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The Effect of Quality of Financial Reporting on Company Value

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Abstract. *This study aims to determine the effect of financial reporting quality on firm value. This study uses an explanatory research method, data collection using a census approach by distributing questionnaires to 31 banks listed on the Indonesia Stock Exchange. The unit of analysis is a bank listed on the Indonesia Stock Exchange with respondents internal audit manager and financial accounting manager. The type of data used is primary data from the responses of questionnaires responded to by respondents and secondary data obtained from annual reports of banks. Validity and reliability tests were performed on responses to questionnaires that were collected for further testing of hypotheses. Analysis of hypothesis testing data uses path analysis. The results showed that there was an effect of the quality of financial reporting on firm value. The value of the company will be even higher if the quality of financial reporting prepared and presented meets basic concepts, qualitative characteristics of financial statements, and disclosure of financial statements.*

Keywords*. financial reporting quality; company value.*

Abstrak. Penelitian ini bertujuan untuk mengetahui pengaruh kualitas pelaporan keuangan terhadap nilai perusahaan. Penelitian ini menggunakan metode *expalanatory reserach*, pengumpulan data menggunakan pendekatan sensus dengan mendistribusikan kuesioner kepada 31 bank yang terdaftar di Bursa Efek Indonesia. Unit analisis adalah bank yang terdaftar di Bursa Efek Indonesia dengan responden manajer audit internal dan manajer akuntansi keuangan. Jenis data yang digunakan adalah data primer hasil tanggapan kuesioner yang ditanggapi responden dan data sekunder yang diperoleh dari laporan tahunan bank. Uji validitas dan uji reliabilitas dilakukan terhadap tanggapan kuesioner yang terkumpul untuk selanjutnya dilakukan pengujian hipotesis. Analisis data pengujian hipotesis menggunakan analisis jalur. Hasil penelitian menunjukkan bahwa terdapat pengaruh kualitas pelaporan keuangan terhadap nilai perusahaan. Nilai perusahaan akan semakin tinggi apabila kualitas pelaporan keuangan yang disusun dan disajikan memenuhi konsep dasar, karateristik kualitatif laporan pengungkapan laporan keuangan.

Kata Kunci. kualitas pelaporan keuangan; nilai perusahaan.

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PRELIMINARY

Financial statements become the main tool for company management to convey financial and operating information as the responsibility of management and to meet the needs of internal and external parties who lack the authority to obtain the information they need for economic decision making (Schipper and Vincent, 2003). The same thing is stated in the basic framework of the preparation and presentation of financial statements (IAI, 1994) that the purpose of financial statements is to provide information relating to the financial position, performance, and changes in the financial position of an entity that is beneficial to a large number of users in making economic decisions. One of the information that most concerns users in financial statements is information about company profits, because earnings represent the company's overall performance. The concept of earnings in the semantic level includes the interpretation of earnings as a measure of performance, confirming investor expectations, and economic profit estimators. Although accounting does not have to be able to measure and present economic earnings, accounting must at least provide earnings information that can be used by users to measure economic profits which in turn determines the economic value of a company (Suwardjono, 2008).

The results of research on the effect of the quality of financial reporting on firm value were carried out by Dang Ngoc Hung, Pham Duc Cuong, and Vu Thi Bich Ha (2018) conducted a study of 214 companies in Vietnam with the result that, the quality of financial reporting proxies by Growth, Capital Structure, Company size, Earnings, Audit quality, Audit explanation and Timeliness have a positive effect on firm value. The same thing was done by Ahmed Hani Al Dmour, Maysam Abbod, Naim Salameh Al Qadi (2017), in his research on non-financial companies listed on the Jordan Exchange, showed that the quality of financial reporting which is proxies by Relevance, Understanding ability and faith representation influences non-performance finance. The same study was also carried out by Jennifer Martinez-Ferrero (2014), of 1960 public companies listed on the stock exchanges of 25 countries, that the quality of financial reporting is proxies by earnings quality, conservatism and accrual quality, with a moderating variable perception about corruption, accounting policies and IFRS adhesion influences firm value.

Banks as trust institutions must compile and present financial reports as a form of management accountability to stakeholders for the trust they have received (PBI; 2008). In recent years, the financial statements of public companies in Indonesia have always been in the spotlight of interested parties. The Indonesia Stock Exchange (BEI) in 2012 noted that there were 54 issuers late in submitting the 2011 audit report that had to be reported in 2012. According to the BEI Company Appraisal Director, Hoesen, on the IDX, Jakarta, several issuers' violations related to financial statements were still frequent that is, in addition to the late submission of financial statements, other violations in the form of financial report components are incomplete, late submission of audit plans or limited review of financial statements. Some other violations are the report numbers that are not in accordance with the explanation in the notes, the information in the financial statements in the form of softcopy is not the same as the financial statements in hardcopy form that are announced in the mass media, the numbers in the financial statements that cannot be verified or subsequent event explanations are inadequate (Merdeka.com, 08/13/2012). Likewise, the case of the revised Bank Bukopin financial reporresulted in a decline in profit from Rp. 1 trillion to 183 billion due to an error in recording interest income from credit cards (Kontan 05/18/2018). In Indonesia a little more is happening is not yet carried out the Standard Operating Procedures (SOP) and internal control properly, in addition to lack of supervision from top management also though it has been done not infrequently the procedures are general and simple in fact many are found not to be carried out regularly.

Based on the aforementioned phenomena and in an effort to implement governance for commercial banks in delivering financial information through quality financial reporting, Bank Indonesia in accordance with PBI number 8/14 / PBI / 2006 has required commercial banks to form an audit committee. The occurrence of financial scandals is the failure of supervisory institutions namely the audit and internal audit committees in carrying out their role in producing financial reports that have high integrity and can be relied upon to meet the information needs of report users (Nashwa George, 2003). Earnings as part of the financial statements do not present actual facts about the economic condition of the company so that the expected earnings can provide information to support decision making becomes of doubtful quality. Financial performance that does not show true information about management's performance can mislead the users of the report. (Schipper and Vincent: 2003)

In a capital market environment, published financial statements are a very important source of information needed by most users of financial statements and / or market participants as well as parties with an interest in the issuer to support decision making. From some of the information obtained in the financial statements, profit is the center of attention of the users (Beattie et al. 1994). Published earnings can provide varied responses, which indicate a market reaction to earnings information (Cho and Jung, 1991). The reaction given depends on the quality of the profits generated by the company. As a public company that is partly owned by the public through a stock exchange, the presentation of financial statements must meet the requirements set by the competent institution, in Indonesia this institution is the Financial Services Authority / OJK and this report must be published through mass media that can be used as important source of information needed by shareholders in particular and parties with an interest in the company (stakeholders) in general. One of the regulations issued is that issuers are required to disclose important information through annual reports including financial statements to shareholders and other reports to the OJK, the Stock Exchange, and to the public in a timely, accurate, understandable and objective manner. (Bapepam LK, 2011).

Based on the situation, conditions and phenomena that have been stated above, and supported by several survey results that have been done before, then the theme of this research can be formulated as follows: "That if the quality of financial reporting is good, it is likely that the company's value will be affected".

Based on the research theme, the writer is interested in conducting research with the title "The Effect of Financial Reporting Quality on Company Value". This research will be conducted on Banking companies listed on the Indonesia Stock Exchange (IDX).

LITERATURE REVIEW

Financial Reporting Quality.

Understanding "Financial reporting quality is relates to the accuracy with which a company's reported financial statements reflect its operating performance and to their usefulness for forecasting future cash flows. Understanding the properties of accruals is critical for understanding and evaluating financial reporting quality. (Scott Richardson and Irem Tuna: 2008). Accounting information built within the organization is the responsibility of management to be presented to interested parties such as investors, creditors, financial analysts, trade unions, the public and even company competitors, where each interest group provides a source of funds or other interests in activities corporate finance. The process of providing financial information to various stakeholders outside the organization is financial reporting (Meigs, 2003, 7-8).

Financial statements are a structured presentation of the financial position and financial performance of an entity with the aim of providing information about the financial position, financial performance, and cash flow of the entity that is beneficial for most users of financial statements in making economic decisions. The financial statements present information about the entity which includes (a) assets; (b) liabilities, (c) equity; (d) income and expenses including gains and losses; (e) contributions from and distribution to owners in their capacity as owners and (f) cash flow. (PSAK 1, IAI, 2009).

From the above definition it can be concluded that the quality of financial reporting is the level of how good or bad a process of providing financial information includes statements of financial position (balance sheet), comprehensive income statement, statement of changes in equity, statements of cash flows, notes to financial statements and other reports with sufficient disclosure and with a high level of conformity for the parties concerned.

Basic Concept.

The main purpose of financial reporting is to provide high quality financial statement information about economic entities, especially about finance used for economic decision making (FASB, 1999; IASB, 2008). Providing high quality financial statement information is important because it will positively influence capital providers and other interested parties in making investment, credit and other resource allocation decisions to improve overall market efficiency (IASB, 2006; IASB, 2008). To measure the quality of financial reporting, researchers have previously measured the quality of financial reports indirectly and focused on attributes that are believed to influence the quality of financial reporting such as earnings management, financial restatements and timeliness (Barth et al, 2008; Shipper & Vinsent, 2003; Cohen al al, 2004). From these empirical studies none of these measurement methods allows a comprehensive assessment of the quality of financial reporting including all qualitative characteristics as defined in the conceptual framework for financial reporting (IASB, 2008).

In the process, financial reporting is based on a number of generally accepted accounting principles that are differentiated based on principles that are oriented towards input or inputs and principles that are oriented towards results or outputs. The principle with input orientation consists of; firstly based on general rules of operation namely recognizing and matching / conformity and secondly the principles of coercion / Constraining principles namely conservatism, disclosure, materiality and objectivity (also called verifiability) (Harry at all, 2003: 125). The basic framework is the concept underlying the preparation and presentation of financial statements for external users with the aim of being used as a reference for: financial accounting standard drafting committees, the preparation of financial statements to address accounting problems that are not yet regulated in financial accounting standards, the auditor provides an opinion on whether the financial statements prepared in accordance with generally accepted accounting principles and users of financial statements in interpreting information presented in financial statements prepared in accordance with financial accounting standards (IAI: 1994). The purpose of financial statements is to provide information regarding the financial position, performance and changes in the financial position of a company that is useful for a large number of users in making economic decisions.

In preparing the company's financial statements there are two basic assumptions that are used as a reference, namely the accrual basis and business continuity. The accrual basis makes the effect of transactions recognized at the time of the event (and not when cash or cash equivalents are received or paid) and recorded in the accounting records and reported in the relevant financial statements. Business continuity is prepared based on the assumption of the company's business continuity and will continue to operate in the future. (IAI: 1994).

Financial statement quality.

To meet user needs, the information presented in financial statements must have certain characteristics. Trueblood Report in Ahmed R Balkoui (2008), mentions some qualitative characteristics of reporting as follows: 1). Relevance and materiality; 2). Substance over form; 3). Reliability; 4). Neutral; 5). Comparability; 6). Consistency; 7). Understanding. According to the report; Qualitative characteristics of financial statements should be based largely on the needs of report users. Information should be as far as possible free from the author's bias. In making decisions, users should not only understand the information presented, but should also be able to assess its reliability and compare it with information about alternative opportunities and previous experiences (Akhmed R Belkaoui, 2008-221). Furthermore, the FASB issued a Statement of Financial Accounting Concepts No. 2, "Qualitative Characteristics of Accounting Information" which provides criteria for selecting among: 1). Alternative accounting and reporting methods; and 2). Disclosure Requirements. These criteria indicate which information is better (more useful) for the decision making process, so that the criteria can be seen as a hierarchy. Statement of Financial Accounting Concepts No. 8 of 2010 states that Qualitative Characteristics of useful financial information consists of; (1) Fundamental Qualitative Characteristics, i.e. Relevance and faithful representation and (2) enhanced if it is comparable, verifiable, timely, and understandability. Qualitative characteristics of the use of financial information, in its application to provide financial information in financial statements for various purposes.

Disclosure

In accordance with Statement of Financial Accounting Standards (PSAK) number 1 (IAI, 2009), regarding the presentation of general purpose financial statements "financial statements" so that they can be compared both with the previous period reports and with the financial statements of other entities. This statement sets the requirements for the presentation of financial statements, the structure of financial statements, and the minimum requirements for the contents of financial statements. The financial statements show the results of management's responsibility for the use of resources entrusted to them. In order to achieve these objectives, the financial statements present information about the entity which includes: (a) assets; (b) liabilitias; (c) equity; (d) income and expenses including gains and losses; (e) contributions from and distribution to owners in their capacity as owners; and (f) cash flow. This information, along with other information contained in the notes to the financial statements, helps report users in predicting future cash flows and, in particular, in terms of the time and certainty of obtaining cash and cash equivalents. The components of the Complete Financial Statements consist of the following components: (a) statement of financial position at the end of the period; (b) statement of comprehensive income for the period (c) statement of changes in equity for the period; (d) cash flow statement for the period; (e) notes to the financial statements, containing a summary of important accounting policies and other explanatory information; and (f) statements of financial position at the beginning of the comparative period that are presented when an entity adopts an accounting policy retrospectively or makes a restatement of financial statement items, or when an entity reclassifies items in its financial statements. Entities are permitted to use report titles other than those used in this statement. The entity presents all components of the financial statements complete with the same level of priority.

Empirical studies conducted by Cohen, et.al; (2004) states that in a number of previous literature on the quality of corporate financial reporting more focused on a number of factors, such as: (i) earnings management; (ii) financial re-statements, and (iii) fraud. Strong corporate governance mechanisms will reduce the emergence of opportunistic behavior (opportunistic behavior) of managers, this condition will improve the quality of financial statements produced. Furthermore, Cohen et.al, (2004) states that there are two factors that affect the quality of corporate financial reporting. First, it is the company's external factors, which consist of the justice system, shareholders, capital market managers, corporate financial statement analysts and other regulators. Both consist of; board of directors, audit committee, internal audit and management. Both of these factors according to Cohen et.al., (2004) affect the quality of corporate financial reporting (financial reporting quality).

The value of the company.

The value of the company or the value of the firm or the enterprise value is defined "of a firm assesses the value of the underlying business assets, unencumbered by debt and separated from any cash and marketable securities, formulated by calculation, Enterprise value = Market value of Equity + Debt - Cash: (Jonathan Berk and Peter DeMarzo, 2007-26). Another definition of company value specifically for bank companies is conveyed by Joseph F Sinkey Jr., (1992: 69), namely the concept of the value of the banking firm can be viewed as consisting of three components, as expressed in the following

Value of Banking Firm	=	Value of an All equity Bank	+/-	Present Value Of Tax Shield From Debt	- /-	Present Value Of cost of Financial Distres

Other indicators used by investors to assess companies include using earnings per share and other ratios measures such as; earnings per share (simple capital structure, complex capital structure, adjustments for options and warrants, limitations of EPS Calculations), capital per share, EBITDA per share, Price to Earning and Price to Book Value Ratios and Dividend Payout Ratio. (Gerald White at al, 110). Company value (value of the firm) can also be calculated through the concept of Tobin's Q as quoted from an empirical study conducted by Korajzyck & Levy (2003) which defines Tobins's Q as a comparison between the equity market value plus the year-end book value of debt to the book value of the company's year-end book value of assets. Furthermore Korajzyck & Levy (2003) states that Tobin's Q is a performance measure in studies of the relationship between ownership and firm performance. Tobin's Q is also often used as a proxy in assessing company quality or growth opportunity.

Empirical studies conducted by Kakani Ram, Saha & Reddy (2001) explain that maximizing company value is a function of capital market conditions, profitability, business risk and company growth. Furthermore, they mentioned that the risk proxy by variations of Return On Assets (ROA) and Return On Capital Employed (ROCE) has both direct and indirect effects through profitability and the company's growth rate. The profitability variable itself is a function of sales turnover and profit margin. Companies that have a good reputation regarding financial reporting will be able to increase their capital. Besides that, an argument that with financial reporting will also get lower capital costs because the company will reduce the uncertainty with the company reporting it more fully and reliably. (Harry I Wolk et al, 1989).

Kristen L. Anndersen and Teri Lombardi Yohn (2009) in their research examined the effect of restatement of financial statements and disclosure of the problem of revenue recognition on market reaction. The results of the study indicate that there is a negative market reaction to the announcement of accounting problems. The same thing shows that companies that announce the restatement of financial statements related to revenue recognition problems show a greater negative reaction. The results of Zaenal Fanani's (2009) study stated that the quality of financial reporting with the attributes of relevance, timelines and conservatism has a significant economic consequence relationship with stock values as a result of information asymmetry. However, the research findings of Abubakar Salisu, (2008) show that accounting information of companies listed on the stock exchange in Nigeria lacks a significant relevance value for information users in making investment decisions. For accounting information of companies registered in Nigeria, it should consider the inclusion of intangible values in the financial statements.

Framework.

The Companies that have a good reputation regarding financial reporting will be able to increase their capital. Besides that, an argument that with financial reporting will also get lower capital costs because the company will reduce the uncertainty with the company reporting it more fully and reliably. (Harry I Wolk et al, 1989). FSAB in Suwardjono (2008-157), the main purpose of financial reporting is to provide information about the economic resources of a business entity, claims against these sources (the business entity's obligation to transfer economic resources to other entities and owner's equity) and the consequences of transactions, events and circumstances that change the business entity's resources and claims for those resources. The industrial revolution has contributed to major changes in business organization and ownership. A large number of new economic activities require additional sources of capital. Companies can collect the amount of capital needed to be met with greater costs in the context of industrialization. It also encourages the separation of management from owners so that management becomes more specific.

A new responsibility is established between management and owners and supported by regulations by facilitating the development of the company and protection of all matters relating to the company's organization, especially the owner / shareholders as providers of capital. This new responsibility has been satisfied by providing information by the company's management to shareholders as outlined in the annual report, which is mainly about financial statements (Michael Gaffikin, 2008). Mingzhi LIU research (2011) obtained empirical evidence that the influence of accounting conservatism and internal control has an effect on lower prices in issuing new bonds in the capital market, with the support of signals about conservative policies in accounting policies. Ross L Watss & Zuo Luo's research, 2011 proves that accounting conservatism has an effect on the value of the company during the 2008 crisis, showing that companies with more conservative accounting policies in financial reporting during the crisis period negative stock returns reduced.

The researcher further showed a positive relationship between conservative accounting, the crisis period, the rate of return on shares and is consistent with previous research that accounting conservatism increases the ability to owe, reduce low investment levels and increase firm value. Kristen L. Anndersen and Teri Lombardi Yohn (2009) in their research examined the effect of restatement of financial statements and disclosure of the problem of revenue recognition on market reaction. The results of the study indicate that there is a negative market reaction to the announcement of accounting problems. The same thing shows that companies that announce the restatement of financial statements related to revenue recognition problems show a greater negative reaction. The results of Zaenal Fanani's (2009) study stated that the quality of financial reporting

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In accordance with the framework that has been described previously, it can be formulated research hypotheses. The formulation of the hypothesis is the quality of financial reporting affects the value of the company.

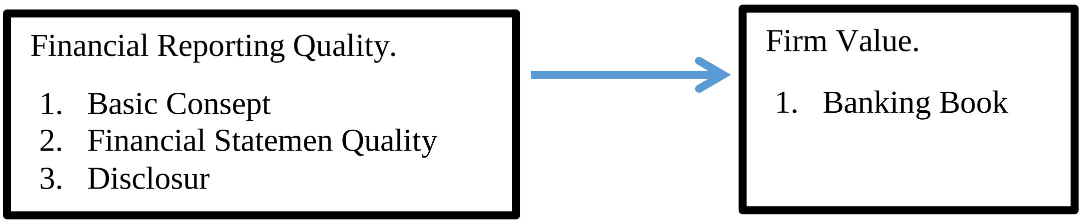

Figure 2.1

RESEARCH METHODS

The object of research in this study is the quality of financial reporting and corporate value. The focus of the research is directed at the quality of financial reporting both weaknesses and advantages in increasing company value. The research method used in this study is research that is explanatory, because it is a study that explains the causal relationship between variables (Cooper and Schindler, 2006: 154) through census research. As a further elaboration of the operationalization of variables, in Table 3.1. presented measurement of the observed variables consisting of variable elements, concept of variables / dimensions, indicators and measurement scale.

Table 3.1 Variable Operational

Variable	Dimension	Indicator	Scale	Point
Financial Reporting Quality (X) SFAC, Harry Wolk, at al, 2003, Ahmed R Belkaoui, 2006 Suwardjono, 2008, IAI, SAK, Revisi 2009	Basic Consept	Accrual	Ordinal	1
		Going Concern	Ordinal	2
	Characteristic qualitative financial statement	Understanding	Ordinal	3-4
		Relevant	Ordinal	5, 6,7
		Reliability	Ordinal	8-11
		Comparable	Ordinal	12-14
	Disclosure		Ordinal	15-16
Firm Value (Y) Tobin, 2001, W.Brigham, 2003 Jonathan Berk, 2007	Share value	Share value Nominal value	Ratio	

The type of data in this study are primary data and secondary data. Primary data is used to measure the quality of financial reporting and secondary data is used to measure the value of the company. To obtain the data, the instrument used in this study was a questionnaire to obtain data on the quality of financial reporting variables and to make an analysis to examine data and information that already existed for the variable firm value. In this study the party that will answer the proposed instrument items / respondents is the Financial Accounting Manager at a Bank listed on the Indonesia Stock Exchange. For secondary data with data sources obtained from daily data on share prices on the Indonesia Stock Exchange and annual reports and financial statements of Banks listed on the Indonesia Stock Exchange.

The research measuring instrument used in this study, to transform qualitative data from a questionnaire into a quantitative data measure, is the Summated Rating Method: Likert Schale. With a Likert scale, the measured variable is spelled out as a starting point for arranging instrument items in the form of statements or questions scored in seven levels, moving from 1 to 7.

The target population in this study are all bank companies listed on the Indonesia Stock Exchange in the 2017 research year, namely: (i) banking service providers during the observation period (ii) companies that publish annual reports for the years ended 31 December 2015, 2016 and 2017. The number of banks listed on the Indonesia Stock Exchange up to 2017 is 31 banks. In this study the respondents were the Audit Committee, the Internal Supervisory Unit and the manager of the Financial Accounting Section at a Bank company listed on the Indonesia Stock Exchange.

Data analysis method is a way to describe data according to the elements contained in each variable. Data analysis here the main purpose is to test the research hypothesis. The data analysis tool used is path analysis. Flowcharts will make it easier to see causal relationships usually expressed in terms of equations. The theoretical footing to explain the relationship between variables has been explained as in the framework of thought. The path diagram or research model to be tested is as follows:

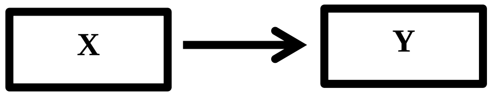

Figure 3.1. Path Diagram

Information :
X = Quality of financial reporti
Y = Company Value

To test the formulation of the above hypothesis the t test is used with the formula, as follows:

$$t_1 = \frac{P_{YX_1}}{\sqrt{\frac{\left(1-R^2_{Y(x_1,x_2)}\right)\ CR_{11}}{(n-k-1)}}}$$

Decision Criteria:

Ho is not accepted if t>> t (0.05) (n-k-1)

Accept Ho if t ≤ t (0.05) (n-k-1)

RESEARCH RESULT

The observation unit in this study is a public bank that has an audit committee, internal audit, carries out financial reporting and sells shares in the capital market. Respondents in this study are the Chair / member of the Audit Committee, the Internal Audit Work Unit Manager and the Financial Accounting Manager as the person in charge in their respective fields / sections to respond to the statements as outlined in the questionnaire to measure the role of the audit committee, internal audit and the quality of financial reporting .

Distribution and collection of questionnaires

The distribution and collection of questionnaires was carried out for three months, from December 2017 to March

2018. The questionnaire was given to 31 banks, each bank was given 3 research questionnaires to be responded by the Chairman / Member of the Audit Committee, Internal Audit Manager and Financial Manager with the number of questionnaires that were 93 questionnaires were distributed. Of the 93 questionnaires distributed the number of questionnaires returned was obtained from 31 public bank analysis units in Indonesia or 100%, with a total of 68 questionnaires out of 93 questionnaires sent or 73.12%. The return rate of the questionnaire (responses rate) according to Cooper and Schindler (2006: 314), a rate of return of 30% is considered good, and will be even better if it reaches 70%. Thus, the return rate of the questionnaire at 73.12% is a good rate of return based on criteria stated by Cooper and Schindler (2006: 314).

Validity and Reliability of data.

Information on the value of the company in the Bank's observation unit recorded in Indonesia, for stock prices obtained from sources of the Indonesia Stock Exchange in 2015, 2016 and 2017. Validity testing uses product moment correlation (index validity) where the statement item is declared valid if the correlation coefficient of the item statement is ≥ 0.30. Then the reliability testing uses the split-half method from Spearman Brown and the results are declared reliable if the reliability coefficient is greater than 0.70. Based on the results of testing the data obtained through questionnaires are entirely valid and reliable.

Testing

4.1.4.1.Testing the Influence of the Quality of Financial Reporting Against Company Value

The hypothesis to be tested is the effect of the quality of financial reporting on firm value. Based on the results of data processing the path coefficient obtained from the quality of financial reporting to the value of the company can be seen in the table below.

Table 4.1 Financial Report Quality Line Coefficient Towards Company Value

Variable	Path Coefficient	T_{count}	$R^2 = 0.238$
X	0.488	3.009	

From the above table, the total effect of financial reporting quality (X) on the value (Y) is obtained by 0.238 or 23.80%. While the remaining 76.20% is the influence of other factors beyond the quality of financial reporting. Visually the path diagram of the effect of financial reporting quality on firm value is shown in the following figure:

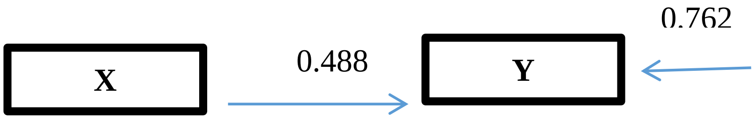

Figure 4.1. Path Diagram in Hypothesis Testing

Through the values contained in the picture above, it can be calculated how much influence the independent variable (financial reporting quality) has on the firm's value.

X = 0.488 * Y

After the path coefficient is calculated, then to prove whether the quality of financial reporting has a significant effect on firm value, the following hypothesis testing is performed:

Hypothesis:

H0: $\rho yx = 0$

H1: $\rho yx \neq 0$

The quality of financial reporting does not affect the value of the company.

The quality of financial reporting affects the value of the company

Table 4.2 Testing Results of the Effect of Quality in Financial Reporting Towards Company Value

Path Coefficient	T_{count}	$t_{table\ (db:29)}$	H_0	H_1
0.488	3.009	2.045	Not accepted	Accepted

Based on the test results in the table above, it can be seen that the tcount value of financial reporting quality variable is 3.009 and ttable is 2.045, where tcount = 3.009> ttable = 2.045. Because the value of t is greater than t table, with $\alpha = 5\%$, it was decided not to accept H0 so H1 was accepted. So based on the test results it can be concluded that the quality of financial reporting has a significant positive effect on firm value. The results of this test provide empirical evidence that the better / higher the quality of financial reporting, it will increase the value of the company. After the results of the hypothesis testing statistically, later in this section will be a descriptive discussion that explains the results of empirical tests compared with the theories put forward in the literature review and the results of previous studies.

Hypothesis testing results indicate that the quality of financial reporting affects the company value of public banks in Indonesia by 23.80%. The amount of influence of 23.80%, according to the Guilford category, the quality of financial reporting has a weak influence on firm value. Strength or weakness refers to the opinion of Guilford (1956), which determines that the magnitude of the interval 0.20 to 0.39 is in the weak classification.

Discussion.

Quality of financial reporting.

Based on respondents 'answers, the quality of financial reporting with the dimensions of the basic consept, qualitative characteristics of financial statements and disclosure grand mean score of 6.38 is at intervals of 6-7, thus it can be concluded that the quality of financial reporting at public banks in Indonesia is very good / quality. Likewise when viewed based on indicators, it is seen that the average score of respondents' responses to the four dimensions, namely: basic consepth (6.17), financial statement quality characteristics (6.43), disclosure (6.30) included in the excellent category. The quality of financial reporting is the process of disclosing financial information in a transparent and accountable manner for stakeholders. The financial statements which are the products of financial reporting present various information which will be the basis for economic decision making (IASB: 2008). Providing high-quality financial information is important because it has a positive effect on capital providers and other interested parties in making investment, credit and other resource allocation decisions to improve overall market efficiency (IASB: 2008).

Firm Value

The results of the condition of the value of public bank companies in Indonesia with the parameter value of shares in the form of price to book value ratio in the last three years both the value of the ratio and its growth are mostly in the category of less-than-good value. The value of public bank companies in Indonesia for the value of shares is very wide ranging from the lowest 0.427 and the highest 102.667. Public bank stock prices are still relatively weak where only 9 entities with double-digit ratios (above 10) and 22 entities under 10, even 3 entities with ratios below 1. This shows that the fundamental conditions that can increase the value of shares still need to be improved. The value of the company is an investor's perception of the company is often associated with stock prices. High stock prices create high company value and are commonly indicated by price to book value. High company value is very important because with high company value will be followed by high shareholder prosperity, the higher the stock price the higher the company's value (Brigham: 1996).

The effect financial reporting quality to firm value.

From the results of hypothesis testing shows that there is a positive influence on the quality of financial reporting on the value of public bank companies in Indonesia amounting to 23.80% while the remaining 76.20% is influenced by other factors such as ownership, governance processes, management integrity, capital market and macroeconomic conditions as a whole (Fama, 1978; Gerald White, 2010; Korajzyck & Levy, 2003; Kakani Ram et al., 2001). The results of this study are consistent with the results of research conducted by Michael Gaffikin (2008), Mingzhi (2011), Ross et.al (2011) with the results showing empirical evidence that, there is a significant positive effect on the quality of financial reporting on stock returns, ability to owe, reduce the level of low investment and increase the value of the company.

CONCLUSION AND SUGGESTION

Conclusion.

Based on the formulation of the problem, the formulation of the hypothesis and the results of the study, it can be concluded that; The quality of financial reporting affects the value of the company, although the quality of financial reporting produced by banks still needs to be improved in terms of: consistency in the implementation of the accrual basis and for the recognition and measurement of revenue, the process and completion of financial statement audits by public accountants who are still late.

Suggestion.

To improve the quality of bank financial reporting, it should be consistently applied the applicable financial accounting standards, particularly the application of the accrual and cash basis principles for the recognition and measurement of income supported by adequate accounting information system technology. Speed up the audit process of financial statements by public accountants by preparing earlier the process of selecting public accounting firms that will audit financial statements. This should be included in the audit committee's annual work program.

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