An Analysis of Factors Affecting Reliability of Financial Report

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ABSTRACT

This study aims to test the effect of institutional ownership, managerial ownership, audit committee, and independent commissioners on financial report reliability of manufacturing companies listed on Indonesia Stock Exchange (IDX). Population in this study is manufacturing companies listed on IDX in 2012-2014. The number of study sample is 171 companies obtained through purposive sampling method. Data sources are obtained from financial report and annual report of companies listed on Indonesia Stock Exchange in 2012-2014. Dana analysis method uses multiple linear regression analysis by using a software application of SPSS 21. Based on the analysis result, it shows that audit committee positively and significantly affects financial report reliability, while variables of institutional ownership, managerial ownership, and independent commissioner do not affect financial report reliability.

Keywords: Financial report reliability, accounting conservatism, institutional ownership, managerial ownership, audit committee, and independent commissioner

1. INTRODUCTION

Financial report is a structured presentation form on financial position and financial performance of an entity. The objective of financial report, according to Financial Accounting Standard, is to give information about financial position, financial performance, and entity cash that is useful for most of report users in economic decision making. Information in financial report that is reliable, meets the reliable criteria and is qualified is the financial report that is free of modification, illegal transaction, intentional misstatement, intentional fraud, and material calculation error. Disclosing information as the fact is the importance for many parties especially its users. Therefore, the challenge for corporate internal party is how company is able to report its business outcome through financial report to stakeholder including shareholder (investor) honestly and trustworthy in order not to mislead its users.

Financial report information that cannot fulfill the characteristic of accounting quality, one of them is reliability that can be the cause of the fall of companies involving in manipulation case of financial report, for example what happened to Enron Corp, TYCO, Worlcom, Olympus Corp, and some other big companies. Other cases often are found in some public companies in Indonesia. Some of them are what happened to PT. Kimia Farma, PT. Katarina Utama, and PT. Inovisi Infracom. As it is released in detikfinance, in the article entitled “Shares are suspended for 4 months, Inovisi is suspected manipulating financial report”, states that IDX has found around eight mistakes in financial report of investment companies in the third quarter in 2014 (finance.detik.com). Some of financial

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data misstatements found are in fixed assets value, net income per share, business segment report, financial instrument category, and total of liability in business segment information (bareska.com).

A various manipulation cases in financial data show that there is still a lack of reliability value in financial report presented by company. It causes financial information presentation not able to show the real corporate economic condition. Addressing to the case, public community tends to doubt report system and financial management that have been done by company. The doubt appears especially for go public companies that their share ownership widely to public. In preventing the existence of financial report manipulating action, a control mechanism in corporate management is considered to be able to overcome it by reducing agency conflict as the result of interest difference between manager (agent) and shareholder (principal). Jensen and Meckling (1976) argued that supervisory action done by institutional investors such as financial institution, legal entity, government or other institutions can limit opportunistic behavior of manager in controlling and decision making. It can boost the level of supervision to be more optimal toward management performance in order to be able to increase financial report reliability.

Structure of managerial ownership is also viewed as mechanism of good corporate (CG) that can affect financial report information that is presented by management in order to be relied by concerned parties. Manager in a company that has managerial ownership percentage will tend to have bigger responsibility in running the company which is by making the best decision for the welfare of the company, as well as reporting financial report with the right and honest information so it has high reliability value. Moreover, there are important role and responsibility in audit committee in a company. Audit committee is able to increase supervision toward opportunistic action of management that affects reliability value of financial report, which is by monitoring and supervising financial report audit as well as ensuring financial standards and policies that are applied to be fulfilled. Beside control mechanism from share ownership and audit committee, there is independent commissioner in a company that also affects by giving protection toward minority shareholder and other parties that are related to the company and balancing decision making by management. If company has independent commissioner, then, financial report presented by management tends to be more relied, because in the company, there is agency that controls and protects the rights of external parties of corporate management (Susiana and Arleen, 2007).

Study on factors that affect reliability of financial report has been done by Rachman and Wien (2013). The result of study shows that internal audit and audit committee simultaneously and partially have positive effect that is significant on financial report reliability. Zakari and Ahmad (2014) study about the role of audit evidence source in enhancing the quality and reliability of libyan auditor's report. Using questionnaire that was personally distributed, they found the audit evidence source effects on the reliability and quality of Auditor's report in Libya. Their study indicates that the audit evidence to support the reliability of the audit report which will ultimately result in the reliability of the financial statements.

Beside the study, so far, there has been no study with similar title. Some studies that become references in this study which are studies with almost similar topic which is financial report integrity one of them is the study from Nicolin (2013) showing that independent commissioner and audit committee positively and significantly affect financial report integrity while managerial ownership and institutional ownership do not affect financial report integrity. However, Wulandari and Budiartha (2014), their study result

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shows that institutional ownership affects financial report integrity, while variables audit committee and independent commissioner do not affect financial report integrity. The study of Hardiningsih (2010), has shown that managerial ownership significantly affects financial report integrity, while audit committee, independent commissioner, and institutional ownership do not affect financial report integrity. Moreover, different result is also found in the study from Rozania *et al.* (2013), that independent commissioner and audit committee significantly affect financial report integrity. Based on the comparison between some previous studies, it seems that there have been no consistencies in the study results of some variables that affect financial repot integrity. Therefore, this study is done in order to review study variables to support the study result that has been done.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Grand Theory

Agency theory is a theory that explains on the relationship between two parties which are owner (principal) and management (agent). In agency theory, the agency relation appears when one person or more (principal) employs others (agent) to give a service and delegates decision making authority to the agent, so principal is the party that give a mandate to agent to act on behalf of principal, while agent is the party that is given to run the company (Jensen and Meckling, 1976). Information can be said reliable when it is free from material error and deviation and causes users depend on the honest information and presentation. Some parties also view that measurement that can be relied is the measurement that can be verified. In reliability, there are some elements or sub-characteristics that can reflect the reliability of financial report information, which are Representational Faithfulness, Substance Over Form, Neutrality, Prudence, and Completeness.

Basu (1987) stated conservatism as a tendency of an accountant who needs a higher level of verification to admit good news as profitable matter compared to admitting bad news as matters of disadvantages. Godfrey *et al*. (2010:165) stated conservatism is by recording load, loss, and liability as soon as possible, while income should not be admitted until a big possibility or high probability is known that the income can be received. Conservatism tries to ensure that uncertainty and risk attached are considered appropriately based on the completeness of suitable evidence. The carefully report is expected can bring good benefit for the users of financial report users, among others are increased information quality and to reduce the tendency of earnings management occurrence (Mohammadi *et al.*, 2013).

Corporate Governance

Corporate governance is a system that arranges the relationship between board of commissioner, director, and management in order to create the balance in corporate management. Mechanism of Good Corporate Governance (GCG) emphasizes on two concepts which are the importance of shareholder rights in obtaining the right information on time as well as the obligation for company to conduct disclosure accurately, transparent, and on time in all financial information and corporate performance. The implementation of good corporate governance affects financial report produced.

Institutional Ownership

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Institutional ownership is the percentage of voting rights owned by institution or other companies, both inside and outside the country as well as governmental share inside or outside the country (Susiana and Herawaty, 2007). Supervisory act of company by institutional investor party can encourage manager to focus his/her attention on corporate performance so that it will reduce opportunistic behavior (Astria, 2011).

Managerial Ownership

Managerial ownership is the percentage of shares owned by management including the percentage of shares owned by management personally or owned by the branch of the related company as well as its affiliation (Susiana and Herawaty, 2007). Share ownership by management is viewed as an effective mechanism in order to harmonize interests between shareholder and management. Manager in companies that have the percentage of managerial ownership will tend to have greater responsibility in running the company, so he/she always takes the best decision for the welfare of company by reporting financial report with the right and honest information in order to have high financial report integrity.

Audit Committee

Audit committee is in charge to monitor and supervise the financial report audit, ensure the applied standards and policies are fulfilled, recheck financial report whether or not is in accordance with the standards and policies as well as with other information, and evaluate the quality of service and cost fairness proposed by external auditor (Putra and Muid, 2012). Therefore, audit committee has contribution to financial reporting such as the less measuring action and accounting disclosure that is incorrect, and the less management fraud action and illegal action done by the company.

Independent Commissioner

Independent commissioner is an agency in a company that usually consists of independent board of commissioners and is from outside the company functioning for evaluating corporate performance entirely (Emirzon, 2007 in Nicolin, 2013). The existence of independent commissioner in the company can increase the reliability of financial report that is presented by management. Independent commissioner plays a role in conducting supervisory function toward manager behavior in order to be able to protect the rights of external shareholders (Jama'an, 2008).

2.2. Hypothesis Development

2.2.1 The Effect of Institutional Ownership on the Reliability of Financial Report

Institutional ownership is the percentage of voting rights owned by institution such as financial institution, legal entity, government and other institutions, both inside and outside the country. High institutional ownership in company can increase monitoring toward manager behavior especially when conducting corporate income management. It means that institutional ownership in company can anticipate the existence of manipulating action that might be done by manager in order to increase the reliability of financial report. Based on the explanation, the hypothesis proposed in this study is as the following:

H_1: Institutional ownership positively affects reliability of financial report

2.2.2 The Effect of Managerial Ownership on Reliability of Financial Report

Managerial ownership is the percentage of shares owned by management including the percentage of shares owned by management personally or owned by branch of related

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company as well as its affiliation (Susiana & Herawaty, 2007). Manager in companies that have percentage of managerial ownership will tend to have bigger responsibility in running the company so that always makes the best decision for the welfare of the company by reporting financial report in the right and honest information in order to have high reliability value of financial report. Based on the explanation, the second hypothesis proposed in this study is:

H_2: Managerial ownership positively affects reliability of financial report

2.2.3 The Effect of Audit Committee on Reliability of Financial Report

Audit Committee is in charge to monitor and supervise the audit of financial report, adjust financial report with policy, standard, regulation, and the actual financial report. Audit committee that consists of independent commissioner is expected to be able to conduct its duties especially the ones related to corporate accounting policy, internal supervision, and financial reporting system. Audit committee in a company can be one of efforts to reduce fraud in financial report presentation so that audit committee is expected to be able to increase supervision toward management action that enables to conduct manipulation on financial report that affects reliability of financial report so that it is able to be relied by financial report users. Thus, the third hypothesis proposed in this study is:

H_3: Audit committee positively affects reliability of financial report

2.2.4 The Effect of Independent Commissioner on Reliability of Financial Report

Independent commissioner is an agency in a company that generally has independent members from outside the company and functions to evaluate corporate performance externally and entirely. The existence of independent commissioner in a company can equalize decision making, especially for protection from minority shareholders and other related parties. Moreover, it also can be mediator when conflict occurs between internal managers and to supervise manager policies as well as to give suggestions to management. If company has independent commissioner, financial report presented by management tends to be trusted and can be relied. Based on the explanation, hypothesis proposed in this study is as the following:

H_4: Independent commissioner positively affects reliability of financial report

Framework of Study

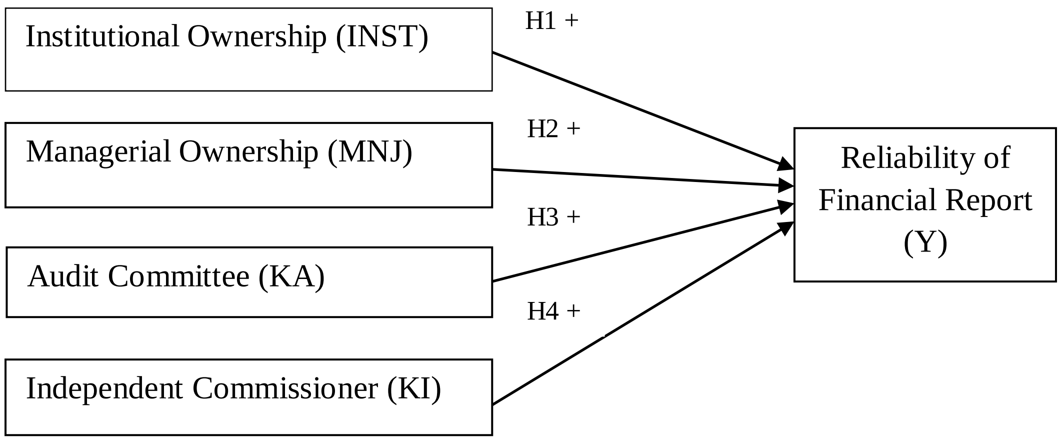

Figure 1. Framework of Study

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3. STUDY METHODOLOGY

3.1. Population and Sample

Population in this study is manufacturing companies listed on Indonesia Stock Exchange (IDX) in 2012-2014. Sample of study is selected with purposive sampling approach, so there are some criteria to select sample data, among others are:

1. Companies that are listed on Indonesia Stock Exchange in 2012-2014 in the group of manufacturing industry.
2. Companies that publish financial report with last period of 31st December in related year and it has been audited.
3. Companies that have financial data related to study variables completely, such as data appearing on financial position report, income report, number of institutional shares ownership and managerial shares ownership, have independent commissioner board and have formed audit committee.

3.2. Type and Source of Data

Type of data used in this study is secondary data that is in the form of financial report along with profile and annual report of manufacturing companies listed on Indonesia Stock Exchange. Secondary data that have been published are obtained through the website of www.idx.co.id.

Data Collecting Method

Data collecting of this study is documentary method by collecting, processing, and analyzing secondary data in the form of annual financial report and annual report of the company. Moreover, it is with the literature review which is by procession literature, article, journal, result of previous study, and other written media that are related to the topic of this study (Indriantoro, 2014). Sampling method applied is purposive sampling method.

Variable of Study and Operational Definition

Independent variable is a variable that affects or is the cause of change and the appearance of dependent variable (Sugiyono, 2012 in Fajaryani, 2015). This study uses four independent variables which are institutional ownership (INST), managerial ownership (MNJ), audit committee (KA), and independent commissioner (KI), as shown in Table 1. Dependent variable is proxied by conservatism index because conservatism has similar characteristics of reliability elements which are prudence, faithful, substance, neutral, and complete. Conservatism illustrates the consideration of information presentation in the matter of carefulness to face uncertainty business world, one of the ways is by not immediately admitting the existence of income and business rights before being really realized compared to the disclosure of loss/cost or liability that are needed to be admitted immediately.

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Table 1
Summary of Variable Operational Definition

Variable	**Measurement**
Institutional Ownership (INST)	$\text{Institutional Ownership} = \frac{\text{Number of shares owned by institution}}{\text{Number of circulated shares}}$
Managerial Ownership (MNJ)	$\text{Managerial Ownership} = \frac{\text{Number of shares owned by management}}{\text{Number of circulated shares}}$
Audit Committee (KA)	Audit committee is measured by number of audit committees in company: KA = Σ member of audit committee
Independent Commissioner (KI)	$KI = \frac{\text{Number of independent commissioner members}}{\text{Number of all members of company commissioner board}}$
Reliability of Financial Report (RLK)	RLK diproksikan dengan $Consv_{accrual} = \frac{\text{Non operating accrual}}{\text{Total assets}}$ RLK is proxied by $Consv_{accrual} = \frac{\text{Non-operating accrual}}{\text{Total assets}}$ Non operating accrual = Operating accrual - Δaccount receivable - Δinventories -Δprepaid expense + Δaccounts payable + Δtaxes payable Operating accrual = Net income + depreciation – cash flow from operation (Zhang, 2007)

4. RESULT AND DISCUSSION

4.1. Description of Study Object

This study uses population of manufacturing companies listed on Indonesia Stock Exchange in 2012-2014 as the object of study shown at Table 2. This study obtained 147 manufacturing companies during 2012-2014 that then are processed by purposive sampling method. The data are obtained from the official site of Indonesia Stock Exchange (www.idx.co. id) and some are from official website of each company.

Analysis of Descriptive Statistics

Table 2
Analysis of Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
RLK	171	,0001050	,8511630	,051944245	,0953890422
INST	171	,0005770	,9885170	,673535065	,2456578401
MNJ	171	,000011	,875033	,06723987	,130699788
KA	171	2,0	4,0	3,058	,3711
KI	171	,2500000	,7500000	,373440581	,0760077435
Valid N (listwise)	171				

Source: Data is processed with SPSS, 2016

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Based on the table of descriptive statistics can be known as the following:

a. Reliability of Financial Report
   The value amount of Financial Report Reliability shown on Table 4.5 comes from the calculation of *consv_accrual* from the model of Zhang (2007) which is non-operating accrual is divided by total assets. The value amount of corporate financial report reliability is between 0.000105 and 0.851 with average value as much as 0.052 and standard of deviation as much as 0,095389. The company that has the highest Reliability of Financial Report is PT Kabelindo Murni Tbk which is 0.851, while the company with the lowest reliability value of financial report is PT Tifico Fiber Indonesia Tbk as much as 0,000105.

b. Institutional Ownership (INST)
   The ratio size of share ownership by institution is counted by number of shares owned by institution divided by number of shares divided by number of shares involve in the company. Minimum and maximum values of institutional ownership are 0.00058 dan 0.988, with average value of 0,6735 and standard deviation of 0.24566. It means that the average of company sample, share ownership composition by institution is 67,/35% from number of circulated numbers. The company with the lowest institutional share ownership percentage is PT Tificor Finer Indonesia Tbk in 2014 as much as 98,8% shares owned by institution.

c. Managerial Ownership (MNJ)
   The ratio size of share ownership by management is calculated by number of shares owned by management divided by number of circulated share. Minimum and maximum values of managerial ownership are 0.00001 and 0.875 with the average value of 0.067 and standard deviation of 0.13069. It means that the average of company sample, its composition of managerial share ownership is 6.7% from the number of circulated shares. Company with the lowest percentage of managerial share ownership is PT Merck Tbk as much as 0.001%, while the company with the highest percentage of managerial share ownership is PT Sat Nusa Persada Tbk as much as 87.5%.

d. Audit Committee (KA)
   Number of audit committee is number of audit committee with all members. The size of audit committee number of a company is between 2 to 4 members with the average value of 3.058 with standard deviation of 0,3711. Thus, it can be concluded that in this study, company has the average of audit committee number as many as 3 persons, consisting of 1 chairman and 2 members of audit committee.

e. Independent Commissioner (KI)
   The size of proportion of corporate independent commissioner comes from the calculation of number of corporate independent commissioner divided by number of all commissioner board. Minimum and maximum values of independent commissioner are 0.25 and 0.75 with the average value of 0.373 and standard deviation of 0.076. It means that the average of sampling company has composition of independent commissioner as much as 37.3% from the number of commissioner board. Company that has the biggest composition of independent commissioner is PT Tempo Scan Tbk in 2014 as many as 3 to 4 persons of commissioner board number.

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4.2. Classic Assumption Test
a. Data Normality Test

Table 3
The Result of Data Normality Test with Kolmogorov-Smirnov

		Unstandardized Residual
N		171
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,08623366
Most Extreme Differences	Absolute	,234
	Positive	,234
	Negative	-,220
Kolmogorov-Smirnov Z		3,066
Asymp. Sig. (2-tailed)		,000

a. Test distribution is Normal.
b. Calculated from data.
Source: Data are processed with SPSS, 2016

Table 3 show that significance value (Asymp.Sig 2-tailed) from regression model is 0.000. It can be concluded that residual value is not distributed normally because the significance value from each regression model is less than 0.05. Thus, the data normality test is done by trying transformation and outlier on study data (see Table 4).

Table 4
The Result of Normality Test after Transformation and Outlier

		Unstandardized Residual
N		155
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,08490926
Most Extreme Differences	Absolute	,069
	Positive	,069
	Negative	-,058
Kolmogorov-Smirnov Z		,857
Asymp. Sig. (2-tailed)		,454

a. Test distribution is Normal.
b. Calculated from data.
Source: Data are processed with SPPSS, 2016

After undergoing data transforming process and outlier process, as many as 16 data have been eliminated from sample of study and result of normality test show that value of Asymp. Sig. (2-tailed) has been greater than significance of 0.05, then, data can be said distributed normally.

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b. Multicollinearity Test

Table 5
The Result of Multicollinearity Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-,265	,067		-3,956	,000		
	INST	,026	,030	,068	,871	,385	,808	1,238
	MNJ	-,007	,057	-,009	-,116	,908	,819	1,222
	KA	,109	,018	,423	6,013	,000	,995	1,005
	KI	-,089	,089	-,071	-1,001	,318	,979	1,021

a. Dependent Variable: RLK
Source: Data are processed with SPSS, 2016

In Table 5, Tolerance value of all independent variables from regression model is more than 0.10 and VIF of independent variable from regression model is also less than 10. It can be concluded that multicollinearity does not occur between dependent variables in regression model in this study.

c. Autocorrelation Test

Table 6
Result of Autocorrelation Test

	Unstandardized Residual
Test Value[a]	-,01720
Cases < Test Value	85
Cases >= Test Value	86
Total Cases	171
Number of Runs	85
Z	-,230
Asymp. Sig. (2-tailed)	,818

a. Median
Source: Data are processed with SPSS, 2016

Based on the testing result of Run Test (Table 6), it can be found that the value Asymp. Sig. (2-tailed) is as much as 0.818. Value limit of Asymp. Sig. to be freed from autocorrelation is 0.05. Therefore, 0,818>0,05 and it can be concluded that regression model is not affected by autocorrelation.

d. Heteroscedasticity Test

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Table 7
Result of Park Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-9,222	2,089		-4,415	,000
	LnINST	,213	,172	,097	1,234	,219
	LnMNJ	,028	,069	,031	,399	,690
	LnKA	1,243	1,523	,064	,816	,416
	LnKI	-,839	1,014	-,065	-,827	,409

a. Dependent Variable: LnU2i
Source: Data are processed with SPSS, 2016

In evaluating, heteroscedasticity can be shown by regression coefficient from Ln of each independent variable toward Ln squared residual (LnU^2i). The output result shows that each independent variable has probability that is more than significance value of 0.05, then, it can be known that heteroscedasticity does not occur in regression model and it can be measured that from the value of output t-count, all independent variables have values that are less than t-table (1.9741). The value of t-table can be obtained by including a formulation into excel which is =TINV(prob,df) or =TINV(0.05,169).

Determination Coefficient Test (R^2)

Table 8
Result of Determination Coefficient of Regression Model I

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,427[a]	,183	,163	,0872664367	1,745

a. Predictors: (Constant), KI, KA, MNJ, INST
b. Dependent Variable: RLK
Source: Data are processed with SPSS, 2016

From the feature of SPSS model summary result that is presented above, value of adjusted R^2 is 0.163. It shows that the ability of independent variable in explaining variants of dependent variable is only as much as 16.3%. There are still 83.7% of dependent variable variants that cannot be explained by the four independent variables in this study. It is because the existence of other factors that also affect, such as commissioner board, size of company, independency, leverage, internal auditor as well as independency or other factors that are not studied in this study.

Model Feasibility Test (F Statistic Test)

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Table 9
Result of F Statistic Test

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	,283	4	,071	9,280	,000[b]
1	Residual	1,264	166	,008		
	Total	1,547	170			

a. Dependent Variable: RLK
b. Predictors: (Constant), KI, KA, MNJ, INST
Source: Data are processed with SPSS, 2016

From ANOVA test or F Test, the value of F-count is obtained as much as 9.280 with probability of 0.000. Because the probability is much smaller than 0.05, the regression model is can be used to predict reliability value of financial report or it can be said that institutional ownership, managerial ownership, audit committee, and independent commissioner simultaneously affect reliability of financial report.

Significance Test of Individual Parameter (T Statistic Test)

Table 10
Result of T Statistic Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-,265	,067		-3,956	,000
	INST	,026	,030	,068	,871	,385
1	MNJ	-,007	,057	-,009	-,116	,908
	KA	,109	,018	,423	6,013	,000
	KI	-,089	,089	-,071	-1,001	,318

a. Dependent Variable: RLK
Source: Data are processed with SPSS, 2016

Based on the result in Table 10 of individual parameter significance (t statistic test) that is presented on the table above, it can be known that variable audit committee has significance value of < 0.05 and t-count of > 1.9741 (t-table value) meaning that individually audit committee significantly affects reliability of financial report. Meanwhile, institutional ownership, managerial ownership, and independent commissioner have significance value of > 0.05 and t-count of < 1.9741 (value of t-table) meaning that institutional ownership, audit committee, and independent commissioner significantly do not affect reliability of financial report.

Table 11
Summary of Regression Model Hypothesis Result

Hypothesis	Statement	t_{count}	t_{table}	Sig.	Conclusion
H1	Institutional ownership positively affects reliability of financial report	0.871	1.9741	0.385	Value of t_{count} <t_{table} and value of significance > 0.05. Then, hypothesis is stated not

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					supported
H2	Managerial ownership positively affects reliability of financial report	-0.116	1.9741	0.908	Value of t_{count} <t_{table} and value of significance > 0.05. Then, hypothesis is stated not supported
H3	Audit Committee positively affects reliability of financial report	6.013	1.9741	0.000	Value of t_{count} >t_{table} and value of significance < 0.05. Then, hypothesis is stated supported
H4	Independent commissioner positively affects reliability of financial report	-1.001	1.9741	0.318	Value of t_{count} <t_{table} and value of significance > 0.05. Then, hypothesis is stated not supported

The Effect of Institutional Ownership on Reliability of Financial Report

The result of hypothesis test presented on Table 4.11 shows t significance value of 0.385 > 0.05. The value means that significantly institutional ownership does not effect reliability of financial report. Value of t-count is 0.871 < 1.9741 (value of t-table) showing that positive value of t-count means that institutional ownership has linear relationship with reliability of financial report. Therefore, H1 stating that institutional ownership positively affects reliability of financial report is stated not supported.

The result of this study is consistent with the study done by H Hardiningsih (2010) as well as Putra and Dul (2012), where the size of institutional ownership percentage does not affect reliability of financial report. This condition happens because institutional ownership plays role outside corporate management such as prioritizing entity business performance of his/her own business, so management policy in keeping the advantage of financial report is less supervised by institutional investor. According to the theory, institutional ownership should have the ability to control management party through monitoring process effectively, including reliability of financial report. Percentage of certain shares owned by institution can affect the process of financial report making that cannot cover the possibility of accrualization existence as the importance of management party (Putra and Dul, 2012).

The Effect of Managerial Ownership on Reliability of Financial Report

The result of hypothesis test presented on table 4.11 shows t significance value of 0.908. The value is > 0.05 meaning that significantly managerial ownership does not affect reliability of financial report. Managerial ownership has t-count of -0.116 with t-table of 1.9741 so t-count < t-table. Negative t value shows that managerial ownership has relationship that is contrary with reliability of financial report. Therefore, H2 stating that managerial ownership positively affects reliability of financial report is stated not supported.

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The result shows that bigger percentage of shares ownership owned by management as corporate management, then, there is the tendency that reliability value of financial report will decrease. Management generally has self-interest characteristic so that a manager wants to show financial report as well as possible in front of stakeholders, so corporate performance appears better than the real condition, so from the assumption of human basic personality, a manager as human will act opportunistic, which prioritizing his/her personal importance (Haris, 2004 in Hardiningsih, 2010). Opportunistic inside manager's personality tends to cause the existence of earning management practice in financial report because as a corporate management, a manager will know internal information and corporate prospect in the future better than owner or shareholders.

The Effect of Audit Committee on Reliability of Financial Report

The result of hypothesis test presented on Table 4.11 shows t significance value of 0.000< 0.05. The value means that significantly audit committee affects reliability of financial report. Value of t-count is 6.013 > 1.9741 (value of t-table) showing positive t-count value meaning that audit committee has linear relationship with reliability of financial report. Therefore, H3 stating that audit committee positively affects reliability of financial report is stated **supported**.

The result of this hypothesis test is in line with the study from Jama3an (2008) and Gayatri (2013), where in its study shows the existence of significant effect between audit committee on integrity of financial report. Integrity in financial report illustrates that financial report presents true and honest information, so it can be relied to make economic decision which is principally it has the same meaning that integrity in a financial report includes reliability value which is the reliability of financial report. The direction of positive regression coefficient shows the more number of audit committee, the smaller deviations will be done by management because audit committee is in charge in supervising management action that may conduct manipulation of financial report, so it affects the reliability of financial report. Therefore, it can reduce the tendency of fraud occurrence in financial report presentation. Moreover, the existence of audit committee can ensure and check whether financial report is in line with the financial standards and policy and keep public accountant independency that examines the company.

In its duty implementation, audit committee conducts formal communication between management board, management, external auditor and internal auditor, where will guarantee that internal and external audit processes are done well. Good internal and external audit processes will increase the accuracy of financial report, and then increase the belief toward financial report. Moreover, Klein (2002) in Jama'an (2008) has given evidence empirically that company forming independent audit committee reports profit with smaller discretionary accrual content compared to company that does not form independent audit committee.

The Effect of Independent Commissioner on Reliability of Financial Report

The result of hypothesis test presented on Table 4.11 shows t significance value of 0.318>0.05. The value means significantly independent commissioner does not affect reliability of financial report. T-count value of -1.001 < 1.9741 (value of t-table) shows that the value of t-count is negative meaning that independent commissioner has contradicting reliability of financial report. Therefore, H4 stating that independent commissioner positively affects reliability of financial report is stated **not supported**.

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The result of this study is consistent with the study from Putra and Dul (2012) as well as Hardiningsih (2010) showing that there is no significant effect between proportion of independent commissioner and integrity of financial report. It might be because the proportion average of independent commissioner board in this study is relatively small, which is 37.3% from the number of all commissioner board so it is less able to give supervision that is too big on management action including financial report presentation than can be relied.

Sylvia and Siddharta (2005) stating that the existence and appointment of independent commissioner board by company may be as regulation fulfillment only, but it is not meant to enforce Good Corporate Governance (GCG) in the company. This reality is not in line with the function of independent commissioner considering that its true function is to evaluate corporate performance widely and entirely by monitoring management performance so that good corporate governance in company will be created and to create more objective and independent climate. This condition is also confirmed from the survey result of Asian Development Bank that the strength of control from corporate founder and majority shares ownership make commissioner board not independent and the supervising function that should be its responsibility becomes ineffective (Sylvia and Siddharta, 2005).

If independent commissioner is the party that is quite majority compared to the total of commissioner board (>50%), then it might be more effective in running monitoring role in the company. However, if its appointment has not been based on the needs of the company, but only as regulation fulfillment, the proportion of commissioner board might not need to be multiplied, still as the requirement being applied (minimum of 30%) and the effectiveness of audit board and committee is observed in longer period of time (Sylvia and Siddharta, 2005). To overcome the problems, it is necessary the existence of government regulation enforcement that is firmer in order to create corporate climate that is really able to be good corporate governance.

5. CONCLUSIONS AND SUGGESTION

5.1. Conclusions

Based on the result of analysis and discussion that has been explained in the previous chapter, the conclusion that can be drawn is as the following:

1. Institutional Ownership (INST) does not affect reliability of financial report. It is because institutional investor much involves outside corporate management so that management policy such as reliability of financial report is not affected by institutional ownership.
2. Managerial ownership (MNJ) does not affect reliability of financial report. The management generally has self-interest personality, so he/she wants to present a financial report as well as possible to stakeholders so that corporate performance appears better than the real condition, and management tends to be opportunistic by obtaining profit from it. Theoretically, when management ownership is low, then incentive toward the possibility of the occurrence of manager opportunistic action will increase, so it reduce the reliability of financial report.
3. Audit Committee (KA) positively and significantly affects reliability of financial report. Audit committee is able to increase the supervision on management action that might conduct manipulation of financial report, so it affects the reliability of financial report, as well as in charge to ensure and check whether financial report has been in line with financial standards and policies.

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4. Independent Commissioner (KI) does not affect reliability of financial report. It is because the existence and appointment of independent commissioner board by the company may be conducted to only fulfill the regulation, but not to enforce Good Corporate Governance (GCG) correctly and in accordance with its duty.

5.2. Suggestion

Some suggestions that can be considerations for the next study:

1. The next study needs to add more samples so that more companies that can be sample, so it can be used to predict more and the result of the next study will be better.
2. Using the period of study with longer range of time in order to get better result of study.
3. Adding or using other independent variables that affect reliability of financial report such as financial ratio, internal auditor, independency, or other different factors from the previous study in order to be new information sources for the next study.
4. The next study is expected to use different proxy to measure reliability of financial report such as by measuring conservatism index of other model or by using other proxy that can describe reliability value of financial report.
5. Independent variable of internal controlling system is necessary to be added as intervening variable.

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