend and Projection for the Real Estate Sector. Source: BPS 2016-2019

As shown in the graph above, the growth trend for the real estate sector in 2017 decreased by 1.03% and continue to slightly decrease by 0.08% to 2018. Meanwhile, the projection trend for the real estate sector in 2016 was at 4.30%, meaning that the actual growth surpassed the predicted growth by 0.39%. However, the projection trend started to decrease from 2017 to 2019 and it only started to rise towards the beginning of 2019, with a percentage of 3.97. These fluctuations are caused by the increase in income level, the decrease in the length growth of the asphalt road and the decrease in urban population, slowed down the growth in the real estate sector (Kementerian Koordinator Bidang Perekonomian 2019). The implementation of the Tax Amnesty law by the government, volatility of the global trade due to the fall in commodity prices, as well as disadvantageous global and domestic economic conditions had also caused investors to be extra careful on creating new projects.

Furthermore, the rise of foreign developers and investors, especially those who partnered up with local investors to target the middle-lower level for apartment projects, bring in new competitors in the competitive market. Increase prices of building materials, high mortgage interest rates, down payment requirements, government permits and taxes are the challenges faced by the real estate market, including PT Agung Sedayu Group.

ASG, the abbreviation of PT Agung Sedayu Group, is one of the biggest property developer in Indonesia. It works in the real estate industry, covering housing, malls, apartments, and office buildings. Its first success

started with the creation of Harco Mangga Dua, which is the first integrated electronic mall in Indonesia. ASG also managed to survive the Asian financial crisis, in which it stands as the leader of the development companies in Indonesia. Afterward, it has achieved many accomplishments throughout the years.

The main competitors of ASG in Jakarta are Agung Podomoro Land (APLN), Intiland Development (DILD) and Lippo Group (LPKR). All of these companies had gone public and was listed at Indonesia Stock Exchange (IDX). In 2018, ASG attended the Indonesia Property Awards' held by PropertyGuru, a prestigious event for property in Indonesia, where more than 400 companies focusing were present (Agung Sedayu Group 2018). ASG proudly received recognition as the 'Best Developer' along with 'Special Recognition for Corporate Social Responsibility (CSR)' (Agung Sedayu Group 2018). Besides, the firm also received a 'Special Award' for its District 8 Office Complex and 'Best High End Condo Architectural Design' for its Taman Anggrek Residences (Agung Sedayu Group 2018). On the other hand, Intiland Development (DILD) also received the 'Best High End Housing Development' and 'Best Housing Development' for its Serenia Hills (Intiland 2018).

Information system is a conventional technique for accumulating data, managing the data into information, and assigning that information to respective users. The basis of an accounting information system (AIS) is to accumulate, store, and arrange financial and accounting data as well as

providing informational reports that the executives can avail themselves along with other interested parties to make business decisions. Thus, as to achieve desired quality of financial statements, input of accounting information plays an important role in the process. Therefore, the data collected by all employees from respective departments are very crucial. For example, finance personnel are in charge of making (money out) and collecting payments (money in). After that, data are given to the accountants to be recorded. In doing so, accountants rely heavily on the information given by the finance personnel. In case of human errors, accountants will need to coordinate with the finance personnel to solve the errors. On the other hand, system errors can be solved by the IT personnel. Therefore, accounting information system does not only rely on system, but also human performance.

Financial statements represented a company's overall performance. Therefore, every company especially public companies, ensure that the quality of financial statements made are good. Not only that these financials statements will be used to represent a company's overall performance, they will also be used by decision makers, external users such as creditors and shareholders, as well as internal users of a company with authorization. Moreover, technology has been improving over the years and so do accounting information system. Decision makers rely on the use of accounting information system to make business strategies and decisions with the goal of improving the effectiveness and efficiency of business

operations. However, some firms do not implement or update AIS regularly as they have no basic knowledge and understanding of the importance of accounting information system. Updating each firm's AIS is important to further improve the nature, inputs and security of it.

From this perspective, writers were convinced to conduct a descriptive case study research to discover about the connection of accounting information system (AIS) related to its reliability towards the quality of financial statements. The case study will focus on PT. Agung Sedayu Group as a research object and/or a potential source that is relevant to provide information to support this research.

1.2 Problem Formulation

In relation to the topic discussed in this study, the writers aim to assess the impact of the reliability of accounting information system (AIS) on the quality of financial statements as follows:

1. What is the relation between the nature of accounting information system (AIS) with the quality of financial statements?
2. What is the relation between the inputs of accounting information system (AIS) with the quality of financial statements?
3. What is the relation between the security of accounting information system (AIS) with the quality of financial statements?

1.3 Study Purpose

The objectives of this study are as follows:

1. Analyze the impact of PT. Agung Sedayu Group accounting information system (AIS) reliability associated with nature on the quality of its financial statements.
2. Analyze the impact of PT. Agung Sedayu Group accounting information system (AIS) reliability associated with inputs on the quality of its financial statements.
3. Analyze the impact of PT. Agung Sedayu Group accounting information system (AIS) reliability associated with security on the quality of its financial statements.

1.4 Benefits of Study

This study consists of two benefits as follows:

1. Theoretical benefits

This study aims to expand the knowledge about accounting information systems and quality of the disclosures of financial statements. The result of this study can be used as a reference and comparison material for further research.

2. Practical benefits

This study aims to give a better understanding of the importance of nature, inputs and security of accounting information system in preparing reliable financial statements. Decision makers will

be able to rely on the financial statements to improve the effectiveness and efficiency of the company. Not only that, the company can also attract great corporate opportunities, satisfy shareholders and attract investors.

1.5 Scope and Limitation

The scope of this study is as follows:

1. This study focuses on the real estate industry in Indonesia, specifically PT. Agung Sedayu Group
2. This study uses confidential information of PT. Agung Sedayu Group that is private to the company and is restricted to public.
3. This study uses questionnaires given to several respondents and interviews done with a few insiders of the company, in this case it is the employees of PT. Agung Sedayu Group.