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Do The Financial Reports of Troubled Banks Meet the Qualitative Characteristics of Financial Reports?

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ABSTRACT

This study aims to analyze whether the financial reports of Rural Banks (BPR) that are included in Banks Under Recovery/BDP (Before called the Bank under Intensive Supervision/BDPI and the Bank under Special Supervision/BPDK) meet the qualitative characteristics of financial statements. This study uses the financial statement ratio of the BPRs whose business permit is revoked by the Financial Services Authority up to 2023. The samples used are 47 banks from 127 banks that had been revoked. Meanwhile, a healthy bank sample was 171 BPRs in 2016-2019. Correlation analysis is used in this study. The results of this study concluded that the troubled BPRs financial statements did not meet the qualitative characteristics of financial statements. Only one in 47 BPRs meets the qualitative characteristics of financial statements. This was evidenced by comparing the financial ratio of the troubled bank with a healthy bank, such as NPLs, BOPO, LDR, CAR, and ROA showed negative results (different directions) or the level of relationship of more than one level. The author suggests the regulator so that financial ratios in the financial statements that indicate the bank's health can be used as the initial data analysis of BPRs governance implementation.

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1. INTRODUCTION

Following Law No. 7 in 1992, as amended by Law No. 10 in 1998, the banking sector in Indonesia is divided into commercial banks (conventional and sharia) and rural banks/BPR (conventional and sharia). Commercial and rural banks (BPR) must provide financial reports for specific periods. Monthly financial reports, quarterly financial reports, and annual financial reports are the three types of bank financial reports. BPR Financial Reports adhere to the BPR Accounting Guidelines (PA-BPR) outlined in Bank Indonesia Circular Letter Number 12/14/DKBU dated June 1st, 2010, regarding the Implementation of Rural Bank Accounting Guidelines, which went into effect on July 1st, 2010. The accounting guidelines listed above are guidelines for implementing SAK-ETAP. Refer to the applicable SAK-ETAP for matters not covered by the PA-BPR (OJK, 2021).

As public fund organizations, banks must ensure that the information they provide about their finances is accurate and complete. Useful financial information in financial accounting reflects quality financial information indicators. Value relevance and accurate portrayal are characteristics of useful information (Jasman & Aminatunnaza, 2023). Financial statements are representations of the state of the economy, financial report performance, and the outcomes of accounting procedures that show the state of the finances over time for an institution. Business actors use this to inform their decisions. It must, therefore, be presented as soon as feasible for economic decisions to be made away and for the information contained therein to remain relevant (Sudradjat et al., 2023). The ideal quality of accounting information is Relevance, which is the primary quality, meaning that it can impact a decision. When something is reliable, it may be independently confirmed and presented impartially and truthfully. Information should be comparable if it is measured uniformly across several businesses. The usage of the same techniques for the same transactions throughout time is referred to as consistency (Ramadhan et al., 2022).

According to the Statement of Financial Accounting Standards (IAI, 2021), the quantitative characteristics of financial reports are as follows: (1) understandable, (2) relevant, (3) reliable, and (4) comparable. Financial reports exhibit qualitative characteristics. "Comprehensible" means that users can understand the financial reports immediately; "relevant" means that they influence the user's economic decision-making, that is, help evaluate past, present, or future events; "reliable" means that the user can rely on them as a sincere or honest presentation (faithful representation); and "can be compared." if the user can compare the company's financial statements between periods, for example, to be able to compare with reports from other companies to evaluate financial position, performance, and changes in financial position. The primary goal of financial reports is to provide information about economic entities, particularly financial information within the entity, that can be used to make economic decisions (Beest et al., 2009; IASB, 2008; Erasmus, & Ekpo, 2016).

As of December 31, 2023, the Financial Services Authority/OJK has revoked the business licenses of 127 BPRs, which are currently undergoing liquidation by LPS. The documentation and flow of information from the financial reports from failed banks matters and becomes the concern of the Indonesia Deposit Insurance Corporation (LPS) after the BPR has had its business license revoked by the OJK (Ashari & Nugrahanti, 2017). Scientific journal references that discuss problem banks and comparisons of healthy BPR financial reports with trouble BPR never been found, so the author believes it is necessary to conduct additional research to

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include references to practitioners, academics, banking observers, and depositor customers specifically.

Based on this context, the focus of this study refers to comparative analysis of the ratio of healthy banks and troubled banks: a) Do troubled banks' financial statements meet the qualitative characteristics of "Comprehensible" financial reports? b) Do troubled banks' financial statements meet the qualitative characteristics of "relevant" financial reports? c) Troubled banks' financial statements meet the qualitative characteristics of "reliable" financial reports. d) Do troubled banks' financial statements meet the qualitative characteristics of "comparable" financial reports?

In research, novelty refers to addressing a new method for understanding the qualitative characteristics of a bank's financial report by comparing financial ratios with another bank. So, in this case, the research goal is to identify and analyze the differences between the financial reports of troubled banks (TB) and healthy banks (HB). Meanwhile, the benefit of this research is that it will assist banking stakeholders, particularly BPR depositors, in determining a good bank as a place to save/invest, thereby mitigating the impact of future losses on depositors if a bank license have been revoked.

Many researchers have researched troubled banks and the quality of financial reports. Thomson (1991), used CAMEL financial ratio analysis to predict the causes of commercial bank failure and bankruptcy in the United States. Ekinci and Erdal (2016). On the CAMELS system, financial ratios based on capital, asset quality, management, income, liquidity, and sensitivity ratio had been used in the study. Miskak (2019), stated that the financial reports of troubled BPRs could not accurately reflect their financial situation. Calabrese and Giudici (2015), proposed a new model with macroeconomic and microeconomic variables. Jan & Marimuthu (2016) compare the bankruptcy profiles of domestic and international Islamic banks that were active in Malaysia during the 2007-2008 subprime financial crisis. Bani et al. (2014), investigated bank failures in Iran. The financial capabilities of bankrupt or failed companies have been used as the dependent variable, while financial ratios have been used as the independent variable.

In a healthy entity, there is no management effort to make information distortions due to the increasing qualitative characteristics of financial reports (Chen et al., 2009) because the quality of financial reports is one of the essential contributors to company information (Krishnan & Yetman, 2011). While Fanani (2009), Indriani & Khoiriyah (2010), and (Hasan et al., 2014) have researched the usefulness of financial report information associated with the quality of financial reports in general. In the study, it was concluded that the attributes that determine the quality of financial reporting are as follows: relevance, timeliness, conservatism, and accuracy. Management must revive the level of trust from external financial report users by ensuring good corporate governance.

Specific ratios in financial reports have indicators used to determine a bank's financial ratios and performance. Financial ratios such as NPL, CAR, LDR, BOPO, and ROA have been used to assess it. Previous financial ratio research, such as Sistiyarini and Supriyono (2017), Afriyeni and Fernos (2018), Sari et al. (2018), and Sofyan (2019), concluded that NPL, LDR, and CAR had a significant effect on ROA. Chou & Buchdadi (2016) also showed that BOPO and NPL play a critical role in explaining the performance of BPRs in Indonesia. Mismanagement is the primary cause of Non-Performing Loans (NPLs) and increases other financial ratios such as BOPO and LDR, while CAR and ROA have consistently decreased (Ashari & Nugrahanti, 2018).

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Delis et al. (2018) concluded that the intervention of bank supervisory regulators is most crucial in improving the quality of application for accounting standards in banking. Drawing from the above description, Figure 1 provides a framework for analyzing the phenomenon. It indicates that BPR must prepare high-quality financial reports that satisfy the following criteria: they must be comprehensible, relevant, reliable, and comparable to operate in a dynamic business environment (IAI, 2021). It cannot be denied that in bank operations there are definitely BPRs that have problems due to fraud or weaknesses in governance, financial reports that do not meet financial reporting requirements or do not accurately reflect the condition of the entity; and poor performance coupled with inadequate governance is what leads to bank failure or OJK liquidation (Miskak, 2019). According to Suwandi et al. (2019), the primary reason for the significant number of BPRs whose business licenses have been revoked (liquidation) is that bank owners, managers, and staff committed fraud.

Given the large number of BPRs in Indonesia and the limited regulatory capacity to conduct supervision, stakeholders need to have the ability to analyze the condition of a bank, whether the bank is categorized as a healthy bank or a troubled bank. The customer, as the most interested party, needs to conduct a deeper analysis of the financial reports submitted by the bank using a straightforward method. It will give customers a sense of security and peace of mind. This research aims to help interested parties gain insight into the profile of troubled banks by analysing four key financial characteristics—"comprehensible," "relevant," "reliable," and "comparable"—in the banks' financial reports. This understanding will enable customers to make more informed decisions when choosing where to invest their funds.

According to the description above, the framework for this study is as follows:

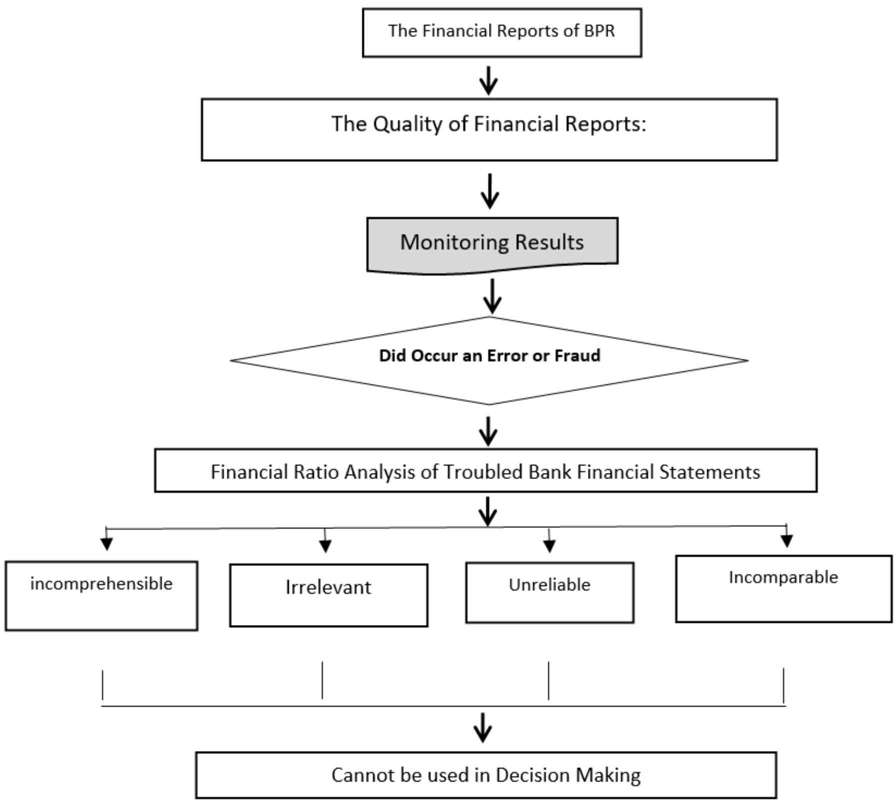

Figure 1. Framework
Source: Processed by Researchers

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2. METHODS

According to Jan & Marimuthu (2016), the study uses a comparative research approach based on capital, asset quality, management, income, liquidity, and sensitivity ratio on the CAMELS system According to Ekinci and Erdal (2016). This study identified troubled banks and concluded that financial reports of failed banks do not accurately reflect actual conditions, with financial ratios serving as the independent variable, as Suwandi et al. (2019) and Bani et al. (2014). To assess the credibility of the financial statements, the author employs correlation analysis statistics and compares the financial ratios of healthy banks to those of failed banks. This comparison will reveal whether the financial ratios in a specific bank's financial statements are consistent. This research compares the same variables in nature. It compares the same variables and the similarities in nature, and also differences of two or more properties and facts of the object under study based on a certain frame of mind (Sugiyono, 2018).

2.1. Population and Sample

This research involved bank data from a healthy Rural Bank (BPR) with data on BPR which is categorized as Banks Under Recovery/Bank Dalam Penyehatan (BDP). BDP before was named by Banks under Intensive Supervision/BDPI and Banks under Special Supervision/BDPK) before their business licenses have been revoked. In order to avoid anomalous data, data sampled of healthy BPR have been limited in the 2016 – 2019 timeframe, considering that starting in 2020-2022 the Covid-19 pandemic occurred which were extraordinary and outside normal conditions.

For bank data outside BDP, a sample have been selected according to BPR position data as of December 31st, 2023, they are 1402 BPRs and 173 BPRS or 1575 BPRs throughout Indonesia. The minimum number of BPR samples needed to conduct this research is to use the Slovin formula. The accuracy of the sampling error used is e = 0.1. Value e = 0.1 (10%) for a large population. The percentage of allowance used is 10%, and the calculation results have been rounded to achieve suitability. After calculating with the formula, the results obtained are 95 samples.

The regulation regarding healthy bank ratios set in the provisions of Bank Indonesia and the Financial Services Authority as in **Table 1** below.

Table 1. The ratio of HB

Ratio	Related Provisions	Healthy Ratio
Non-Performing Loan (NPL)	SE BI Number 13/24/DPNP dated October 25th, 2011	Maximum 5% of the total credit given to the debtor.
(Return on Asset/ROA)	SE BI Number 13/24/DPNP dated October 25th, 2011	The minimum is a ROA of 1.5%.
The ratio of Operating Expenses to Operating Income (BOPO)	SE BI No. 6/23/DPNP dated May 31st 2004,	Ratio less than 90%,
Loan to Deposits Ratio (LDR)	SE BI Number 13/24/DPNP dated October 25th, 2011	The ratio is between 78%-100%.
Capital Adequacy Ratio (CAR)	Article 2 POJK Number 5/POJK.03/2015 dated March 31st 2015,	The minimum is 12% of ATMR

Sources: Financial Services Authority (2023)

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The sample data for BPR quarterly reports outside of BDP status banks were obtained from 2016 to 2019 from OJK and LPS. Data is collected through purposive sampling based on the criteria of NPL, LDR, ROA, CAR, and BOPO, requiring that at least three out of the four criteria listed in **Table 1** above.

After fulfilling the criteria above, the BPRs outside the status of BDP have been taken randomly based on year distribution and based on location. In this study, the authors took more samples; there are 171 samples from Quarter I (Q1)/2016 – Q3/2019. Meanwhile, based on domicile, a sample of healthy banks was selected according to the percentage from the number of BPRs based on the location of the BPR that became the sample plan. The data sample distribution are as follows: a) Java: 109 (64%), b) Sumatera: 25 (15%), c) Kalimantan: 7 (4%), d) Sulawesi: 6 (4%), e) Bali & Nusa Tenggara: 20 (12%). As explained above, samples were not taken from 2020-2022 because of the COVID-19 pandemic.

Furthermore, for the BDP bank data sample, Researcher have been selected 47 BPRs liquidated. They have been selected from 134 Banks under liquidation (BDL) from 2005 up to June 2024 (https://finansial.bisnis.com/read/20240522/90/1767501) or 35% of BDL. The data sample was chosen using purposive sampling, focusing on BPRs that had four quarterly financial reports meeting the study's requirements, all recorded before the OJK revoked their business licenses. The names of BPR initials are in **Table 2** below.

Table 2. Samples of BPR Revoked (CIU)

BPR	Date of Revocation	Last Report	BPR	Date of Revocation	Last Report	BPR	Date of Revocation	Last Rep
PTBDAS	03/02/2017	01/12/2016	PTBSBP	06/12/2017	01/09/2014	PBPR KRI	12/09/2023	31/12/
PTBPRA	25/04/2018	01/03/2018	PTBKSBA	03/11/2017	01/06/2017	PT BPG	04/12/2023	30/09/
PTBCDA	20/11/2017	01/09/2017	PTBMAP	23/12/2013	01/09/2013	KBWK	04/02/2024	31/03/
PTBBM	08/12/2014	01/09/2014	PTBSA	12/07/2018	01/03/2018	PTBUMK	05/02/2024	30/09/
PTBMK	05/06/2018	01/03/2018	PTBIMK	15/06/2017	01/03/2017	PBBP	16/02/2024	30/09/
BLPNKM	29/11/2017	01/09/2017	PTBMD	24/09/2013	01/06/2013	PBPR BP	20/02/2024	31/12/
PTBB	25/05/2018	01/03/2018	PTBVMD	29/01/2014	01/09/2013	PTBEDC	27/02/2024	30/06/
PTBNGM	07/03/2017	01/12/2016	PTBLPP	07/02/2014	01/09/2013	PTBAU	04/03/2024	31/03/
PTBMUK	20/06/2016	01/03/2016	PTBKAS	14/11/2013	01/06/2013	PTBSM	02/04/2024	31/12/
PTBCAR	06/11/2013	01/06/2013	PTBBDC	04/04/2018	01/09/2017	PTBBAA	04/04/2024	31/03/
PTBSD	05/09/2017	01/03/2017	PTBBGP	05/04/2013	01/09/2012	PTBD	30/04/2024	31/03/
PTBKBM	02/03/2015	01/09/2014	PTBDNM	13/04/2016	01/09/2014	PTBBJA	21/05/2024	31/03/
PTBTK	16/04/2014	01/09/2013	PTBKS	29/04/2016	01/06/2014	PTBPR PU	25/11/2022	30/06/
PTBAS	20/06/2014	01/09/2013	PT BAD	15/08/2016	01/09/2014	PTBMAK	26/01/2024	30/09/
PTBCN	10/07/2015	01/09/2014	PTBAAM	14/01/2016	01/09/2014	PTBSDM	19/04/2024	30/06/
PTBSJ	23/01/2013	01/12/2011	PTBBIM	02/02/2023	30/06/2022			

Sources: Indonesia Deposit Insurance Corporation (2024) process by author

2.2 Operational Variables

The dimensions and indicators compiled by the authors in this study are shown in **Table 3** below.

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Table 3. Research Dimensions and Indicators

No	Dimension	Indicators in this study
A	**Comprehensible** (IAI, 2021) (Chen et al., 2011) (Miskak, 2019)	The financial reports of a bank are easy to understand because they comply with accounting concepts and principles. In this case, the comparison results from the correlation of financial ratios in troubled banks with the correlation of financial ratios in healthy banks only have a maximum of **three correlation coefficients for financial ratios that differ in direction.**
B	**Relevant** (IAI, 2021) (Fanani, 2009) (Indriani & Khoiriyah, 2010)	Existing financial reports can be used to evaluate and correct past events and present events with a consistent relationship between financial ratios. In this case: 1) Same as the indicator A; and 2) Upon comparing the correlation of financial ratios from a troubled bank with the correlation of financial ratios from healthy banks, we conducted a meticulous analysis. This led us to discover a rare occurrence, with only a maximum of **two correlation coefficients of financial ratios that are in the same direction with a correlation level of > 1 level (lower or higher)**
C	**Reliable** (IAI, 2021) (Chou & Buchdadi, 2019) (Hasan et al., 2014)	The existing financial reports are not misleading, there are no material errors, and they are presented honestly with no indication of fraud and error, namely for troubled banks: 1) Same as Indicator B; And 2) The comparison results for the correlation of financial ratios from a troubled bank with the correlation of financial ratios from healthy banks related **to the ratio of BOPO and NPL to CAR and ROA have a correlation maximum of one level lower or higher**.
D	**Comparable** (IAI, 2021) (Miskak, 2019) (Suwandi et al., 2019).	Existing financial reports can be compared between periods to identify trends of financial position and performance and compared with reports of other companies, namely troubled banks: 1) Same with Indicator C; And 2) The results of comparison for the correlation of financial ratios from a troubled bank with the correlation of financial ratios of healthy banks related to the ratio of **LDR and BOPO to CAR and ROA have a level of correlation maximum one level lower or higher.**

Source: Processed by the Author

2.3 Data Analysis Method

The analytical method for detecting *fraud* or *error*, according to Rahmanti and Daljono (2013), is: a} Vertical analysis by assembling elements of financial information such as balance sheets, profit and loss information, and cash flow information presented in percentages; b) Horizontal analysis by analyzing changes in each part of the financial information throughout a portion of the reporting period; c) Comparative analysis (Ratio) by measuring the relationship between the number of items in the financial information.

The comparison/comparative analysis in this study begins by calculating and comparing the financial ratios of banks outside the BDP, which are healthy banks (HB) and BDP banks it is troubled banks (TB). The data studied to reflect the indicators above are bank financial statement ratios: CAR, NPL, LDR, BOPO, and ROA of banks. A statistical approach is used to compare the results of correlation analysis from healthy and troubled banks' financial ratios.

3. RESULTS AND DISCUSSION

3.1. Comparison of Financial Ratios Soundness Level of Healthy Banks (HB) and Troubled Banks (TB)

Based on the financial ratio data used in this study, they are CAR, NPL, LDR, BOPO, and ROA, which had been abstracted from the financial reports of BPRs whose business licenses had been revoked according to **Table 1** above. In **Table 4** below, the author summarized the average financial ratio data obtained from the financial reports of 171 BPRs outside BDP (starting now being referred to as healthy banks/HB) and 47 BPRs BDP in the last years before the business license have been revoked (starting now called troubled bank / TB).

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Table 4. Descriptive Statistics Comparison of Financial Ratios of HB and TB

Item	*CAR (%)*		*NPL Net (%)*		*LDR (%)*		*BOPO (%)*		*ROA (%)*	
	HB	TB	HB	TB	HB	TB	HB	TB	HB	TB
Mean	28	- 5	4	18	86	88	80	168	5	- 9
Standard Error	1	14	0	3	0	6	1	23	0	6
Median	24	14	3	12	86	87	80	114	4	0
Mode	22	19	0	#N/A	90	#N/A	88	#N/A	4	#N/A
Standard Deviation	12	96	3	19	6	40	10	158	3	39
Sample Variance	151	9.217	9	356	38	1.583	97	24.930	10	1.519
Range	72	697	12	91	25	296	49	773	19	272
Minimum	14	- 605	0	-	75	4	50	3	0	- 239
Maximum	87	92	12	91	100	300	99	776	19	33
Count	171	47	171	47	171	47	171	47	171	47

Source: Processed Using Microsoft Excel

According to the comparison of the descriptive statistics in **Table 4** above, this study have found that the average HB taken as a sample has met the bank health level so that it can be used as comparative data. Meanwhile, financial ratios at an average of 47 TB do not fully meet the bank’s soundness level, especially NPL, BOPO, and ROA. This is Comprehensible, given that the bank in question have been included in the Bank Under Recovery (BDP).

Table 5. The Average Soundness Level of HB & TB Samples

No	Ratio	Healthy Banks (HB)		Troubled Banks (TB)	
		Average	Criteria	Average	Criteria
1	CAR/ KPMM	28	Healthy, more than 12%	-5	Not Healthy, less than 12%
2	NPL (net)	4	Healthy, less than 5%	18	Not healthy, up to 5%
3	LDR	86	Healthy, Between 78 % to 100%	88	Healthy, between 78 to 100%
4	BOPO	80	Healthy, less than 90%	168	Not healthy, > 90%
5	ROA	5	Healthy, >1,5%	-9	Not Healthy, <1,5%

Sources: processed by the author

Based on the data collected, among the 47 troubled banks in the year before their business license revocation, the following financial ratios had been observed: 18 banks (38%) did not meet the criteria for a healthy CAR, 34 banks (72%) failed to meet the healthy NPL standards, 38 banks (81%) did not achieve a healthy LDR, 35 banks (74%) did not meet the criteria for a healthy BOPO, and 23 banks (49%) did not fulfill the criteria for a healthy ROA.

3.2 Comparison of Financial Ratios Soundness Level HB and TB

To address the study's questions, a comparison of financial ratios between healthy banks (HB) and troubled banks (TB) was performed using statistical correlation analysis. A normality test on the financial ratio data for both HB and TB was conducted, showing that the data met the normality criteria. This was confirmed by the data distribution aligning closely with the diagonal line in the plotted diagram. The correlation intervals used in this study are detailed in **Table 6** below.

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Table 6. Relationship Intervals

Coefficient Intervals	The Level of Relationship
0% -19,9%	Very weak
20%-39,9%	Weak
40%-59,9%	Currently
60%-79,9%	Strong
80%-100%	Very strong

Following the correlation analysis performed, the correlation ratio of healthy bank finances is obtained as follows.

Table 7. Correlation of healthy bank financial ratios

Financial Ratios	CAR	NPL net	LDR	BOPO	ROA
CAR	100%				
NPL net	-9%	100%			
LDR	13%	-7%	100%		
BOPO	-25%	27%	-9%	100%	
ROA	36%	-28%	7%	-78%	100%

Source: Processed using *Microsoft Excel*

Further explanation regarding the suitability of the correlation between HB financial ratios and the qualitative characteristics of financial reports at healthy banks can be explained in **Table 8** below.

Table 8. Correlation of HB Financial Ratios and Generally Accepted Accounting Principles (PABU)

No	Financial Ratio Correlation	Correlation Results	Conformity Correlation with PABU
1.	NPL: CAR	Positive, Very Weak	Bad loans will increase the provision expense and if a loss occurs it will erode capital. The correlation is very weak in healthy banks.
2.	LDR: CAR	Positive, Very Weak	Credit with a current status will increase income and if it exceeds expenses it will increase capital.
3.	LDR: NPL	Negative, Very Weak	Loans with a current status will reduce provision expenses
4.	BOPO: CAR	Negative, Weak	Reduced expenses will increase revenue and if they exceed expenses will increase capital.
5.	BOPO: NPL	Positive, Weak	Bad loans will increase the bank's operating expenses
6.	BOPO: LDR	Negative, Very Weak	An increase in BOPO will reduce the credit to be disbursed
7.	ROA: CAR	Positive, Weak	The greater venture capital will increase the income and rate of return
8.	ROA: NPL	Negative, Weak	Profits will decrease if there is an increase in provision expenses due to bad loans.
9.	ROA: LDR	Positive, Weak	The greater the current credit distribution, the higher the profit or rate of return.
10.	ROA: BOPO	Negative, Strong	Profits will decrease with an increase in the expense-to-revenue ratio.

Source: Processed by the Author

After the general discussion above, in **Table 9** below the author will describe the results of the correlation from 47 TB financial ratios individually in the last year before the bank's business license was revoked by OJK.

Based on an analysis of the 47 banks, 43 (91%) had more or equal to 3 (three) financial ratios negatively correlated with healthy bank financial ratios. Among these, the highest number, 18 banks, exhibited up to four financial ratios in the opposite direction. Additionally, 29 banks (61%) had three or more financial ratios aligned in the same direction but negatively correlated by more than two levels, while 21 banks (45%) had three or more financial ratios in the same direction but negatively correlated by more than one level. In further analysis, the difference in the direction of the highest correlation coefficient occurs in 18 banks (38%) with

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a total difference of 4 (four) financial ratio correlations. Only one TB has no difference in the direction of the correlation coefficient of financial ratios (2%).

Table 9. Comparison of HB and TB Financial Ratio Correlation

No	NAME OF BPR BDP (2017-2024)	Results Of Correlation For Financial Ratio HB									
		NPL: CAR	LDR: CAR	LDR: NPL	BOPO: CAR	BOPO: NPL	BOPO: LDR	ROA: CAR	ROA: NPL	ROA: LDR	ROA: BOPO
		Neg. SL	Pos. SL.	Neg. L	Neg. L	Pos. L.	Neg. L	Pos. L.	Neg. L	Pos. L.	Neg. K
1	PTBKSAS	Pos	SD	Pos	Pos	Neg	K	K	Pos	SK	SD
2	PTBVMD	SL	L	Pos	K	K	Pos	SD	K	Neg	SK
3	PTBSD	L	Neg	Pos	Pos	SD	SL	SL	SL	K	SD
4	PTBCDA	Pos	SL	Pos	Pos	K	Pos	Neg	L	Neg	K
5	PTBAAM	SL	SL	Pos	K	SL]	Pos	Neg	L	Neg	SL
6	PTBLPP	SK	Neg	Pos	SD	L	Pos	K	K	Neg	SL
7	PTBBM	Pos	K	SL	Pos	L	SL	Neg	SK	SL	K
8	PTBMAP	SL	Neg	L	SD	K	Pos	SK	L	Neg	K
9	PTBMKM	SL	Neg	SD	K	Neg	Pos	K	SD	Neg	K
10	PTBBDC	K	Neg	Pos	SK	K	Pos	Neg	SD	Neg	SL
11	PTBAS	SK	SD	L	SL	Neg	L	Neg	Pos	Neg	Pos
12	PTBCAR	Pos	Neg	SL	Pos	L	SL	Neg	L	SL	SK
13	PTBKAS	SK	SD	Pos	SK	SK	Pos	SK	SK	SL	SK
14	PTBSBP	SL	L	Pos	Pos	SD	Pos	SK	L	L	Pos
15	PTBSJ	Pos	SD	Pos	SK	Neg	SD	Neg	SL	Neg	Pos
16	PTBTK	SK	SD	SL	SK	SK	SD	L	SL	SL	L
17	**PTBKS**	**SL**	**L**	**Pos**	**SK**	**L**	**L**	**SD**	**SD**	**SL**	**K**
18	PTBDS	SD	Neg	Pos	SK	SD	Pos	SK	K	Neg	SK
19	PTBAD	L	Neg	SL	K	SD	Pos	Neg	Pos	Neg	Pos
20	PTBSA	SK	Neg	Pos	SD	L	Pos	SK	SK	Neg	K
21	PTBIMK	Pos	Neg	SD	K	SL	Pos	K	SL	Neg	SK
22	PTBDNM	Pos	Neg	Pos	K	Neg	Pos	K	Pos	Neg	K
23	PTBA	SD	Neg	Pos	K	K	Pos	L	SD	Neg	SK
24	PTBMUK	SK	SK	SK	Pos	Neg	Pos	K	SK	SK	Pos
25	PTBMD	SK	Neg	Pos	SK	K	Pos	SK	SK	Neg	K
26	PTBKBMP	SK	Neg	Pos	SK	SK	Pos	SD	K	Neg	K
27	BLKM	L	SL	K	SK	SD	SD	Neg	Pos	Neg	Pos
28	PTBB	Pos	L	Pos	K	Neg	SD	SK	Pos	SD	SK
29	PTBBGP	SD	Neg	Pos	SK	SL	Pos	SK	SL	Neg	SK
30	PTBCN	SD	SK	K	K	SK	SK	Neg	K	SL	SD
31	PTBNGM	K	Neg	Pos	SK	SK	Pos	SD	K	Neg	K
32	PT BBIM	Pos	SD	Pos	Pos	SK	Pos	SL	Pos	SL	SL
33	PBPR KRI	Pos	SD	Pos	Pos	SK	Pos	SL	Pos	SL	SL
34	PT BPG	SL	Neg	Pos	SK	SK	Pos	SL	SL	Neg	L
35	KBWK	SL	Neg	Pos	SK	SK	Pos	SL	SL	Neg	SL
36	PTBUM	Pos	SK	Pos	Pos	SK	Pos	Neg	L	Neg	SL
37	PTBBPB	Pos	SK	Pos	Pos	SK	Pos	Neg	SL	Neg	SL
38	PBBP	Pos	SK	Pos	Pos	SK	Pos	Neg	SL	Neg	SL
39	PTBEDC	Pos	L	Pos	Pos	SK	Pos	SL	Pos	Neg	Pos
40	PTBAU	Pos	SK	Pos	Pos	SK	Pos	Neg	SL	Neg	SL
41	PTBSM	SL	Neg	Pos	SK	SK	Pos	SL	SL	Neg	SL
42	PTBBAA	Pos	SK	Pos	Pos	SK	Pos	SL	Pos	SL	Pos
43	PTBD	Pos	SK	Pos	Pos	SK	Pos	Neg	SL	Neg	SL
44	PTBBJA	Pos	SK	Pos	Pos	SK	Pos	SL	Pos	SL	Pos
45	PTBPU	SK	Neg	Pos	SK	SK	Pos	Neg	Pos	SL	Pos
46	PTBMAK	SK	Neg	Pos	L	SK	Pos	Neg	Pos	SD	Pos
47	PTBSDM	Pos	SK	Pos	Pos	SK	Pos	SL	Pos	SL	Pos

Information:

1.	Positive	Pos	4.	Strong	= K	6	Very	Weak	SL
2.	Negative	Neg	5.	Weak	= L	7	Very	Strong	SK
3.	Moderate	SL							

Source: Processed by the Authors

According to the author's opinion, there is a difference in direction, which indicates a discrepancy between the financial reports and the characteristics of financial reporting in TB.

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In the following discussion, the author will present how many banks fail to meet the qualitative characteristics of financial reports. Meanwhile, in the author's opinion, there are differences in the correlation coefficient with different levels of relationship at more than one level, which is one of the indications of *fraud* or *errors* in the financial reports that cause a decrease in the quality of financial reports. In **Table 9** below, the top row is the result of HB's financial ratios correlation, and rows one up to 47 are the result of the correlation for TB's financial ratios. As an example, for the correlation of financial ratios related to NPL against CAR of healthy banks, worst negative results are obtained, and the results of correlation for NPL's financial ratios against CAR of BPR KSBAS are positive, so in this case, there is a difference in the direction of a correlation coefficient.

Table 9 above shows the results of the comparison between the correlation coefficients of TB's financial ratios. Although there are comparison results of TB's financial ratios that are in the same direction as HB, the correlation of TB has a significant difference in the level of correlation with HB, for example, there is a correlation coefficient of TB's financial ratios more than one level above or below HB, "Weak" with "Strong" and "Very Weak" with "Moderate". There is an average correlation coefficient of 29% for financial ratios that are very different. The difference in the coefficients of the financial ratios that are very different indicates the low quality of TB's financial reports, in this case, especially for the characteristics of reliability, relevance, and comparability.

There is a 32% correlation coefficient of financial ratios between TB and HB, the difference is not much. The difference is not much here means that the correlation coefficient of TB is one level above or below HB, for example: "Weak" with "Medium" and "Very Strong" with "Strong". The difference in the correlation coefficient between the financial ratios of TB and HB can still be categorized as reasonable if it is consistent between one ratio and another. A comparison of correlation coefficients from the individual financial ratios can be seen in **Table 9**. Based on the results of the comparison that has been conducted, the author will then carry out an analysis of the fulfillment of the characteristics of financial reports in TB in stages starting from the first criterion "Understandable," second "Relevant," third "Reliable," and fourth "Comparable."

Following **Table 9** above, the authors summarize that there is an average of 45% correlation coefficient for TB financial ratios, which is in a different direction from the correlation coefficient for HB financial ratios. The results of the comparison of financial ratios between TB and HB which increasingly produce correlation coefficients in opposite directions indicate the increasingly low quality of TB financial reports. The lowest direction differences in sequence occurred in banks number "16" (0%), "17" & "30" (10%), and "13" (20%). Meanwhile, the highest direction differences occurred in banks number "22" and "39" (70%).

Comprehensibility or Understandability is the first of the qualitative traits of financial reports that will be examined. The ability of information to be understood by reasonably informed people is known as comprehension. People differ significantly in the decisions they make, the methods they employ to arrive at those decisions, the information they can access or already possess from other sources, and their information processing skills. For information to be helpful, it must be related to decision-makers and their decisions.

Furthermore, to find out how many TBs fulfill the criteria of “Comprehensible”. As mentioned earlier, in this study the indicator in the "Understandability" dimension is "the correlation coefficient of financial ratios in different directions between TB and HB is not more than 30%". So, the financial ratios of TB that are different in direction from HB are at most only three financial ratios. A maximum of three ratios in different directions with the consideration that there is still a possibility that the financial report will meet accounting

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standards but the financial report may contain fraud and, or error. For example, there is a possibility that a loss will occur at a troubled bank, which will result in a comparison of ratios related to ROA between a healthy bank and a troubled bank experiencing a difference in direction in at least three ratios. The financial report is still acceptable for decision in that condition.

Table 9 shows that TB with at least 3 (three) directions of financial ratio correlation coefficients that are different from HB are 8 (eight) banks. The bank numbers are "2, 3, 7, 10, 13, 16, 17, and 30." This means that only 8 (eight) banks whose financial reports still meet the characteristics of financial reports (at least one characteristic of financial reports "Comprehensive") and 39 other banks are specific so that they do not meet the qualitative characteristics of financial reports.

The next criterion, namely "Relevant." Relevant data has "Feedback Value" and aids in decision-makers confirmation or rectification of previous assumptions. Information typically accomplishes both at once since it helps decision-makers anticipate the outcomes of comparable future actions by providing them with past action results. Timeliness, feedback value, and predictive value are all important qualities of pertinent information. Decision-makers can generate future projections with the aid of pertinent knowledge known as "Predictive Value."

As mentioned above, there are eight TB that have met the characteristics of “Comprehensible.” Furthermore, the eight TB must be retested with the following criteria. From the intended test, the results of the comparison of the financial ratio correlation of TB with the financial ratio correlation of HB, there are a maximum of two financial ratio correlation coefficients with a correlation level of > 1 level (lower or higher).” The indicator is chosen because existing financial reports can be used to evaluate and correct past events and present events with a consistent relationship between financial ratios. For example, there is a possibility that a loss will occur at a troubled bank, which will result in a comparison of ratios related to ROA between a healthy bank and a troubled bank, but in this condition, the other ratio must be confirmed; there are not ratios such as CAR and LDR that are different by more than one level. In that condition, the financial report is still acceptable and relevant to making a decision. According to the data in the table above, it is from 8 (eight) TB, only 4 (four) TBs meet these criteria; they are bank serial numbers “3, 7, 10, and 17.” According to these criteria above, the number of banks that achieve the criteria of “Comprehensible” and “Relevant” is only 4 (four) banks, and 43 other banks are certain that their financial reports do not match the required quality standards.

Furthermore, to meet the next criteria, which is "Reliable." Reliability is the quality of information that gives users the confidence to rely on. This implies that it can be independently verified, has accurate representation, and is mainly devoid of bias and mistakes. Correspondence or agreement between a measure or description and the phenomenon it claims to reflect is representational faithfulness. This indicates that the data and descriptions accurately reflect what occurred or existed.

Four banks that have met the criteria of "comprehensible" and "relevant" are tested again with the following criteria, which is "*The results of comparison for the correlation of financial ratios from a troubled bank with the correlation of financial ratios from healthy banks related to the ratio of BOPO and NPL to CAR and ROA have a level of correlation maximum one level lower or higher.*" Based on these indicators, the financial report is estimated to be able to meet accounting standards, not contain significant errors, and there is no fraud in banking operations. For example, there is a possibility that a loss will occur at a troubled bank, which will result in a comparison of ratios related to ROA between a healthy

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bank and a troubled bank, but in this condition, the other ratio must have to be confirmed; there are not ratios such as BOPO, NPL to CAR and ROA which is the indicator of the activity of banks had are different by more than one level.

According to the data in the table above, out of 4 (four), only 2 (two) TBs meet these criteria; they are bank numbers "3 and 17." Based on the above criteria, the number of TBs that meet the criteria of "understandable," "relevant," and "reliable" is only two banks. Meanwhile, the other 45 TBs are confirmed not to meet the qualitative characteristics of financial reports. Furthermore, the final comparison stage to meet the next criteria is "Comparable." Comparable can be interpreted as meaning that the accounting data of an entity can be compared with other entities. Comparability arises when various entities handle the same events using the same accounting procedures.

Two banks that have fulfilled the three characteristics of "Comprehensible," "Relevant," and "Reliable" are tested again with the following criteria: *"The results of comparison for the correlation of financial ratios from a troubled bank with the correlation of financial ratios of healthy banks related to the ratio of LDR and BOPO to CAR and ROA have a level of correlation maximum one level lower or higher."* By fulfilling all the criteria above, the financial report will achieve adequate accounting standards and will not contain significant errors and fraud in the bank's main operations and business. For example, there is a possibility that a loss will occur at a troubled bank, which will result in a comparison of ratios related to ROA between a healthy bank and a troubled bank, but in this condition, the other ratio must be confirmed; there are no ratios such as LDR, NPL, CAR and ROA which is the leading business of banks have significantly different. In this test, LDR becomes an essential part of the bank's business because fraud occurs in the bank's main business, namely credit distribution, so fraud is often related to credit abuse such as fictitious credit.

According to the data in the table above, from the two TB, only one TB meets these criteria (despite comparing LDR to NPL in different directions and BOPO to CAR has more than one level); it is a bank serial number "17." According to the criteria below, only one bank fulfills all the qualitative characteristics of financial reports from the 47 BPR used as a sample, as shown in **Table 10** below.

Table 10. The best correlation financial ratios of the troubled bank

No	NAME OF BPR BDPI/BDPK (2016-2019)	Results Of Correlation For Financial Ratio HB									
		NPL: CAR	LDR: CAR	LDR: NPL	BOPO: CAR	BOPO: NPL	BOPO: LDR	ROA: CAR	ROA: NPL	ROA: LDR	ROA: BOPO
		Neg. SL	Pos. SL.	Neg. L	Neg. L	Pos. L.	Neg. L	Pos. L.	Neg. L	Pos. L.	Neg. K
17	**PTBKS**	**SL**	**L**	**Pos**	**SK**	**L**	**L**	**SD**	**SD**	**SL**	**K**
	Notes:	**The Same**	**One Level**	**Differ Direction**	**Three Level**	**The Same**	**The Same**	**One Level**	**One Level**	**One Level**	**The Same**

Source: Process by author

The results of this research is the majority of troubled banks have not met the quantitative characteristics of financial reports as follows: (1) understandable, (2) relevant, (3) reliable, and (4) comparable. Financial reports received by stakeholders cannot be used to make economic decisions, such as evaluating past, present, or future events and comparing a company's financial reports between periods and with other banks. This study's findings support Miskak's (2019), stated that the financial reports of troubled BPRs do not accurately reflect their financial conditions because: a) value of the stock cannot reveal facts about the banks themselves, b) the operational expenses account cannot reflect all expenses of banks, and c) credit account which is the most significant number of financial reports may experience misstatements. The research is in line with financial ratio research, such as Sistiyarini and Supriyono (2017), Afriyeni and Fernos (2018), Sari et al. (2018), and Sofyan (2019), concluded that NPL, LDR play an important role in explaining the performance of BPRs. While, Chou & Buchdadi (2016) also showed that BOPO and NPL play an important role in explaining the performance of BPRs in Indonesia.

4. CONCLUSION

Based on the results of the intended correlation, we can conclude that almost all of the financial reports of troubled BPRs do not meet the qualitative characteristics of Financial Reports, with the following details: (a) only 1 (one) troubled BPR met all the criteria for qualitative characteristics after a series of comparative analysis, (b) there are 2 (two) BPRs with problems meeting 3 (three) criteria, they are "Comprehensible," "Relevant," and "Reliable," (c) there are 4 (four) BPRs with problems meet the criteria of "Comprehensible," and "Relevant," and (d) there are 8 (eight) BPRs that meet the criteria of "Comprehensible."

The author's advice in this matter for BPRs is to be able to comply with all banking regulations, especially those related to the Financial Services Authority Regulation (POJK) Number 4/POJK 03/2015 concerning Implementation of Governance for Rural Credit Banks and BPR Accounting Guidelines (PA-BPR) as regulated in Bank Indonesia Circular Letter Number 12/14/DKBU dated June 1st 2010 concerning Implementation of Rural Banks Accounting Guidelines and came into effect on July 1st 2010. In addition, we suggest to regulators that analysis of financial reports in the form of ratios showing the health of BPRs be submitted to OJK to complete and confirm the results of the examination on the implementation of BPR governance following OJK regulations and Bank Indonesia Circular Letters regarding the Implementation of Rural Bank Accounting Guidelines in on.

This study has limitations in following up next time, such as the limited previous literature regarding the financial reports of troubled banks. The financial report data analyzed was limited to OJK's website. Therefore, future studies should increase the number of liquidated bank samples and supplementary data from bank supervisors or other relevant parties.

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