



Does audit quality, managerial reports, audit committee affect financial report quality? Case of companies listed on Jakarta Islamic Index (JII) 2018-2020

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Abstract

This study aims to examine the effect of audit quality, managerial reports and audit committees on financial reports quality in companies listed on the Jakarta Islamic Index (JII) in 2018-2020. This type of research is quantitative with multiple linear regression. The data used is secondary data in the form of consolidated reports. The samples of this study consisted of 36 companies listed on the Jakarta Islamic Index (JII) in 2018-2020. The results of this study indicate that audit quality has a significant positive effect on the financial reporting quality, managerial reports have a significant negative effect on financial reporting quality and audit committee has a positive but not significant effect on financial reporting quality.

Introduction

Currently, one of the risk investment objects is investment in the form of buying shares. Investment is a commitment to hold a certain amount of funds with the aim of obtaining a number of benefits in the future. In addition to getting profits, another benefit of this investment is that it can be taken in the future, one of which leads to the social aspect. In this case, humans are required to strive, pray and put their trust in it because it cannot be known with certainty what will be obtained from the results of their efforts (Kartika & Pramuka, 2019). For example, by trying to use their assets, namely by investing according to Islamic principles. The general principle of investing in Islam is to avoid bank interest, unclear, gambling.

There are many types of shares traded as investment objects and groupings occur according to the similarity of criteria. One of the grouping types of shares is the grouping of sharia shares, namely shares of companies whose operations do not conflict with Islamic law, one of the Islamic stock groups in Indonesia is the Jakarta Islamic Index (JII). From year to year there has been an increase in the value of the Islamic stock index in the Jakarta Islamic Index (JII) even though the existence of the Islamic stock group is relatively new (Zuraida & Sugianto, 2021). The following is a description of the value of the Islamic stock index in Indonesia for the 2018-2020 period.

According to stock exchange data, the number of Islamic investors has grown consistently in recent years. As of October 2020, the number of Islamic stock investors reached 81,413, an increase of 563% compared to the previous years. Data also shows that the number of Islamic investors reached 6.2 of the total stock exchange investors as of 2019. Then, 26% of Islamic investors were said to be actively trading shares on the Indonesia Stock Exchange (Arafat et al., 2018). This increase in the number of sharia investors is not directly proportional to the annual financial statements which should have increased in terms of the quality of their financial statements, especially in the efficiency of the use of company assets, so that in this case an investor is obliged to analyze the company's financial condition through financial statements before deciding to invest in order to find out the funds to be invested are in a safe condition and continue to grow (Azhar & Islahuddin, 2018).

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In this case, the good or bad quality of a company can be reflected in the profits obtained based on the results of the company's financial statements. So that profit information is often the target of engineering the company's management, such as reducing profits so that the distribution of dividends is small, even though some of the profits have been taken by the company's management. The characteristics of good financial reporting quality have been defined in SFAC No. 8, namely good financial reporting includes reporting that is relevant and reliable. In addition, by knowing whether or not there is fraud in the financial statements. Information is the responsibility of management to present the financial statements. In this case, management must provide truthful information and be reported honestly. However, it is in contrast to research conducted by (Patterson et al., 2019) which states that audit quality has a negative effect on the quality of financial statements.

Likewise managerial reports, managerial reports are reports on several things in the company that aim to make decisions by the company's leadership and then take an action after that. Managerial reports are measured by the percentage of the number of shares owned by management. The greater the ownership of management in the company, the greater the management who tends to try to improve its performance for the benefit of shareholders or their own interests. So that managers can make profit reports for shareholders and themselves (Mahmudi & Nurhayati, 2015). In research conducted by (Sitanggang et al., 2020), it shows that managerial reports have a significant effect on the quality of financial reports. This research is also directly proportional to the research conducted by (Lee & Menon, 2019) which states that managerial reports have a positive effect on the quality of financial reports.

In addition to managerial reports and audit quality, in this case the audit committee is also a factor in the quality of the financial statements. Thus, it plays an important role in the process of implementing a good corporate governance mechanism. In addition, the audit committee also plays an important role in the process of preparing financial statements, because the market judges that the earnings disclosed by companies that form audit committees are of better quality than the earnings reported by companies that do not form audit committees (Amar, 2014). In research the Role of the Audit Committee and the Sharia Supervisory Board on the Quality of Financial Reports (Case Study on Islamic People's Financing Bank in East Java) has a positive and significant influence on the quality of financial reports (Meutia & Aryani, 2019). However, this is in contrast to research conducted by (Hassan et al., 2020) which states that the audit committee and the quality of financial reporting have a very low correlation with a negative direction. This is also directly proportional to the research conducted by (Listyaningsih et al., 2018) that the audit committee has no significant effect on the quality of financial statements.

Based on the existence of several differences in the research gap by previous studies, so that researchers are interested in completing and analyzing this research by using case studies on companies listed on JII in the 2018-2020 period and using Agency Theory as grand theory which can support the strength of this research as well as differentiate from previous research and using multiple regression analysis method to see whether or not there are differences in the quality of audits, managerial reports and audit committees on the quality of financial reporting.

Literature Review and Hypotheses Development

Agency Theory

According to Jensen and Meckling agency theory is a theory that explains between the management of the company and the owner of the company (Morris, 1987; Roszkowska, 2021). In this research, agency theory acts as an auditor who helps understand problems that arise between agents and principals from the misalignment of information provided by managers and investors to auditors, because in this case it can encourage agents to display information that is not in accordance with reality to the principal. Audit quality is influenced by the audit results produced by the auditor.

Audit Quality

Audit quality is the auditor's ability to detect errors in financial statements and report them to users of financial statements. Audit quality testing can be used as a reference based on the earnings

calculation carried out by management. If the client is audited by a high-quality auditor, the findings of management's calculation errors will be greater because management's ability to manipulate actual earnings to approach the earnings calculations made by management will decrease (Yasser & Soliman, 2018). Audit quality is the possibility of the auditor to find a violation or error in the client's accounting system and report the violation (Hamdani et al., 2020).

Managerial Reports

The application of risk management that uses tools and methods to manage risk in it is called a managerial report (Irwandi, 2020). Management tends to try to improve its performance for the benefit of shareholders if there is an increase in managerial ownership. Jensen & Meckling revealed that managerial ownership can increase management's greater sense of responsibility in carrying out the mandate to fulfill the wishes of shareholders who are none other than themselves. Management tends to try to improve its performance for the benefit of shareholders if there is an increase in managerial ownership. Jensen & Meckling revealed that managerial ownership can increase management's greater sense of responsibility in carrying out the mandate to fulfill the wishes of shareholders who are none other than themselves (Machdar & Nurdiniah, 2018; Morris, 1987).

Audit Committee

Audit committee is a body formed to assist the board of commissioners in overseeing the performance of financial reporting activities as well as carrying out internal and external audits within the company. According to Hermalin and Weisbach (2012) in the book *Auditing Handbook* states that audit committee" means a committee of a majority independent/non-executive member of the entity's governing body among other functions, the department is responsible for overseeing financial reporting and auditing processes; "Governing Body" means the entity's board of directors a director, trustee or trustee, or other equivalent body or individual (Hermalin & Weisbach, 2012).

Financial Report Quality

The quality of financial reporting is a structured report on financial statements and transactions carried out and accounted for by the reporting entity (Chandrapala, 2013). Based on Government Regulation No. 71 of 2010 financial statements are said to be of high quality if the results of the information can support the decision making process and are easily understood by the owner (Khoram & Hassan, 2013). According to Talpur et al. (2018), it is said to be qualified if it conforms to the standard, is measured based on the degree of conformity, and is achieved through inspection. Therefore, the reliability and relevance of financial information in preparing financial statements is an important factor for quality financial reports. A healthy company can be seen from how big the results of the company's financial performance.

There are two types of comparisons in financial ratio analysis, namely comparisons of past, present and future ratios of the same company and comparisons of the ratios of a company with other similar companies (Zhou et al., 2020). In comparing the ratio analysis in the future, return on assets can be used as a measure of the company's ability to generate profits. The higher the return on assets, the higher the profit. The higher the profit generated by the company, it will make investors interested in certain shares, assets and investments from the owner of the company, so that it can cause an increase in stock prices which can also affect the returns received by investors.

Influence of Audit Quality on Financial Report Quality

Audit quality is the auditor's ability to detect errors in financial statements and report them to users of financial statements (Manurung et al., 2018). Mardessi (2021); Mukhtaruddin et al. (2018); and Oktorina and Wedari (2015) also stated that the quality of an auditor is measured based on the accuracy of the information reported by the auditor. Accurate information is information that can accurately indicate the value of the company. Kim (2020) suggested that audit quality refers to the probability that a certified public accountant will not issue an unqualified audit report on financial statements that contain material misstatements.

According to Amar (2014), audit quality is the ability of external auditors to detect errors and various forms of deviation (Safitri & Bahri, 2021). According to Mardjono and Chen (2020), only a qualified auditor can guarantee that the report information produced is reliable, because basically the audit results of each auditor have different qualities. Public accounting firm can be divided into two, namely public accounting firm affiliated with big four public accounting firm and non-big four public accounting firm.

This is in line with research conducted by Mukhtaruddin et al. (2018), Auditors from large Public Accounting Firm, having affiliations with international public accounting firm will have better quality, because the auditors have been trained in a structured and intensive manner with training and have international recognition (Djoko & Yanti, 2019). Based on previous research on audit quality on financial reporting quality, including from Oktorina and Wedari (2015) overall audit quality has a significant influence on financial reporting quality. This research is in line with the research of Kalbuana and Aryadi (2020) which says that audit quality has a significant effect on the quality of financial reporting. Based on the exposure and conclusions of previous research, a hypothesis can be drawn as follows.

H1: Audit quality affects financial report quality.

Influence of Managerial Reports on Financial Report Quality

Managerial reports are reports that aim to convey information within the organizational environment. According to Kantudu and Samaila (2015), the management report is the application of the management function in risk management, especially the risks faced by companies, organizations, communities and families. Managerial reports can be measured using the percentage of the number of shares owned by management. In terms of investment, the interests of managers and shareholders can be united by managerial ownership, meaning that the higher the percentage of managerial share ownership, the better the company's performance. Managerial reports are measured using the percentage of the number of shares owned by management. Management tends to try to improve its performance for the benefit of shareholders if there is an increase in managerial ownership (Arifin, 2017). Jensen & Meckling revealed that managerial ownership can increase management's sense of greater responsibility in carrying out the mandate to fulfill the wishes of shareholders who are none other than themselves (Morris, 1987; Yendrawati & Hidayat, 2021).

Lee and Menon (2019) stated that managerial ownership is shares owned by the company's management and is measured by the percentage of the number of shares owned by management. The greater the management ownership in the company, the greater the manager's effort in improving the company's performance for the benefit of shareholders (personal interests) (Arifin, 2016). The quality of financial reports can be explained as a result of information received from managers in carrying out the tasks assigned to managers, because these tasks are related to the company's financial management.

Previous research on managerial reports on the quality of financial reporting according to Yuniarwati et al. (2017) which has a significant influence on the quality of financial reporting. The research of Brown-Liburd et al. (2016) shows that management reporting has an effect on the quality of financial reporting.

H2: Managerial reports affects financial report quality.

Influence of Audit Committee on Financial Report Quality

The audit committee is a committee formed by the board of commissioners and is responsible for assisting the implementation of the duties and functions of the board of commissioners. The audit committee's duties are to assess internal control, review the accounting policies applied by the company, review the external reporting system and comply with regulations. In carrying out its duties, the committee provides formal communication between the board, management, external auditors and internal auditors (Mardjono & Chen, 2020). In a company the audit committee plays an important role in the progress of a company. The audit committee consists of at least three people who come from parties outside the issuer or public company and an Independent

Commissioner. The members of the audit committee consist of an independent commissioner as chairman, while from outside parties or external auditors, namely Issuers or public companies. Husaeni (2021) revealed that the audit committee is the institution responsible for selecting and assessing the performance of the public accounting firm and a board of commissioners was formed to audit financial statements. The function of the audit committee is to provide advice on matters related to financial policies, accounting and internal control (Kim, 2020).

In Idris et al. (2018), the high profitability ratio of companies that form audit committees shows that the market appreciates the role of the audit committee well, especially in supervising the financial reporting process. This is in line with previous audit committee research on the quality of financial reporting, including that conducted by Manurung et al. (2018) which stated that the audit committee has shown an increase in the quality of financial reporting, and this view is the same. Research by Husaeni (2021) which states that the role of the audit committee on the quality of financial reports has a positive and significant effect on the quality of financial reports. Based on the exposure of previous research, a hypothesis can be drawn as follows.

H3: Audit committee affects financial report quality.

Research Methods

This type of research is library research using a quantitative approach, by using secondary data sources derived from the consolidated financial statements of companies listed on the Jakarta Islamic Index (JII) for the 2018-2020 period. This study has a population of 45 companies and obtained 12 companies research samples taken based on the purposive sampling method, with the research criteria, those are: 1) Companies listed on the Jakarta Islamic Index (JII) for the period 2018-2020, are consistently registered at JII and have complete data needed in this study during the observation period, 2) Companies that are consistently listed on the Jakarta Islamic Index (JII) which issued consolidated financial statements for three consecutive years during the 2018-2020 period, and 3) The company uses the rupiah currency unit. So based on the above criteria obtained 36 companies as research objects with calculations for 3 years. The variable indicators in this study are described in the operational table below.

Table 1. Operationalization of the Variables Modeled

Variables	Formula
Audit Quality (X1)	KAP size is measured through a dummy variable. Number 1 is used to represent companies audited by KAP Big Four and number 0 is used to represent companies not audited by KAP non-Big Four (Setiawati et al., 2021).
Managerial Reports (X2)	Managerial Ownership = (Number of Managerial Shares)/(Total Shares Outstanding) x 100% (Hamdani et al., 2020).
Audit Committee (X3)	The number of members in the company included in the research sample (Oktari et al., 2018).
Financial Report Quality (Y)	Ratio On Assets Ratio = (Net Income)/(Total Assets) x 100% (Roszkowska, 2021).

The statistical analysis technique in this study employs multiple linear regression. This analysis can explain the correlation of the dependent variable with some independent variables. In applying multiple regression analysis, several steps and analytical tools are required. Before analyzing by using multiple linear regression, some classical assumption tests consisting of a normality test, an autocorrelation test, a multicollinearity test, and a heteroscedasticity test is first performed.

The general equations of multiple linear regression in this study are as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Descriptions:

Y = Company's financial performance

a = Constant value

- X1 = Audit Quality (AQ)
 X2 = Managerial Reports (MR)
 X3 = Audit Committee (AC)
 b1 = Regression coefficient of X1
 b2 = Regression coefficient of X2
 b3 = Regression coefficient of X3
 e = Error

Results and Discussion

Descriptive Statistical Test

In the test results Table 2, it is found that the audit quality shows a minimum value of 0, the maximum value is 1.0, the median value of the audit quality variable is 0.917, and the standard deviation value on the audit quality variable is 0.2803. Research analysis of the results of the data from the managerial report variable has a minimum value of 0.08, the maximum value is 3.97, the average value of the managerial report variable is 2.2575 and the standard deviation value on the managerial report variable is 1.13337. The results of the analysis of the audit committee variable show a minimum value of 3.0, the maximum value of 7.0, the average value of the audit committee variable is 3.667 and the standard deviation value on the audit committee variable is 0.9856. Analysis of the results of the data on the financial report quality variable (ROA) which has the lowest value -0.0003, the maximum value is 0.4800, the median value of the financial statement variable (ROA) is 0.116492 and the standard deviation value on the financial statement variable (ROA) of 0.1043052.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Quality	36	0.0	1.0	0.917	0.2803
Managerial Reports	36	0.08	3.97	2.2575	1.13337
Audit Committee	36	3.0	7.0	3.667	0.9856
Financial Report Quality	36	-0.0003	0.4800	0.116492	0.1043052
Valid N (listwise)	36				

Source: Primary data processed, 2022

Table 3. Square Root Transformation Method One-Sample Kolmogorov-Smirnov Test

N		35
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.12117174
Most Extreme Differences	Absolute	.102
	Positive	.102
	Negative	-.065
Test Statistic		.102
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Primary data processed, 2022

Based on Table 3 results of the output using the Kolmogorof test smirnov with the square root transformation method, the result is that the Asymp.Sig value is greater than the alpha value of 0.05 (0.200 > 0.05). So it can be concluded that the research data tested normally distributed.

Based on Table 4 of multicollinearity test, tolerance and VIF values on audit quality amounting to 0.652 and 1.534. Managerial report shows numbers of 0.820 and 1.219. Audit committee shows numbers of 0.733 and 1.363. All independent variables used in this study have

tolerance values > 0.10 and VIF values < 10. So based on these data it can be concluded that all data variables in this research do not have some issues of multicollinearity.

Table 4. Coefficients^a

Model	Collinearity Statistics	
	Tolerance	VIF
1 Audit Quality	.652	1.534
Managerial Reports	.820	1.219
Audit Committee	.733	1.363

a. Dependent Variable: Financial Report Quality

Table 5. Glejser Method^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.147	.157		.933	.358
	Audit Quality	.021	.056	.080	.371	.713
	Managerial Reports	-.012	.032	-.073	-.382	.705
	Audit Committee	-.028	.064	-.092	-.437	.665

a. Dependent Variable: APRESID

The results of Table 5 using the glejser method found that the variable audit quality has a significant value of 0.713, which is > 0.05. The variable managerial report has a significant value of 0.705, which means the number is > 0.05. The variable quality of financial statements has a significant value of 0.665, where the value is > 0.05.

Table 6. Model Summary^b of Rsquare Value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.30 ^a	.397	.337	.09308	2.038

a. Predictors: (Constant), LAG_X3, LAG_X2, LAG_X1

b. Dependent Variable: LAG_Y

Based on the results of the autocorrelation output using Durbin Watson through the Cochrane-Orcut transformation method, it is known that the Durbin Watson value is 2.038, with a significance value of 5% (0.05) and has 36 samples (N) and 3 independent variables (K=3). Then the upper limit value of Durbin Watson (DU) is 1.6539. In accordance with the concept of the formula $DU < DW < 4 - DU$, the results obtained ($1.6539 < 2.038 < 2.3461$), so it can be concluded that the data used in this research is free from autocorrelation.

Table 7. Multiple Linear Regression Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.623	.091		6.810	.000
	Audit Quality	.080	.035	.462	2.263	.031
	Managerial Reports	-.072	.035	-.377	-2.073	.047
	Audit Committee	.004	.079	.009	.046	.964

a. Dependent Variable: SQRT_Y

The results of data analysis based on Table 7 using multiple linear regression testing obtained the following outputs:

$$Y = a + b1.AQ + b2.MR + b3.AC + e \quad (1)$$

$$Y = 0.623 + 0.080 X1 - 0.072 X2 + 0.0047 X3 + e \quad (2)$$

In this equation:

Y = Quality of the Company's Financial Statements

a = Constant

b = Regression Coefficient

X1 = Audit Quality

X2 = Managerial Reports

X3 = Audit Committees

e = Error

Based on the above equation, scored of 0.623 as a constant value, meaning that if the audit quality, managerial reports and audit committee variables have an assumption value of 0 on X1, X2, and X3, there will be an increase in the value of the quality of financial reports by 0.623. The regression value coefficient of the audit quality variable is 0.080. The positive regression coefficient value indicates that the value of audit quality has a positive effect on the quality of the company's financial statements. This shows that if each independent variable is fixed, it means that for every 1 percent increase in audit quality, the quality of the company's financial statements will increase by 0.080.

The coefficient of the regression value of the managerial report variable is -0.072. The negative regression coefficient value indicates that the managerial report variable has a negative effect on the quality of financial reports. This shows that if each independent variable is fixed, it means that for every 1 percent increase in managerial reports, the quality of the company's financial statements will decrease by 0.072. The value of the regression coefficient of the audit committee variable is 0.004. The positive regression coefficient value indicates that the value of the audit committee has a positive effect on the quality of the company's financial statements. This shows that if each independent variable is fixed for every 1 percent increase in the audit committee, the quality of the company's financial statements will increase by 0.004.

Table 8. Model Summary^b of Rsquare Value

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.30 ^a	.397	.337	.09308	2.038

a. Predictors: (Constant), LAG_X3, LAG_X2, LAG_X1
b. Dependent Variable: LAG_Y

Based on the results of the determinant coefficient test (R^2), the adjusted R square value is 0.337. From these results, it can be seen that the independent variables of audit quality, managerial reports and the audit committee have a percentage effect of 33.7%. Meanwhile, 66.3% is influenced by other variables that are not used in this research.

Audit Quality on Financial Report Quality

The audit quality variable has a significance value of 0.031 with a t-value of 2.263. It can be said that the results have a value that is smaller than the significant value which is 0.05 ($0.031 < 0.05$) and the ttable calculation is 1.688 ($2.263 > 1.688$). By showing the regression value with a positive direction, namely 0.080. So it can be concluded that the audit quality variable has a significant positive effect on the quality of the company's financial reporting. The results of this study are in line with research conducted by Irwandi (2020), Furwanti et al. (2021), and Kartika and Pramuka (2019) which states that the audit quality variable has a significant positive effect on the quality of the company's financial reporting.

Based on the results of research and hypotheses made, the quality of this audit has a significant effect on the quality of financial reports. This shows that in addition to the factors of independence, competition, objectivity, integrity, experience, due professional care and

accountability, the size of a public accounting firm also influences the auditing process. However, managers don't always do what the owners want, because there are indications of self-interest. This can happen because of the information asymmetry between the manager and the owner, thus requiring an independent third party to act as an intermediary called the external auditor, who will provide an opinion on the fairness of the manager's financial statements.

According to agency theory from Jensen and Meckling, company management always wants to satisfy investors' desires by choosing an auditor who can present a good manager image according to investors (Budiyono & Arum, 2020; Morris, 1987). Most of the companies included in the Jakarta Islamic Index are included in the Big Four public accounting firm, and the public accounting firm is of international standards, so that they have a good reputation in the eyes of their clients. Therefore, the possibility of material error in the audit process is relatively low. This situation will affect the attitude of the client company, and they will be influenced to provide open financial statements in accordance with the characteristics of good corporate governance.

Managerial on Financial Report Quality

The significance value for the variable is 0.047 with a t-value of -2.073. This means that the significance value is smaller than 0.05 ($0.047 < 0.05$) and the t-table calculation is 1.688 ($2.073 > 1.688$). By showing the regression value with a negative direction, namely -0.072. So it can be concluded that the managerial report variable has a significant negative effect on the quality of the company's financial reporting. The results of this study are in line with research conducted by Djoko and Yanti (2019); Sitanggang et al. (2020); and Zhou et al. (2020) which stated that the managerial report variable had a significant effect with a negative direction on the quality of the company's financial reporting.

Managers who have invested their shares in the company's ownership can influence the company's liquidity policy. This can also happen if the managerial ownership ratio is fixed. In addition, the negative direction also shows that investors are worried and assume that factors such as increased debt can increase risk and management actions that are not in the interests of shareholders (Murwaningsari & Rachmawati, 2017). This is contrary to the agency theory of Jensen and Meckling which states that managerial ownership of shares can reduce agency conflicts between agents and principals in a company which can improve company performance so as to improve financial performance (ROA) efficiently (Morris, 1987).

Audit Committee on Financial Report Quality

The audit committee variable has a significance value of 0.964 with a t-value of 0.046. The significance value is greater than 0.05 ($0.964 > 0.05$) and the t-table calculation is 0.046 ($0.046 < 1.688$). By showing the regression value with a positive direction, namely 0.004. So it can be concluded that the audit committee variable has a positive and insignificant effect on the quality of the company's financial reporting. So that hypothesis 3 in this study is rejected. The results of this study are in line with research conducted by Kantudu and Samaila (2015); and Zuraida and Sugianto (2021) which stated that the audit committee variable had a positive and insignificant effect on the quality of the company's financial reporting.

The size of the audit committee does not have a significant effect but is in a positive direction. This means that the larger the size of the audit committee does not make the quality of financial reports better. Many factors cause managers to manipulate earnings, both from outside the company's interests and from within the company. The desire to manipulate profits creates the idea of crippling surveillance. In addition, there are many other things that can affect the practice of earnings manipulation, one of which comes from the audit committee. So in this case there is a weak relationship between the audit committee and the quality of financial reports (Mardessi, 2021). The Audit Committee is one of the agents appointed by the Director. Therefore, the existence of an audit committee is expected to prevent fraud and improve the quality of financial reporting.

The results of this study support the agency theory which states that the relationship between the principal and the agent can lead to information asymmetry because the agent is considered to have more information than the principal. Agency theory assumes that principals

and agents work to maximize their own interests, so that with information asymmetry, agents will act to hide some information that is not known to the principal, when there is no supervision, providing opportunities for agents to influence accounting numbers in financial statements and profit manipulate. The Audit Committee is one of the agents appointed by the Director (Oktari et al., 2018).

Implication and Conclusion

Based on the results of data analysis and discussion of the effect of audit quality, managerial reports and audit committees on the quality of financial reporting of companies listed on the Jakarta Islamic Index (JII) in 2018-2020 as a case study in this study, it can be concluded 1) Audit quality has a significant positive effect on the financial reporting quality of companies listed in JII in 2018-2020. This is because companies listed on the Jakarta Islamic Index (JII) in 2018-2020 have increased their audit quality so that the quality of the company's financial reporting can also be properly disclosed, 2) Managerial reports have a significant negative effect on the quality of financial reporting of companies listed in JII in 2018-2020. This is because managerial share ownership affects the company's cash holdings significantly because it is in a negative direction, and 3) The audit committee has a positive but not significant effect on the level of financial reporting quality of companies listed in JII in 2018-2020. This is because the number of audit committees does not guarantee the effectiveness of the audit committee's performance in supervising the company's financial performance.

Based on the research, not only audit quality and managerial reports as a determinant of a financial report are said to be of quality, but there are other factors such as the audit committee (Talpur et al., 2018). The size of the audit committee can not significantly improve the quality of financial reporting, but in some cases the company's audit committee can affect the quality of financial reporting.

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