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FACTORS THAT AFFECT THE QUALITY OF FINANCIAL REPORTS

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Abstract

The research conducted aims to analyze and prove empirically the effect of leverage, profitability, institutional ownership, managerial ownership, independent board of commissioners, and audit committees on the quality of financial reports (study of manufacturing companies listed on the Indonesian stock exchange for the period 2015-2020). This research is based on secondary data obtained from the company's annual and financial reports. There were 60 companies out of a total of 193 companies in this study, which used a purposive sampling technique to determine the sample. As for data processing in this study, using multiple linear regression analysis methods and processed with Microsoft Excel and IBM SPSS Statistics 25.0 software. The research results show that (1) Leverage has a significant positive effect on the quality of financial reports. (2) Profitability has a significant negative effect on the quality of financial reports. (3) Institutional ownership has no significant effect on the quality of financial reports. (4) Managerial ownership has a significant positive effect on the quality of financial reports. (5) The board of independent commissioners has a significant negative effect on the quality of financial reports. (6) the audit committee has a significant negative effect on the quality of financial reports.

Keywords: *Audit Committee; Independent Board of Commissioners; Institutional Ownership; Leverage; Managerial Ownership; Profitability*

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INTRODUCTION

A company's outstanding quality can be seen in its published financial reports (Herath & Albarqi, 2017). The quality of a company that publishes financial reports regularly is easier to assess. The place for selling and or buying securities transactions in Indonesia is the Indonesia Stock Exchange (IDX), Therefore, published financial reports must be regular or periodic (Nurazi et al., 2015). Responsibility to investors and all users that the Indonesia Stock Exchange (IDX) requires all registered companies to report their financial reporting (Surachyati et al., 2019). Financial reporting is one of the considerations for potential investors when investing in a company (Blessing & Onoja, 2015).

If the profit obtained in that year is a good indicator of achieving future profits, the preparation of financial reporting is of high quality (Lash & Zhao, 2016). “The quality of financial reporting is closely related to the performance that has been carried out by the company and is realized through the company's profits earned in the current year”. The efforts made by the company are proportional to the profits achieved because a business undertaken aims to obtain the highest profit. Quality financial reporting related to capital market performance in the form of awards “The size of the company's profits and the rewards obtained show the high quality of financial statements.” according to (Adrian et al., 2022).

"There are several factors that can affect the quality of financial statements, such as profitability, leverage, ownership structure, and company status." according to research (Purwandari & Purwanto, 2018). "Other studies state that the factors that affect the quality of financial statements are the operating cycle, sales volatility, company size, company age, company performance, liquidity, leverage, and environmental risk.” according to research (Khalid et al., 2021). Additionally, other studies have stated that statements, namely leverage, liquidity, company size, and audit quality.” (Susanti, 2020). “The internal factors of Good Corporate Governance show no significant effect on the company’s financial statements, contrary to what was conveyed by (Frias-Aceituno et al., 2014).

There is also a similar study conducted by (Muda et al., 2018), in his research entitled "Factors of quality of financial reports of local government in Indonesia" in his research results that the degree of Accounting Information Systems and Internal control simultaneously affect Report Quality Regional Government Finance However partially, partially the accounting information system affects the quality of local government financial reports and internal control does not affect the quality of financial reports.

Based on the background described, the authors want to study the effect of leverage, profitability, institutional ownership, managerial ownership, independent commissioners, and audit committees on the quality of company financial statements (Budiharjo, 2020). The survey target is a manufacturing company listed on the Indonesian Stock Exchange (Widyastuti, 2018). The study will inform stakeholders, especially regulators, and can be used as a resource for analyzing and reviewing the application of regulations on the situation of manufacturing companies in Indonesia.

RESEARCH METHOD

The population in this study are manufacturing companies listed on the Indonesia Stock Exchange (IDX) which publish their financial and annual reports for the financial year ending 2015 – 2020 (Nurdiniah & Herlina, 2015). The purposive sampling method allows researchers to carefully select samples according to certain criteria, thereby saving time and costs. The following criteria: 1) The company presents an annual report 2015 – 2020 available in Indonesia Stock Exchange (IDX) or the company website. 2) Manufacturing companies that publish complete financial statements and annual reports ending December 31, 2015-2020. 3) Manufacturing companies that publish audited financial reports in rupiah units at the end of the company's financial period, namely December 31, 2015-2020. 4) Manufacturing companies that have institutional ownership, managerial ownership".

RESULT AND DISCUSSION

Research data from 60 manufacturing companies that meet the sampling criteria from a total of 193 manufacturing companies listed on the IDX for the 2015-2020 period with a total of 360 data. The descriptive statistical test informs the mean, max-min, average, and standard deviation of the data contained in the data studied (Domo & Utami, 2022). The quality of financial statements shows a minimum value of -8.71 and a maximum value of 12.72. The average value of the quality of financial reports in manufacturing companies is 0.0102, and the standard deviation of the quality of financial reports is 1.98255. So, it can be concluded that for companies that do not carry out engineering, whose covariance is zero or close to zero, the greater the covariance difference, the worse the perceived quality of financial reporting. In the following table, you can see the results of the statistical test:

Table 1
Descriptive Statistics

Descriptive Statistics					
	N	**Minimum**	**Maximum**	**Means**	**Std. Deviation**
Leverage	307	-6.30	9.55	0.9688	1.14536
Profitability	307	-1.05	0.61	0.0438	0.10535
Institutional Ownership	307	0.02	1.00	0.7364	0.24050
Managerial Ownership	307	0.00	0.95	0.0559	0.12124
Independent Board of Commissioners	307	0.17	0.67	0.3938	0.09354
Audit Committee	307	0.00	5.00	3.0521	0.49562
Quality of Financial Statement	307	-8.71	12.72	0.0102	1.98255
Valid N (listwise)	307				

Source: Processed secondary data, 2022

For testing the hypothesis in this study, the results of testing the coefficient of determination are shown in table 2 with an adjusted R square value of 0.200, which indicates that the quality of financial statements is influenced by leverage, profitability, institutional ownership, managerial ownership, independent commissioners, and audit committees of 20%. In comparison, the remaining 80% is influenced by other variables not examined in this study.

Table 2
Coefficient of Determination

Summary Model					
Model	**R**	**R Square**	**Adjusted R Square**	**Std. An error in the estimate**	**Durbin-Watson**
1	.464a	.215	.200	.01004	1,437

a. Predictors: (Constant), Audit Committee, Managerial Ownership, Portability, Leverage, Independent Board of Commissioners, Institutional Ownership
b. Dependent Variable: Quality of Financial Statements

Can be seen in table 3, column Sig. In the F test 0.000 <0.05, it can be concluded that the variables leverage, profitability, institutional ownership, managerial ownership, independent board of commissioners, and audit committee simultaneously significantly affect the quality of financial reports.

Table 3
Test F

ANOVA						
Model						
1	Regression	0.008	6	0.001	13,718	0.000b
	Residual	0.030	300	0.000		
	Total	0.039	306			

a Dependent Variable: Quality of Financial Statements
b Predictors: (Constant), Audit Committee, Managerial Ownership, Portability, Leverage, Independent Board of Commissioners, Institutional Ownership

“The results of the t-test shown in table 4 show the Sig value of the leverage variable of 0.004 <0.05, so it can be concluded that there is an influence on the quality of financial reports. Profitability is 0.000 <0.05, so there is an influence on the quality of financial reports. Institutional ownership is 0.152 > 0.05, and it is concluded that there is no effect on the quality of financial reports. Managerial ownership is 0.000 <0.05, so there is an influence on the quality of financial reports. The board of independent commissioners is 0.000 <0.05, so it can be concluded that there is an influence on the quality of financial reports. The audit committee is 0.000 <0.05, so it can be concluded that there is an influence on the quality of financial reports.

Table 4
Test t

Independent Variable	Account value	Sig.	Table value	Conclusion
Leverage	2.914	0.004	1,968	H1 is accepted
Portability	-3.900	0.000	1,968	H2 is accepted
Institutional Ownership	1.438	0.152	0.000	H3 is rejected
Managerial Ownership	5.615	0.000	1,968	H4 is accepted
Independent Board of Commissioners	-3,969	0.000	1,968	H5 accepted
Audit Committee	-3.892	0.000	1.968	H6 is accepted

The results of multiple linear regression tests show that leverage significantly positively affects the quality of financial statements. Profitability has a significant negative effect on the quality of financial statements (Warrad, 2017). Institutional ownership does not affect the quality of financial reports. Managerial ownership has a significant positive effect on the quality of financial reports. The board of independent commissioners significantly negatively affects the quality of financial reports. The audit committee significantly negatively affects the quality of financial reports.

CONCLUSION

"This study found that leverage and managerial ownership significantly positively affect the quality of financial reports. Leverage and managerial ownership have an effect because, in the company's ability to fulfill obligations that are fixed if there is a large amount of debt, it is feared that data will be manipulated so that financial statement engineering occurs, which will have an impact on the quality of financial reports. Profitability, independent boards of commissioners, and audit committees significantly negatively affect the quality of financial statements. The Company also needs to ensure that the accounting practices used are in accordance with applicable accounting standards, and comply with applicable rules and regulations in the preparation and disclosure of financial statements.

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