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INFLUENCE OF BUSINESS ETHICS, CORPORATE GOVERNANCE, AUDITOR ROTATION, OWNERSHIP CONCENTRATION ON THE QUALITY OF FINANCIAL REPORTING Upon adoption of IFRS (2011-2013)

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Abstract: *The quality of corporate financial reporting that determines the appropriate decision making by management, investors and creditors. Moreover, the application of IFRS which aims to improve the quality of financial statements is closer to the actual condition of the company with a fair value approach and more disclosure and use of professional judgment. Business ethics becomes a value which is an indicator of the success of ethics management in making decisions assessed affect the quality of financial reporting and financial performance. Corporate Governance is a set of values that determine the performance of the management company a good company will improve the quality of financial reporting resulting management. External auditor rotation policy used by the company to improve the independency and objectivity of the results of the audit on the financial statements of the company, with a turnover or a good auditor rotation system will improve the quality of financial reporting. Concentration of stock ownership is higher also expected to improve the management responsibilities in managing the company to improve the quality of financial reporting. The method used is to use multiple regression analysis to test the hypothesis of the influence of business ethics, corporate governance, auditor rotation, ownership concentration on the quality of financial reporting. The results showed a variable business ethics, corporate governance, auditor rotation, ownership concentration affects the quality of corporate financial reporting simultaneously by 11% at the 0.05 level. While partially variable business ethics and corporate governance proved a significant effect on the 0.05 significance level, and variable rotation auditor partial effect at a significance level of 0.10. And variable concentrations partial ownership has no significant effect on the quality of financial reporting.*

Keywords: *business ethics, corporate governance, auditor rotation, ownership concentration, the quality of financial reporting, IFRS*

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INTRODUCTION

Background Research

The importance of the quality of corporate financial reporting that determines the appropriate decision making by management, investors and creditors. Business ethics becomes a value which is an indicator of the success of ethics management in decision making and drive performance effectively assessed affecting the quality of financial reporting. Choi and Pae (2011) shows the Company with Business ethics has a high level of earnings management is lower, more conservative and has a predictive value of future cash flows more accurately so produce quality of financial reports is higher than the value of the company Business ethics low. Corporate Governance is a set of values that determine the performance of the management company a good company will increase the quality of financial reporting resulting management.

Auditor selection policy that have high competence, but not associated with the climate of nepotism, to prevent it should be an external auditor rotation policy used by the company to increase the independency and objectivity of audit results to financial statements of the company, with a turnover or a good auditor rotation system will improve the quality of financial reporting. Ownership Concentration, the percentage of ownership of the public considered to be the indicator of a sense of corporate responsibility to the public which will affect the company's management to improve the quality of corporate financial reporting and will increase the company's financial performance. Therefore, researchers are interested to test the hypothesis of the influence of business ethics, corporate governance, auditor rotation and ownership concentration on the quality of financial reporting.

Formulation of the Problem

The problem formulated in this research is to answer the question as follows:

1. Are business ethics, corporate governance, auditor rotation, ownership concentration, affect the quality of financial reporting partial?
2. Does business ethics, corporate governance, auditor rotation, ownership concentration, affect the quality of financial reporting simultaneously?

Objectives and Benefits Research

To answer the research problems that are hypothesized, test the effect of Ownership Concentration, Auditor Rotation, Corporate Governance, Business Ethics on the Quality of Financial Reporting partial and simultaneous. The company also pay attention to the factors that improve the quality of corporate financial reporting, which proved particularly significant effect. The contribution of this research is expected the company to pay attention to the quality of financial reporting will increase the confidence of investors and creditors.

Framework, Basis Theory and Hypothesis

Application of IFRS aims to improve the quality of financial reporting information that closer economic conditions the company in accordance with the existing fact, and reduce earnings management practices that reduce the accuracy of the information quality of the financial statements. The application of IFRS that use professional judgment, using the fair value and the disclosure of more information and detail that the main factor which ensures the company to improve the quality of financial reporting.

The higher ethical commitment within the company will make management more conservative and lower earnings management, predictions of future cash flows more accurately so as to improve the quality of financial statements, so the higher the quality of the financial statements of ethical commitment is getting better, while the lower the ethical commitment will lead to the quality of financial statements that are less good (and Pae Choi, 2011). While based Choi and Jung (2011), ethical commitment is not proven effect on the quality of the financial statements due to variations than stakeholders consisting of investors, managers, customers, suppliers and employees. So researchers interested in studying the influence of ethical commitment to the quality of financial reporting. So researchers set hypotheses:

H1: Ethical commitment affects the quality of financial reporting after the implementation of IFRS

Pae and Choi (2010), shows that the company will reduce the value of the cost of capital that aims to improve corporate governance whose purpose is improving business ethics. So the researchers speculate that the increase in corporate governance will improve business ethics that result in improving the quality of financial reporting. So researchers set hypotheses:

H2: Corporate Governance affects the quality of financial reporting after the implementation of IFRS

Auditor rotation is done aims to enhance the independence of the quality of the resulting financial statements. But uncertainty rather than the rotation of auditors will reduce the independence and will reduce the quality of the resulting financial statements. (Velte and Freidank, 2012). So the writer is interested to investigate the influence on the Quality Auditor Rotation Financial Statements and develop hypotheses:

H3: Effects on the Quality Auditor Rotation after application IFRS Financial Statements

Beuselink and Manigart (2007) showed that the greater the Ownership Concentration (concentration of stock ownership owner) it will lower the quality of financial reporting. High concentration of ownership would increase the concentration of the dominant power of certain parties that resulted in the determination of authority and decision-making in favor of the dominant shareholder that would detract from the quality of financial reporting. So the writer is interested in researching and float hypotheses:

H4: Effect of Ownership Concentration on the Quality of Financial Statements

LITERATURE REVIEW

Previous Research

Choi and Pae (2011) shows a positive relationship between the company's commitment to business ethics with the quality of financial reporting. Companies with quality higher business ethics will have the quality of reporting finace better than the quality of business ethics lower. Pae and Choi (2010) showed that better corporate governance and more complex will increase the value of business ethics and corporate value, so corporate governance will improve the quality of financial reporting. Choi and Jung (2007) showed that there is a positive relationship between the ethical commitment to the share price rises mean increased quality of financial reporting. Beuselink and Manigart (2007) showed a negative correlation with the concentration of ownership of financial reporting quality, lower ownership concentration will improve the quality of financial reporting. Velte and Freidank (2012) shows the rotation of auditors to influence the quality of financial reporting is a theory that is not definite, empirically auditor rotation does not improve the quality of financial reporting.

Application of IFRS

According Cahyati (2011), there are three things that become important feature of the Application of IFRS:

1. using principle-based IFRS based, more oriented to the professional judgment which emphasizes the use of accounting principles that are more relevant and more accurate.
2. IFRS uses fair value with US GAAP using cost history, Fair value, underscores the value that is up to date with the value of the actual conditions.

3. IFRS uses disclosures more (closer to full disclosure) more detailed, resulting in giving more information to improve the quality of financial information for proper decision making.

Quality of Financial Reporting

Belkaoui (2006: 235), focusing on the quality of financial reporting is information about Income (Revenue) and its components. Income information is expected to provide better real-time information provides the predictive value of future cash flows are more accurate closer to the actual condition in accordance with the company's cash flow in order to cool the conditions Company has continuity (going concern) high. Information which portray predictions more accurate cash flow in the future is better than just information that portray the cash flow statement cash receipts and disbursements this time.

Business Ethics

Hely and Palepu (2003), reflecting the Enron case management unethical actions show the value of business ethics that does not exist, because the management is not committed to revealed the fraud in financial statements. The management took advantage of the flexibility of the system's financial statements using the system to hide the poor condition of the company. Jo and Kim (2007) states that the low value of business ethics that apply to the management shown by manipulations on accrual accounting Cleaner (earnings management practices).

Corporate Governance

Corporate Governance manage aspects associated with (Dahlan, 2003):

1. The balance of the relationship between the organs of the company, namely the AGM, Board of Commissioners, and the Board of Directors, which includes matters relating to the organizational structure and operational mechanism to the three organs of the company (internal balance).
2. The fulfillment of corporate responsibility as a business entity in the community to all stakeholders that include matters related to setting up the relationship between the company and all stakeholders (external balance). Viewed from the perspective of public policy, corporate governance is concerned with the maintenance of the company and ensure accountability in the exercise of power and protection by the company.

Corporate Governance is good and slack management of resources and related to the cost of capital (Pae and Choi, 2010). Good management includes elements of agency problem, corruption, corporate social performance, costs, employees, the quality of disclosure, ethical commitment, financial performance, long-term growth, liquidity, corporate reputation and risk. Slack of Resources related to economics and finance companies. Cost of equity capital relating to costs incurred by the company for that capital capacity.

Auditor Rotation

Auditor becomes economic agency as having a conflict of interest between the interests of management and the public interest. Auditor who holds the position continuously as the company's external auditors for a long period of time will lead to moral hazard, unethical that work together with management to perform acts of fraud (Antle, 1982). Therefore it is necessary for the rotation of auditors, auditors have a relationship with the same company for a maximum of 7 years, and there is a time lag for 3 years if it will audit the same company (Velte and Freidank, 2012).

Ownership Concentration

Beuselink and Manigart (2007), for a private company, the higher the presentation ownership (ownership concentration) will improve the control of the company by certain parties that have an impact on investors, functions and portfolio companies. The higher the concentration of ownership and control have an impact on the dominance of decision-making authority in favor of management will lead to the risk of fraud.

RESEARCH METHODS

Population, Sample and Data Collection Techniques

Samples were selected by purposive sampling method with the Company listed on the Indonesia Stock Exchange in 2011-2013 there were 507 companies (507 multiplied by 3 years = the amount of data in 1521 financial statements), the Company can be accessed through the website of the Indonesian Stock Exchange (www.idx.co. id) or through the official website of the company concerned, the company revealed the Annual Report. The sample data is sampled company financial statements of the annual report. And the complete annual report of data that can be processed there are 416 companies (406 multiplied by 3 years = number of samples 1248 financial statements).

Variable Operationalization

1. Business Ethics indicator is an act of corporate ethics using the ECI (Ethical Commitment Index) by Choi and Jung (2007). With 11 indicators that have been applied ethical company or not (the statement in the annex,) which is matched with information in the annual report.

2. Corporate Governance is a good indicator of enterprise management using CGI (Corporate governance Index) by Choi and Jung (2010). CGI is comprised of 99 elements are divided into 5 categories: 1) Protection of the interests of shareholders, 2) The board of directors, (3) quality of disclosure, (4) the audit department, (5) the distribution of the company's operational processes.
3. Rotation of auditors is the turn of the external auditor for a period of time, the maximum selala 7 years and there is a grace period of 3 years. The indicator is seen from the history of the use of external auditors is there a replacement or not for a certain number of years (maximum of 7 years and there is a lag period of 3 years), seen in the annual report of the company. If there is worth = 1, if no worth = 0
4. Ownership Concentration is the largest percentage of share ownership by shareholders, by certain parties, the indicator is highest percentage of ownership in addition to the public in the annual report.
5. The quality of the financial statements according to Dechow and Scrand (2004), the quality of accounting is more accurate accounting information that describes the company's operating performance helps predict future performance and help determine the value of the company.

The quality of financial reporting is accurate picture of the overall performance of the market is embodied in the form of return (Fanani, 2009). The variable quality of financial reporting in this study the value relevance proxy. From the perspective of adjustment belief theory, the use of models return is considered more relevant for being able to measure the current and prior belief and belief of investors in the investment decision to buy, sell or hold securities (Lako, 2006; 282). Therefore, the relevance of the variables measured by the value of the order scheme negative value of adjusted R2. The formula for calculating the value relevance are as follows:

R2

Scheme negative value of adjustedR2 obtained from the following equation:

RETjt = bo + b1. Earnings b2. ΔEarnings jt jt +

Specification:

RETjt = Return during 15 months (January to March year t year t + 1) the end of the fiscal year the company j

Earnings Net profit jt = j year t

ΔEarnings jt = Amendment to net income of j

Data Analysis Methods

Analysis of data using multiple regression path analysis, which has met four classic assumes test normality, heterokedasticity, multicollinearity and autocorrelation that research is considered robust regression equation:

With the form of the following equation:

Quality of Financial Reports = b0 + b1.BE + b2.CG + b3.rotasi auditor + b4.ownership concentration + error

b0 = constant

b1 - b4 = coefficient of regression

BE = Business Ethics

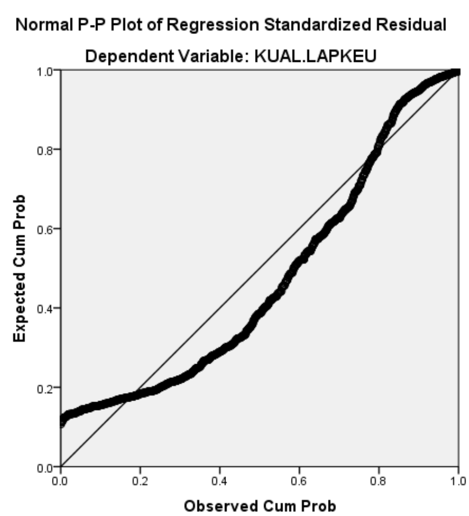
CG = Corporate Governance

RESEARCH RESULT

Classical Assumption Test Results

Normality Test

Figure 1: (Normal P-Plot)

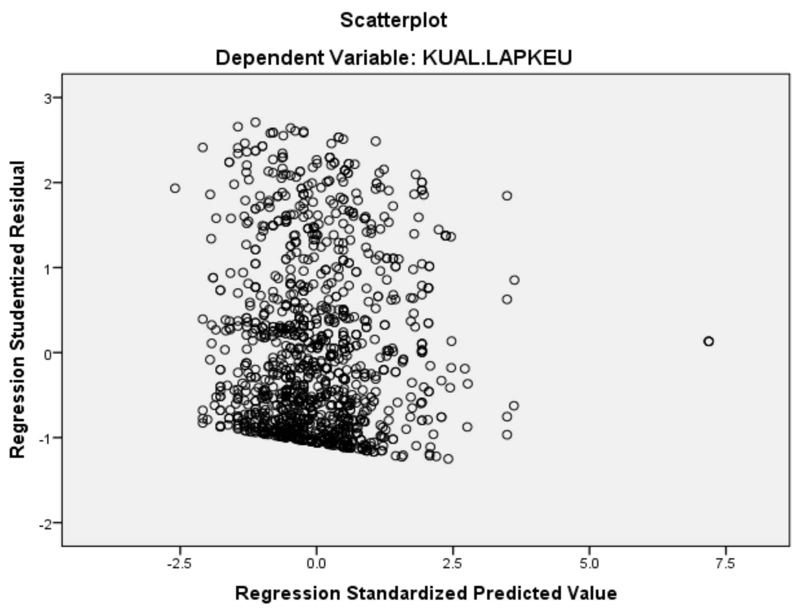


From Figure 1 we can see that the data are at about the normal, it can be said the data already meets the normality test.

1. Test heterokedastisitas

From the results of Figure 2 shows the data heterogeneous because the data has spread, so that it meets the test heterokedastisitas.

Figure 2: (Scatterplot)



2. Test Autocorrelation

Durbin Watson results show 0.702 that the value that is between 0 and 1 means there is positive autocorrelation, and not be close to 2, meaning that the data does not pass the test of autocorrelation, but can be ignored if the result of a significant ANOVA test, meaning that our model is still considered robust.

Model Change Statistics Durbin-Watson

Table 1
(Durbin Watson)

Model	*Change Statistics*					*Durbin-Watson*
	R Square Change	*F Change*	*df1*	*df2*	*Sig. F Change*	
1	.011	3.451	4	1243	.008	.702

3. Test Multicollinearity

The test results showed the data has a value of VIF above 1 and below 10, meaning that the data has passed the test Multicollinearity

Results of Multiple Regression Analysis

Table 2
(Table VIF)

Model		*95.0% Confidence Interval for B*		*Collinearity Statistics*	
		Lower Bound	*Upper Bound*	*Tolerance*	*VIF*
1	(Constant)	-.953	-.048		
	ROTASI. AUDITOR	-.020	.289	.998	1.002
	KONS.KEP	-.007	.042	.996	1.004
	IBE	-1.562	-.115	.963	1.038
	CGI	.118	1.273	.960	1.041

Anova Test Results

Table 3
(Table Anova)

ANOVA[a]

Model		*Sum of Squares*	*Df*	*Mean Square*	*F*	*Sig.*
1	Regression	9.321	4	2.330	3.451	.008[b]
	Residual	839.422	1243	.675		
	Total	848.744	1247			

a. Dependent Variable: KUAL.LAPKEU

b. Predictors: (Constant), CGI, ROTASI.AUDITOR, KONS.KEP, IBE

From table 2 shows the significance of the 0008 value smaller than 0.05, so it means that the model is considered robust study or qualify the level of 5%. And this shows that the simultaneous rotation of auditors, the concentration of ownership, business ethics and good corporate governance affects the quality of financial reporting.

Results of t-test (Coefficient)

Table 4
(Table coefficient)

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	*T*	*Sig.*
		B	*Std. Error*	*Beta*		
1	(Constant)	-.501	.231		-2.169	.030
	ROTASI. AUDITOR	.135	.079	.048	1.714	.087
	KONS.KEP	.017	.012	.040	1.420	.156
	IBE	-.838	.369	-.065	-2.273	.023
	CGI	.696	.294	.068	2.363	.018

From Table 4 above shows the partial effect of each variable on the quality of financial reporting. Auditor rotation has a significant influence on the level of 10% with a 0.087 significance value less than 0.10. By 0135 the coefficient value for the rotation of auditors, auditor rotation means positive effect on the quality of financial reporting, with the change of external auditors will improve the quality of financial reporting.

Concentration of ownership has no significant effect on the quality of financial reporting since 0156 the value of greater significance than 0:05 and 0:10 so insignificant either at the level of 5% and 10%. Business ethics has a significant influence on the level of 5%, with a significance of 0.023 is less than 0.05. With a coefficient value for the index of business ethics -0838 (IBE) means business ethics have a negative effect on the quality of financial reporting, the increasing value of business ethics degrade the quality of financial reporting.

Good Corporate Governance has significant influence on the quality of financial reporting at the level of 5% with a significance value of 0.018 which more than 0.05. With 0696 for index coefficient GCG (CGI) means GCG have a positive effect on the quality of financial reporting. The higher the GCG implementation will improve the quality of financial reporting.

Results The coefficient of determination

Table 5
(Table coefficient of determination)

Model	*R*	*R Square*	*Adjusted R-Square*
1	.105[a]	.011	0.08

From Table 5 shows the result that the influence of the independent variables auditor rotation, concentration of ownership, business ethics and corporate governance to the quality of financial reporting by 1.1% with R-square value of 0.011.

Discussion

The influence of independent variables auditor rotation, ownership concentration, business ethics and corporate governance to the quality of financial reporting only 1.1% significantly. So there are many other factors that influence the decision to buy, sell and hold shares for investors, from the condition of historical stock prices, macroeconomic conditions such as rising fuel prices, Indonesian political conditions in transition, inflation and foreign debt maturities. And can be seen from the results of the average value of the quality of financial reporting -0.1315 means most investors make decisions to sell shares, to increase their financial funds. Though profitable for the company if the average of ta quality of financial reporting is positive it means a lot to make the decision to buy shares.

Auditor rotation has a significant influence on the level of 10% of the quality of financial reporting. The average rotation of auditors 0.0970 (1 votes if change auditors, ratings 0 if it does not change the auditor), so that means that make the turn auditor of the sample 9.7%. Although more who do not make the turn of the external auditor (KAP) for a period of 3 years, but replacement auditor has a significant positive effect on the level of 10% with a 0.087 significance. So if another company is implementing the rotation of auditors the effect on the improvement of the quality of financial reporting will be even greater.

Concentration of ownership has no significant effect on the quality of financial reporting. Descriptive statistics of the table can be seen the average concentration of ownership of 0.5121, so that means an average of 51.21% institutional ownership, public ownership average of 48.79%. That is not maximized institutional ownership means the sources of funding of the institution is still quite high in addition to the sale of shares of the company's operational activities (sales of goods and services), it is having an impact of ownership concentration does not have a significant impact on the quality of financial reporting.

Business ethics significantly negative effect on the quality of financial reporting at the 5% significance level 0.023. That is the application of business ethics degrade the quality of financial reporting, in a culture in Indonesia in the form of business ethics code of ethics is usually disseminated in the life of manners in company / office orally instead of in writing a formal nature. The application of business ethics deeper standard rules and formalities such as restricting the behavior of employees and reduce employee performance to improve the quality of financial reporting. From Table 6 also shows the average index of business ethics (IBE) is still low 0.2326 (23.26%), means that the company is also not apply to the maximum code of conduct its business in the company rules and yet with a maximum socialization also to existing employees to become culture good work that will improve the quality of financial reporting.

Table 6
(Deskriptive statistics)

Descriptive Statistics

	Mean	*Std. Deviation*	*N*
KUAL.LAPKEU	-.1315	.82500	1248
ROTASI.AUDITOR	.0970	.29602	1248
KONS.KEP	.5121	1.89666	1248
IBE	.2326	.06429	1248
CGI	.7794	.08070	1248

CONCLUSION

From the results of this research can be made tentative conclusion that:

1. Simultaneously variables auditor rotation, concentration of ownership, business ethics and good corporate governance affects the quality of financial reporting significantly at the level of 5%.
2. Great little effect of 1.1% auditor rotation, concentration of ownership, business ethics and good corporate governance on the quality of financial reporting because the value of the quality of financial reporting means more negative tendency of investors to sell shares. Good report quality indicated by a positive value means that investors tend to buy more shares. And that means a lot of other factors at 99.9%, which affects the quality of macroeconomic financial statements such as fuel prices, inflation and foreign debt maturities, political conditions and financial performance.
3. Auditor Rotation partially positive effect on the quality of financial reporting at the level of 10%, no change of auditors in several samples,

which reached 9.7% of the total sample there are to improve the quality of financial reporting.

4. Concentration of ownership has no effect partially significantly to the quality of financial reporting, because the average concentration of ownership of the company is still a maximum of 51.21%.
5. Business ethics partially negative influence on the quality of financial reporting at the level of 5%. This means that the higher business ethics degrade the quality of financial reporting because the average level of implementation of business ethics is still low 23.26%. And business ethics is such a burden for employees and companies to be applied, so the higher adoption of business ethics by the company resulted in a decrease in the quality of financial reporting.

Suggestion

From the results of the study suggest that:

1. For the next study is expected to be developed by adding independent variable quality of the audit, the company's financial performance (profitability, liquidity and solvency) which tested its effect on the quality of financial reporting.
2. Expand the sample of the study in a longer span of 5-10 years.
3. Indicators of business ethics and good corporate governance and finance reporting quality can be developed in the form of primary data in the form of a questionnaire given directly to the leadership of the company. In order to be comparable with the results of research using secondary data.

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Appendix

Indicators of Business Ethics (Choi and Jung, 2007), if yes applied given a score of 1 for each point

1. Top managers emphasize the importance of business ethics
2. The ethical behavior is based on a formal business philosophy of the company.
3. The Company implements high discipline system, there are severe penalties for unethical.
4. The company has a code of ethics
5. Employees can report unethical behavior through any means
6. On the enterprise ethics education, training or workshops conducted to improve employee ethics.
7. His company regularly puts most of its profits to philanthropy (charity).
8. The Company has an independent ethics department and its employees
9. In the company, employees can get assistance regarding business ethics through ethics hotline or communication channel open
10. The Company has ethics committee.
11. The Company has a system of ethical evaluation as measured by an independent part from outside the company.

Corporate Governance assessment indicators (Pae and Choi, 2010)

1. Protection of the interests of shareholders

The introduction of the corporate governance charter and code of conduct

The introduction of cumulative voting system and voting system written

Is the staggered board of directors should be adopted

The introduction of a fundamental defense against hostile takeovers

Ratio of shareholding stakeholders

Recent transactions with the majority shareholder

Shareholder proposals, proxy voting recommendations, and the protection of minority shareholders

2. The board of directors

The number of non-executive directors and their participation in board meetings

Are objections and modifications can be made by non-executive director and is accepted by the corporation

Way of non-executive directors nominated

Shareholding directors

Formation of the nomination committee and the remuneration committee of the board

Separation of Representative Director and Chairman of the board of directors

Performance-based stock options

The self-evaluation of the board of directors and the disclosure of the results of the evaluation activities

3. *Disclosure performance IR*

Note disclosures, including voluntary, ask questions, and curative disclosure

Disclosure of participation by individual directors at board meetings and their voices made in favor, or against, proposal

Disclosure in English on the website or in the audit report

Whether or not total remuneration of each individual director disclosed

4. Department audit

Establishment, organization, and operation of the audit committee

Whether the system is to protect whistle-blowers