The Effect of Audit Quality And Company Size on Good Corporate Governance Disclosure in Banking Companies Listed in Indonesia Stock Exchange

Indarti¹, Ika Berty Apriliani¹ and Aznuriyandi¹

Universitas Lancang Kuning, Pekanbaru, Indonesia, 28265
Email: Indarti.sam9@gmail.com

Abstract: This study aims to analyze the effect of firm size, profitability, ownership, size of board of commissioners, and auditor quality to the extent of corporate governance disclosure as measured by Corporate Governance Disclosure Index, using data consisting of 16 companies listed in Indonesia Stock Exchange. The population of this study is a public company listed in the Indonesia Stock Exchange with a banking company as a sample. Period of observation conducted for four years from 2013-2015. This research uses purposive sampling method. Data analysis used in this research is classical assumption test and to test hypothesis using multiple regression analysis. Result: From the regression equation above, it is known that the constant of 0.574 states that if the independent variable consisting of Quality Audit, Firm Size to CG. Then the average CG Disclosure of 0.574. Audit Quality Variable has positive regression coefficient, Size has negative coefficient. This means that companies with high levels of Audit Quality do not affect CG disclosure. In addition, judging from the significance of the Quality Audit does not affect CG Disclosure. With the size of the company or high Size it will affect the disclosure of CG.

Keywords: Corporate governance, firm size, audit quality dispersion ownership, profitability, board size.

1. Introduction

Since the economic crisis of 1997 the implementation of good corporate governance, or better known as Good Corporate Governance (GCG) became an emerging issue in Indonesia. Due to the bad governance and government companies in Indonesia at that time that caused the Indonesian economy to be slumped. Examples include less supportive regulatory systems, inconsistent accounting and auditing standards, and weak banking practices. Since then, all parties have agreed to rise from a downturn beginning with governance by governments, government companies and private companies (Zakarsyi, 2006). Various efforts will be made to improve corporate governance by applying the principles of Good Corporate Governance in all lines. The crisis that occurred in late 1997 also occurred in the banking sector. According to the results of research and reports from the World Bank and ADB (Asia Development Bank), the crisis that occurred in Indonesia and the collapse of major companies of the world is caused by weak implementation of good corporate governance (Husein, 2008). As evidence after ten years since the crisis of 2007 in the Asian Corporate Governance Association, CLSA Asia-pacific Markets placed Indonesia in the sequence The bottom eleven in Asia (Husein, 2008). Another problem of good corporate governance is the low level of transparency in the Indonesian business environment.

Banking in conducting its business activities may experience various risks, including operational risk, credit risk, market risk, and reputation risk. The existence of regulations governing the banking sector in order to protect the interests of the community and including rules governing the obligation to meet the minimum capital according to the conditions of each bank, which makes the banking sector as "highly regulated". The Bank is an institution that runs its activities depending on
community funding and trust. The annual report is a medium used by public companies to communicate information to outsiders (Hikmah, 2011). Corporate governance disclosure is important because transparent, timely, and accurate disclosure of corporate governance is an added value for all stakeholders. If there is no adequate disclosure, stakeholders can not be confident of any activity carried out by management executed in a wise and good manner for their benefit (Zakarsyi, 2006). Studies on corporate governance disclosure are always conducted annually. Research conducted always examines the influence of factors that can affect the extent of corporate governance disclosure. Factors that are always used as research variables are firm size, dispersion ownership, listing age, profitability, board size, audit quality, listing status, and multinational corporations.

Previous research has shown mixed results. The study used firm size as an independent variable. For example, research conducted by Hikmah et al (2011). The results of this study indicate the effect of firm size on the extent of corporate governance disclosure. The research conducted is consistent with research conducted by Kusumawati (2006), Bhuiyan and Biswas (2007), and Rini (2010). These findings are different from those of Klapper and Love (2003) who found that firm magnitudes did not affect the extent of corporate governance disclosure. The dispersion ownership was a scattered shareholding owned by individual investors ie the community. Individual investors include investors outside management, in addition to governments, institutions, and families (Alsaeed, 2006). Research conducted using dispersion ownership as an independent variable. Research conducted by Kusumawati (2006) that the ownership of dispersion affect the disclosure of corporate governance. In contrast to research conducted by Rini (2010) and Hikmah et al (2011) which shows the result that dispersion ownership has no effect on corporate governance. Based on previous research on the factors that influence the extent of Corporate Governance disclosure and based on the description of the background, then the main issues in this study are: (1) Does the Quality of Audit affect the extent of Corporate Governance disclosure?, (2) Does Company Size affect the extent of Corporate Governance disclosure?, (3) Does Audit Quality and Company Size affect the extent of Corporate Governance disclosure?

2. Literature Review

Agency theory is often used as the theoretical foundation in research on corporate governance. Agency theory is the foundation that companies use to understand corporate governance (Rini, 2010: 11). This theory discusses the relationship between principals (owners and shareholders) and agents (management). Jensen and Meckling (1976) argue that agency relationships arise when one or more individuals (principal) employ other individuals (agents) to provide a service and then delegate power to agents to make a decision on behalf of the principal. Management is authorized in decision making policy so that management is expected to optimize the existing resources maximally for the welfare of the owners both in the short and long term. This becomes the basis for the need for management to report and disclose the company to the owner as a form of management accountability to the owner.

Good corporate governance is a structure that stakeholders, shareholders, commissioners, and managers set up company goals and means to achieve those goals and oversee performance (OECD, 2003). In research Isgiyarta and Tristiarini (2005), Malaysian The High Level Finance Committee on Corporate Governance defines corporate governance as a process and structure used to direct and manage business and corporate affairs in order to improve business prosperity and corporate accountability with the primary objective of realizing shareholder value over the long term while maintaining the interests of parties -other parties. Corporate Governance is a set of rules that is used to ensure that the activities and objectives of the company are to meet the interests and welfare of the stakeholders, not merely achieving the company's own goals (Pramono, 2011).
2.1 Extent of Corporate Governance Disclosure in Annual Report

Annual reports are a major source of research on corporate governance disclosure. This is because the annual report contains a variety of information about the company including good corporate governance practices (Rini, 2010). Karim et al. 1996 (in Bhuiyan and Biswas, 2007) argues that annual reports should be considered the most important source of information about the company. In addition, Bushman and Smith (in Bhuiyan and Biswas, 2007) argue that the underlying purpose of research on corporate governance in accounting is to provide evidence of the extent to which the information provided in the accounting system can reduce agency problems. In the General Guidelines of Good Corporate Governance of Indonesia in 2006 chapter VII on the statement on the application of good corporate governance guidance in its basic principle stated that: “Every company must make a statement regarding the appropriateness of the implementation of good corporate governance with this Good Corporate Governance Guidance in its annual report. The statement should be accompanied by other important information related to the implementation of good corporate governance. Thus, shareholders and other stakeholders, including regulators, can assess the extent to which the Code of Good Corporate Governance has been implemented.

Bhuiyan and Biswas (2007) identified 45 items of disclosure to detect corporate governance disclosure in Bangladesh. These items are obtained from Guidance on Good Practices in Corporate Governance Disclosure issued by United Nations Conference on Trade and Development (UNCTAD). In UNCTAD 2004, it is divided into two parts, namely disclosure of financial information and disclosure of non-financial information. Disclosure to financial information consists of nine items of disclosure, while disclosure of non-financial information totals 36 items of disclosure. Due to the irrelevance of some disclosure items issued by UNCTAD with the condition of the company in Indonesia, this study does not use the item of disclosure. Disclosure items used in the form of items contained in Decree of the Chairman of BAPEPAM and Financial Institution Number KEP / 134 / BL / 2006 Rule X.K.6. In addition to the items required by BAPEPAM, this study also uses items obtained from the Indonesian General Good Corporate Governance Guidelines issued by the National Committee on Governance Policy (KNKG).

Based on these rules and guidelines, 16 items of items consisting of shareholders are obtained; board of Commissioners; Board of Directors; Commiteaudit; Nomination and remuneration committees; Risk management committee; Other committees owned by the company; company secretary; Implementation of supervisory and internal controls; Corporate risk management; Important matters faced by the company, members of the board of directors, and members of the board of commissioners; Access to company information and data; Company ethics; Social responsibility; Statement on the application of good corporate governance; And other important information related to the implementation of good corporate governance. The sixteen item points contain 93 disclosure items used to see how far a company has disclosed information about corporate governance.

1). Company Size

Company size describes the size or size of a company. Company size can be proxied with assets, number of employees, market capitalization, and so forth (Pramono, 2011). Generally in large companies will reveal more information than small companies (Rini, 2010). At large companies are usually bugged to reveal more information on their web pages in securities marketing and to achieve their goals. Large companies may be better able to access financial markets if they disclose information online (Hikmah, 2011).

2). Quality Audit

Increasing the credibility of its financial statements, the company uses the services of a reputable or reputable Public Accountant Firm (KAP). This is usually indicated by a public accounting firm affiliated with a large, universally applicable public accounting firm known as the Big Four
Worldwide Accounting Firm (Big 4). Many studies show that the importance of reducing information risk by improving audit quality within a company. Reputation theory predicts a positive correlation between audit quality and KAP size (Lennox 2000) where if large KAP size will result in a higher quality audit. Larger KAP measures can accomplish better tasks because they have larger sizes, sufficient human resources and a tendency to maintain their reputation (Francis et al., 1999).

The auditor may serve as a monitoring agent signaling to the market that the information provided by the company has a higher and more informative credibility (Titman and Truman, 1986). Research conducted by Kim et al (2007) showed that banks in the United States more react positively to companies that are audited by KAP big-4. The banks charge lower rates on firms audited by KAP big-4 than firms that are audited by KAP non-big-4. Kim et al (2007) provide direct evidence that the bank takes into account the quality of the audit when assessing the risk and cost of loan default of the company.

2.2. Hypothesis
1). Effect of Audit Quality on Corporate Governance Disclosure
   
   Research conducted by Mayangsari (2003) states that the audit industry specialization has a positive influence on the integrity of financial statements. A good financial report must meet the principle of “disclosure” is one component of the implementation of Good Corporate Governance quality on the company. Other research is a study conducted by Respect (2009) to prove that audit quality has a positive influence on the implementation of corporate governance. As well as research conducted by Ulum (2007) that audit quality has an influence on the quality implemtasi good corporate governance. Based on the above description, it can be formulated research hypothesis as follows: H1: Audit quality has a positive effect on corporate governance disclosure.

2). Influence of Corporate Size on Corporate Governance Disclosure
   
   The firm size variable is a variable that is often investigated in relation to the area of disclosure. The results also consistently influence the extent of disclosure (eg Bhuiyan and Biswas (2007), Rahmawati, Mutmainah, and Haryanto (2007), Rini (2010)). The effect of firm size with the extent of disclosure can be explained through agency theory where it is stated that large firms have greater agency costs than small firms (Jensen and Meckling, 1976). Large companies will disclose more information in an effort to reduce agency costs (Hikmah, 2011). Company size can be expressed in total assets, sales, and market capitalization. These three variables are used because they can represent how big the company is. The greater the asset, the more capital invested. The bigger the sales, the more money turnover and market capitalization. Of these three variables, asset values are relatively more stable than market capitalization and sales measures of firm size (Sudarmadji and Sularto, 2007: A54). Based on the theory and previous research, the hypothesis of this study are as follows:

H2: Company size has a positive effect on the extent of corporate governance disclosure.
H3: Audit quality positively affects the extent of corporate governance disclosure.

3. Research Method

This research uses dependent variable and independent variable. Extent of Corporate Governance disclosure as dependent variable and firm size (size), dispersion ownership, profitability, board size, and auditor status as independent variables. The dependent variable is the variable that is the main concern of the researcher (Sekaran, 2003).
In this study, the dependent variable to be used in this research is the extent of corporate governance disclosure contained in the company's annual report. The extent of corporate governance disclosure is measured by the corporate governance disclosure index as a standard for measuring the level of corporate governance disclosure in banking companies listed on the Indonesia Stock Exchange. The method used to measure the established index is by applying an unweighted index with a dichotomous value, i.e., value 1 for each item disclosed as well as 0 for an undisclosed item (Rini, 2010). By applying the weighted index using dichotomous value can facilitate the final scoring of the corporate governance disclosure index.

Quality Audit: To improve the credibility of its financial statements, the company uses the services of a reputable or reputable Public Accountant Firm (KAP). This is usually indicated by a public accounting firm affiliated with a large, universally applicable public accounting firm known as the Big Four Worldwide Accounting Firm (Big 4). This variable is measured using the dummy variable. Category of companies using KAP Big 4 services are dummy 1 and the category of companies that use services other than KAP affiliated with KAP Big 4 are dummy 0. Based on the accounting compartment of the Indonesian Accounting Academy, quoted by Ramadhany (2004), the following are the names of the Public Accounting Firm included in The Big Four (starting 2002):

1. KAP Price Waterhouse, in collaboration with KAP Haryanto Sahari and colleagues (2002-2008), KAP Tanudiredja, Wibisana and Partners (2009-Now).
2. KAP KPMG (Klynveld Peat Marwick Goerdeler), in collaboration with KAP Siddharta and Widjaja (2002-Now).
3. KAP Ernst and Young, in collaboration with KAP Purwantono, Suherman and Surja (2002-Now).
4. KAP Deloitte Touche Thomatsu, who collaborated with KAP Osman Bing Satrio and colleagues (2002-Present).

Company Size: shows the size of a company. In this study, the size of the company proxied by the total assets of the company reflects the company's wealth. Some studies of CG disclosure in the reporting of the study found that firm size proxies with total assets significantly affected the quality of CG disclosure (Muhamad et al., 2009; Maingot and Zeghal, 2008; and Sayogo, 2006). The total assets of the company then changed in the form of natural logarithm so that the data obtained is not too large, the value is not too different and the digit is not too long.

\[
\text{Company Size} = \ln \text{Total Asset}
\]

3.1 Population and Sample

The population of this study is a banking company listed in Indonesia Stock Exchange (BEI) in 2013-2015. The sample is part of the population used as a research object. In this research, the sample is determined by using purposive sampling method. The sampling method limits the selection of samples based on certain criteria. The company criteria sampled in this research are: A). Banks listed on the Indonesia Stock Exchange During the period 2013 to 2015

Sample data

3.2 Method of collecting data

In this research the method used is the method of documentation, this method is done by collecting and studying the literature that has relevance to the preparation of necessary research. Source of data obtained from the official website of Indonesia Stock Exchange (BEI) is http://www.idx.co.id/ and Indonesian Capital Market Directory (ICMD). Previous research, books, and websites related to the required information. The data analysis method used to measure the strength of the relationship between Audit Quality and firm size to the extent of Corporate Governance disclosure is multiple regression. Hypothesis testing is done by using multiple linear regression method to predict the relationship between independent variable.
4. Result

A). Normality test aims to test whether in the regression model, the intruder or residual variable has a normal distribution. To test whether the residual is normally distributed or not there are two ways that is by graph analysis and statistical test.

![Histogram](image1.png)

**Figure 1. Histogram**

![Normal P-P Plot](image2.png)

**Figure 2. Normal P-Plot**

Viewing the display on the histogram graph in Fig. 1 provides a near-normal distribution pattern, whereas in Figure 2 the normal graph probability plot shows spots spread around the diagonal line and its spreading follows the direction of the diagonal line. So it can be concluded that the regression model in this study has met the assumption of normality.
Table 1 Koefisien Determinasi

| Model    | Collinearity Statistics |
|----------|-------------------------|
|          | Tolerance | VIF  |
| 1        | (Constant) | 0.998 | 1.002 |
|          | Kual.Audit | 0.998 | 1.002 |
|          | Uk.Prsh    | 0.998 | 1.002 |

From Table 1 above shows that all independent variables have a tolerance value greater than 0.10 which means there is no correlation among independent variables whose value is more than 95%. The result of calculation of Variance Inflation Factor (VIF) value also shows the same thing that all independent variables have VIF value smaller than 10. Then it can be concluded that the regression model in this research has been free from multicolinearity problem.

Table 2 the R square

| Model | R   | R Square | Adjusted R Square |
|-------|-----|----------|-------------------|
| 1     | 0.465* | 0.216 | 0.195 |

From Table 2 above shows that the R square value of 0.216 means that only 21.6% dependent variation is CG Disclosure which can be explained by independent variable that is Kualitas Audit dan Firm Size. This indicates the low or weak ability of independent variables in explaining the dependent variable, while the remaining 78.4% is explained by other variables not included in this study. Other factors that can be used to find out CG Disclosure may use other indicators.

b. Hypothesis Test

Table 3 F Test - ANOVA

| Model   | F     | Sig.  |
|---------|-------|-------|
| 1       | 10,462 | 0.000* |
|         | Regression |       |
|         | Residual   |       |
|         | Total      |       |

From Table 3 above shows the value of F arithmetic of 10.462 with a significance value of 0.000. This indicates that the regression model can be used to test the effect of independent variables: CG disclosure, Audit Quality, since the significance value is less than 0.05 (sig < 5%). So it can be concluded Hypothesis accepted that shows that there is significant influence between, audit quality and Size influence simultaneously or simultaneously to CG Disclosure.
Table 4 T Test

| Model     | Standardized Coefficient | Beta  | t    | Sig. |
|-----------|--------------------------|-------|------|------|
|           |                          |       |      |      |
| 1 (Constant) |                          | 7.60  | 1    | .000 |
| Kual.Audit | .166                     |       | 1.63 | .107 |
| Uk.Prsh    | .426                     |       | 4.19 | .000 |

Based on the results of statistical tests t in the table above, then obtained the regression equation as follows:

\[ \text{CG Disc} = 0.574 + 0.029 \text{Audit Quality} + 0.041 \text{Size} + \varepsilon \]

From the regression equation above, it is known that the constant of 0.574 states that if the independent variable consisting of Quality Audit, Firm Size to CG. Then the average CG Disclosure of 0.574. Audit Quality Variable has positive regression coefficient, Size has negative coefficient. This means that companies with high levels of Audit Quality do not affect CG disclosure. In addition, judging from the significance of the Quality Audit does not affect CG Disclosure. With the size of the company or high Size it will affect the disclosure of CG.

5. Reference

[1] Chariri, Anis dan Imam Ghozali. 2007. Teori Akuntansi. Semarang. Badan Penerbit UNDIP.

[2] Effendi, Muh. Arief. 2009. The Power of Good Corporate Governance: Teori dan Implementasi. Edisi 1. Salemba Empat. Jakarta.

[3] Ghozali, Imam. 2001. Aplikasi Analisis Multivariate dengan Program SPSS. Semarang: Universitas Diponegoro.

[4] Hikmah, Noor dan D. Rahmayanti. 2011. FaktorFaktor yang Mempengaruhi Luas Pengungkapan Corporate Governance Dalam Laporan Tahunan Perusahaan Perbankan yang Terdaftar di BEI. Simposium Nasional Akuntansi XIV.

[5] Hormati, Asrudin 2009. Karakteristik Perusahaan Terhadap Kualitas Implementasi Corporate Governance. Jurnal Keuangan dan Perbankan, Vol13. No. 2, Mei 2009. Hal. 288-298.

[6] Kusumawati, Dwi Novi. 2007. Profitability and Corporate Governance Disclosure: An Indonesia Study. Jurnal Riset Akuntansi Indonesia, Vol. 10, No. 2. Hal. 131-146.
[7] Komite Nasional Kebijakan Corporate Governance. 2006. Pedoman Umum Good Corporate Governance. Jakarta: KNKG.

[8] Mayangsari. 2003. Analisis Pengaruh Independensi, Kualitas Audit, serta Mekanisme Corporate Governance terhadap Integritas Laporan Keuangan. Simposium Nasional Akuntansi IV. Surabaya.

[9] Moeljono, Djokosantoso. 2005. Good Corporate Governance Sebagai Inti Good Corporate Culture. PT. Elex Media Komputindo. Jakarta.

[10] Natalia, Petri. 2012. Analisis Faktor-Faktor yang Mempengaruhi Pengungkapan Corporate Governance Dalam Laporan Tahunan. Diponegoro Journal of Accounting, Vol 1. No. 2. Hal. 1-10.

[11] Putranto, Rianto Jati. 2013. Faktor-Faktor yang Mempengaruhi Luas Pengungkapan Corporate Governance Dalam Laporan Tahunan Perusahaan Perbankan yang Terdaftar di BEI Tahun 2008-2011. Diponegoro Journal of Accounting, Vol 2. No. 2. Hal. 1-12.

[12] Putri, D. L., Wardi, J., & Farwitawati, R. (2016). Pengaruh Ketidak Pastian Lingkungan terhadap Karakteristik Sistem Impormasi Akuntansi Manajemen pada Bank Syariah Mandiri Pekanbaru. PEBIS (Jurnal Pendidikan Ekonomi Dan Bisnis), 8(2), 144-154.

[13] Rini, Amilia Kartika. 2010. Analisis Luas Pengungkapan Corporate Governance Dalam Laporan Tahunan Perusahaan Publik di Indonesia. Skripsi. Program Sarjana Fakultas Ekonomi Universitas Diponegoro. Semarang.

[14] Sutiyoso, Bambang. 2008. Prinsip GCG Bagi Dunia Usaha Dalam Mewujudkan Tata Kelola Usaha Yang Beretika Dan Berkelanjutan. Didownload dari http://bambang.staff.ui.ac.id/2008/10/20/prinsipgcg-bagi-dunia-usaha-dalam-mewujudkan-tatakelola-usaha-yang-beretika-dan-berkelanjutan/pada tanggal 27 November 2011.