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The Influence of Good Corporate Governance Structure on the Quality of Financial Reports

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ABSTRACT: This quantitative research with Good Corporate Governance Structure as an independent variable proxied by 3 indicators, namely the independent board of commissioners, audit committee, and board of directors, and the dependent variable is the Quality of Financial Reports. The sample of this study consisted of 20 companies that were consistently listed on the Jakarta Islamic Index (JII) during the 2021-2023 period. The measurement method in this study is a quantitative method with the Partial Least Square (PLS) method which in its statistical testing uses the SmartPLS 4 program. The results of the study show that: the Independent Board of Commissioners has a positive effect on the Quality of Financial Reports (1), the Audit Committee has no effect on the Quality of Financial Reports (2), the Board of Directors has a positive effect on the Quality of Financial Reports (3). The results of the study can explain that the presence of independent commissioners makes the quality of financial reports better because the board of commissioners acts as a representation of investors. The audit committee may not be able to carry out its duties effectively if management does not provide detailed information or lacks transparency, Then the more directors in a company, the better cooperation will be in determining and evaluating the company's strategy for both the short and long term.

KEYWORDS: Independent Board of Commissioners; Audit Committee; Board of Directors.

INTRODUCTION

In the era of increasingly rapid globalization, transparency and accountability in corporate management are very important. Good Corporate Governance (GCG) is a system that regulates and supervises companies to ensure that the company is run properly, transparently, and responsibly to all stakeholders (Hanifah, Kuntadi, Pramukty, 2023). The implementation of GCG principles is expected to increase investor confidence, which in turn will have a positive impact on company performance.

The quality of financial reports is one of the key indicators of a company's health and performance. High-quality financial reports provide accurate, relevant, and reliable information, which is very important for decision making by stakeholders (Manossoh, 2016). However, in practice, many financial reports do not reflect the actual financial condition, often due to a lack of transparency and unethical managerial practices (Mulyanti & Rahma, 2020; Triandi & Christine, 2022). The lack of competence in the field of accounting is a warning to other companies to be more careful in presenting financial reports, considering the serious impact that can be caused by such inaccuracies (Faozan, 2022). Therefore, it is important to explore the relationship between GCG structure and the quality of financial reports. Financial reports are one of the main tools used by management to communicate with stakeholders. High quality financial reports are essential for informed decision making by investors and other interested parties (Firmansyah & Sinambela, 2020). Quality financial reports reflect the actual financial condition of the company and provide relevant and reliable information. To ensure the quality of financial reports, the implementation of good corporate governance is required. Good Corporate Governance serves as a guideline in managing relationships between internal and external parties of the company. The rights, obligations, and responsibilities of each in the company's GCG structure will be able to create transparency, accountability, and fairness. One of the main objectives of GCG is to ensure the quality of financial reports, which have an important role in the supervisory function. This function not only helps minimize the risk of financial data manipulation, but also ensures that financial reports accurately reflect the company's condition (Rahardjo, 2018).

Jakarta Islamic Index (JII) is an index that includes companies that meet sharia criteria and are expected to carry out good and ethical business practices. Companies listed on JII are not only expected to comply with sharia principles, but also to implement good GCG practices. Thus, JII is an interesting context to study the effect of GCG structure on the quality of financial reports.

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The growth of JII shows a positive trend every year, indicating that sharia stocks are increasingly in demand by investors, as seen from the increase in the index value. According to (Harahap & Zenabia, 2024) Jakarta Islamic Index (JII) is a company whose business activities are in accordance with Islamic sharia principles and consists of 30 of the most liquid stocks. The quality of financial reports is a form of accountability to stakeholders for the implementation of financial performance during a certain period. Financial reports must contain all financial information required by stakeholders, and the financial reports submitted must be of high quality and used as a basis for evaluation by auditors when expressing opinions.

The presentation of reports that do not comply with accounting standards creates a mismatch between the actual conditions of the company and what is reported in the financial statements, reducing the credibility and quality of the financial information (Ritonga et al., 2023). The company owner entrusts the board of commissioners to carry out corporate control. The greater the number of members of the board of commissioners, the more and broader the perspectives used to carry out effective supervision of the financial statements (Inawati et al., 2021). In addition, the audit committee is an important part of implementing corporate governance. The audit committee is a group formed by the board of commissioners and the board of supervisors to assist in informing the results of audits conducted by internal and external auditors. They provide recommendations regarding the management control system and its implementation, and ensure that important information that needs to be considered by the board of commissioners and the board of supervisors is conveyed properly, including other duties of the board of supervisors. The audit committee plays a role in encouraging company management to run the business well through the supervisory function they perform. In addition, the audit committee also functions as a liaison between company management and the board of commissioners, conveying findings from supervision of management activities to support business development. It is important for the audit committee to be independent, so that it is not influenced by other parties in carrying out its supervisory duties (Tambunan, 2021).

Several previous studies have shown a positive relationship between GCG implementation and financial reporting quality. However, there is still a gap in the literature on how specific elements of the GCG structure, such as the board of commissioners, audit committee, and board of directors affect the quality of financial reporting, especially in the context of companies listed on JII. This study aims to fill this gap by analyzing the influence of various aspects of the GCG structure on the quality of financial reporting of companies listed on JII. Thus, this study not only contributes to the development of GCG and accounting theory, but also provides practical implications for companies in improving the quality of financial reporting through the implementation of better GCG principles. It is hoped that the results of this study can be a reference for stakeholders in efforts to improve transparency and accountability within the company.

LITERATURE REVIEW

1. Good Corporate Governance

Good Corporate Governance (GCG) is a system that regulates and supervises companies to ensure that companies are run transparently, accountably, and responsibly. GCG aims to protect the rights of stakeholders, including shareholders, employees, customers, and the community. General GCG principles include transparency, accountability, responsibility, and independence. According to the OECD (Organization for Economic Co-operation and Development), good GCG can improve company performance and provide added value to stakeholders.

2. Good Corporate Governance Structure

According to Amah, K. O. & Ekwe, M. C. (2021), the GCG structure includes various elements that function to supervise and manage the company. The main elements of the GCG structure include:

1) Board of Commissioners: Plays a role in supervising management and ensuring that decisions taken are in accordance with the interests of shareholders. An independent and competent board of commissioners can improve the quality of supervision of financial reports.

2) Board of Directors: The primary responsibility of the board of directors is to manage the company and make strategic decisions. An effective board of directors must be able to carry out its supervisory and management functions well, and ensure that financial statements are prepared accurately and in accordance with applicable accounting standards. The quality and competence of board members greatly affect the quality of decision-making and, ultimately, the quality of financial statements.

3) Audit Committee: This committee is responsible for ensuring the integrity of financial statements and compliance with regulations. The existence of an effective audit committee can improve the accuracy and reliability of financial statements.

3. Quality of Financial Statements

The quality of financial statements can be defined as the extent to which the statements provide relevant, reliable, and comparable information. The quality of financial statements consists of two main characteristics: relevance and reliability (Onuorah, Chi-Chi, Friday, 2016). High-quality financial statements must be able to provide a clear picture of the company's financial position, performance, and cash flow (Kaawaase et.al, 2021). Good quality financial statements can increase the confidence of investors and other stakeholders.

4. Relationship between GCG Structure and Financial Report Quality

Various studies have shown that there is a positive relationship between GCG structure and financial report quality. A strong and independent board of commissioners, as well as a competent and active board of directors, contribute to improving the quality of financial reports. Salehi, M., Ammar Ajel, R. and Zimon, G. (2023), found that companies with independent boards of commissioners tend to have more accurate and transparent financial reports. found that the existence of an active audit committee can reduce the possibility of financial report manipulation. An effective board of directors also plays an important role in ensuring that financial reports are prepared properly and in accordance with applicable accounting principles.

RESEARCH METHODOLOGY

This causal quantitative research uses secondary data from financial reports and annual reports from research objects of companies listed on the Jakarta Islamic Index (JII) in 2021-2023. The required data is obtained through the official website of each company and the Indonesia Stock Exchange website.

The sampling technique used is purposive sampling based on certain criteria, namely companies that are consistently listed on the Jakarta Islamic Index during the 2021-2023 period and companies that publish financial reports and annual reports in that period. From these criteria, 20 companies were obtained with an observation period of 3 years.

The instrument in this study is the Good Corporate Governance Structure as an independent variable which is proxied by 3 indicators, namely the independent board of commissioners, audit committee, and board of directors. While the quality of financial reports as the dependent variable is measured using discretionary accrual. Table 1 below explains the formula used to measure the independent variables and dependent variables. The analysis used is the PLS-SEM (Partial Least Squares Structural Equation Modeling) analysis model.

Table 1. Variables and Measurements

Variabel	Pengukuran
Independent Board of Commissioners	$\frac{\Sigma\text{Independent board of commissioners}}{\Sigma\text{Company board of commissioners}}\text{x}100\%$
Audit Committee	ΣAudit Committee Members
Board of Directors	ΣBoard of Directors Members
Financial Report Quality	$\text{DAit} = \frac{\text{TACit}}{\text{Ait} - 1} - \text{NDAit}$

RESEARCH RESULTS AND DISCUSSION

1. Descriptive Statistical Test

Descriptive statistical analysis in this study includes the minimum, maximum, mean and standard deviation of the dependent and independent variables.

The following are the results of descriptive statistical analysis based on research data

Table 2. Results of Descriptive Statistical Tests

Name	N	Minimum	Maximum	Mean	Std Deviation
Board of Independent Commissioners	60	0.290	0.830	0.430	0.122
Audit Committee	60	3.000	8.000	3.000	1.121
Board of Directors	60	3.000	15.000	6.967	2.769
Financial Report Quality	60	0.010	4.710	0.268	0.720

2. MODEL AND HYPOTHESIS TESTING

2.1 Test of Determination Coefficient or R-Square (R2)

Changes in the R-Square value can indicate whether there is a substantive influence of exogenous latent variables on endogenous latent variables.

Table 3. Results of Determination Coefficient Test

	R-square
Quality of Financial Reports	.463

2.2 Predictive Relevance Q-Square (Q2) Test

To determine the predictive relevance of the independent variable to the dependent variable, conduct a second test. The Q-Square calculation for Q2 is given here, Q2 values above 0 indicate predictor relevance.

Q2 = 1-(1-R2)

Q2 = 1-(1-0.463)

Q2 = 1-0.537

Q2 = 0.463

The results of the Q-Square calculation show a value of 0.463 or 46.3%. Where this number is greater than 0 (Q2> 0), it means that the model in this study has a good level of predictive relevance.

2.3 Hypothesis Testing

Table 4. Hypothesis Test Results

	Original Sample (0)	Sample Mean (M)	Standard Devitiation (STDEV)	T statistic (|O/STDEV)	P Values
DKI -> KLK	0.122	0.118	0.052	2.370	0.018
KA -> KLK	0.026	0.026	0.433	0.433	0.665
DD -> KLK	0.696	0.727	10.252	10.252	0.000

Based on the table above, the explanation of the hypothesis testing results is as follows:

1) The Influence of the Independent Board of Commissioners on the Quality of Financial Reports

H1: The Independent Board of Commissioners has a positive influence on the Quality of Financial Reports

Based on the results of the hypothesis test for the Independent Board of Commissioners variable, the original sample value is positive at 0.122, and the P values are 0.018 <0.05, which means that the Independent Board of Commissioners has a positive influence on the Quality of Financial Reports.

The results of the first hypothesis test in this study revealed that the independent board of commissioners has a significant influence on the quality of financial reports. This shows that the number of independent commissioners will be followed by an increase in performance that increases the company so that it can produce quality financial reports. The presence of independent commissioners makes the quality of financial reports better because the board of commissioners acts as a representation of investors. In addition, independent commissioners can monitor the Company internally to find out whether the published financial reports are in accordance with the actual situation. The results of this study are in line with research conducted by (Syukra & Fadjarenie, 2022; Yulianti & Cahyonowati, 2023).

2) The Influence of the Audit Committee on the Quality of Financial Reports

H2: The Audit Committee has no influence on the Quality of Financial Reports

Based on the results of the hypothesis test for the Audit Committee variable, the original sample value is positive at 0.026, and the P values are 0.665>0.05, which means that the Audit Committee has no influence on the Quality of Financial Reports.

The results of the second hypothesis test in this study revealed that the audit committee has no effect on the quality of financial reports. The audit committee may be pressured by management or major shareholders to approve financial reports without conducting an in-depth or critical examination of the financial reports. As a result, the audit committee's performance is less effective in carrying out its supervisory duties on management performance in order to produce quality company financial reports. The audit committee relies too much on management information and explanations. If management does not provide detailed information or lacks transparency, the audit committee may not be able to carry out its duties effectively. The results of this study are in line with research conducted by (Effendi, 2024; Oktaviani, 2016).

3) The Influence of the Board of Directors on the Quality of Financial Reports

H3: The Board of Directors has a positive influence on the Quality of Financial Reports

Based on the results of the hypothesis test for the Board of Directors variable, the original sample value is positive at 0.696, and the P values are 0.000 <0.05, which means that the Board of Directors has a positive influence on the Quality of Financial Reports. The results of the third hypothesis test in this study revealed that the independent board of commissioners has a significant effect on the quality of financial reports. This is because the greater the number of directors of a company, the faster the company will submit financial reports. This shows that the greater the number of directors in a company, the better cooperation in determining and strategizing the company both for the short and long term. With good cooperation, mature policies and appropriate implementation, the company can use its resources as best as possible to achieve optimal performance. The results of this study are in line with research conducted by (Oktafiyanti, 2021).

CONCLUSION AND SUGGESTIONS

This study aims to investigate the influence of 3 independent variables, namely the Independent Board of Commissioners, the Audit Committee and the Board of Directors, on the Quality of Financial Reports as the dependent variable. The conclusions obtained are as follows:

1) The independent board of commissioners has a positive effect on the quality of financial reports
2) The audit committee does not affect the quality of financial reports
3) The board of directors has a positive effect on the quality of financial reports.

It is recommended to develop further research by combining or replacing other independent variables that can affect the quality of financial reports and taking research objects other than companies listed on the Jakarta Islamic Index. Research objects can include other sectors such as manufacturing, banking, mining and so on.

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