The Effect of Board of Commissioners' Experience and Education and Company's Size on the Quality of Financial Statements in Goods Consumer Companies Listed in Indonesia Stock Exchange in 2015-2017

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Abstract

This research aims to get empirical evidence in detecting the effect of age of board commissioners, the experience of board commissioners, education of board commissioners, and firm size on the quality of financial statements. The population of this research is the consumer goods companies listed on IDX 2015-2017. The total sample of this research is 61 data for three years period of research. The research sample used is purposive sampling. Companies' annual reports were analyzed using multiple linear regression. This study shows that firm size has a significant influence on financial statement quality. Meanwhile, board commissioners' age, experience, and education do not influence financial statement quality.

Keywords

Age of Board, Commissioners, Experience of Board Commissioners, Education of Board, Commissioners.

1. Introduction

The development of an increasing age resulted in the growth of various companies engaged in various sectors. This resulted in increasingly intense competition in the business world. Company management must compete and demonstrate good performance capabilities to attract investors to invest their capital in the company. The company's good performance can be seen in its annual report.

The annual report is a report of developments and achievements that were achieved in a year. The contents of the annual report include financial statements and other information that covers the organization's performance or company for one year. This report is a form of corporate responsibility to the internal and external parties of the company. Structurally the annual report must first be presented by the board of directors and endorsed by the board of commissioners. The annual report contains financial statements. In the financial statements, the company must prepare the report in accordance with financial accounting standards, namely standards recognized by the government. According to (Kasmir, 2011) in a simple sense, financial statements are reports that show the company's financial condition at this time or in a certain period. The financial statements describe the company's financial items obtained in a period. Looking at a company's financial statements will show the company's activities. The company's financial statements result from an accounting process based on accounting standards as a measure of company performance. Therefore, companies need to improve the quality of their companies, namely by transparently presenting financial reports.

To produce quality financial reports, objectivity, transparency, accountability and timely reporting are required. Moreover, to produce quality financial reports, the role of managers, commissioners and shareholders is required to prepare financial statements.
According to (Akhgar, 2014), the quality of financial statements is to develop transparency and publish high-quality annual reports through complete and comprehensive disclosure. The quality of financial statements has always been an interesting topic for the board of directors, shareholders, researchers and

professional accountants themselves. Quality is needed in financial reporting and disclosure of better predictions regarding the company's future cash flow for investors and other users of financial statements.

This was done so as not to cause problems, including irregularities or manipulation of financial statements. Cases of deviations or manipulation of financial statements involving internal companies have occurred in PT. Kimia Farma (Persero) Tbk. During the audit period on December 31, 2001, Kimia Farma's management reported a net profit of Rp 132 billion. However, the Ministry of BUMN and Capital Market and Financial Institutions Supervisory Agency considered that the net profit was too large and contained engineering elements. After a re-audit, on October 3, 2002, Kimia Farma's financial statements were restated because a fundamental error had been found. In the new financial statement, the profit presented is only IDR 99.56 Milar or lower than IDR 32.6 billion or 24.7% of the reported initial profit. Production Director of PT. Chemistry Farma published two inventory price lists on February 1 and 3, 2002. The price list as of February 3 has inflated its value and is used as a basis for inventory valuation at the pharmaceutical chemical distribution unit as of December 31, 2001. Besides PT. Kimia Farma, PT. Kereta Api Indonesia (PT. KAI) also detected fraud in the presentation of financial statements. In 2005, alleged manipulation of data in the financial statements. PT. KAI recorded a profit of Rp 6.9 billion, but when examined in more detail, PT. KAI suffered a loss of 63 billion. This case began as a result of accounting that was not in accordance with established standards.

In the case of PT. Kimia Farma and PT. KAI, the fraudulent manipulation of financial statements, is also caused by internal company parties. The emergence of these cases needs to be done prevention. This can be started from the company's internal control system. In addition, the board of commissioners also plays an important role, especially in terms of management supervision. The board of commissioners is demanded to prevent the emergence of problematic financial statements.

(L. He, R. Labelle, 2009) found that the board of commissioners is the most effective deterrent in financial statements that experience irregularities (fraud). This shows the existence of a board of commissioners, which is part of the corporate governance structure, is expected to have an effective role in presenting quality financial statements and detecting the possibility of problematic financial statements.
In addition, in determining quality financial statements, expertise is needed, especially in accounting. According to (S. T. Maulia, 2014) there is a relationship between education and the integrity of financial statements. The study results show a positive and significant relationship between the educational background of the board of commissioners on the integrity of financial statements. Besides education, experience is also one of the factors that can affect the quality of financial statements. According to (O. Charolina, 2013) work experience indicates that a person has worked and the length of time he has worked in the field of work or in an occupation he once occupied. And other factors influence the quality of financial statements, namely the age of the board of commissioners. According to (S. T. Maulia, 2014) the age factor positively affects the quality of financial statements. It can improve the performance of commissioners and directors because board members of various ages will have different backgrounds, skills, experiences, and social networks. Then, in addition to age, education, and experience, some things can affect the quality of financial statements, namely the company's size. According to (N. Rosyida and Subowo, 2016) company size affects the quality of financial statements. This indicates that the greater the company's size that can be seen from the company's annual total assets, the better the quality of its financial reporting and the company's prospects in showing the quality of financial statements better.
Problems in this study are:

- Is there an effect of the age of the board of commissioners on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017?
- Is there any influence of the experience of the board of commissioners on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017?
- Is the board of commissioner's education influence the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017?
- Is there an effect of company size on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017?

The objectives of this study are:

- To analyze and provide empirical evidence on the influence of the age of the board of commissioners on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017.
- To analyze and provide empirical evidence on the influence of the experience of the board of commissioners on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017.
- To analyze and provide empirical evidence on the influence of the board of commissioner's education on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017.
- To analyze and provide empirical evidence on the effect of company size on the quality of financial statements on consumer goods companies listed on the Indonesia Stock Exchange in 2015-2017.

2. Research Method

The object of research that will be examined is the annual report and financial statements of consumer goods companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2017. This type of research is causal research, research that aims to determine the cause and effect of the role of independent variables in influencing the dependent variable. The type of data used in this study is quantitative. The data source used is secondary data, namely annual reports and financial statements of consumer goods companies published by the Indonesia Stock Exchange, scientific journals, and other sources related to research.

The sample collection method used in this study uses the purposive sampling method, in which the criteria for selecting samples have been previously determined. From 45 consumer goods companies to 21 consumer goods companies were tested in this study. Samples were obtained from the study period, namely the 2015-2017 period, which fulfilled the following requirements:

- The company studied is a consumer goods company listed on the Indonesia Stock Exchange from 2015 to 2017.
- The company was in a periodic profit state from 2015 to 2017.
- Companies that publish audited annual reports and financial reports in a row on the company's website or the Indonesia Stock Exchange website during the 2015-2017 period.
- Companies that provide complete researched information (profile of the board of commissioners).

The data analysis method used in this research is multiple linear regression analysis using analytical applications or SPSS 25 data processing programs. However, before doing multiple linear tests, this method must perform the classical assumption test to get the best results. Hypothesis testing is done by using a regression model through several tests, namely seeing how much the contribution of the influence of the independent variable with the dependent variable (adjusted R^2), the test of individual parameter significance (t statistical test), and simultaneous significance testing (statistical test F). Multiple regression analysis is used to determine the direction of the relationship between the independent variables and the dependent variable. Following is the equation that shows the relationship between the dependent variable and the independent variable:

$$\mathbf{Y' = a + b1x1 + b2x2 + b3x3 + b4x4}$$

Y '= Quality of Financial Statements (Quality)
X1 = Age of the Board of Commissioners (Age)
X2 = Experience of the Board of Commissioners (Job)
X3 = Board of Commissioners Education (Educ)
X4 = Company Size (Company Size)
a = Constant (Y value 'if X1, X2 .... Xn = 0)
b = Regression Coefficient (Increase or Decrease Value)

The dependent variable or dependent variable is the variable that is explained or influenced by the independent variable or the independent variable (Sekaran, 2013). The dependent variable in this study is the quality of financial statements measured using return on equity (ROE).

Return on Equity (ROE) = $\frac{\text{PROFIT}}{\text{EQUITY}}$

The independent variable is a variable that influences or is the cause of the change or the emergence of the dependent variable. This variable is also called the independent variable because it can affect other variables. The independent variables used in this study are:

- Age is one factor that is quite dominant in someone's work.
  According to (Astuti, 2017) the age of board members is related to the policy they have. The more a person ages, the wiser in his performance. The age of the board of commissioners in this study is represented as an AGE variable. This variable is measured by looking at the age of the board of commissioners from the profile of the board of commissioners contained in the company's annual report.
- The Experience of Board of Commissioners
  According to (O. Charolina, 2013), work experience indicates that a person has worked and the length of time they have worked in their field of work or in an occupation he once occupied. The experience of the board of commissioners in this study is represented as a JOB variable. This variable is measured by the length of office of the board of commissioners in carrying out their supervisory duties (stated in the year).
- The Education of Board of Commissioners
  The educational background of board members influences their knowledge (S. Kusumastuti, 2007). The education of the board of commissioners in this study is represented as an EDUC variable. This variable is measured by looking at the board of commissioner's formal education, whether it has economic and business education.
- Company Size
  Company size is a scale where the company's size can be classified. Many parties give larger companies more attention, so they are more careful in their financial reporting. The company's size in this study is symbolized as a COMPANY SIZE variable. This variable is measured by looking at the company's total assets.

Company Size = ln Total Asset

3. Results and Discussion

3.1. Descriptive Statistics Test

Table 1. Descriptive Statistics Test Results

	N	Minimum	Maximum	The mean	Std. Deviation
QUALITY REP.	63	, 03	, 37	, 1539	, 08310
BOARD AGE	63	38.00	78.00	61,1587	10,47456
JOB BOARD	63	1,00	40.00	8,4286	10,61757
COMPANY SIZE	63	25.80	32.15	28.6890	1,59438
Valid N (listwise)	63				

Source: SPSS Data Processing Results 25

From the results of descriptive statistical tests in Table 1, the explanation is:

- Statistical results using descriptive statistics show that the variable quality of financial statements shows the drinking value of 0.03 and the highest value of 0.37 with an average value of 0.1539 and a standard deviation value of 0.08310.
- Statistical results using descriptive statistics can be seen that for the age variable, the board of commissioners showed a drinking value of 38.00 and the highest value of 78.00 with an average value of 61.1587 and a standard deviation value of 10.47456.
- Statistical results using descriptive statistics can be seen that the variable experience of the board of commissioners shows a drinking value of 1.00 and the highest value of 40.00 with an average value of 8.4286 and a standard deviation 10.61757.
- Statistical results using descriptive statistics show that the company size variable shows the drinking value of 25.80 and the highest value of 32.15 with an average value of 28.6890 and a standard deviation value of 1.59438.

Table 2. Results of Descriptive Variable Dummy Statistical Tests

EDUC of BOARD					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	.00	33	52.4	52.4	52.4
	1,00	30	47.6	47.6	100.0
	Total	63	100.0	100.0	

Source: SPSS Data Processing Results 25

The results of the descriptive analysis test show that the variable value of the board of commissioner's educational dummy on the quality of the financial statements of consumer goods companies has a value of 0 and 1. Where the value of non-economic and business is 52.4%, (table 2) while 1 has economic and business education with a value of 47 6%, it can be concluded that the sample data of this study was dominated by the board of commissioners with non-economic and business education.

3.2. Normality Test

Table 3. Normality Test Results

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		63
Normal Parameters [a, b]	The mean	0000000
	Std. Deviation	, 07095442
Most Extreme Differences	Absolute	, 106
	Positive	, 076
	Negative	- 106
Statistical Test		, 106
Asymp. Sig. (2-tailed)		, 075 [c]
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		
Source: SPSS Data Processing Results 25		

Based on Table 3, the data has a significance value of 0.075. Because the significance value of the normality test results is > 0.05, it can be concluded that the distribution of residual regression data has been normally distributed so that the data can be used as research.

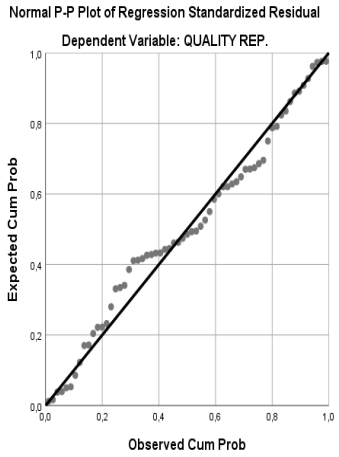

Figure 1. Normality Test Result

3.3. Autocorrelation Test

Table 4. Autocorrelation Test Results

Summary Model [b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	, 521 [a]	, 271	, 221	, 07336	1,468
a. Predictors: (Constant), SIZE OF THE COMPANY, EDUC BOARD, JOB BOARD, BOARD AGE					
b. Dependent Variable: QUALITY REP.					

Source: SPSS Data Processing Results 25

The results of the autocorrelation test can be seen from the Durbin Watson (DW) value of 1.468 with the stipulation that the number of samples is n = 63 and the number of independent variables is k = 4. Based on the Durbin Watson table the value of dL = 1.460 and the value of dU = 1.729 (4 - 1.729 = 2,271). Based on the results of the model summary table, it can be said that the Durbin Watson value is 1.468, and the value is located between dL and (4- dU) or (1.460 <1.468 <2.272), so it can be concluded that there is no autocorrelation (figure 1, table 4).

3.4. Multicollinearity Test

The results of the multicollinearity test in Table 5 show that the data of this study did not occur multicollinearity. All independent variables have a VIF value of $\leq$ 10 and a tolerance value of $\geq$ 0.10 (Table 5).

Table 5. Multicollinearity Test Results

Coefficients [a]								
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-421	, 170		-2,472	, 016		
	BOARD AGE	-, 002	, 001	- 260	-1,387	, 171	, 357	2,804
	JOB BOARD	, 001	, 001	, 114	, 836	, 407	, 678	1,475
	EDUC BOARD	, 030	, 025	, 182	1,181	, 242	, 529	1,889
	SIZE OF THE COMPANY	, 024	, 007	, 455	3,484	, 001	, 738	1,355
a. Dependent Variable: QUALITY REP.								

Source: SPSS 25 Data Processing Results

3.5. Heteroscedasticity Test

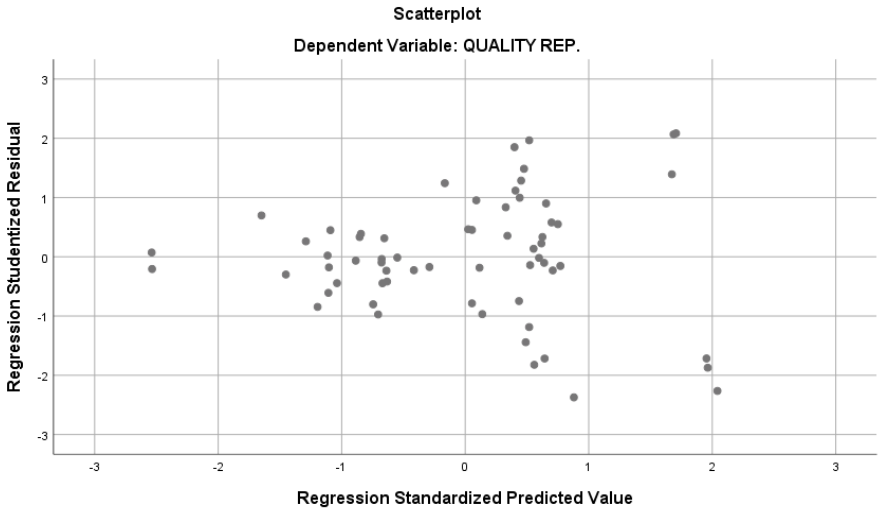

Figure 2. Heteroscedasticity Test Result
Source: SPSS 25 Data Processing Results

The results of the Heteroscedasticity Test in Figure 2 show that the data points spread randomly and did not form a regular pattern. Data points spread above and below zero on the Y-axis. Therefore, it can be concluded that there was no heteroscedasticity in this study.

3.6. Determination Coefficient Test (R^2)

Table 6. Determination Coefficient Test Results

Summary Model [b]				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	, 521 [a]	, 271	, 221	, 07336
a. Predictors: (Constant), SIZE OF THE COMPANY, EDUC BOARD, JOB BOARD, BOARD AGE				
b. Dependent Variable: QUALITY REP.				
Source: SPSS 25 Data Processing Results				

Based on Table 6, the adjusted R square is 0.221 or 22.1%. This value indicates the correlation or relationship between variables of the age of the board of commissioners, the experience of the board of commissioners, board of commissioner education, and company size in detecting the quality of the company's financial statements by 22.1%. In comparison, the remaining 77.9% can be detected by other factors not included in this study, such as company age, internal audit role, and so on.

3.7. Significant Test of Individual Parameters (Statistic T-Test)

Table 7. Statistic T-Test Results

Coefficients [a]								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-421	, 170		-2,472	, 016		
	BOARD AGE	-, 002	, 001	- 260	-1,387	, 171	, 357	2,804
	JOB BOARD	, 001	, 001	, 114	, 836	, 407	, 678	1,475
	EDUC BOARD	, 030	, 025	, 182	1,181	, 242	, 529	1,889
	SIZE OF THE COMPANY	, 024	, 007	, 455	3,484	, 001	, 738	1,355
a. Dependent Variable: QUALITY REP.								

Source: SPSS 25 Data Processing Results

The following is a description of the results of the significance test for each variable:

- The age variable of the board of commissioners (AGE BOARD) has a significant value of 0.171 from a significant level of 0.05 and t arithmetic of - 1.387 with t table 2.00100. Therefore, Ha was rejected because of the value of Sig. greater than the significant level of 0.05 (5%), that is 0.171> 0.05, and the t value is smaller than the t table (1.387 <2.00100). So, it can be concluded that there is no influence between the age variable of the board of commissioners (AGE DEWAN) on the quality of financial statements. This means that the first hypothesis (H1) is rejected (table 7).

- The variable experience of the board of commissioners (JOB BOARD) has a significant value of 0.407 from a significant level of 0.05 and t count of 0.836 with t table 2.00100. Therefore, Ha was rejected because of the value of Sig. greater than the significant level of 0.05 (0.407> 0.05), and the value of the t count is smaller than the t table (0.836 <2.00100). So, it can be concluded that

there is no influence between the variable experience of the board of commissioners (JOB BOARD) on the quality of financial statements. This means that the second hypothesis (H2) is rejected.

- Education variable board of commissioners (EDUC BOARD) has a significant value of 0.242 from a significant level of 0.05 and t count of 1.181 with t table 2.00100. Therefore, Ha was rejected because of the value of Sig. greater than the significant level of 0.05 (0.242> 0.05), and the t value is smaller than the t table (1.181 <2.00100). So, this shows no influence between the education variables of the board of commissioners (EDUC BOARD) on the quality of financial statements. This means that the third hypothesis (H3) is rejected.

- Variable company size (COMPANY SIZE) has a significant value of 0.001 from a significant level of 0.05 and t arithmetic of 3.484 with t table 2.00100. Therefore, Ha was accepted because of the Sig. smaller than the significant level of 0.05 because of the value of Sig. smaller than the significant level of 0.05 (0.001 <0.05), and the t value is greater than the t table (3.484> 2.00100). So, this shows the influence of the company size variable (COMPANY SIZE) on the quality of financial statements. This means that the third hypothesis (H4) is accepted.

3.8. Simultaneous Significant Test (Statistical Test F)

Table 8. Statistical Test Results F

ANOVA [a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	, 116	4	, 029	5,390	, 001 [b]
	Residual	, 312	58	, 005		
	Total	, 428	62			
a. Dependent Variable: QUALITY REP.						
b. Predictors: (Constant), SIZE OF THE COMPANY, EDUC BOARD, JOB BOARD, BOARD AGE						

Source: SPSS 25 Data Processing Results

Based on the results of the regression analysis presented in the above table that is when calculated with the f table that Df 1 (numerator) = k -1 and Df 2 (denominator) = n - k, k is the number of independent and dependent variables and n number of observations. So, it can be concluded that Df1 = 4 and Df2 = 58. Based on the F distribution table, the F value of the table is 2.53 (5.390> 2.53) (table 8), which means that the independent variables together influence the dependent variable. And if seen from the significant value of the F test results of 0.001, then Ho is rejected because of the significant value in the table <0.05.

4. Conclusion

The results of this study can be concluded as follows: (1) The results of testing the first hypothesis indicate that the age variable of the board of commissioners does not affect the quality of financial statements in the company. (2) The results of the second hypothesis testing show that the experience variable of the board of commissioners does not affect the quality of financial statements in the company. (3) The results of testing the third hypothesis show that the board of education variable does not affect the quality of financial statements in the company. (4) The results of the fourth hypothesis testing show that firm size variables affect the quality of financial statements in the company.

For further research, it is expected that the research sample will not be small in number, so it can use a sample of companies such as manufacturing, banking, and others and can also expand its observation years and add research variables such as company age, the role of internal audit and others that can affect the quality of financial statements.

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Biography

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