The Linkage between Corporate Governance, Audit Quality, and Firms Value: A Study from Indonesian Manufacturing Enterprise Listed

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Abstract*—The benefit of the enterprise implementing corporate governance practices is that the wealth of one's own by the corporation shareholders can be looked after efficiently, properly, and used simply for the advantage of increasing the firm's value. This study aimed to verify the linkage between Corporate Governance, Audit Quality, and Firms Value. The firm's value is gauged by price-to-book value proxy during the audit quality use gauge of the big four classifying of PAF. The research type is causation with quantitative research analysis. The research subject involves manufacturing corporations whose shares are listed on the Indonesian Stock Exchange. The amount of final samples is fifty-eight quantify the simple random method with Slovin's compute. In addition, multiple regression analysis was used toward submitted linkage models. The findings state that the corporate governance, viz board of commissioners and audit committee, has a positive linkage but is insignificant with the firm's value. Hereinafter, audit quality also has a negative but insignificant linkage with the firm's value. At the same time, a simultaneous test statistic produces a significant score betwixt corporate governance, audit quality, and firm's value linkage. However, this research's construct is weak, i.e., 16.7 percent through the board of commissioners, audit committee, and audit quality to explain linkage towards the firm's value.

***Index Terms*—Board of Commissioners, Audit Committee and Quality, Firm's Value**

I. INTRODUCTION

Many parties claim that one of the primary leads of the protracted criticalness in Indonesia is the weak law enforcement and enforcement of Corporate Governance (abbreviated 'CG') [1]. The crisis has taught us that a solid economic structure does not support the development that has been driven so far. Almost all the big businessmen who run their business with bad management and full of corruption, collusion, and nepotism practice this infirmity [2]. The problem of CG is the expand of agency theory which attempts to clarify the parties entangled in the corporation (managers and owners) in behaving because they have different interests. For example, managers have an obligation to maximize shareholders' welfare, and managers also have certain interests. Agency theory suggests that if the owner (principal) and manager (agent) have different interests, it will lead to a conflict called agency conflict [3,4]. The weak implementation of CG causes the corporation to be incapable of increase profit, expanding the company in venture competition, and fulfilling various stakeholder interests [1,5]. These weaknesses are caused, among others, by the lack of transparency of the company in reporting financial performance, reporting credit obligations and managing the company, the lack of empowerment of commissioners as supervisory organs of management activities, and the inability of accountants and auditors to contribute to the company's financial supervision system.

The Asian Development Bank (ADB) study shows several factors causing the financial crisis in Asian countries, including Indonesia, i.e., the concentration of company ownership, ineffective supervisory functions, low transparency in implementing corporate mergers and acquisitions, very high external funding; and inadequate supervision by creditors [6]. The need to implement CG is urgent for every company, so companies must implement and implement good corporate governance to achieve their goals. The benefit of the enterprise implementing CG practices is that the wealth of one's own by the corporation shareholders can be managed efficiently, properly, and used simply for the advantage of increasing firm's value [7]. The company took this action to advance and compete in a healthy manner, which means that CG will have an absolute implies on shareholders and the wider community in the form of national economic growth. The application of CG principles in the business world in Indonesia is a demand of the times so that the increasingly fierce global competition does not leave behind existing companies. Corporate governance as a construct predicated on agency theory is wished to function as an instrument to offer belief to investors that they will get a return on the pursues that have been invested [8]. The financial statements provided by the corporation indicate the level of performance achieved by the company in managing its resources to provide added value to stakeholders. GCG is a concept that emphasizes the importance of the rights of shareholders to acquire accurate, timely, and correct information. The corporation is obliged to disclose accurately, timely, and correctly information about the firm's performance [9]. Internally, the proper and consistent implementation of GCG will create a more conducive working atmosphere because the company has implemented a company management system following the division of their respective roles (directors, commissioners, committees, and others).

Creating a balance of power between the company's internal structure and the distribution of decisions can be more accountable, careful, and wise. The key to the creation of GCG in the corporation is the effective functioning of the enterprise's organs, whose quality and integrity are guaranteed so that they can achieve company goals while meeting the interests of all stakeholders' [10,11]. Indonesia has started enforcing GCG principles since signing a Letter of Intent (LOI) by International Monetary Fund (IMF). In the step of this, the National Committee for Corporate Governance Policy (KNKCG) thinks that companies in Indonesia have a responsibility to implement GCG standards that have been applied at the international level [7]. Many companies that apply the principles of GCG only because of regulatory incentives and avoid sanctions are there compared to those who consider these principles as part of the corporate culture [12].

The board of commissioners is a mechanism to supervise and guide company managers or management. In this case, management is conscientiously for improving the efficiency and competitiveness of the corporation, whilst the board of commissioners is accountable for monitoring the management [7]. The board of commissioners can exercise oversight to ensure investors that management acts per the owner of the company (investor) and the information held by the company all management will be disclosed to stakeholders [13]. In Executing out its assignments, the board of commissioners can form committees that assist the accomplishment of CG implementation by the corporation, one of which is the audit committee. The audit committee has the purpose of helping out the board of commissioners to increase the quality of financial reports; create a atmosphere of orderliness and control that can bring down the opportunity for aberration to occur in the management of the corporation [14]. Improving the effectiveness of the internal and external audit function, and recognize problems that entail the attention of the board of commissioners. Thus, the yields of the disclosure of financial statements presented by the corporation could have a high level of reliability or reliability, including in the annual report [15,16] stated that the existence of an audit committee can bring down agency costs, and improve internal control and improve disclosure quality, including information about the firm's value. In addition to the corporate governance aspect, the concept of firm value is inseparable from the independent auditor's role in providing quality aspects of the audit. Large-scale Public Accounting Firms (PAF) generally have a better reputation and experience than small-scale PAF [17]. Therefore, independent auditors in evaluating the disclosure of financial information in the intercourse of corporate governance have a stronger impetus to maintain their reputation because many other stakeholders monitor them.

Several of research about corporate governance view that [13], i.e., with the results insignificant relationship of board size and audit committee score with informativeness of earnings at an empirical study from 357 observations from firms listed on the IDX period of 2006 and 2007. Research [10] with the Corporate Governance Perception Index (CGPI) Awards ever 2008-2012 with research findings that awareness of the enforcement of good corporate governance (GCG) in Indonesia has escalated. The listed companies that followed in the CGPI Awards ever the period experienced increased quantity and quality. CG ratings of go-public firms in Indonesia affect accounting-based monetary performance, such as ROE, ROA, and EPS proxy. However, the CG enforces rating is not linear by the Indonesian capital market and has not been proved to escalate the company's growth in the short-range. Prior research about audit quality and firms value, such as research in 2014 by [18], explores the effect of audit committee features on a corporate’s financial performance. This study involved 992 observational data on firms listed on the Pakistani Stock Exchange-listed for eight years from 2004 to 2011. The analyzed data results indicate that both the two characteristics, viz the size of the audit committee and the quality of the external audit, have strong and significant positive implies on ROA and Tobin's Q proxies. Research in 2016 by [19] examined the influence of audit quality towards relevance of earnings value and book value. The subject of this study involved 1,836 observational data on firms listed on the Kuwait Stock Exchange-listed for twelve fiscal years (2002-2013). The research findings show that audit quality with three categories consisting of two non-Big Four PAFs, one Big Four each and one non-Big Four PAF, or two Big Four PAFs have a positive and significant influence on the worth relevance of accounting quantify.

Audit quality is a concern of stakeholders because it will provide added value for companies related to reporting and quality of financial information. However, the measurement of audit quality so far is still based on the assessment of The Big Four PAF category and, on the other hand, is still trusted by these stakeholders. The argument is that companies that have good corporate governance monitored by auditors who have a good reputation will indirectly impact the company's value. Researches on audit quality and firm value so far still show mixed results and are important to be reviewed, especially in 2014 where financial reporting has used International Financial Reporting Standards (IFRS), which has been effective now that January 1st, 2012. This study aimed to verify the linkage betwixt Corporate Governance, Audit Quality, and Firm’s Value. The research subject involves manufacturing firms whose shares are listed on the Indonesian Stock Exchange.

II. THEORETICAL REVIEW

Berle and Means originally introduced corporate governance in 1932. Later, it was released by the Cadbury Committee in a report known as the "Cadbury Report" in 1992, which became the starting point that determines corporate governance practices throughout the world [20]. Corporate governance is a process, system, and aggregate of rules that regulate the link betwixt sundry related parties, namely shareholders, the board of commissioners, and the board of directors, to reach the business goals [21]. Corporate governance aims to sharpen the firm's performance by observing the performance results and accountability of the management to other stakeholders based on the regulatory framework and laws in force in a country. The deployment of good corporate governance practices requires commitment from all elements of the organization and compliance with the binding rules in it. In agency theory, companies that separate the management function from the ownership function are prone to conflicts of interest [22]. The management as an agent tends to get the maximum profit, and that often causes conflicts with shareholders as the principal.

The board of commissioners functions to ascertain the determination of strategy, monitor the management, carry out the achievement of accountability, and focus on the organization's success. Thus, the board of commissioners is the gist of corporate governance stipulated to ascertain the deployment of corporate strategy, supervise management in managing the corporation, and necessitate accountability. In essence, the board of commissioners has the task of supervising and providing guidance and direction to company managers [23]. The board of commissioners is also conscientious of monitoring management, so the appearance of the board of commissioners is central to the corporation's robustness and success. The audit committee has a detached assignment in aiding the board of commissioners to fulfill their responsibilities in carrying out overall oversight. The deployment of the audit committee function is expected to support applying the principles of Good Corporate Governance (independence, fairness, accountability, transparency, and responsibility). This independence function is essential, especially in terms of preserving the grades of the company's financial reporting [1,13].

Audit quality is the possibility that an auditor discovers and reports an offense in his client accounting system. [24]. The large-scale accounting firms will maintain their reputation as the best companies that will provide quality services while maintaining accounting principles and standards and their code of ethics. In addition, large-scale PAFs have more incentives to avoid things that can damage their reputation than small-scale PAFs so that large-scale PAFs can maintain their audit quality [25]. PAF big four category is believed to provide audit services that are more independent and transparent in disclosing misstatements presented in the enterprise's financial statements. The output of quality is the auditor's reputation by providing an audit opinion by an accounting firm which is one of the criteria used as consideration for the management in convincing stakeholders in making investment decisions so that they can meet the expectations of investors and as owners of company capital [26].

The firm's value measure was formerly in 1961 [27], by the contention greatly used by researchers: investors' riches will be proportionate to distinct investors faith in management that can trade and disposes of their tenancy at market prices, switch for propose and lending at a definite rate, and sales of assets yielding from protracted sales and trading [28]. This statement clarifies that the firm's value of stockholder wealth is acquired by possessing way it. The intact belief is given to the CEO (agents) to enforce investor demesne incorporation activities with the prospect of a definite extent of return, both appending to their personal riches. This return rate is obvious in regulated by management, is the return pledged in the agency contract. A business's value could also be elucidated as is the serve valuable of regarding open cash flow counted a balanced towards average cost of capital. The corporation value can enumerate employ the ratio information on the market value i.e. PER, PCFR, PBV ratio, and MBR [29].

Indonesia has a dual board system. The denounced board statistics are for the boards of commissioners, which are characteristically small in size. The statutory minimum size is just two [6]. The higher the board of commissioners, the simpler it will be to dominance the CEO, and the monitoring will be more effective [30]. Furthermore, the implementation of GCG is not soon counted by the market using the CGPI rating even though it has a relationship with market performance in the identical year and next year from these empirical findings [10]. The part of the board of commissioners hope has a significant part in the job controlling because the audit committee indeed gives on behalf of and notify to the board of commissioners [13]. In consequence, the first and second alternative hypothesis pronouncement as follows:

H_1 states that the linkage of board of Commissioners with a firm's value positively implies

H_2 states that the linkage of audit committee with a firm's value positively implies

Auditors play an important part in improving the corporations' overall reporting strategy. Companies audited by large-scale PAF will present higher quality financial reports based on predetermined regulations because they have quality, reputation, and credibility than small-scale PAFs. Previous findings from [18] state that external audit quality has a strong and significant positive effect on ROA and Tobin's Q. In addition, audit quality with three categories consisting of two non-Big Four PAFs, one Big Four each and one non-Big Four PAF, or two Big 4 PAFs have a positive and significant effect on the value relevance accounting quantify [19]. This means that the quality of external auditors from PAF has a direct relationship with firm value. In consequence, the third alternative hypothesis pronouncement is as follows:

H_3 states that the linkage of audit quality with a firm's value positively implies

To examine the linkage of this research to the firm's value research model constructs as follow:

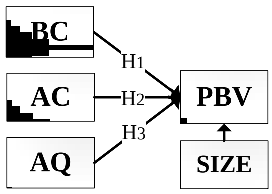


Fig.1. Proposed Research Model

III. RESEARCH METHOD

The research type is causality, which investigates causal relationships and therefore always involves one or more independent variables (or hypothesize) [31]. The research method is quantitative research with the subject research is the manufacturing firm's listing at the Indonesian Stock Exchange period of 2014. Data aggregation methods use documentation techniques take from secondary data from Indonesia Capital Market Directory (ICMD), independent auditor report, www.idx.co.id, and also each of go-public enterprise websites. The sampling technique picks up probability with the simple random method. The initial sample was defined as one hundred and forty-one company companies. According to this sampling technique calculation with Slovin's formula. According to this sampling, the total of firms took as the sample is fifty-eight firms technique calculation with these formulations uses the precision of 10 percent. The synopsize gauge of variables is enumerated by variable name (symbol), proxies, formulation, and the sign of alternative hypothesis of this indicate from the study literature.

Table 1: Measurement of Variables

Variable	**Symbol**	**Proxies**	**Formulation**	**Sign of Alternative Hypothesis**
Corporate Governance	BC	Board of Commissioners	Calculated the amount of Board Size members	+
	AC	Audit Committee	Calculated the amount of Audit Committee members	+
Audit Quality	AQ	Public Accounting Firms (PAF) Category	The Big Four category of PAF select “1”, and “0” is otherwise	+
Firm’s Value	PBV	Price-to Book Value	$\frac{Market\ price\ per\ share}{Equity\ book\ value\ per\ share}$	+

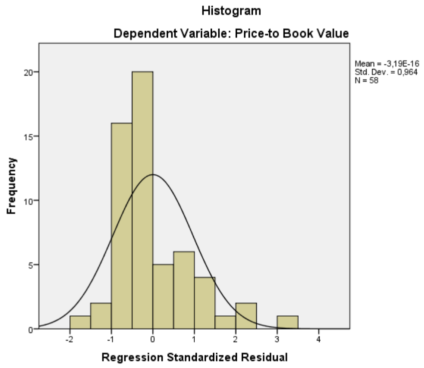
Source: *Develop from previous study*

This processing data was explored with the regression technique analysis to sight a direct ante and magnitude appraisement of firms’ value linkage. Regression began with classical assumptions test as a needful to hypothesis testing. This supposition can inspect by looking at the normality, collinearity, and homoscedasticity of the constructs by their remaining scores. This study applies linkages to view a firm’s value utilizes multiple regression analysis to test a hypothesis. These regression equations are computed as follow:

$$\text{PBV: } \alpha + \beta 1\text{BC} + \beta 2\text{AC} + \beta 3\text{AQ} + \beta 4\text{SIZE} + e$$

IV. RESULTS

The start phase of whole the classical assumptions with normality inspects using in shapes histogram, which is approximately bell-shaped and symmetric about the mean of the remains score [32].



Source: *Output from program*

Fig.2. Histogram of Data Normality

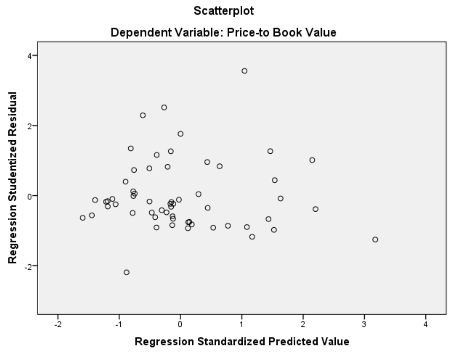
The histogram above produces a residual score on the Mean of -3.19E-16 with a standard deviation of 0.964 using 58 observation data; this data distribution requires the histogram to appear to form a bell to meet the contention of data normality. Hereinafter, this step will put in multicollinearity try regarding the circumstances of variance inflation factors (VIF) is low than value 10, and the tolerance score is must higher than 0.1 [33].

Table 2: Synopsize Multicollinearity Verify

Construct (Abbv)	*Tolerance* Score	Provisos	Value of VIF	Provisos
BC	0.414	> 0.1	2.417	< 10
AC	0.819		1.211	
AQ	0.598		1.673	
SIZE	0.561		1.784	

Source: *Author’s calculate from program*

Table 2 divinate that the tolerance score of every the free construct must high than 0.1. The VIF score must be small than value of 10 for a proposed model; is that mean regression model does not load multicollinearity problem between the construct variables. The heteroscedasticity inspect is using in shapes scatterplot which the spread of the points on the scatter plot graph is around the number 0 (zero) then it is declared not heterogeneous or homogeneous [32].



Source: *Output from program*

Fig.3. Scatter Diagram of Heteroscedasticity

The scatterplot above produces the points on the scatterplot graph are around zero, and it means that the variable overall is not heterogeneous. The last stage of exhausts the verify hypothesis is the start of the coefficient determination (R^2) to predict the strength of implies that transpires between every prediction variable towards dependent variable, viz the firm's value.

Table 3: Synopsize R-*Square* Verify

	R^2 Score
Model	0.167

Source: *author's calculate from programs*

Table 3 produces the proposed firm's value model, i.e., the R^2 score is 0.167. This indicates that the 10.80 percent of the Firm's Value in a regression model is explained by Corporate Governance and Audit Quality with Firms Size as a control variable. The remaining score is 83.3 percent, which is affected by a diverse factor not included in the proposed model. Based on the synopsis of R^2 verify, this model illustrates has a low quite of R^2 score.

Table 4: Synopsize F-Tests

	Sig. Probability Score
Model Proposed	0.043

Source: *author's calculate from programs*

Table 4 produces the goodness-of-fit model for F test for foresees simultaneous model Firm's Value yield in a significant level of the less score as 0.05 (0,043, Ha accepted) so that regression model can be concluded that Corporate Governance and Audit Quality with Firm Size as a control variable simultaneously able to linkage the Firm's Value.

Table 5: Summary t-Tests

Construct (Abbv)	t-stat.	Provisos	Probability	Provisos	Hypothesis Decision
BC	0.352	t-stats > t-table	0.726	probability < 0.05	Reject H_1
AC	0.338		0.737		Reject H_2
AQ	-0.214		0.831		Reject H_3
SIZE	2.138		0.037		Functionable as control variables

Source: *author's calculate from programs*

Table 5 produces the regression of coefficients of Board of Commissioners (BC abbreviated) and Audit Committee (AC abbreviated) as quantifying the Corporate Governance. Each of t-stat. is 0.352 and 0,338, which insignificant probability is more than 0.05, viz 0.726 and 0.737. This finding represents no linkage betwixt corporate governance and firm's value with no-significant, as the meaning rejected first and second alternative hypothesis (H_1 and H_2). Hereinafter, the Audit Quality (AQ abbreviated) as proxy the "Big Four" category. The score t is -0.214, which insignificant probability because is higher 0.05 is 0.831. This finding reflects no linkage betwixt audit quality and firm's value with no-significant, as the meaning also rejected the third alternative hypothesis (H_3). Finally, the firm size, which functions as a control variable, significantly impacts linkage betwixt corporate governance, audit quality, and firm value.

V. DISCUSSIONS

The multiple regression from the firm's value linkage only comes across the positive influence but insignificance of both the board of commissioners and the audit committee. This finding approves with prior studies, viz [13], insignificant of linkage of the board of commissioners with informativeness of earnings, but it is not following using the CGPI rating even though it has a relationship with a market performance the same year and next year [10]. These findings describe that the board of commissioners in Indonesian Manufacturing Enterprise go-public, which as a sample in this study, is not effective enough and no dominant in routine monitoring its effective in linkage to the firm's value. In addition, the board size of commissioners cannot guarantee a better supervisory mechanism because it is not the main determining factor. Commissioners also must have the necessary skills and experience to contribute to the statutory framework for the board of commissioners. An audit committee also has no linkage with the firm's value is no approves prior studies, i.e., [18], which significantly has a strong positive influence with using the ROA and Tobin's Q proxy. These findings describe that the audit committee in the Indonesian manufacturing enterprise go-public, which as a sample in this study, is also not effective enough and no dominant in routine activity to espouse the board of commissioners' monitoring function in linkage to the firm's value.

The multiple regression for linkages firm's value only discovers the positive impact but insignificance points, i.e., audit quality with the Big-Four PAFs proxy, is no approves prior studies, i.e., [18] which significantly has a strong positive influence with using the ROA and Tobin's Q proxy and [19] with value relevance of accounting measures. These findings describe that the audit quality in Indonesian manufacturing enterprise go-public, which as a sample in this study, is no major criterion to linkage to the firm's value. Audit quality properly needs a source of the auditor's competence, professional judgment to serve, task experience from large-scale enterprises in the invent decision of audit reporting time. Still, on the other side, audit quality is supervised by regulatory, such as Financial Services Authority (abbreviated 'OJK') periodically, which aims to keep independent and transparent public accounting firms to keep the public trust.

This study which checks out the linkage betwixt corporate governance, i.e., board of commissioners and audit committee with firm value, does not root the agency theory backward as the emergence of conflicts of interest betwixt related parties; this is brought about the governance structure that is un-capable to assess and has a direct signed to firm's value viz the firm's current market value at the same price with book value. Besides, audit quality from the Big Four PAFs category and other than the Big Four also does not bring down the risk of information asymmetry betwixt agents and principals on firm's value.

CONCLUSIONS

The research results concluded that the linkage betwixt corporate governance, audit quality, and firm’s value no apply use price-to-book value proxy because it produces an insignificant as an empirical study as statistics. Therefore, these findings don't provide represents Indonesian Manufacturing Enterprise Listed in the stock exchange because they have a small contribution in this study to examining the firm's value, i.e., only 16,7 percent. Overall, corporations should be able to use the guidelines in the KNKG as a reference in compiling their corporate governance systems, structures, and guidelines as well as other internal company regulations into routine activities and using corporate governance mechanisms as activities that become principles of good corporate governance to increase stakeholder interests that ultimately have a relationship and implies with the firm's value.

This research only uses two components in the corporate governance structure viz the board of commissioners and the audit committee, then using only one time period, viz 2014. Therefore, Future research agenda is crucial to see the linkage betwixt corporate governance, audit quality, and firms value. Involving other internal and external control mechanisms, such as the frequency of meetings, the existence of independent boards of directors and commissioners, and the measurement of audit quality and other company values so that future research findings can improve the results of this study. Other factors can also be involved, such as exchange rates, inflation, and interest rates.

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