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**Determinants of Financial Report Moderated by Quality Audit (Study of Multi-Industry Sector Companies Listed on the Indonesia Stock Exchange Period 2015-2019)**

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**Abstract:** This study aims to determine the effect of good corporate governance (GCG), company reputation, and company competence on the quality of financial reports with audit quality as a moderating variable. The population in this study are manufacturing companies in the various industrial sectors listed on the Indonesia Stock Exchange in 2015 - 2019 with a total of 185 companies. The method used was purposive sampling, 37 companies were selected as the research sample. The results of the study show that Good Corporate Governance (GCG) has no direct effect on the quality of the company's financial statements. Meanwhile, company reputation and company competence have a significant and positive effect on the quality of financial reports. After being moderated by audit quality, Good Corporate Governance (GCG), company reputation, and company competence have a positive and significant effect on the quality of financial reports.

**Keywords:** Good Corporate Governance (GCG), Company Reputation, Company Competence, Audit Quality, Financial Report Quality

**INTRODUCTION**

Financial statements are a very important source for companies, both as a tool to measure the company's financial performance, as well as a decision-making tool. In order for financial reports to be used correctly, the information should be presented in a complete, accurate and clear manner regarding the company's financial condition. The International Accounting Standards Board (2010) states that accounting information meets two basic quality features, namely relevance and fair presentation, to be considered of high quality. Correct information Information also has confirmatory value if it has predictive value. Quality financial reports are also related to company shares that show good performance in the capital market which is manifested in the form of share rewards. The stronger relationship between earnings and market rewards shows that the financial reporting information is getting higher (Lev dan Thiagarajan, 1993).

 Indeks Harga Saham Gabungan (IHSG) shows that the various industrial sectors experienced a decline in the value of the JCI in 2016 by 8.4%. Even though in 2017 it had increased by 8.6%, the decline continued until the end of 2019. This was not in line with the JCI value of the combined manufacturing companies which continued to increase from 2015-2019. MYTX recorded a loss of up to IDR 134.37 billion, where this value decreased by 29.76% on an annual basis (YoY) compared to a loss in the same period last year, which was IDR 191.3 billion. Then, POLY and ARGO, which initially pocketed profits in the first half of 2018, in the first half of the year with a net loss of IDR 54.36% YoY and 42.47% YoY respectively. Furthermore, although it is not a public company, one of the big players in the textile industry, namely PT Delta Merlin Dunia Textile (Duniatex), has been hit by a default issue (Ayuningtyas, 2019).

 Many studies have been conducted on the elements that affect the quality of financial reporting but the results obtained are still conflicting. Research on the influence of Good Corporate Governance (GCG) on the quality of financial reports has been conducted by Doan, et al. (2018), Thilini and Samanthi (2020), and Herawati and Apollo (2019) who found that GCG has a significant effect on the quality of financial reports, while Onuorah, et al. (2016) and Bako (2018) found no influence between GCG and the quality of financial reports. Harymawan (2017) and Huynh (2018) explain that company reputation has an influence on the quality of financial reports, but in Gberegbe1's research, et al. (2017) found that company reputation has no effect on the quality of financial reports. The same thing happened in Setiyawati's research, et al. (2018), and Naz'aina (2015) found that company competence has an influence on the quality of financial reports, however, Yusar Sagara's (2015) study found no effect on company competence. In addition, none of the studies related to company competence found that discussed the competence of financial statements. Meanwhile, according to Oztemel and Ozel (2018), the competence of companies that use the financial framework model can reveal the strengths and capacities of the company and reflect better competence.

 Based on the gaps in previous research results and the phenomenon of low quality financial reports, this study will discuss the integrity of a financial report with the title Determinants of Financial Report Moderated by Quality Audit (Study of Multi-Industry Sector Companies Listed on the Indonesia Stock Exchange Period 2015 – 2019).

**LITERATURE REVIEW**

**Agency Theory**

Jensen and Meckling (1976) explain agency theory as a conflict of interest between management as an agent and owners and other entities in the contract (eg creditors) as principals. Management is a party contracted by shareholders to work in the interests of shareholders. For this reason, management is given some power to make decisions for the best interests of shareholders.

**Good Corporate Governance (GCG)**

In order to increase the value of shares which ultimately increases the value of the company, and as a form of accountability to shareholders, good corporate governance (GCG) is a system of management and supervision of the company's control process that is carried out on an ongoing basis. GCG does not ignore the interests of stakeholders, including employees and creditors such as shareholders. public (Franita, 2018: 10). The size of the number of managerial shareholdings in a company can indicate the existence of common interests between management and shareholders. The greater the managerial ownership in the company, the management will try harder for the benefit of the shareholders which incidentally are themselves (Khurana and Moser, 2009). Managerial ownership can be measured as follows:

Managerial ownership = $\frac{Number of shares owned by management}{Total company shares outstanding }$ X 100

**Company Reputation**

Company reputation is built on the basis of the perceptions of people both inside and outside the company, so it is very difficult for companies to manipulate. Several factors contribute to a company's reputation, according to Fombrun (1996), including its capacity to manage impressions directly, its ability to forge close bonds with stakeholders and indirect inquiries from relevant merchants. by curious audiences, such as analysts and journalists. Return to shareholders is another important element of reputation. Total shareholder return is calculated by adding dividend payouts and share price growth. Here's the formula:

 

TSRit = Total shareholders return Period

Pit = The company's stock price at the end of period t

Pit-1 = The company's stock price at the end of the period t-1

Dit = Dividends paid by the company at the end of the period

**Company Competence**

Hutapea and Thoha (2008: 28) describe the capacity and readiness to carry out tasks effectively and efficiently in order to advance company goals. According to Oztemel and Ozel (2018), the notion of competence used in this research aims to form a structure that can reveal the strengths and capacities of the company with the help of the proposed financial framework model. company competency can be measured as follows:

Fs = ∑Si\*αi

**Audit Qualit**

Audit is a systematic process that aims to collect and evaluate objective evidence of assertions about economic activities and events. It also aims to provide results to interested users. Results of operations and financial status. A dummy variable is used to measure this variable. a large auditor's office will provide better audit quality than a small audit. It is further explained that the auditor scale is a proxy for audit quality. The argument is that large-scale KAPs have a comparative advantage in monitoring the performance of each auditor individually (Watts and Zimmerman, 1986).

**Quality of Financial Statements**

The quality of financial reporting can also provide opportunities for companies to inform investors from different interest groups about achievement reports (Djanegara, 2017). The quality of financial reports can be measured using conservatism. Conservatism is known as a precautionary principle, where companies are more careful in making financial reports. Conservatism is the ability to verify the necessary differences in order to be able to prove whether what is obtained is profit or loss (Andreas et al, 2017).

*Market to book Ratio =* $\frac{Market Price per Share}{Book Value per share }$

**Framework**

The framework of thought in this study can be seen through the following figure.



**Figure 1. Thinking Framework**

**METHODS**

This research uses a quantitative research approach. This research uses a quantitative approach, focuses on causal research, and tests hypotheses using the framework shown in Figure 1. Manufacturing companies from various industries listed on the IDX from 2015 to 2019 are the research samples. Manufacturing companies were chosen because they have more complex operations than other corporate sectors, which may affect the submission of financial statements in the following categories: (a) Manufacturing companies that are continuously listed on the Indonesia Stock Exchange from 2015 to 2019 (b) Businesses engaged in Manufacturing sector which has issued comprehensive financial reports and annual reports for the period ended December 31, 2015–2019.

A total of 37 businesses that could be sampled during the observation period were used as research samples. 185 data were used because the research observation period used was from 2015 to 2019. Secondary data from audited financial reports of manufacturing companies listed on the IDX in various industries for 2015 to 2019 were used. Data processing techniques use multiple linear regression and Moderated Regression Analysis. before testing the hypothesis, it will first be tested for the occurrence of deviations from the classical assumptions, namely tests for normality, multicollinearity, heteroscedasticity, and autocorrelation. The coefficient of determination, F test, T test, and adjustment factor are used to test the research hypothesis.

**RESULT AND DISCUSSION**

Analysis of the research data using descriptive statistics and multiple regression analysis of panel data. Data analysis was performed using the Econometric Views (Eviews) application version 11.

**Descriptive statistics**

A total of 37 companies that can be sampled during the observation period constitute the total number of observations in this study. The research observation period is from 2015 - 2019. The following are the descriptive statistics:

**Tabel 1. Descriptive statistics**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Variabel** | **N** | **Minimum** | **Maximum** | **Mean** | **Std Dev** |
| Quality of Financial Statements | 185 | -10.53700 |  9.099000 |  1.055362 |  1.569741 |
| *Good Corporate Governance* (GCG) | 185 |  0.000000 |  0.996000 |  0.328308 |  0.327094 |
| Company Reputation | 185 | -14.78950 |  3.059000 | -0.292842 |  1.486140 |
| Technical Competency | 185 | 12.00000 |  94.00000 |  48.19459 |  15.36530 |
| Audit Quality | 185 |  0.000000 |  1.000000 |  0.351351 |  0.478688 |

Source: Data processed with Eviews 11, 2022

**Panel Data Regression Model Selection**

Based on the chow test and hausman test, equation 1 and equation 2 use the Fixed Effect Model.

**Classical Assumption Test (Normality)**

Based on the results of the normality test, the data is normally distributed because the value of the Jarque-Bera Prob is 10.535329 > 0.05. The data complied with the normal distribution because the normality test was carried out on both models and the resulting probability value was > 0.05.

**Classical Assumption Test (Multicollinearity)**

Based on the results of the multicollinearity test, it was found that in the data there was no multicollinearity between the independent variables because the correlation coefficient between the variables was <0.8.

**Classical Assumption Test (Heteroscedasticity)**

Based on the findings of the heteroscedasticity test, because the value of the independent variable Good corporate governance (GCG), company competence, company reputation, and audit quality moderating variable is > 0.05, it can be said that the regression model in Equations 1 and 2 does not violate heteroscedasticity.

**Classical Assumption Test (Autocorrelation)**

The autocorrelation test was carried out by looking at the Durbin Watson value with -2 and +2 limits. Based on the results of testing the Durbin Watson value, it can be seen that the Obs\*R-squared Prob is 1.0999 greater than 0.05. Therefore, it can be concluded that there is no autocorrelation in the regression model.

**Hypothesis Test (F Test and T Test)**

Based on the results of data processing, the following results were obtained:

**Table 3. Summary of Research Results Equation 1**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variabel** | **Coefficient** | **Sig** | **Conclusion** |
| Constanta | -1.800858 | 0.0000 |  |
| X1 | 0.341433 | 0.0535 | H1 rejected |
| X2 | 0.398729 | 0.0000 | H2 accepted |
| X3 | 0.059344 | 0.0000 | H3 accepted |
| Adj. R square | 0.761178 |  |  |
| Prob(F-statistic) | 0.000000 |  |  |

Source: Data processed with Eviews 11, 2022

**Equation 1**

Y = -1,800 + 0,341X1 + 0,398X2 + 0,059X3 + e

Next, the following are the results of data processing for equation 2:

**Tabel 4. Summary of Research Results Equation 2**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variabel** | **Coefficient** | **Sig** | **Conclusion** |
| Constanta | 0.673702 | 0.0000 |  |
| X1 | 0.134705 | 0.0000 |  |
| X2 | 1.002726 | 0.0000 |  |
| X3 | 0.014820 | 0.0000 |  |
| Z | 0.538848 | 0.0192 |  |
| X1Z | 0.163782 | 0.0000 | H4 accepted |
| X2Z | 0.032606 | 0.0008 | H5 accepted |
| X3Z | 0.010998 | 0.0127 | H6 accepted |
| Adj. R square | 0.978618 |  |  |
| Prob(F-statistic) | 0.000000 |  |  |

Source: Data processed with Eviews 11, 2022

**Equation 1**

Y = 0,674 + 0,134X1 + 1,003X2 + 0,015X3 + 0,538Z + 0,163X1Z + 0,032X2Z + 0,011X3Z + e

**The influence of Good Corporate Governance (GCG) on the quality of financial reports**

Based on the research results, it is known that the GCG variable has no effect on the quality of financial reports. This shows that improving the quality of company financial reports has nothing to do with the application of good corporate governance (GCG) principles. One reason for rejecting this hypothesis is that researchers only use one GCG component as a benchmark. There are many components in GCG that can be used as a benchmark for assessing a company's financial statements, such as managerial ownership, institutional ownership, independent commissioners, and audit committee size. In addition, from a total of 185 samples studied, there were 41% of the samples with managerial ownership values below 10%. The results of this study are in line with the research of Onuorah et al (2016), finding independent directors on company boards and audit quality does not affect the quality of financial reporting, as well as research by Bako (2018). as in Agency Theory, this shows that the conflict of interest between managers and shareholders is still quite high so that the possibility of conflict being created still exists.

**Effect of corporate reputation on the quality of financial statements**

Based on the research results, it is known that company reputation has a positive and significant effect on the quality of financial statements. A good company reputation can generate many strategic benefits for a company, for example attracting customers, investors and applicants, lowering company costs, enabling companies to charge first-rate prices, increasing profitability, outperforming companies, and increasing the likelihood that stakeholders will contract with companies. . This is in line with Shi's research (2016) which found that a good reputation gives companies various competitive advantages, strong operating results also further advance the company's future reputation.

**Effect of Company Competence on the quality of financial reports**

Based on the research results, it is known that company competence has a positive and significant effect on the quality of financial reports. The company's financial competence serves to form a structure that can reveal the strengths and capacities of the company with the help of the proposed financial framework model. The company's competence is said to be good if the company develops its basic characteristics, it is possible to increase their competitiveness from the point of view of their product or service. This will naturally increase profitability, which is one of the main goals of the company along with its contribution to society. Wibowo (2012: 324) reveals that company competence is the same as individual competence, where when companies develop their basic characteristics, it is possible to increase their competitiveness from the point of view of their products or services. The results of this study are in line with research conducted by Synthia (2017) and Naz'aina (2015) who found competence has a significant positive effect on the quality of financial reports

**Effect of audit quality in moderating the relationship of Good Corporate Governance to the quality of financial reports**

Based on the research results, it is known that the audit quality variable is able to moderate the relationship between Good Corporate Governance and the quality of financial reports. The results of this study are in line with the results of research by Thilini and Samanthi (2020) and Doan, et al (2019). The inclusion of a moderator variable improves the relationship between GCG and financial reporting caliber while remaining tied to the initial hypothesis, which was rejected. Finding the most effective agreements that have an impact on the relationship between managers as agents and shareholders as principals is the main goal of agency theory. Using this agency connection theory, greater knowledge of corporate governance has been achieved.

**Effect of audit quality in moderating the relationship between the company's reputation and the quality of financial statements**

Based on the research results, it is known that the audit quality variable is able to moderate the relationship between company reputation and the quality of financial reports. This agrees with the research of Gberegbe1, et al. (2017), Gberegbel argued that corporate reputation itself has no definition agreement among researchers and is considered an ambiguous set of hunch. Differences have been attributed to individual views on reputation: awareness and valuation, economics, strategic, marketing, organizational, sociological and accounting,

**Effect of audit quality in moderating the relationship between Company Competence and the quality of financial statements**

Based on the research results, it is known that the audit quality variable is able to moderate the relationship between company competence and the quality of financial reports. This is consistent with a study conducted by Naz'aina (2015), which found that competency has a beneficial impact on improving the quality of financial reports.

**CONCLUSION**

Based on the formulation of the problem, hypothesis testing and discussion presented in the previous chapters, it can be concluded that: Good Corporate Governance (GCG) has no effect on the quality of the company's financial statements. However, there are still many components in GCG that can be used as a benchmark for assessing a company's financial statements, such as managerial ownership, institutional ownership, independent commissioners, and audit committee size. Company reputation has a significant and positive effect on the quality of financial statements. Company competence affects the quality of financial reports. Audit quality has also been proven capable of being a moderating variable and strengthening the influence of GCG, company reputation and company competence. This can be seen through the Adjust R Squared value which increases when audit quality is added.

For further research, it can take a wider sample and population, because this research only focuses on various industrial sectors. The Good Corporate Governance variable only uses the managerial ownership component in research, so that future research is expected to be able to use more components and benchmarks to test the effect of GCG on the quality of financial reports.

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