العلاقة بين حوكمة الشركات وجودة التدقيق
(دراسة حالة على شركات غير مالية)

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الملخــص :
الهدف من الدراسة هو معرفة العوامل التي لها تأثير على جودة التدقيـق في الشركات غير المالية في أندونيسيا، حيث استخدمت هـذه الدراسة القوائم المالية للشركات غيلا مالية المدرجة بالبورصة الإندونيسية من 2013- 2014 م ، وكان الأسلوب المستخدم في جمع البيانات في هذا البحث هو عينة متعمدة ومقصودة مع 31 شركة غـير مالية كعينة حيث اختبرت الفرضيات باستخدام تحليـل الانحدار الخطـي ، وأشارت النتائج أن المتغيرات التي لها تأثير على جودة التدقيق هي مقياس مجلس الإدارة المستقل في حين لم تثبت النتائج أيّـــة تأثير للمتغيرات الأخرى المتمثلة في ملكية المؤسسةعلى جودة التدقيق.
الكلمات الرئيسية : الملكية الغدارية ، وحجم لجنة التدقيق ، و جودة التدقيق.

The Relation of Corporate Governance to Audit Quality: Case Study on Non Financial Companies

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ABSTRACT
This study is aimed to know the factors that affect the quality of audits on non financial companies in Indonesia. This study uses the financial statement of non financial companies listed in Indonesia Stock Exchange (IDX) for period of 2013-2014. Data collection method used in this research is purposive sampling with 31 non financial companies as the sample. The hypotheses were tested using logistic regression analysis. The results show that the variables that have a significant effect on audit quality is a measure

of independent board. While other variables examined in this study such as Institutional Ownership is not proven to affect on audit quality.
***Keywords**: Managerial Ownership, size independent board, audit committee size and audit quality*

INTRODUCTION

Audit service is very important to increase financial statement users' trust in the financial report. This service will give added value to the financial statement, in which users apply this information for decision making. Therefore, it is important to improve the audit quality. Auditors should keep and improve the independence, competency and accountability in conducting their engagement, so that the audit qualiy increases. An independent audit provides a necessary external check on the integrity of financial statements. Auditor's independence is important in the context of audit quality because the independent audit is critical to the credibility and integrity of financial statements (Treasury, 2010). Because of the important result of an audit process, the auditor must maintain quality in accordance with the generally accepted auditing standard (GAAS) when accumulating and evaluating the auditing evidence. The auditor is encouraged to have accountability on each part of an audit activity. Therefore, the purpose of an audit activity needs sufficient competent evidences so that it can run successfully (Suyono, 2013).

According to the Cadbury Report (1992), the annual audit is "one of the cornerstones of corporate governance. The audit provides an external and objective check on the way in which the financial statements have been prepared and presented." But the effectiveness and efficiency of external auditing is subject to the actuality and the development of the corporate governance environment (Holm and Laursen, 2007).

There are several corporate governance factors that affect audit quality, including the ownership structure, independence of board directors and independence of audit committee. It seems that the ownership structure creates several stimuli to supervise the financial reporting and affect the independent auditor. One stimulus is that the audited financial statements are an important resource for information about the company and the investors value it significantly in analyzing the accounting information and financial decision makings about auditing quality and the type of the auditors' reports. Thus, it is expected that the companies' ownership potentially affects auditing quality and there is a logical relationship between the amount of these ownerships and auditing quality (Hoseinbeglou, et al., 2013).

The relationship between outside shareholders and managers is marked by moral hazard and opportunism, which result from information asymmetry. The social role of financial reporting increases with the separation of ownership and control (Wan, et al., 2008). The percentage of ownership from institution is normally higher than individual investor. It is assumed that institutional investors have more influence than other individual investors. With the high portion of ownership, institutional ownership has the importance of monitoring role in the process auditing. Kane and Velury (2002) observed that the greater the level of institutional ownership, the more likely it is that a firm purchases audit services from large audit firm in order to ensure high audit quality (Adeyemi and Fagbemi, 2010).

According Chtourou, et al., (2001) that the greater the number of board monitoring, the better the mechanism of enterprise management. The proportion of Commissioners from outside the company or independent Commissioners also affect the performance of the company acting as a mediator in disputes between internal managers and oversee the management policies as well as providing advices to the management independent. Commissioner is best positioned to implement the monitoring function to create a company that good corporate governance (Fama and Jensen, 1983).

Empirical evidence on the relationship between corporate governance and audit quality is mixed. For example, O'Sullivan (2000) uses audit fees as a surrogate for audit quality to examine the impact of board composition and ownership structure on audit quality in the UK prior to the adoption of the recommendations of the Cadbury Committee. His findings suggest that audit fees have a positive correlation with the proportion of non-executive directors and a negative association with the proportion of equity owned by executive directors, but have no impact with ownership by large institutional blockholders or CEO/chairman duality.

The purpose of this paper is to analyze the factors from corporate governance that determine the audit quality of non financial companies in Indonesia Stock Exchange. The analysis was done by examining the influence of ownership structure and board of directors on audit quality. Therefore, there were two research questions in this study: does managerial ownership have influence on audit quality and does independence of board commissioners have influence on audit quality.

The Relation of Managerial Ownership with Audit Quality

The inappropriate and insufficient revealing of financial reports and the lack of information transparency in companies increase the problems resulted from ownership isolations from the management. The lack of presenting the related and reliable financial information results in economic losses for stockholders and other external beneficiaries (Hoseinbeglou, et al., 2013). Additionally, the investors, creditors and other beneficiaries rely on the results of auditing carried out by the independent auditing institutions. The more auditing quality will result in more value, credibility and acceptability of it by the users of financial statements. On the other hand, auditing quality which is directly related with corporate governance and controlling strategies has a hidden and multi-dimensional structure (ibid).

H1 = Managerial Ownership has a positive effect on audit quality.

The Relation of Independence Board Commissioners with Audit Quality

Commissioner is an independent entity within the company which usually consists of an independent board of directors from outside the company and serves to assess the overall performance of the company extensively (Emirzon, 2007). Independent commissioner of a company must be truly independent and able to resist the influence, intervention, and pressure from major shareholders who have an interest in the transaction or purpose (Ahmad, 2005). As part of the monitoring organ, independent commissioners are expected to have full attention and commitment in carrying out their duties and obligations. Independent commissioner aims to balance in decision-making especially in the context of the protection of minority shareholders and other parties concerned. If the company has an independent commissioner, the financial statements presented by the management tend to be more integrated, because there is the body within a company that oversees and protects the rights of the parties outside the company's management. The more the number of independent board, the better the performance of supervisory and coordination functions within the company. This will affect the level of oversight of auditors and the better the quality of financial reports produced and delivered to the users, especially shareholders. Some companies concluded that the Independent board of commissioner will extend on the audit process and improve audit quality.

H2 = Independence Board of Commissioners has a positive effect on audit quality.

RESEARCH METHOD

Data in this study is taken from financial statements or annual reports obtained from Indonesian Capital Market Directory 2013—2014 and www.idx.co.id. The data used in this study was secondary data obtained and recorded by another party. The data included all variables such as ownership structure, board of directors, and audit report statement.

To obtain the data, documentation, ie obtaining data of a document emanating from the financial statements and www.idx.co.id ICMD (Indonesia Capital Market Directory) was conducted. The samples were selected based on purposive judgment sampling method. Thus, the sample in this study must meet the criteria: the company had successively been listed in the Indonesia Stock Exchange in 2013 and 2014, the company had published its financial statements closing date December 31 in 2013 and 2014 and the financial statements in the sample has been audited by The Public Accountant.

In this study, researchers will use the dependent variable and independent variables. The dependent variable is audit quality. The independent variables in this study include: managerial ownership (the proportion of ownership of shares held by managers and employees in the company) which is formulated as own = Σ presentation of the ownership of the shares owned by the company's employees and managerial and Independence Board Commissioners (the percentage ratio between the numbers of Commissioners from outside the company (independent Commissioners) to the total number of board members of the company).

In this study, quantitative analysis was done by quantifying research data to produce information needed in the analysis. Analysis tools used in this study was logistic regression analysis (logistic regression) because the independent variable is a mixture between continuous variables (metrics) and categorical (non-metric) which does not need the assumption of normality of the data on the independent variables.

ANALYSIS AND INTERPRETATION

Multicollinearity Test

Multicollinearity test aims to test whether the regression model found correlations between variables (independent).

Table 1. Coefficients between Variables

Coefficient Correlations[a]

Model			INAC	OS	IBOC
1	Correlations	INAC	1.000	-.030	.077
		OS	-.030	1.000	-.037
		IBOC	.077	-.037	1.000
	Covariances	INAC	.009	-.001	.000
		OS	-.001	.172	-.001
		IBOC	.000	-.001	.002

a. Dependent Variable: AQ

Source: Secondary data were processed, 2014

The results of the correlation between variables shows that the only independent variable) which possessed high correlation is Managerial Ownership (OS) with a correlation of 17.2%.

Hypothesis Testing

Hypothesis testing using logistic regression models was to examine the effect of the Managerial Ownership (OS) and Independent Commissioner (IBOC) which affect on Audit Quality (AQ). Testing hypotheses include (1) assess the feasibility of the regression model, (2) assess the overall model, and (3) test the regression coefficients.

Testing of the regression coefficients

The final stage is the regression coefficient test, in which the results can be seen in Table 4.11 The table shows the results of the logistic regression test with a significance level of 5 percent.

Table 7.
Logistic Regression Coefficients Test Results

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)	95.0% C.I.for EXP(B)	
								Lower	Upper
Step 1[a]	OS	-.892	2.037	.191	1	.662	.410	.008	22.236
	IBOC	.653	.233	7.880	1	.005	1.922	1.218	3.033
	INAC	-.979	.526	3.467	1	.063	.376	.134	1.053
	Constant	-.481	1.630	.087	1	.768	.618		

a. Variable(s) entered on step 1: OS, IBOC, INAC.

Source: Secondary data were processed, 2014

From the results of the regression analysis, there is one variable that significantly influences the dependent variable. It is Independent Commissioner (IBOC). This is proven by the level of significance less than 0.05. There is one variable that has no significant influence on the dependent variable. That is Managerial Ownership (OS). This is evidenced by the level of significance obtained independent variables are more than 0.05

Results of significance testing in partial independent variables as in the discussion as follows:

1. H1: Managerial Ownership has a positive effect on audit quality

   Managerial Ownership (OS) variable shows a negative coefficient of -0.892 with variable probability of 0.662 above the 0.05 level (5 percent). Thus it can be concluded that H1 is rejected. Thus no evidence that Managerial Ownership (OS) affects the Audit Quality (AQ).

2. H2: Independence Board of Commissioners has a positive effect on audit quality

   Independent Commissioner (IBOC) variable shows the positive coefficient of 0.653 with variable probability of 0.005 under the 0.05 level (5 percent). Meaning it can be concluded that the H2 is accepted. Thus evident that there is a positive affect of the Independent Commissioner (IBOC) on the Audit Quality (AQ).

Table 8. Resume Results Of Hypothesis

No	Hypothesis	Result	Conclusion
1.	H1: Managerial Ownership has a positive effect on audit quality.	B = -0.892 sign (0.662) > 0.05	Rejected
2.	H2: Independence Board of Commissioners has a positive	B = 0.653 sign (0.005) < 0.05	Accepted

	effect on audit quality.		

Source: Secondary data were processed, 2014

DISCUSSION

Managerial Ownership (OS) Variable

In this study, the Managerial Ownership (OS) hypothesized that the greater the Managerial Ownership (OS) of the company, the greater *Audit Quality* and vice versa. The results showed that the testing of the hypothesis (H1) which states that Ownership Structure has a positive effect on audit quality is not significantly acceptable. Descriptive statistical analysis of the results showed that the lowest (minimum) Managerial Ownership (OS) is 0.00 and the highest (maximum) 0.65, then the average Managerial Ownership (OS) is 0.0634 while the standard deviation is 0.11327. The results indicate that the greater primary value than the average Managerial Ownership (OS) indicates that the value of the proportion of ownership of shares held by managers and employees in the company is far different.

The finding does not support the agency theory which mentions that the inappropriate and insufficient revealing of financial reports and the lack of information transparency in companies increase the problems resulted from ownership isolations from the management. The lack of presenting the related and reliable financial information, results in economic losses for stockholders and other external beneficiaries.

The finding also was not consistent with previous research. The previous research such as conducted by Hoseinbeglou et al. (2013) who concluded that the independent auditing supports the rights of all beneficiaries through crediting financial statements, guaranteeing reliability and approving financial information quality. On the other hand, auditing quality which is directly related with corporate governance and controlling strategies has a hidden and multi-dimensional structure.

Independent Commissioner (IBOC) Variable

In this study, the Independent Commissioner (IBOC) hypothesized that the greater the Independent Commissioner (IBOC) of the company, the greater *audit quality* and vice versa. The results showed that the testing of the hypothesis (H2) which states that Independence Board of Commissioner has a positive effect on audit quality is significantly acceptable. Descriptive statistical analysis of the results showed that the lowest value (minimum) of Independent Commissioner (IBOC) is 3.00 and the highest (maximum) is 6.00, then the average of Independent Commissioner (IBOC) is 3.9247 while the standard deviation is 1.04504. Similarly, the minimum value smaller than the average (3.00), and the maximum value smaller than the average value (6.00) indicate that the Independent Commissioner (IBOC) of variable data indicates a favorable outcome.

The finding supports the agency theory. The proportion of Commissioners from outside the company or independent Commissioners also affect the performance of the company acting as a mediator in disputes between internal managers and oversee the management policies as well as providing advices to the management independent. Commissioner is best positioned to implement the monitoring function to create a company that good corporate governance (Fama and Jensen, 1983).

CONCLUSIONS AND POLICY IMPLICATIONS

Conclusion

Based on test results and discussion on the influence of the Managerial Ownership (OS) and Independent Commissioner (IBOC) on Audit Quality (AQ), the study can be concluded as follows:

1. The first hypothesis of the test results, the Managerial Ownership (OS) does not statistically affect on the Audit Quality (AQ). The inappropriate and insufficient revealing of financial reports and the lack of information transparency in companies increase the problems resulted from ownership isolations from the management. The lack of presenting the related and reliable financial information results in economic losses for stockholders and other external beneficiaries.

2. From the results of testing the second hypothesis, the Independent Commissioner (IBOC) significantly affect on the Audit Quality (AQ). The results support the agency theory, that The proportion of Commissioners from outside the company or independent Commissioners also affect the performance of the company acting as a mediator in disputes between internal managers and oversee the management policies as well as providing advices to the management independent. Commissioner is best positioned to implement the monitoring function to create a company that good corporate governance.

Limitation of Research

This study has limitations that can be considered for the next researcher in order to obtain better results.

1. Observation period used in this study was only 3 years old, led the study results cannot see the trend of Audit Quality that occur throughout the year.
2. This study only uses 3 independent variables tested for their affect on *Audit Quality.* Subsequent research, the independent variable should add audit field that is not used in this study such as industrial classifications, and others.
3. Nagelkerke R square value is 0.182 or 18.2%. This means that 18.2% of variation the Audit Quality (AQ) which can be explained by the variation of the three independent variable are the Managerial Ownership (OS), Independent Commissioner (IBOC) and Independence of audit committee (INAC), while the rest of 81.8% influenced by other factors that are not included in the regression model.
4. Sample only from Non Financial Company thus generalization to other Industries is limited.

Recommendation

Based on some of the limitations that exist in this study, the researchers suggest for future research:

1. The researchers could use more variables such as industry classification, internal audit, and others that can be used to test the Audit Quality.
2. Other similar studies can also be performed to confirm these results using a different test approach and or add other variables that can affect the perceived Audit Quality.

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