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The Innovation Breakthrough in Digital and Disruptive Era
The Influence of Audit Quality and Audit Committee on the Quality of Financial Reporting of Companies Registered on the Jakarta Islamic Index (JII)

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ABSTRACT

This study aims to determine the impact of the quality of the audit and the audit committee on the quality of financial reporting at companies included in the Jakarta Islamic Index (JII), using the target sampling method. The resulting samples were 26 real estate and real estate companies included in the Jakarta Islamic Index (JII). Hypothesis testing using multiple linear regression. Based on the results of the hypothesis test, it has been found that the quality of the audit, the size of the audit committee, the independent audit committee have no influence on the quality of the financial statements, while the meetings of the audit committee and the experience of the audit committee have a significant impact. had a positive impact on the quality of the financial statements. Participation

Keywords: quality financial reporting, audit quality, audit committee.

1. INTRODUCTION

As the globalization of free trade advances, companies are required to submit financial statements that can provide the information requested by users. When a company presents its balance sheet, we can know the financial and economic situation of the company. [2]

A company's financial statements are the result of a company's accounting processes and external reporting systems that regularly measure and disclose quantitative data relating to the company's audit findings, financial condition, and performance. At present, the industry is becoming more and more competitive, as evidenced by the growth of the industrial sector in the market. Many companies offer products and services to people with different characteristics. [26]

All commercial activities of a company have standards set to survive in order to achieve the goals and objectives of the company, so all companies must have a quality audit. Therefore, the management of the company must be able to establish a good system in all the activities of the company, which is regulated by the existing quality checks within the company. The quality of financial reporting is also referred to as the quality of accounting. [24]

The quality of financial reporting is also referred to as accounting quality. The quality of financial reporting is a broad concept that includes not only financial information, but also notes and non-financial information that are useful for decision-making. In addition, the quality of financial reporting activities is based on the qualitative characteristics of financial information and the full and fair disclosure of financial information. [1]

A look at a company's financial statements is reflected in corporate performance. Thus, a company's financial statements are the result of an accounting process that can be used as a tool to measure a company's performance. Financial reporting is the basis for an investor's decision to buy, hold or sell an investment. According to IAI, financial statements are used to evaluate a company's financial performance. [2].

The quality features used by the IAI are fundamental quality features and reinforcing quality features. The most important qualitative characteristics are relevance,
materiality, reliable presentation and application of the most important qualitative characteristics. [2]

At the same time, improving quality attributes are comparability, verifiability, timeliness, understanding and application of improving quality attributes [3].

Agency theory is implemented in modern organizations. Agency theory emphasizes the importance of company owners (shareholders) entrusting the management of their companies to specialized employees, called agents, who are experienced in managing day-to-day operations. The purpose of separating management and business ownership is to ensure that business owners are able to obtain the greatest possible profit at the most efficient cost by running the business with professional staff. [25].

Agency theory discusses the relationship between management and shareholders, where the principal is the shareholder and the agent is the company's management [4]. Periodic financial reports from the agent to the principal are a means of providing managerial accountability to the owner [27].

But on the other hand, such separators have their drawbacks. Flexibility in corporate governance to maximize company profits can lead to a process of profit maximization for managers through fees and costs to be borne by company owners. In addition, such a separation can also lead to a lack of transparency in the use of funds by the company and a lack of proper balance between existing interests, for example, between shareholders and management of the company, between controlling shareholders and minority shareholders. Such is the nature. [5].

Based on previous studies, it has been shown that the quality of the audit has a positive effect on the quality of financial reporting [6]. While other studies show that the size of the audit committee, the independence of the audit committee, the number of meetings of the audit committee and the experience of the audit committee have no influence on the quality of the financial reporting [4].

Audit quality can be interpreted as whether or not an audit has been performed by the auditor. Based on the Public Accountant Professional Standards (SPAP), the audit performed by the auditor is of high quality, provided it meets the audit requirements or standards. Auditing standards include professional quality, independent auditors, assessments used in conducting audits, and preparing audit reports. [4].

Audit quality is the ability of the auditor to detect and report errors and irregularities in the client's accounting system. The quality of the audit is reflected in the direction of the input. This includes: Assignment of her KAP staff to conduct agreements, consultations, supervision, appointments, professional development, promotions and audits. Process directions include independence, adherence to audit standards, audit management and auditor competence. Results orientation includes the work of auditors, acceptance and continuation of cooperation with clients, and appropriate professional care. Follow the auditor's recommendations, including: The client's senior management will support the implementation of the auditor's recommendations. Client internal documentation enables the implementation of audit recommendations. The client's company's system allows the implementation of the auditor's recommendations. And the physical capabilities of the client's company make it possible to implement the auditor's recommendations. [4].

Based on the Public Accountant Professional Standards (SPAP), it can be stated that the audit performed by the auditor is of high quality if it meets the provisions of audit standards. Auditing standards relate to the professional qualifications of independent auditors, the judgment used in performing audits and preparing audit reports.

The audit committee consists of a number of members of the client's supervisory board who are responsible for assisting the auditor in maintaining its independence from management. Usually the audit committee consists of three or five or sometimes seven persons who are not part of the management of the company. [9].

The audit committee plays a crucial role in implementing a good corporate governance mechanism. The existence of this audit committee helps to implement good corporate governance. As explained earlier, the audit committee itself is a committee set up by the supervisory board to assist the supervisory board in the performance of supervisory duties. [10].

The Audit Committee is responsible for assisting the Committee in overseeing management's financial reporting process in order to improve the reliability of financial reporting. The audit committee's responsibilities include reviewing the company's accounting policies, evaluating internal controls, reviewing external reporting systems and compliance. In carrying out its duties, the committee provides formal communication between the board of directors, management, the audit firm and the internal audit firm. [9].

Formal alignment between the audit committee, internal auditors and external auditors ensures that the internal and external audit processes are performed correctly. Proper internal and external audit processes improve the accuracy of financial statements and increase their reliability. The Audit Committee also maintains the final financial statements to make the report more accurate in the event of disagreement between management and the auditor regarding the interpretation.
and application of generally accepted accounting principles, and also acts as an intermediary for the achievement. The Audit Committee is made up of independent individuals with financial and accounting knowledge, and tends to support the opinions of the four auditors. [10].

The economic trend is presented as an indicator of corporate success, which can be interpreted as the results achieved by various activities. The results of this analysis can be used to determine the state of the company, as well as its weaknesses and performance, and can also be used as input for decision-making by stakeholders. [11].

According to the IAI, the purpose of general purpose financial reporting is “to enhance financial reporting that is beneficial to the majority of report users for the purposes of making economic decisions and demonstrating the responsible management and use of financial reporting. our financial health, performance and cash flow.” [4].

A company's financial statements are the result of an accounting process that can be used as a tool to measure a company's performance as they reflect the company's performance. According to IAI, financial statements are used to evaluate a company's financial performance. [23].

The company's financial performance reflects the health of the company. Analysis of the company's performance not only provides information about the company's performance as a material for management evaluation, but also helps investors make decisions. Certain indicators or benchmarks can be used to evaluate a company's financial performance. [4].

A commonly used measure is a ratio or index that links two financial measures. In financial statement analysis, there are two types of comparisons that compare past, current or future statements of the same company. Another form is the comparison of the company's relationship with other similar companies. 16 According to Jonas and Blanchett 2000, the quality of financial statements is complete and transparent information aimed at not misleading users. [4].

The quality of financial statements has a significant impact on accountability, and a quality financial statement is about accountability or accountability for the prepared financial statement and the expression of an opinion on the correctness of the financial information presented. [21].

2. RESEARCH METHODOLOGY

The data used in this study is secondary data obtained from the Jakarta Islamic Index (JII) in the form of the company's annual financial statements taken from www.idx.co.id. In this study, the population consists of all real estate and real estate companies listed on the Indonesian Stock Exchange. The sample was selected by purposeful sampling. The quality of financial reporting as a dependent variable is tested for discretionary charges using a modified Jones model (Dechow et al, 1995).

2. RESULTS AND DISCUSSION

The results of data processing can be seen in Table 1 below.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Regression coefficient</th>
<th>Sig</th>
<th>Hypotesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constanta</td>
<td>-0,100</td>
<td>0,685</td>
<td></td>
</tr>
<tr>
<td>Audit Quality</td>
<td>0,001</td>
<td>0,990</td>
<td>Rejected</td>
</tr>
<tr>
<td>Audit Committee</td>
<td>0,011</td>
<td>0,28</td>
<td>Accepted</td>
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</tbody>
</table>

Source: processed with SPSS 16

The results of testing the first hypothesis showed that the quality of the audit does not affect the quality of financial reporting, large or small CAP, it does not affect the quality of financial reporting [6]. The results of this study are the same as in [6] and [4].

The results of testing the second hypothesis showed that the size of the audit committee has an impact on the quality of financial reporting. The more meetings of the audit committee are held in the company, the more it affects the quality of financial reporting [11]. The results of this study are also consistent with [12], [13] and [14].

3. FIGURE AND TABLES

In an investigation, mood is necessary to explain the direction of the investigation. Be able to demonstrate the relationship between independent variables and dependent variable within a conceptual framework. The structure of thinking in this study:

**Thinking Framework**

![Thinking Framework Diagram]

**Information:**

1. The independent (free) variables in this study are Audit Quality (X1) and Audit Committee (X2).

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2. The dependent (related) variable in this study is the quality of financial reporting.

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4. CONCLUSIONS AND RECOMMENDATIONS

The results of this study showed that the quality of the audit does not affect the quality of the financial statements, and while the audit committee has a positive impact on the quality of the financial statements, while the quality of the audit, the size of the audit committee, does not affect the quality of financial reporting.

Future researchers are encouraged to expand the observation sample so that the results of this study can be generalized.
REFERENCES


