

INTERNAL AUDIT QUALITY, CORPORATE GOVERNANCE, AND CORPORATE SOCIAL RESPONSIBILITY: DETERMINANTS OF FINANCIAL REPORTING QUALITY

Suhita Whini Setyahuni^{1*}, Nanda Adhi Purusa², Joni Prayogi³, Miftachul Mujib⁴
^{1,2,4)} Universitas Dian Nuswantoro Semarang
³⁾ Universitas Jenderal Soedirman

ABSTRACT

This study intends to examine what factors were determined the quality of financial statements. We examined the impact of internal audit quality, corporate governance, and CSR performances on financial reporting quality. Since financial reporting quality was difficult to observe directly, we used the accrual earnings management (EM) approach. Using 78 firm-year observations of 39 public companies listed in the LQ-45 index from 2019 to 2020, We employed Ordinary Least Squares (OLS) regression as our data analysis technique. The number of audit committees and board size became the measurement indicators of internal audit quality and corporate governance. Moreover, CSR ratings provided by CSR Hub measured CSR performances. Our findings indicated a positive relationship between internal audit quality and corporate governance on the quality of financial performance. It means that both internal quality and corporate governance become the determinant factors of financial reporting quality. On the other hand, CSR performances did not have any relationship with the financial reporting quality. This paper provides fruitful insight into the factors that driven financial reporting quality. Using different aspects of factors influencing the quality of financial statements, we initially offer valuable insight for business practitioners and potential investors to assess the quality of financial performance.

Keywords: Financial Reporting Quality; Internal Audit Quality; Corporate Governance; Corporate Social Responsibility; CSR Ratings; Qualitative Characteristics

Correspondence to : whinihita@dsn.dinus.ac.id

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INTRODUCTION

Financial reporting is one of the most important instruments to communicate a corporate's business activity to society. Since users of financial reporting are diverse, the effectiveness of the communication process

through financial reporting is subject to the degree of easiness and understandability. Financial reporting provides mainly financial information and additional disclosures like social aspects, competitive advantages,

market conditions, and other explanations. To obtain accurate and reliable information, users need to ensure that reported financial reporting had satisfied a certain quality standard.

According to (Hsu & Yang, 2022), financial reporting quality can be determined by its function in the decision-making process. Therefore, good quality financial reporting has to be adequate, comprehensive, and timely information, which the public can access freely. There are several qualitative characteristics of financial reporting quality that the professional accounting standard board had developed. Standard setter provides a guideline in helping to achieve financial reporting quality's goal, which is known as a conceptual framework. International Accounting Standards Board (IASB) developed characteristics qualitative of financial reporting, namely relevance, faithful representation, comparability, verifiability, timeliness, and understandability.

Measuring financial reporting quality is slightly complicated because we cannot trace the quality indicators to be observed. Because of these difficulties, most scholars have used numerous indicators to measuring financial reporting quality. For example, one of the qualitative characteristics of financial reporting is relevance, which is quite difficult to determine the degree of relevance. Therefore, some studies used future cash flow to measure predictive value, which becomes interrelated to the relevance value of financial reports (C.-D. Chen et al., 2022; Noury et al., 2020; Rezaee & Tuo, 2019) The other quality is faithful representation, which means financial reports should be comprehensive, neutral, and have no error. Some studies used compliance to financial standards as a measure of faithful representation (Chen & Gong, 2019). The reason for using compliance to measure faithful representation is caused by its effect on the accuracy of financial reporting. The more the degree of compliance, the more accurate the information generated from financial reporting was. Still, the other measurement of faithful representation is the accrual approach. As we know that earning is an accrual product, the use of accrual measurement can ensure that earning

management does not exist in the financial report. The higher the degree of earning management, the lower financial reporting quality (Kareem AL Ani, 2021; Tran et al., 2021).

Furthermore, there are still many researchers who focused on the investigation of financial reporting quality. Research on financial reporting quality was conducted by Kaawaase et al. (2021). A structured questionnaire was used to assess financial reporting quality and used internal audit quality and corporate governance as determinant factors. The result showed a significant positive effect of the internal audit and corporate governance on financial reporting quality.

Kareem AL Ani (2021) investigated the role of corporate social responsibility (CSR) in enhancing financial reporting quality. To assess financial reporting quality, Kareem AL Ani (2021) used the accrual approach of value relevance and earning quality. The findings showed that CSR disclosure plays an essential role in improving financial reporting quality. According to Kareem AL Ani (2021), CSR is a form of communication and accountability to society. Firms that reported CSR in their financial reporting have fulfilled investors' needs, who want to assess corporate business activity comprehensively. CSR can also be interpreted as a form of completeness of financial information.

Research on financial reporting quality has become more challenging because of the difficulties in measuring the quality of financial reporting (Kaawaase et al., 2021; Rezaee et al., 2020). Most scholars tried to capture the degree of financial reporting quality through indirect measurements such as earning management (Lari Dashtbayaz et al., 2019), financial restatement (Chen & Gong, 2019), and market performances (Kareem AL Ani, 2021). Since it is difficult to measure the level of quality of financial reporting, a few types of research still focus on this issue. Moreover, the unique measurement of financial reporting quality leaves interesting research areas that can still be explored more deeply by researchers. This study, therefore, wants to contribute to the investigation of financial reporting quality. This study differs

from Kaawaase et al. (2021), which only focuses on the impact of corporate governance and internal control on financial reporting quality. This study wants to develop a fruitful insight into what factors can drive high quality of financial reporting. By adding social aspects, which is believed to be an important tool to boost the quality of financial reporting, this study contributes to providing empirical evidence to support the development of the framework of financial reporting quality.

Theoretically, we develop our prediction regarding financial reporting quality based on institutional theory. Providing comprehensive, valuable, and free accessed information is a form of corporate responsibility resulting from becoming a business entity. Information is needed not only by stockholders and potential investors but also by wider stakeholders. In order to prevent the wealth of stockholders, corporates try to communicate their ability to create value-added for their stockholders through a trusted financial reporting. Thus, a company that can report high-quality financial reporting will become a trusted company that can easily access resources provided by society. Reporting a good quality of financial reporting has also become a common practice that must be obeyed by other companies who want to be accepted as social members. This practice has been taken for granted among societies and has been formalized through standard setters and regulators who provide a clear framework of financial reporting quality.

Many determinants' factors might affect the quality of financial reporting. The primary parties who influence financial reporting quality are standard-setter boards and other regulators who provide a clear framework to achieve a quality financial report. Auditing standards are intended to decrease the level of misstated financial statements. The presence of both internal and external auditors established clear objectives in preventing fraudulent financial statements, dysfunctional behavior and providing good pressure to management to enhance the quality of financial reporting. A study conducted by Kaawaase et al.(2021) was observed the effect of internal audit and corporate governance on financial reporting

quality. Kaawaase et al. (2021) used questionnaires to assess the degree of financial reporting quality. The results found that both internal audit and corporate governance positively impact financial reporting quality. According to Bailey et al.(2015), internal auditors help management provide high-quality financial statements, while independent external auditors are the last doorkeeper before publishing financial statements. Therefore, internal audit and external audit quality have an essential role in enhancing the financial reporting quality.

By explaining the role of internal audit on financial reporting quality, therefore, the first hypothesis is proposed as follows:

H1: Internal audit has a positive impact on financial reporting quality.

Besides external factors such as internal audits, financial reporting quality can also be influenced directly by corporate governance structures. Corporate governance is an essential organ in organizations responsible for ensuring the effective monitoring process of business activities. According to Kaawaase et al.(2021), corporate governance is the prime foundation of an organization to be more productive, well-controlled, and have a good business atmosphere.

Corporate governance represents the managerial mechanism that increases managers' effectiveness of resources spending (Hsu & Yang, 2022). Inadequate supervision in business activities may cause inefficiency costs. Moreover, corporate governance ensures the increase of controlling effectivity, which can enhance corporate's compliance with laws and regulations. Companies that do not have a good quality of corporate governance cannot maintain their business performances because stockholders put their trust in a company based on the company's commitment to protecting their value. The commitment of the company is represented in the excellent quality of corporate governance.

The information which is derived from an excellent managerial system can be considered as high-quality information. It is because the organizational system ensures information providers' compliance to reporting only relevant and reliable information. Companies that provide quality

information have lower risks of facing litigations and other complaints from stakeholders. Therefore, management can be motivated to provide quality information, especially information on financial performance. It can be achieved by implementing an effective corporate governance structure. This study uses board size as a proxy for financial reporting quality.

Several kinds of research on the investigation of corporate governance and its impact on the financial reporting quality had been conducted by most scholars. Siagian et al. (2013) researched the effect of corporate governance on reporting quality. They found that corporate governance decreased the quality of reports in Indonesian companies. According to Siagian et al. (2013), companies with low corporate governance performance need to enhance their performances and provide more comprehensive information of the performances. The other research was conducted by Chun-Da et al., (2022). They investigated the effect of corporate governance on financial reporting in China and found a positive relationship between corporate governance and financial reporting quality. Chun-Da et al., (2022) stated that the role of corporate governance is to ensure the resources absorption by the company's activities. Hence, the effectiveness control system can be enhanced by implementing good corporate governance.

One of the critical measurement indicators of corporate governance is board size. A large number of board members are more likely to have better characteristics in the effectiveness of the controlling process, greater knowledge, and a better valuable perspective. A company with a larger number of board members can enhance its monitoring capacity, especially compliance with laws and regulations.

The larger the board size, the greater control effectiveness provided by the board is. Therefore, it can help to improve the quality of financial reporting. For this reason, it can be inferred that board size positively affects financial reporting quality. Hypothesis two, therefore, is proposed as follows:

H₂: corporate governance has a positive impact on financial reporting quality.

Corporate social responsibility is one of the aspects of the company's relationship with its stakeholders. Companies often use CSR disclosure to promote business activities to society and prove that they have fulfilled their social responsibility. According to the institutional theory perspective, social responsibility can pressure companies to follow the social norms and ethical values in societies. If intentionally, companies do not pay attention to social responsibility, they might have difficulties maintaining resources, such as labor availability, natural resources, capital investment, etc. Therefore, CSR disclosure becomes an important tool for companies to build better relationships with stakeholders (Rezaee et al., 2020).

Most scholars have been extensively investigated whether CSR has an impact on financial performance. Research conducted by Baboukardos (2018) investigated the relationship of environmental disclosure on economic performance. They used share prices and stock returns to measure economic performance. They found that environmental disclosures have empirically proven to have a positive impact on economic performance. Other similar research, conducted by Atan et al. (2018), found similar findings. Atan et al. (2018) investigated the effect of ESG disclosure, which was used as a proxy of CSR disclosure, on financial performances. The results showed that ESG disclosure influenced financial performances positively. Other scholars examined the impact of CSR disclosure on financial performance in different ways, such as the level of firms risks (Albuquerque et al., 2018), financial reporting transparency (Nair et al., 2019), and firms reputation for high-quality brand image (Clarkson et al., 2013).

Although much research investigated the effect of CSR disclosure on financial and non-financial performances, CSR disclosure's impact on financial reporting quality has not been explored clearly. Research conducted by Rezaee et al. (2020) focused on investigating the impact of CSR disclosure on earning quality, which became a proxy of financial reporting quality. Rezaee et al. (2020) used CSR ratings provided by Rankins (RKS), an organization that provides CSR ratings

independently. The findings showed that companies that reported high-quality CSR disclosure were less likely to be involved in earning management. The low level of earning management indicates a high level of financial reporting quality. Firms with a higher quality of CSR disclosure have high-quality earnings, which are more insistent and can be used to predict future cash flow, than those with lower CSR disclosure (Rezaee et al., 2020). Similar findings also can be found in the research conducted by Rezaee & Tuo (2017), Kareem AL Ani (2021), and Chen & Gong (2019).

High-quality CSR disclosure can be treated as a signal of faithful representation, enhancing the degree of relevance of the financial reporting. From the reasons, therefore, the third hypothesis can be proposed as follows:

H₃: CSR disclosure has a positive impact on financial reporting quality

METHODS

Sample and Data Collection

Our study used public companies listed in the LQ45 index in Indonesian Exchange (IDX) as population. LQ45 is a stock market index for the top 60 companies in Indonesia. Companies who intend to be listed in the LQ45 index must fulfill some criteria, such as high market capitalization in the 12 past months and high stock volume transactions, have been listed in the IDX for at least three months, and companies are in good financial conditions. Since companies in the LQ45 are trusted and have a good prospect of growth, their financial reporting must be high quality and submitted on time. Therefore, we choose the LQ45 index as our research object.

We observe the latest two years observations in 2019 to 2020. The sample is taken using the purposive sampling technique, which criteria of selecting a sample is the availability of data. Therefore, firms that do not disclose CSR will not be selected as a sample.

Variable Descriptions

Several variables were employed in our study. Financial reporting quality is the dependent variable, while internal control,

corporate governance, and CSR disclosure are independent variables. We also employ control variables, such as firm size, return on asset (ROA), and leverage. Control variables are used to control other effects on dependent variables caused by other variables.

Financial reporting quality is a qualitative aspect that has broad and vague measurements. Scholars have developed the model to measure financial reporting quality, which commonly used earning quality, earning management, value relevance, or price to earnings ratios (Kaawaase et al., 2021; Kareem AL Ani, 2021; Rezaee et al., 2020; Rezaee & Tuo, 2019).

Financial reporting quality. We adapted models from Lari Dashtbayaz et al. (2019) and Rezaee et al. (2020) to measure financial reporting quality. Since there was no one exact measurement of financial reporting quality, researchers developed models to measure the quality of financial reporting. One of the measurements used earnings management models. Earnings quality can be observed through the level of earning management. A lower value of total accrual means a smaller level of earning management and a greater earning quality.

We used earnings management (EM) to measure financial reporting quality. Earning management can be observed through the total accrual (TACC) from operating activities. Total accrual is defined as the difference of net operating profit and net operating cash flow divided by the initial asset (Lari Dashtbayaz et al., 2019). A regression of TACC and other operating components is employed to obtain earning management proxy. The equation to obtain EM is as follows:

$$TACC_{it} = \alpha + \beta_1 \left[\frac{1}{TA_{i,t-1}} \right] + \beta_2 \left[\frac{\Delta REV - \Delta TR}{TA_{i,t-1}} \right] + \beta_3 \left[\frac{PPE_{it}}{TA_{i,t-1}} \right] + \beta_4 ROA_{it} + \epsilon_{it} \dots \dots \dots (1)$$

Where:

- TACC_{it}: Total Accrual firm i year t-1
- α : Constanta
- β : regression coefficient
- TA_{i,t-1} : initial total assets
- Δ REV : change in trade receivables
- Δ TR : change in sales
- PPE_{it} : plant, property, and equipment firm i

year t
 ROA $_{it}$: return on asset firm i year t
 ε_{it} : factors outside the model

After getting the residuals value from equation (1) regression, it was converted into absolute values. The absolute values of residuals then become the proxy of EM, which was the proxy of the financial reporting quality. The form of absolute value was chosen because earning management can be engaged in either decreasing or increasing earnings (Rezaee et al., 2020).

To investigate the relationship between dependent and independent variables, we employ the regression technique, which is defined in the following equation:

$$FRQ(EM)_{it} = \alpha + \beta_1 IA_{it} + \beta_2 CG_{it} + \beta_3 CSR_{it} +$$

Where:

FRQ(EM) $_{it}$: financial reporting quality of firm i year t
 α : Constanta
 β : regression coefficient
 IA $_{it}$: Internal Audit of firm i year t
 CG $_{it}$: Corporate Governance of firm i year t
 CSR $_{it}$: CSR disclosure of firm i year t

Internal Audit. To measure internal audit quality, we used the number of the audit committee in the companies. Oussii & Klibi (2019) stated that the number of internal audit committees was significantly associated with higher quality financial reports. Internal audit committee provides assessment on preparing financial reports by using quality assurance techniques in the business activities. The higher the number of internal audit committees, the better the supervising of business activities, which can positively impact the quality of the financial report.

Corporate Governance. We used the number of board members as the measurement indicator of corporate governance. The large board size provides adequate monitoring due to the more excellent knowledge and skills (Almujamed & Alfrah, 2020). While the capacity of board members increased, it benefited the company by enhancing the more effective controlling process. Therefore, the

larger boards size was more likely to drive higher financial reporting quality.

Corporate Social Responsibility Disclosure. There was plenty of CSR performances measurement in the literature. We used CSR ratings provided by CSR Hub data which can be freely accessed through their website. CSR Hub generates its ratings based on sustainability reports published by companies and other sources of sustainability aspects of the firms. There were four main dimensions in the CSR ratings. First, the community included in this category were philanthropy aspect, product quality, human rights, and supply chain. Second, employees' dimensions measured all employees' spending, such as compensation and benefits, labor rights, and employee training. The third dimension was the environment. In this dimension, they used energy and climate change strategies, environment policy, and resources management. Governance structures become the final dimensions in the CSR rating measurements. The sub-categories used in this dimension were leadership ethics, transparency and reporting, and board activities functions. CSR ratings provide a comprehensive measure of sustainability performances, including the basic concept of CSR named 3P (people, planet, and profit).

CSR ratings were scoring by ranking the relevant information that matches the four categories. Each piece of data will be given a score of 0-100, where 100 is the maximum score. The higher CSR ratings indicate better CSR performances. CSR ratings are provided for companies within the world that met the requirements. Therefore, it can be compared to other companies with consistent measurements.

We also employed several control variables that may define financial reporting quality, such as leverage and firm size. A large firm size influenced the financial reporting quality in providing greater resources allocation than the smaller firms. They also received more attention from the regulators and communities, especially on the compliance of laws and regulators. Thus, firm size is predicted to have a positive effect on financial reporting quality. The natural

logarithm of total assets measured the firm's size.

Moreover, highly leveraged firms are more likely to provide credible information on their financial performances to debtholders. It was because they were highly monitored by the regulators and also debtholders. The monitoring process provided by the regulators initially began with the debt application process. Companies submitted a financial report that the regulators would check. Then, the financial leverage monitoring process will be conducted periodically. Therefore, highly leveraged companies were more likely to provide better quality financial information than the lower ones. Leveraged were

measured by dividing total debts by total assets.

RESULTS

There was ninety firm-years observation of public listed companies in the LQ-45 index from 2019 to 2020. Bank and finance industries are not selected as samples due to the different measurements of financial ratios. Six companies were excluded from observation data. Thus, our final sample was 78 firm-years observation which consists of 39 companies during two years. Table 1 reports descriptive statistics of the sample.

TABLE 1. Descriptive Statistics and Regression's Results

Variables	Min	Max	Mean	Std. Dev	Tol	VIF	Het	KS	DW	Coef	Sig	Adj R-Sq	F
Financial Reporting Quality	-0.27	0.36	0.00	0.15									
Internal Audit	3	5	3.41	0.67	0.71	1.39	0.72			0.47	0.04*		
Corporate Governance	16	52	30.31	10.38	0.57	1.74	0.33	0,45	1,41	0.35	0.00*	0.48	4.24*
CSR Disclosure	36	70	50.31	7.93	0.25	3.95	0.95			0.74	0.33		
Firm's Size	13	15	13.66	0.39	0.25	3.93	0.17			0.02	0.76		
Leverage	0.00	0.67	0.28	0.18	0.88	1.32	0.11			0.17	0.07		

Note: Tol = Tolerance, Het = Heteroscedasticity, KS = Kolmogorov-Smirnov, DW = Durbin-Watson Coef = Beta Coefficients
 *Significant at 0.05 level
 Dependent variable: Financial reporting quality

Source: Primary Data, 2021

As stated in table 1, the minimum number of internal audit committee members is three people, while the maximum number of internal audit committee members is five. It means that the committee's control effectiveness is quite enough since plenty of internal auditors are under the audit committee.

The average of corporate governance, measured by the number of board size, is thirty people. It can be inferred that public companies in Indonesia have implemented a corporate governance system and have enough control over business activities.

The average of CSR disclosure in the LQ-45 listed companies is fifty percent. The

number of CSR scores is high enough to be considered as a well-perform corporate social responsibility company. Since the mandatory CSR disclosure was being regulated in 2012, CSR activities are growing significantly. It can be observed through the number of sustainability reporting which provided by companies.

DISCUSSION

Hypothesis 1 investigates the impact between internal audit and financial reporting quality. Table 1 reports the results of the hypothesis test. As shown in table 1, hypothesis 1 was strongly supported by the empirical evidence ($p < 0.05$). The results

indicated that internal audits have a positive impact on financial reporting quality. The effectiveness of the internal audit function influenced the quality of financial reporting. As one of the important managerial tools in companies, an internal audit can enhance the effectiveness and efficiency of business activity by ensuring compliance with the laws and regulations (Kaawaase et al., 2021). Internal audit also plays a role in assisting external auditors in reducing opportunistic behavior that can harm firm value. Internal audit can ensure that financial information is reported faithfully and free from bias based on the actual business transaction by maximizing internal control.

Hypothesis 2 is proposed to investigate the effect of corporate governance on financial reporting quality. As stated in Table 1, the hypothesis was empirically proven with the value of $p < 0.05$. It can be inferred that corporate governance positively impacts financial reporting quality. Corporate governance, measured by the number of board members, plays a vital role in enhancing the quality of financial reporting.

Corporate governance is the main organ that ensures the effectiveness of internal control. The function of its board is to give proper assurance in the effectiveness of the business process. Besides that, corporate governance is responsible for protecting stockholders' interests by enhancing the firm value. Corporate governance also assures the financial reporting quality through governance mechanism improvement.

Earning management, which can be performed through real or accrual earning management, influences the quality of the financial statement (Mardessi, 2021). The high level of earning management can decrease the quality of financial reporting. Corporate governance plays an important role in increasing accounting conservatism, reducing the asymmetry of information (Siagian et al., 2013), and increasing the accuracy of information stated in the financial reporting. Committee boards' effectiveness also enhances compliance with laws and regulations (Mardessi, 2021), reduces the level of fraudulent financial reporting (Johl et al., 2013), and reduces the probability of

The effectiveness internal audit function can be measured by several dimensions, such as competence, independence, compliance with professional standards (Kaawaase et al., 2021), and the sufficiency of audit committee members (Oussii & Klibi, 2019). A sufficient audit committee members can enhance control activities and participate in reducing the firm's risk. High quality of control and compliance of organization members in business entities can reduce abnormal accruals. Thus, it can enhance financial reporting quality. The higher the quality of internal audit quality, the higher the financial reporting quality.

financial reporting misstatement. Therefore, a low error in the financial statements indicated a high quality of financial reporting.

The sufficient board members can determine the effectiveness of supervision from corporate governance boards. The board size is more likely associated with operational firms' efficiency and greater board supervision (Chen & Gong, 2019). Supervision from the boards is also associated with the degree of the faithfulness of financial reporting (Mardessi, 2021). The greater firms' efficiency enhances the effectiveness of financial reporting activities and indicates lower financial restatement risks. Therefore, corporate governance has a positive effect in enhancing the quality of financial reporting.

Hypothesis 3 aims to investigate the impact between corporate social responsibility and financial reporting quality. The empirical evidence could not prove the hypothesis due to the insignificant t-test results ($p > 0.05$). Corporate social responsibility (CSR) did not influence the quality of financial reporting.

Corporate social responsibility in the form of organizational commitment proves that they were socially responsible to their community. A company that does not socially responsible will receive consequences from society. Companies that have higher CSR performances are less likely to engage in prosecutions or others lawsuits. According to Chan et al. (2021), CSR is strongly associated with low audit risks and prevents the shareholders' value through transparency information. However, high corporates

performances on external factors such as environmental and social might not directly impact the internal management process, especially in the preparation and reporting of financial statements.

The absence of influence on the CSR performances and financial reporting quality is caused by the different perspectives on the corporate's process. Financial reporting is the process of preparing all the economic events, which had financial consequences. CSR spending may be reported in the financial statements as costs, which users can interpret as an investment or the form of commitment to engage social responsibility. However, measuring CSR performances through CSR spending on ensuring financial reporting quality is a different aspect. As stated by Shen et al. (2020), the effect of CSR performance on financial performances is difficult to be observed directly. CSR performances may influence the corporate governance process (Chan et al., 2021) or increase the level of shareholders' confidence (Rezaee et al., 2020) through the low firm's risks (Benlemlih et al., 2018).

The lack of positive effect of CSR performances on the financial reporting quality might also be because the financial performances and CSR performances were reported separately. Since CSR reporting practices in Indonesia used different guidelines and regulations, it may cause different performances measurements. Both the CSR and financial performances have not been reported in an integrated reporting yet. Financial statements were stated by the IASB framework, while sustainable reports used the GRI framework. These differences may cause the absence of a direct impact of CSR performances on measuring financial reporting quality.

CONCLUSION

Financial reporting quality is the most critical concern for companies in achieving their purposes of protecting shareholder's values. Financial information is considered high quality if it is comprehensively reported and free from errors and bias. Assessment of financial reporting quality tends to be

challenging since it could not be assessed directly to determine the degree of its quality. To quantitatively assess the quality of financial reporting, there are several models of earning quality measurements, such as accrual earning management and real earning management (Rezaee et al., 2020). Many factors, including external and internal factors, may influence the quality of financial statements. This research intends to explore what factors that determine financial reporting quality. We analyzed the impact of internal audit quality, corporate governance, and corporate social responsibility performance on the financial reporting quality.

Our research objects were companies listed in the LQ-45 index. We obtain 78 firm-year observations from 2019 to 2020 as our sample. After the data testing process, we found that internal audit quality and corporate governance became the determinant factors for financial reporting quality. Internal audit quality and corporate governance influenced the financial reporting quality by assuring the effectivity control on business performances and ensuring compliance with laws and regulations. Since preparing financial statements was an internal management activity, CSR performances as the external factors did not influence financial reporting quality.

Finally, our study contributes to the development of determinants factors of financial reporting quality. Our study initially provided empirical evidence to business practitioners, especially in assessing the quality of financial statements by using accrual earnings. For the literature development, our research enriched the knowledge on factors influencing the quality of financial statements by combining internal and external factors, such as internal audit quality, corporate governance, and CSR performance. However, our study has several limitations. First, since the CSR performance did not directly influence the quality of financial reporting, assessing the moderating impact of CSR performances on the main determinant factors on either internal audit quality or corporate governance will be interesting future research areas. Second, we have not thoroughly yet investigated other

external factors that may impact financial reporting quality. Some factors, such as the presence of fraudulent financial reporting, external audit opinions, and compliance to regulatory policies, will become a fruitful insight to be deeply explored.

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