

DETERMINANTS OF FINANCIAL REPORTING QUALITY AND ITS IMPLICATIONS ON THE FINANCIAL PERFORMANCE OF STATE-OWNED ENTERPRISES (SOES)

Evada Dewata*, Hamdy Hadi**, Hadi Jauhari**

*Polytechnic State of Sriwijaya, Jln Sriwijaya Negara Bukit Besar Palembang South Sumatera, Indonesia

**University of Persada Indonesia, Jakarta, Indonesia

Abstract

This research aimed at analyzing the influence of the size of the board of directors, the composition of the independent commissioners, the effectiveness of audit committee and government ownership of the financial reporting quality and its implications on the financial performance of state-owned enterprises. Research population is state-owned enterprises listed on the Indonesia Stock Exchange from 2010-2014. There were 50 companies assigned as the sample of this research by using purposive sampling method. The results showed that partially, the size of the board of director, the composition of the independent commissioners and government ownership did not have the significant influence on financial reporting quality. The effectiveness of audit committee positively and significantly influenced financial reporting quality. The size of the board of directors, the effectiveness of the audit committee and financial reporting quality positively and significantly influenced financial performance. The composition of an independent commissioner and government ownership negatively and significantly influenced financial performance.

Keywords: The Independent Commissioners, the Audit Committee, Government Ownership, Financial Reporting, Financial Performance

1. INTRODUCTION

SOEs as one of the managers of the development of national economic have been committed to built Indonesia better future. SOEs are in the list of most influential enterprises in the world proved that they competitive quality compared to privately owned enterprises. In 2015, five SOEs are in 2000 best enterprises by Forbes Global 2000, they are PT Bank Rakyat Indonesia (Persero) Tbk., PT Bank Mandiri (Persero) Tbk., PT Telekomunikasi Indonesia (Persero) Tbk., PT Bank Negara Indonesia (Persero) Tbk., and PT Perusahaan Gas Negara (Persero) Tbk (Indonesia Market Quotes,2015).

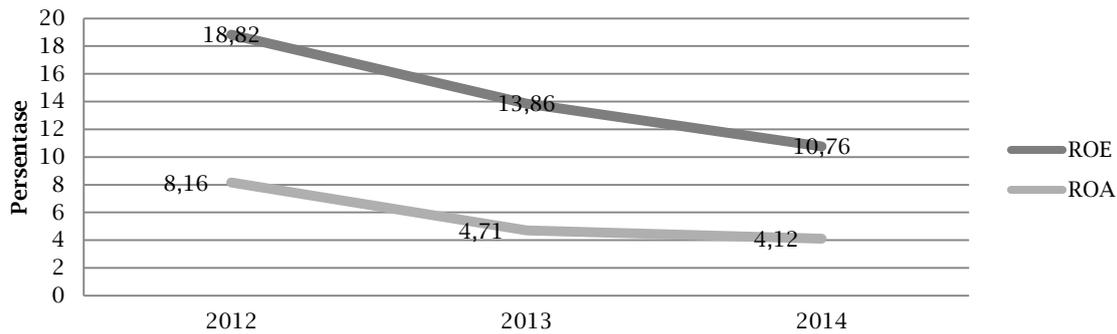
The performance of state-owned enterprises in Indonesia, especially state-owned enterprises listed on the Indonesia Stock Exchange, becoming one of the interesting research topics to be researched. It is due to their double functions, giving service for public and income generating for the nation. According to Aviliani (Indonesian Accountant Magazine, 2014), the role of the larger state-owned company should be encouraged to continue the concept of Indonesia Incorporated, and one attempt through improved performance state-owned enterprises and private partners. Instead of great facility support from the

government for SOEs in term of capital, service and sectoral, they cannot fulfill public expectation yet since there are still many SOEs that failed in running their function properly (enceng and Yuli, 2013).

Low performance of SOEs is indicated by a number of SOEs that experience loss. Data from the Ministry of SOEs (2015) shows in average approximately 18.47% of the SOEs reported the loss during the 2010-2014 period and some SOEs listed on Indonesia Stock Exchange also reported the same. For example, PT Krakatau Steel Tbk during 2012 to end of 2014 period was continuously experienced loss for about 2.590 trillion rupiahs as well as Garuda Indonesia Tbk for about 4.620 trillion rupiahs.

SOE performance is not optimal, revealed by the Djalil (2015) that the low profit margin or profit due to, among others, the high overhead costs, the high cost of production, as well as the low level of sales / revenues related to the quality, competitiveness of products, the level of service and marketing management. Figure 1.1 shows the development of the performance of state-owned enterprises listed on the Stock Exchange from 2012 to 2014 period.

Figure 1. Performance of SOEs Listed on Indonesia Stock Exchange



Based on Figure 1.1 financial performance of SOEs listed on ISE in the 2012-2014 period when measured by return on assets (ROA) and return on equity (ROE) was under the average of industrial ratio. The low profitability was indicated by that ROA of less than 20%. During 2012-2014 the average ratio of ROA was 5.66%, meanwhile, the average of ROE was 14.48%, still under industrial standard (15%).

Losses in state-owned enterprises, especially listed on the Stock Exchange is an early indication of the low quality of financial reporting, as revealed by Cohen (2006), the loss is an indication of a serious negative surprise in the company's operating environment. Another indication of the low quality of SOEs financial reporting, among others the occurrence of several scandals such as the manipulation of financial statements of PT. Kimia Farma. In 2001 there were misstatements in the financial statements which resulted in overstated net income for the fiscal year 2001, the cases of manipulation of financial statements of PT Kereta Api Indonesia (KAI) in 2005, the budget deviation at PT Telecommunications Indonesia which cost the state Rp12 billion and US \$ 130 million (Tempo, July 16, 2012). Financial statements deviation of PT Waskita Karya (Persero), as well as cases of misuse of assets (asset misappropriation) committed by PT.KAI 2009.

One determinant of the quality of financial reporting is the mechanism of corporate governance. Agency problems in state-owned enterprises often occur because of political interference / bureaucracy and lack of transparency in financial reporting (Wong, 2004). Implementation of Corporate Governance mechanisms, especially in state-owned enterprises was still weak, such as the lack of professional board of directors due to the membership of the board of directors of state determined by the government and sometimes and did not take competency as the main consideration. Furthermore, the ineffective working of the board of commissioners. it is because the commissioner is not only lack of integrity, but also the lack of time in carrying out its commissioner duties and their other roles activities like politicians, former soldiers, former ministers, academics and civil servants (Kamal, 2010). The existence of the audit

committee also was not effective to oversee the financial reporting process of state-owned enterprises.

Next determinant of quality of financial reporting is ownership structure especially government ownership. Government as large shareholders is a polemic including management of state-owned enterprises with the status of public enterprises. Wong (2004) stated that the majority of state-owned enterprises in developing countries has the disadvantage of good corporate governance, among others, the emergence of agency problems because of government high intervention in the management. As revealed by Gunasekarage et al. (2007), Wei et al. (2005), Ongore and Peter (2011); Yonnedi and Sari (2009); Hu et al (2009), that government ownership was a significant negative effect on the company's performance. Instead, Klai and Omri (2011) and Saleh and Ahmad (2009), reveal the role of government (as principal) is expected to be more effective in monitoring and evaluating management (as an agent), have sufficient incentive and adequacy to monitor and evaluate management. While Wiranata and Nugrahanti (2013) shows that government ownership does not affect the company's performance.

The influence of Corporate Governance Mechanism and the presence of government ownership to the quality of financial reporting and financial performance of state-owned enterprises listed on the Stock Exchange is very interesting to study, because it will be useful not only in theory for the development of science, especially the science of accounting, but also will be useful in practice for companies especially SOEs in improving the quality of financial reporting and evaluating the performance of SOEs.

This study examined issues relating to the measurement of the quality of corporate financial reporting for the measurement of the quality of financial reporting is still done separately, not integrated and comprehensive, like Karami (2014) and Madawaki and Amran (2013) measured the quality of financial reporting by employing accrual quality, Hassan (2013) used earnings management, Shiri et.al. (2012) and Sivaramakrishnan and Yu (2008) used the accrual quality, earnings persistence and predictability, Khafid (2012) used earnings persistence. While in Indonesia, the

measurement of the quality of financial reporting is used more predominantly measurements of the quality of financial reporting market base was tested separately, like Santoso (2012) measured the quality of financial reporting using a relevance value, Siallagan (2009) used Discretionary accruals.

This study tried to create and assess the quality attributes of alternative financial reporting. The financial reporting quality attributes such as quality attribute assessment of financial reporting in the form of factor analysis. These five attributes of quality of financial reporting were formed into the quality of financial reporting factorial. As ever conducted by Pagalung (2006) who used the measurement attribute of financial reporting quality-based accounting like the quality of the accrual, persistence, predictability and income smoothing and Fanani (2009) used the attributes of quality of financial reporting based on the market that rate relevance, timeliness, and conservatism.

The problems of this study include: First, the partial whether the size of the board of directors, the composition of the independent directors, audit committee effectiveness and government ownership affected the quality of financial reporting; Second, whether the size of the board of directors, the composition of the independent directors, audit committee effectiveness and of government ownership simultaneously affect the quality of financial reporting. Third, whether the size of the board of directors, the composition of the independent directors, audit committee effectiveness, government ownership and the quality of financial reporting affect the financial performance partially; Fourth, whether the size of the board of directors, the composition of the independent directors, audit committee effectiveness, government ownership and the quality of financial reporting simultaneously affect the financial performance. This study aimed to assess the influence of the size of the board of directors, the composition of the independent directors, audit committee effectiveness and government ownership of the quality of financial reporting and its implications on the financial performance of state-owned enterprises listed on the Indonesia Stock Exchange (ISE). This research was expected to provide information to the Ministry of SOEs to formulate policies that aim to make state enterprises in Indonesia as I government. For state-owned enterprises, as a basis for determining the company's policy priorities in the effort to improve the quality of financial reporting and the performance of state-owned enterprises, and for the accounting profession (IAI) and the Financial Services Authority (FSA), as input and feedback to the manufacture and evaluation of standard-accounting standards in the development, refinement, and the selection policy of financial reporting in accordance with GAAP with IFRS base.

2. LITERATURE REVIEW AND HYPOTHESIS TESTING

The influence of the size of the board of directors, the composition of commissioners, composition independent commissioners, the effectiveness of audit committee, government ownership of the quality of financial reporting. According to the agency theory, the enterprise's financial reporting is closely linked with manager performance adjustment as managers, so that managers tend to manipulate the company's financial reporting for its own sake. The board of directors as an organ of the company are responsible for monitoring the quality of financial reporting made by the company. Monitoring function performed by the board of directors is very important because of the moral hazard of managers. The amount of the board of directors logically will affect the speed of corporate decision-making. The quality of corporate governance will be better if the board of directors effectively monitor the behavior of the management in the company's financial reporting to ensure high-quality reporting profits (Klein, 2001). Based on the explanation, the hypothesis is formulated as follows:

H1: The size of the board of directors had a significant influence on the quality of enterprise financial reporting.

According to the agency theory, an independent board will provide effective oversight of management. The presence of independent board can facilitate more effective monitoring over financial reporting (Carcello and Neal, 2003). Independent board can demand greater internal control over financial reporting processes in order to protect their reputation (Carcello et al, 2002). The greater the proportion of independent directors showed that the supervisory function would be better. Based on the explanation, the hypothesis is formulated as follows:

H2: The composition of independent commissioners had a significant influence on the quality of SOEs financial reporting.

Related to the implementation of good corporate governance, the existence of an audit committee is expected to enhance the accountability and effectiveness of the board of directors in order to improve the quality of financial reporting and increase the effectiveness of internal and external audits. The effectiveness of the audit committee, in terms of financial reporting, roles and responsibilities of the audit committee to monitor and supervise the audit of the financial statements and ensure the preparation of financial reporting in accordance with financial accounting standards. The existence of an independent audit committee, especially with expertise in accounting and finance are a signal of the credibility and quality perception of better corporate earnings. Credible and good quality profit will get a more strong response (Bryan et al., 2004). Based on the explanation, the hypothesis was formulated as follows:

H3: Audit committee effectiveness had a significant influence on the quality SOEs financial reporting.

Policies and decisions that are taken by the shareholders in the framework of the process of preparation of financial statements will also determine the quality of financial reporting. The existence of government ownership in state-owned enterprises as the controlling shareholder or majority has an incentive to expropriate against minority shareholders. Controlling shareholders also have the ability to affect the financial reporting process. Therefore, the majority shareholder of the company may affect the quality of financial reporting. Shareholders who hold the large equity position in a company will be motivated to actively participate in determining the company's strategic direction (Khafid, 2012). Hashim and Devi (2007) and Klai and Omri (2011) stated that government ownership would improve the quality of financial reporting. Based on the explanation, the hypothesis was formulated as follows:

H4: Government ownership had a significant influence on the SOEs financial reporting.

Agency theory states that a conflict of interest between the agent with the principal can be reduced with proper oversight and Corporate governance mechanisms is a solution in resolving conflicts agency (Hart, 1995; Sleifer and Vishny, 1997). Signal theory also explains that the management as an agent will try to provide information about the results that have been achieved through company's financial reporting. The size of the larger board is expected to monitor the financial reporting process more effectively than the smaller size of the board and the independent board will improve the quality of the supervision function within the company. The greater the proportion of independent directors shows that the supervisory function will be better. The existence of an audit committee will help commissioners to monitor the financial reporting process by management to improve the credibility of financial statements. Government as the majority shareholder of the company may affect the quality of financial reporting. Shareholders who hold a large equity position in a company will be motivated to actively participate in determining the company's strategic direction (Khafid, 2012). Based on the explanation, the hypothesis was formulated as follows:

H5: Simultaneously size of the board of directors, the composition of independent commissioners, the effectiveness of audit committee and government ownership had to influence the quality of SOEs financial reporting.

The influence of the size of the board of directors, composition of independent commissioners, government ownership and quality of financial reporting to financial performance. To supervise the behavior of managers as well as to align the company owner and manager, the owner of the enterprise through the board of directors require managers to account for the company's resources through the mechanism of periodic financial reporting. Through financial statements,

the responsibility of managers, shareholders can measure, assess and oversee the manager's performance, the extent to which the manager has acted to improve company performance. Based on the explanation, the hypothesis is formulated as follows:

H6: Size of the board of directors had a significant influence on the financial performance of SOEs.

The composition of the board of independence commissioners indicates a greater role and is expected to oversee the company's performance and provide input to the board of directors. The higher the composition of the independent directors in the company is expected to monitor and provide advice to the directors effectively and provide added value to the company. Based on the explanation, the hypothesis was formulated as follows:

H7: Composition of independent commissioners had the significant influence on SOEs financial performance.

The audit committee as part of the Corporate Governance mechanism serves to provide views on matters related to financial policy, accounting and internal control. The more effective the audit committee, the more stringent regulatory process in a company as an audit committee will cooperate with the internal control function of the company. The company's performance will be better if the company is able to control the behavior of top executives of the company to protect the interests of shareholders, one of the ways is by an existence of an audit committee. Based on the explanation above, the hypothesis was formulated as follows:

H8: Audit committee effectiveness had the significant influence on SOEs financial performance.

Agency theory states that the performance of a company depends on the distribution and sharing of ownership between managers and others outside the owner (Jensen and Meckling, 1976). Government as controlling shareholder generally has political and social goals that are often inconsistent with the objectives of the company in improving corporate performance. As the results of the study Hu et al. (2009), Gunasekarage et al. (2007), Wei et al. (2005), Ongore and Peter (2011), Yonnedi and Sari (2009) and Kusumawati (2007), shows the government's stake will be significant negative effect on performance company. Based on the explanation, the hypothesis was formulated as follows:

H9: Government ownership had a significant influence on SOEs financial performance.

Signal theory shows that presenting the financial statements in a timely manner will have a good quality report because it will provide financial information that is reliable and according to the agency theory, financial reporting is a form of supervision that is used and is expected to reduce managerial problem between shareholders and managers. Financial reporting is a means of accountability manager. Through financial reporting, shareholders can measure, assess, monitor and determine the extent to which the actions of managers to increase shareholder

wealth. Based on the explanation, the hypothesis was formulated as follows:

H10: Financial reporting quality had the significant influence on SOEs financial performance.

The board of directors plays an important role in the mechanism of corporate governance, the larger the size of the board will also determine strategies to achieve financial performance. BOC that have more independent members will also provide for better monitoring of the policies of management to improve company performance. The existence of the audit committee can improve the effectiveness of the company's performance. The concentration of ownership by the government in state-owned enterprises provide opportunities for excessive government interference in the management and the management of the enterprises. The Government generally has the political and social goals that are often inconsistent with the objectives of the company to improve the company's performance. According to the Agency Theory, financial reporting is a form of supervision used and is expected to reduce the agency problem between shareholders and managers. Financial reporting is a means of accountability agents. Through financial reporting,

shareholders can measure, assess, monitor the performance of managers, as well as knowing the extent to which the actions of managers to increase shareholder wealth. Based on the explanation, the hypothesis was formulated as follows:

H11: Simultaneously size of the board of directors, the composition of independent commissions, the effectiveness of audit committee, government ownership, and quality of financial reporting had a significant influence on the financial performance of SOEs.

3. RESEARCH METHOD

3.1. Population and Sampling

The population of this research was all SOEs listed on Indonesia Stock Exchange (ISE) 2010-2014. The total number of samples were 50 enterprises determined by *purposive sampling technique*.

3.2. Operational Definition and Variable Measurement

The variables of this research were as follows:

Table 1. Identification dan Variable Measurement

No	Variable	Variable Measurement	Scale
1.	Size of Board of Director	Total number of board of director members in enterprise	Ratio
2.	Composition of Independent Commissioners	Percentage of the total number of independent commissioner members compared the total board of commissioner members.	Ratio
3.	effectiveness of audit committee	Total score of effectiveness of audit committee	Ratio
4.	Government Ownership	Total score of share ownership of government	Ratio
5.	Predictive Value	Earnings $t+1 = \alpha + \beta$ Earnings $t + \epsilon_{t+1}$	Ratio
6.	Timeliness	Differences between closing date and publication date in ISE.	Ratio
7.	Neutrality	$DA_{it} = TA_{it} / A_{it-1} - NDA_{it}$	Ratio
8.	Verifiability	Based on auditor comment.	Ratio
9.	Representational faithfulness	$CAC_{it} = \beta_0 + \beta_1 CF_{i,t-1} + \beta_2 CF_{it} + \beta_3 CF_{i,t-1} + \beta_4 \Delta REV_{it} + \beta_5 PPE_{it} + \epsilon_{it}$	Ratio
10.	Quality of Factorial Financial Reporting	Factor score of predictive value, timeliness, neutrality, reliability, and honest presentation	Ratio
11.	Financial Performance	$ROA = \text{Profit after tax} / \text{Total asset} \times 100\%$	Ratio

3.3. Technic for Analyzing Data

The data analysis was conducted in three stages. The first stage is to test whether the attributes of the quality of financial reporting differ from one another (do not overlap) with auxiliary regression testing R2 (Gujarati, 2003, Fanani, 2009) and continued by analysis of factors. The second stage is to analyze the determinants of the quality of financial reporting and to test the effect of the quality of financial reporting on financial performance with regression. This study uses multiple regression analysis with two models of the equation as follows:

$$QRF_{it} = \alpha + \rho Y_1 X_1 BDSIZE_{it} + \rho Y_1 X_2 BDINDT_{it} + \rho Y_1 X_3 EKA_{it} + \rho Y_1 X_4 GOVOWN_{it} + \epsilon_1 \quad (1)$$

$$ROA_{it} = \alpha + \rho Y_1 X_1 BDSIZE_{it} + \rho Y_1 X_2 BDINDT_{it} + \rho Y_1 X_3 EKA_{it} + \rho Y_1 X_4 GOVOWN_{it} + \rho Y_2 Y_1 QRF_{it} + \epsilon_2 \quad (2)$$

4. FINDING AND DISCUSSION

4.1. Descriptive Statistic of Research Variables

Table 2 shows the result of statistical description of research variables of 50 enterprises for five years (2010- 2014):

Table 2. Descriptive Statistic of Research Variables

Variable	Mean	Median	Standard Deviation
- Size of Board of Directors	5.94	5.00	1.057
- Composition of Independent Commissioners	37.46	33.00	0.067
- Effectiveness of Audit Committee	9.98	10.00	0.37
- Government Ownership	63.92	65.00	0.10
- Predictive Value	0.14	0.15	0.98
- Timeliness	64	59	15.30
- Neutrality	0.09	0.22	0.87
- Verifiability	3.92	3.50	0.16
- Representational faithfulness	0.30	0.20	0.22
- Quality of Factorial Financial Reporting	0.44	0.62	0.45
- Financial Performance	0.10	0.06	0.09

Source: Output SPSS 19

4.2. Results of Attributes of Quality of Financial Reporting Testing

4.2.1. Result of Auxiliary Regression Testing

Table 3 shows the results of the auxiliary regression testing which shows that there is no overlap between the five attributes of quality of

financial reporting as a result of correlation testing among attributes below 0.5 (Gujarati 2003; Francis et al. 2004,2005; Fanani, 2009).

The test results are consistent with the results Francis et al. (2004) and Pagalung (2006) which resulted in a high R2 auxiliary value for the honest presentation (quality accrual).

Table 3. Matrix Correlation Between Quality Attributes Financial Reporting

	Predictive Value	Timeliness	Neutrality	Verifiability	Representational Faithfulness	Auxiliary R2
Predictive Value	1	0.045	-0.047	-0.148	-0.016	0.026
Timeliness	0.0045	1	-0.188	-0.166	0.028	0.049
Neutrality	-0.047	-0.188	1	0.530**	-0.530**	0.447
Verifiability	-0.148	-0.166	0.530**	1	-0.292*	0.301
Representational Faithfulness	-0.016	0.028	-0.530**	-0.292*	1	0.289

Note: *, **, *** significant at the 10%, 5% and 1% level

4.2.2. Results of Factor Analysis Testing

The test results of factor analysis to the five attributes of quality of financial reporting indicated there were only three financial reporting

quality attributes that contribute to the formation of the quality of financial reporting-based accounting alternatives namely testable neutrality and presentation of honesty. The results of the factor analysis can be seen in Table 4.

Table 4. Factor Analysis Attributes Quality of Financial Reporting

1.	Kaiser-Meyer-Olkin Measure of Sampling Adequacy (MSA)					
	KMO	0,609				
	p-value Barlett's Test	0,000				
2.	Anti-image Matrics					
	Attributes Quality of Financial Reporting	Predictive Value	Timeliness	Neutrality	verifiability	Representational faithfulness
	MSA	0,526	0,649	0,579	0,652	0,616
3.	Communalities					
	Communalities	0,658	0,325	0,774	0,608	0,666
4.	Eigenvalues					
	Eigenvalues	1,976	1,056	0,948	0,644	0,377
5.	Component Transformation Matrix					
	Faktor loading	-0.161	-0.325	0,870	0,765	-0,709

Source: Output SPSS 19

Results of this study demonstrated that the measurement of the quality of financial reporting that most appropriate for state-owned enterprises was reliability (reliability) which includes elements neutrality, verifiability and representational faithfulness. While the predictive value and timeliness were not included in the measurement of the quality of financial reporting, the results of

this study support the accounting standards of Finance within the basic framework of the preparation and presentation of financial statements (2015: 8) that one of the obstacles of relevant and reliable information was timeliness. If there is undue delay in reporting, the information generated will lose its relevance.

4.2.3. Results of Determinant of Quality of Financial Reporting Testing

The test results showed an overall classical assumption that were away from classical assumptions and meet the criteria of BLUE and the

results of testing the best models of the Command Effect Model, Fixed Effect Model and Random Effect Model to equation 1 was Random Effect Model. Results of regression testing determinant of the quality of financial reporting can be seen in Table 5.

Table 5. Results of Determinants of Quality of Financial Reporting Testing

Determinant Variables	Quality of Financial Reporting	p-value
Constant	42.368	0.0008
Size of Board of Directors	0.507	0.1269
Composition of Board of Commisioers	0.006	0.2602
Effectiveness of Audit Committee	0.599	0.0000*
Government Ownership	-0.9473	0.4412
<i>Adjusted R² = 0.2309</i>		

Note: * significant 1%

Variable of the size of the board of directors did not have the significant influence on the quality of financial reporting in state-owned enterprises, meaning that there was no effect of increasing or decreasing the size of the board of directors to the quality of financial reporting. It indicated that the hypothesis H1 was rejected. The absence of the effect size of the board of directors showed that the effectiveness of the board of directors was not from the small size / number will, however, depend on the norms / integrity and professionalism of each member of the board of directors. These results do not support previous research like Karami (2014), Klein (2001), Chtourou, Jean and Lucie (2001), Sivaramakrishnan and Yu (2008) and Shiri et.al. (2012) that the size of the board of directors of the larger can monitor the financial reporting process more effectively than the size of a smaller board.

The composition of the independent commissioners did not significantly influence the quality of financial reporting in state-owned enterprises. It indicated that the hypothesis H2 was rejected. The addition of independent board members was possibly only to meet the formal provisions. The condition was considered relevant because the functions and responsibilities of the board of commissioners are not directly related to the quality of financial statements but with a variety of other policies in the company's operations. Results of this study contradict some earlier studies such as Khafid (2012), Klein (2001), Sembiring (2005), Carcello and Neal (2003) and Xie, Davidson and Dadalt (2003).

There was a positive and significant influence of effectiveness of audit committee on quality of financial reporting in state-owned enterprises. The greater effectiveness of the audit committee, the higher the level of quality of financial reporting. These results indicated that the hypothesis H3 was accepted. There were several facts such as first, most of the state-owned enterprises had qualified audit committee consequently the performance of the board's audit committee was increasingly effective. Second, one of the members already had

accounting education so that members of the audit committee was able to update the current issues of accounting. The research result is in line with research Ojulari (2012), Bali (2015), Chtourou. Jean and Lucie (2001), The Client (2001). Cohen. et al (2002), Khafid (2012).

Government ownership did not affect the quality of financial reporting. These results indicated that the hypothesis was rejected. There were several reasons such as: 1) the government's role in improving the quality of financial reporting was still minimum and less effective so that the government ownership did not guarantee the performance monitoring effectively. 2). The government did not consider the quality of financial reporting as factors that affect the quality or failure of the company's profit. 3) There was a possibility that the government did not directly monitor the running of the company, the government handed over the managerial accounting problems that exist without interfering significantly participation.

Results of this study proved that the H5 hypothesis was accepted. There was a positive and significant influence on the size of the board of directors, the composition of the independent commissioners, the effectiveness of audit committee and government ownership simultaneously to the quality of financial reporting. It means the better implementation of the size of the board of directors, the composition of the independent commissioners, the effectiveness of audit committee and government ownership, the higher the level of quality of SOEs financial reporting and vice versa.

4.2.4. Testing Result of Determinant of Financial Performance

Results of testing best models for the equation 2 was Random Effect Model. Results of regression testing determinant of financial performance can be seen in Table 6.

Table 6. Result of Determinant of Financial Performance Testing

Detemining Variables	Financial Performance	p-value
Constant	1.105	0.048**
Size of Board of Directors	0.079	0.048**
Composition of Independent Commisioners	-0.306	0.001*
Effectiveness of Audit Committee	0.575	0.009*
Government Ownership	-0.473	0.000*
Quality of Financial Reporting	0.025	0.000*
Adjusted R ² = 0.5360		

Note : * significant 1%, ** significant 5%

The size of the board of directors had significant and positive influence on the financial performance of state-owned enterprises. It indicated that the hypothesis H6 was accepted. The more member of the board of directors, the more effective monitoring management, communication and coordination among the members of the board of directors so that the better financial performance. This results support the research result of Noviwawan and Septiani (2013) and Darmawati (2004), and contrary to research Faisal (2004) and Hu et al. (2009).

The composition of independent commissioner had a significant and negative influence on the financial performance of state-owned enterprises. It indicated that hypothesis H7 was accepted. Results of this research revealed that the independent commissioner at the state-owned enterprises was not yet professional because independent commissioner did not have the integrity and ability, and also did not take the time and did not focus on the duties and role. This study supports the results Kamal (2010), Noviwawan and Septiani (2013), Yonnedi and Sari (2009), Susanti, Rahmawati and Aryani (2010), Wiranata and Nugrahanti (2013) and Gods (2015).

The effectiveness of the audit committee had significant and positive influence on the financial performance of state-owned enterprises. It indicated that hypothesis H8 was accepted. The existence of an audit committee has been able to overcome information asymmetry, oversee the implementation of management, actively evaluating the implementation and improvement of internal control in order to achieve optimal performance. The results support the research Siallagan and Machfoedz (2006) and The Client (2002).

Government ownership had a significant negative influence on the financial performance of state-owned enterprises. This result indicated that hypothesis H9 was accepted. The existence of negative influences showed that the government as a controlling shareholder should be able to supervise or control the performance of managers but often the government would have no purpose other than improving performance. Besides that the government's involvement in the process of the election of directors showed the influence of political interests in state-owned enterprises and sometimes financial policies taken by the government, impact on limited growth performance of SOE.

The quality of financial reporting had significant and positive influence on the financial performance of state-owned enterprises. These results indicated that the hypothesis H10 was

accepted. The results support the theory that the Agency's financial reporting is a form of supervision that may reduce the agency problems between the principal and the manager, as well as support the signal theory, that the presentation of financial statements in a timely manner will have a good quality report because it will provide reliable financial information. Results of this experiment also supports Fanani (2008), Pagalung (2012) and Penman and Zhang (2002), that the quality of financial reporting is closely linked to the performance of the company which is embodied in the company's profit or associated with operating cash flow in the foreseeable future (Dechow and Dichev, 2002 and Cohen, 2003).

Results of this study hypothesis H11 was accepted. There was a positive and significant influence of the size of the board of directors, the composition of the independent directors, effectiveness of audit committee, government ownership and quality of financial reporting simultaneously to financial performance. It means if combined the board of directors, the composition of the independent directors, effectiveness of audit committee, government ownership and the quality of financial reporting, the financial performance of state-owned enterprises will be higher and vice versa.

5. CONCLUSION AND SUGGESTION

5.1. Conclusion

The conclusions that can be drawn from this research include:

1. Determinant test results of financial reporting quality showed that the effectiveness of audit committee had significant and positive effect on the quality of financial reporting. On the contrary, the size of the board of directors, composition of independent commissioners and ownership government did not show a significant influence;
2. The results of Determinant of financial performance testing indicated that the size of the board of directors, an effectiveness of audit committee and quality of financial reporting had significant and positive influence on financial performance. In contrast, the composition of the independent board and government ownership had significant negative influenced on financial performance.

5.2. Suggestions

1. For the Ministry of SOE as SOE manager in Indonesia, to be more proactive in overseeing the implementation of well corporate governance.
2. For accounting profession (IAI) and the Financial Services Authority (FSA), the results of this study demonstrated and supported the Financial Accounting Standards-based accounting (GAAP IFRS), that constituted the variable quality of financial reporting consists of the reliability (reliability) which includes neutrality, verifiability, and representational faithfulness and the variable quality of financial reporting can be used as guidelines for determining the quality of financial reporting information go public enterprises in Indonesia Stock Exchange.
3. For the state-owned enterprises, one of the ways used to monitor and limit the contract issue was the management of opportunistic behavior of enterprise governance mechanism. From these results, the managerial implications that can be applied to improve financial performance through the implementation of corporate Governance mechanism, namely improving the effectiveness of audit committees in several ways such as 1) Empowerment of Committee Audit professional members from the Accountant Organization like Indonesian Accountants Association (IAI).

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