Journal of Contemporary Accounting

Volume 1 | Issue 3

The Influence of corporate governance, audit quality, and ownership, on financial instrument disclosure in Indonesia

Agung Nur Probohudono
Faculty of Economics and Business, Universitas Sebelas Maret, Surakarta, Indonesia
anprobohudono@staff.uns.ac.id

Bambang Sugiharto
STIE Sutaadmadja, Subang, Indonesia

Siti Arifah
Faculty of Economics, Universitas Tidar, Magelang, Indonesia

Agung Nur Probohudono, Bambang Sugiharto, & Siti Arifah. (2019). The Influence of corporate governance, audit quality, and ownership, on financial instrument disclosure in Indonesia. *Journal of Contemporary Accounting*, 1(3), 173-187. doi:10.20885/jca.vol1.iss3.art5

JCA JOURNAL OF CONTEMPORARY ACCOUNTING

Journal of Contemporary Accounting, Volume 1, Issue 3, 2019, 173-187

The Influence of corporate governance, audit quality, and ownership, on financial instrument disclosure in Indonesia

Agung Nur Probohudono[1*], Bambang Sugiharto[2], Siti Arifah[3]

[1]Faculty of Economics and Business, Universitas Sebelas Maret, Surakarta, Indonesia
[2]STIE Sutaadmadja, Subang, Indonesia
[3]Faculty of Economics, Universitas Tidar, Magelang, Indonesia

JEL Classification:
G34, G23

Keywords:
Corporate governance, audit quality, ownership, financial instrument disclosure.

Corresponding Author:
anprobohudono@staff.uns.ac.id

DOI:
10.20885/jca.vol1.iss3.art5

Abstract

This research analyzed the influence of corporate governance, audit quality, public ownership, and foreign ownership, on financial instrument disclosure by Indonesian firms. Leverage, ROA, and size were used as control variables. The sample comprised of 71 manufacturing firms, determined using a purposive sampling method. Observational data for the years 2009-2013, are in the transition period of International Financial Reporting Standards implementation. Analyze data using multiple regressions. Test results show simultaneously, the scores of independent and control variable have positive influence. The results of partial testing of corporate governance, audit quality, public ownership, and foreign ownership scores have significantly positive influence.

Introduction

As a member of the G20, the Government of Indonesia agreed to convergence the accounting standards applicable to IFRS. Indonesian Association of Accountants (IAI) established that the International Financial Reporting Standards (IFRS) 2012 is entirely applied in Indonesia. IAI made adjustments to IFRS by revising the Statement of Financial Accounting Standards (SFAS). The adoption of IFRS is gradually carried out by firms disclosing their-financial information since 2008.

The Indonesian government encourages the adoption of IFRS convergence based on global interests, i.e. improving the quality of the information in the financial statements made by Indonesian firms, which had been agreed by all G20 countries in November 2008 in Washington DC. This forum aims to improve transparency and accountability, encourage strong regulations, promote integrity in financial markets, reaffirm international cooperation, and reform international financial institutions. The convergence to IFRS has subsequently become the focus of attention for business people in Indonesia. IFRS is one of the products released by The International Accounting-Standard Board (IASB). The world's primary organizations that make up International Accounting-Standards are International-Accounting Standard Board/IASB, European Union/EU, International Organizations-Capital Market/IOSOC, and International Federation-of Accountants/IFAC (Kustina, 2012). IFRS convergence is intended to improve the quality of financial statements to be comparable, more comprehensive, and accurate as well as capable to be presented promptly (Ball, 2006; Barth & Schipper, 2008).

Furthermore, the adoption of IFRS has an impact on measurement, recognition methods, and classification and methods for disclosing financial instruments. IFRS adoption also significantly influences firms in managing financial resources and instruments. From the disclosure of financial instruments under the AASB-1047 by firms in Australia, 63% of energy firms and 69% of manufacturing firms revealed different narratives compiled by different industries as a formal adoption of IFRS.

Existing and developing accounting theories are normatively dominant today. There is no single accounting theory accepted by the public as a whole. This happens because accounting theories are analyzed as economic goods in response to the demands of theories (Watts & Zimmerman, 1979). The standards in the preparation of financial statements as an embodiment of accounting reports are adjusted to the needs of users, including the preparation of IFRS 7. This is intended to make the most use of financial information.

IAS 32 states that financial instruments are the embodiment of contracts that further lead to the increase of assets and liabilities of an entity or the emergence of an equity instrument of another entity. Financial statements reflect the firms' financial instruments, therefore measurements,-recognition, presentation, and disclosure of financial instruments are required to describe the firm performance-and provide meaningful information-for with the users-to make decisions. Economic decision making-is often based on the information about financial instrument values, thus the disclosure and presentation of the instrument-finance should be adjusted to applicable accounting standards, among others FSAS 50. It is about the presentation of the financial instruments (2010 revision) and the disclosure of-financial instruments FSAS 60. Firms engaging in the energy sector (natural resources) generally participate in hedge management of commodity prices, interest rates, foreign exchange rates, as well as disclosure of hedging of financial risks in the use derivatives (Chalmers & Godfrey, 2004).

The transparency of financial statement disclosure then becomes an important topic, including for the business community in Indonesia. The publication from the Forum for Corporate Governance in Indonesia (FCGI) illustrates that Indonesia is at the bottom rank in terms of compliance with audit standards,-accountability to shareholders, transparency, and disclosure standards (Utami et al., 2012). This fact is the result of an international investor survey in Asia in 1999 conducted by Price water house Coopers.

The role of the board of commissioners in corporate governance-is paramount. It serves as the supervisory board for the implementation of policies and achievement of performance targets carried out by the board of directors. In general, the role of the board-the commissioners currently has not been able to fully guarantee the implementation of good corporate governance principles, one of which is investor protection. Therefore, independent commissioners are then appointed as an additional function within the firm structure to protect the firm owners in the scope of corporate governance (Probohudono, 2012). On the other hand, Eng & Mak (2003) mention that in the event the managers can provide voluntary disclosures, then supervision by the firm owner can be reduced.

Corporate governance mechanisms play an important role in providing quality reporting. Most corporate governance mechanisms, especially non-executive directorship, the board size, CEO duality, audit quality, and state ownership, have a significant contribution in providing quality voluntary disclosure (Al-Janadi et al., 2013). The effectiveness of corporate governance serves as the strength for a monitoring mechanism to provide adequate information to users.

There is a significantly positive relationship between governance structures and the extent of disclosure of financial instruments-by firms (Taylor et al., 2011). In this research, governance is measured using CGS. Also, in the immediate pre-adoption period of IFRS, there is a positive relationship between the effective structure of corporate governance and the disclosure of financial instruments contained in the annual reports established by energy firms in Australia. The level of disclosure is related to firm size, auditor, firm status, and whether the firm engages in the financial or non-financial sector (Lopes & Rodrigues, 2006). Firms registered in two or more foreign exchange markets and audited by international auditors are more likely to comply with IAS requirements/standards. The high level of corporate leverage and the use of derivatives and Big Four auditors provide wider disclosure of financial instruments (Birt et al., 2013).

The purpose of this study was to analyze the influence of Corporate Governance (CG), Audit Quality (AQ), Public Ownership (PO), and Foreign Ownership (FO) on Financial Instruments Disclosure (FID) before and after the adoption of IFRS in 2012 in firms listed on the IDX. The problem formulated is about the effect of corporate governance, audit quality, public ownership, and foreign ownership-on Indonesian firms listed on the IDX for disclosure of the instrument-its finances.

Literature Review

Agency theory Jensen and Meckling (1976) indicates internal and external governance mechanisms-to restrict agency costs due to managerial misconduct by the manager. Agency conflicts arising from the separation of ownership and control of the firm can be minimized through transparency in financial communications. Agency theory also provides an overview of the framework on the correlation between corporate governance and voluntary disclosure which both are part of the firm's control mechanism to reduce agency conflicts and protect investors (Allegrini & Greco, 2013). Significant increases in disclosure were found in firms listed on the Amman Stock Exchange/ASE, which in this case is in line with the firm's increased awareness of the importance of governance, and voluntary disclosure in annual reports has the potential to influence market capitalization (Alhazaimeh et al., 2014).

As the author of financial statements and disclosures, directors and executive management, have motivations or considerations driven by economic and welfare factors (Godfrey et al., 2010). In the theory, the agency is established that the Agent is possible to improve their welfare or personal utility by taking advantage of decisions taken as well as the level of knowledge not observed by the owner (principal). The Agent may determine its policy regarding the timing of disclosure of information, depending on how the disclosure impacts, not only for its benefit but the interests of all parties associated with the company (Watts & Zimmerman, 1990).

Price water house Cooper (PWC) (2011) explains that as of 2011, more than 100 states allowed or required the use of IFRS in the preparation of its financial statements (Coe & Delaney, 2013). The European Union (EU) Parliament has also passed a regulation requiring all companies registered in the European Union to adopt IFRS after the January 1, 2005 tax year Soderstrom and Sun (2007), as well as Australia. Australian regulators assume that the adoption of IFRS will facilitate companies in cross-border comparison of financial reporting to increase the visibility of Australian international businesses (Jones & Finley, 2011). The IFRS adoption process in Indonesia began by revising the Financial Accounting Standards Statement (PSAK) effective from 2008 and full adoption in 2012. Furthermore, all public companies in Indonesia must use the new PSAK based on IFRS (Gamayuni, 2009).

The company's financial instruments are presented in financial statements. Therefore, recognition, measurement, presentation and disclosure techniques of financial instruments are required to provide useful information for stakeholders in decision making. An effective corporate governance structure is expected to reduce the risk of incorrect use of information about financial instruments. Companies with effective governance can ensure the disclosure of more information about financial instruments both discretionary and mandatory. Resource companies generally participate in hedging commodity prices, interest rates and foreign exchange rates and utilize financial derivatives to disclose their hedges against financial risks (Chalmers & Godfrey, 2004).

Information transparency is vital where the balance of information obtained by decision-makers can encourage better policymaking. Information imbalance can cause Asymetrix Information problems (Jensen & Meckling, 1976). Disclosure can minimize agency costs by reducing the capacity of managers (agents) with demands to adjust data to their disclosures (Marshall & Weetman, 2002). One of the principles of the conceptual framework in financial reporting is full disclosure of all relevant/full disclosure information (Weygandt et al., 2016). An annual report is one of the most important sources for disclosure of company information (Chau & Gray, 2010). There are two properties of disclosure, namely regulated/mandatory disclosure and voluntary disclosure (Suhardjanto & Afni, 2009). Mandatory disclosure is disclosed as a consequence of the provisions of the legislation, the stock market, stock exchange commissions, and accounting regulations of the authorities, while voluntary disclosure is information voluntarily disclosed by the company (Adina & Ion, 2008). Decisions taken by companies regarding disclosure of financial reporting are one way of communicating (Archambault & Archambault, 2003).

Management's decision to disclose company information is influenced by five things: (1) the capital market hypothesis, in which the company discloses information to reduce the asymmetry of information between management and investors; (2) the corporate control hypothesis, in which management tends to use information disclosure to increase the company's value and provide explanations when the company's performance deteriorates; (3) the stock compensation hypothesis, in which managers rewarded with stock compensation tend to use voluntary disclosure to reduce the likelihood of insider trading allegations; (4) the litigation cost hypothesis, in which the threat of litigation by the other party causes the manager to disclose information, and does not disclose potentially inaccurate information; and (5) proprietary hypothesis fees, where managers do not use voluntary disclosure when they consider that disclosure of certain information can be risky (Healy & Palepu, 2001).

Corporate governance, in terms of agency theory, is related to how to best reduce managerial opportunistic behavior in running a firm (Van der Zahn et al., 2005; Welker, 1995). Through the implementation of good corporate governance, it can push the efficiency of corporate resources performance as well as producing sustainable long term economic value (Sunaryo et al., 2019). The Forum for Corporate Governance in Indonesia clarifies the basic principles of implementing good corporate governance as recommended by the Organization for Economic Co-operation and Development (OECD) namely: Transparency, Accountability, Independence, Responsibility, and Fairness. The goal of corporate governance is to create added value for stakeholders. Information asymmetry occurs because managers and internal parties of the firm have better and more complete information about the firm when compared to shareholders or other external parties. The structure of corporate governance has a significantly positive relationship with the exposure of financial instruments (Taylor et al., 2011). Firm performance reporting accompanied by disclosure of good practices on corporate governance can be one way of achieving the firm's goals (Akhtaruddin et al., 2009). Furthermore, the first hypothesis is set out below:

H1: Corporate governance positively influences the disclosure level of financial instruments by firms.

The quality of the audit is the probability that auditors will not express reasonable opinions without exception to financial statements containing material errors (Lee et al., 1999). Audit quality is determined by the ability of audits to reduce noise and bias and increase fineness in accounting data (Wallace, 2004). The quality of audits is measured by the accuracy of the information reported by auditors (Davidson's & Neu, 2010). Professionalism influences audit quality and auditor quality which affects the auditor's performance as an employee (Wardayati et al., 2019). Audit quality is how compliant the audit is with auditing standards (Watkins et al., 2004). Large companies audited by Big 4 auditors provide broader disclosure of financial instruments (Birt et al., 2013).

Audit quality has a significantly positive correlation with financial reporting quality (Kamolsakulchai, 2015). Size of the board of directors, financial risk disclosure, asset return, and business growth have a positive relationship with the level of financial reporting quality due to the motivation of the management to improve operational performance, thereby increasing the credibility of managers before the shareholders and investors. However, the decrease in quality of the financial reporting may be the result of the emergence of discretionary accruals.

The Government Accountability Office (GAO), which is under the aegis of the legislative body in the federal government of the United States of America, is an institution tasked with examining institutions under the auspices of the government and other government agencies. Audit quality Lowensohn et al. (2007) is used as a benchmark for the level of compliance with bond/contract (professional) standards and during the conduct of an audit. Audit quality is very important for firms that are about to or have gone public because it will affect the trust of the users of financial statements (Law, 2008). Audit quality is related to auditor size, which is divided into 2, namely auditors affiliated with large international auditors (Big Four) and those that aren't (Non-Big Four) (DeFond & Jiambalvo, 1994; Mutawaa & Hewaidy, 2010). The second hypothesis is thus formulated as follows:

H2: Audit quality positively influences the disclosure of financial instruments by the firm.

Competition, governance, and ownership structure within firms in risk disclosure practices show poor compliance in the firm's annual report in Egypt, where the level of voluntary risk reporting is low with a tendency to report fewer qualitative risk disclosures compared to future opportunities and quantitative risk disclosure (Mokhtar & Mellett, 2013). Agency theory and cost of ownership provide explanations for the variations found in risk reporting in the firm's annual report. Differences in the proportion of public shareholdings can affect the policy and completeness of the disclosure by companies, where more and more parties need information about the company, the more details are required to be opened and thus the wider the disclosure of the company (Hardiningsih, 2008).

A positive relationship was found between the level of disclosure and public/community ownership Barako et al. (2006), where the ownership structure is part of the oversight mechanism in encouraging the provision of relevant and complete information by the firm. Whereas, the percentage of public shareholding influences voluntary disclosure (Akhtaruddin et al., 2009). The third hypothesis is then established as follows:

H3: Public ownership positively influences the disclosure of corporate financial instruments.

Foreign ownership becomes one of the significant elements in influencing voluntary disclosure, which in turn potentially affects market capitalization (Alhazaimeh et al., 2014). Foreign investors are often troubled by the lack of transparent information, so foreign investors demand high disclosure of financial information compared to local investors who more easily access the financial information they need (Ananchotikul, 2008). Foreign investors tend to want to be part of insider shareholders so that they have control over the company and can react like other local investors which will result in weak corporate governance and also result in low levels of disclosure (Mangena & Tauringana, 2007). Foreign ownership as part of the oversight mechanism can lead to increased voluntary disclosure in the United Arab Emirates/UAE (M. K. Hassan, 2009). Besides, foreign investors have a significantly positive effect on price reactions to the announcement of the stock buyback program in France (Ginglinger & L'Her, 2006). The presence of foreign investors in the firm signals the improvement of the firm's reputation through voluntary disclosure of information. Foreign investors present in China's stock market and international financial institutions as well as being corporate shareholders are highly effective in performing as external supervisors (Ho & Taylor, 2013). Firms in China have a relatively

higher level of voluntary disclosure when they have foreign ownership. Therefore, the fourth hypothesis is expressed below:
H4: Foreign ownership positively influences the disclosure of-corporate financial instruments

Control variables are variables that co-control in a study of foreign variables that are irrelevant to explain given dependent variables but may have an impact on those dependent variables (Bhattacherjee, 2012). In this study, control variables used are profitability, leverage, and size which are variables that play a role in controlling CQ, AQ, PO, and FO, in addition to explaining or having an impact on FID.

Research Method

Determination of Samples

This research follows the positivism paradigm by looking at the existence of an entity (Burrell & Morgan, 1979). The entity referred to is-manufacturing firms in Indonesia observed from information regarding disclosure activities in financial reporting. The data is obtained from financial statements issued by manufacturing firms and other relevant information sources.

The data processed in this research is secondary data from the population, acquired from the financial report issued by the firm. The population in question is all manufacturing firms listed on the Stock Exchange for a period of 5 years, i.e. from 2009 to 2013. This time frame was chosen as it is within the range of the transition of IFRS implementation which covers the period of before and after the IFRS adoption in 2012. Samples were determined by purposive sampling technique based on certain considerations, namely the criteria according to the research objectives. The criteria in question are the firms-listed on the IDX for 5 consecutive years and consistently submitting annual reports, as well as actively participating in hedging arrangements.

Empirical Model and-Variable Definition

Multiple linear regression analysis was employed with several independent variables and 1 (one) dependent variable. The regression analysis is used to predict the dependent variable, i.e. FID, based on independent variables consisting of AQ, PO, FO. The control variables involved include SIZE, Leverage/LEV, and ROA. The equation model determined for regression analysis-is as follows:

$$FIDj = \alpha j + \beta 1CGjt + \beta 2AQjt + \beta 3POjt + \beta 4FOjt + \beta 5SIZEjt + \beta 6LEVjt + \beta 7ROAjt + e$$

Information:

- FID is measured using Deloitte's FID index which describes the index of financial instruments disclosure level. Deloitte's FID index consists of 96 items. For each item revealed, a score of 1 is given, then the total score revealed is divided by the total maximum score.
- CG illustrates the combined score of corporate governance determined using the Corporate Governance Score index (Taylor et al., 2010).
- AQ describes audit quality, determined using dummy variables-(1 if the firm is audited by a Public Accountant Office affiliated with Big-Four;-0 if otherwise).
- PO describes public ownership, i.e. total public shareholding divided by total shares
- FO describes foreign ownership, i.e. total share ownership-by investors-foreigners divided by total shares.
- SIZE describes the size of the firm,
- LEV describes leverage, and
- ROA describes the rate of return on assets.

Results and Discussion

The sample comprises of 71 firms that satisfy the criteria out of 158 manufacturing firms listed in IDX. There are a total of 355 data presented in panel data. Descriptive statistical analysis can be seen in Table 1.

Table 1. Results of Descriptive Statistical Analysis

	Min	Max	Mean	Std. Deviation
FID	594	.990	.80003	.095911
CG	.539	.923	.76664	.097585
PO	.006	.787	.24207	.159790
FO	.000	.990	.22156	.2888707
ROA	.010	.850	1201	.1410102
LEV	.000	.940	.37025	.216988
Ln-Size	11.15	32.36	16.4333	4.35929
Valid N (listwise)				

Source: Data processed with SPSS

Table 1 gives an overview of minimum values; maximum value; and mean value; as well as deviations for all variables used, including FID, CG, PO, FO, ROA, Leverage, and natural logarithm (Ln_size) to determine firm size.

Table 2. Audit Quality

		Frequency	%	Valid%	Cumulative%
Valid	0	166	46.8	46.8	46.8
	1	189	53.2	53.2	100.0
	Total	355	100.0	100.0	

Source: Data processed with SPSS

Table 2 provides information on AQ of which 166 firms (46.8%) employ non-Big Four and 189 firms (53.2%) otherwise.

Table 3 illustrates the application of each group of items to-IFRS7 (FID) in the sample firms for 5 consecutive years of the research observation period from year 1 (Y1) to year 5 (Y5), and the decline in FID levels. Multiple linear regression model was performed to see the influence-of CG, AQ, PO, and FO on-FID. The control variables used are leverage, ROA, and Ln_size. The regression test results can be seen in Table 4.

Then the regression equation based on Table 4 is obtained as follows:

FID = 0.603 + 0.178CG + 0.018AQ + 0.100PO + 0.050FO + 0.071ROA + 0.042Leverage - 0.000Ln_size

A constant value of 0.603 indicates that in the absence of CG, AQ, PO, FO, ROA, Leverage, and Ln_size, the FID value is 0.603. CG coefficient value of 0.178 means that if CG increases by 1%, FID follows to grow by 17.8%. AQ coefficient value of 0.018 means that if the audit quality is higher, in the sense of using the Big Four, FID increases by 1.8%. PO coefficient value of 0.100 implies that if public ownership increases, FID adds up by 10%. The FO coefficient value is 0.050, which means that if foreign ownership-increases, the FID does as well by 5%. The coefficient value of ROA is 0.071, in other words, if ROA rises by 1%, FID follows with a growth of 7.1%. The leverage coefficient value is 0.042, implying the increase of FID by 4.2% in the event of 1% increase of FID. These increases of FID come with an assumption of constant value of variables other than those specified above.

Table 3. Percentage of -IFRS7 Disclosure Index (FID).

No	IFRS-Disclosure-Index	Number of Items	Disclosure					
			Y1	Y2	Y3	Y4	Y5	Pooled
	IFRS7: 6	2	86.62	87.32	87.32	90.14	90.14	88.31
1	Significance of financial instrument-on financial position and performance							
	IFRS7: 7	1	84.51	84.51	85.92	85.92	85.92	85.36
2	Financial Position Report							
	IFRS7: 8	13	77.02	76.92	76.92	80.28	80.28	78.28
3	Collateral							
	IFRS7: 15	4	76.41	76.06	77.11	76.41	76.41	76.48
4	Comprehensive Income Statement							
	IFRS7: 20	9	76.99	78.25	77.15	79.97	80.13	78.50
5	Other disclosure							
	IFRS7: 21	2	85.21	85.21	84.51	86.62	86.62	85.63
6	Fair value							
	IFRS7: 25	1	84.51	84.51	85.92	84.51	84.51	84.79
	27	17	81.61	80.36	91.77	84.26	84.34	84.47
	28	1	81.96	78.87	80.28	83.10	80.28	80.90
7	Unrequired disclosure of fair value							
	IFRS7: 29	3	83.10	78.40	79.34	76.53	77.93	79.06
	30	1	78.87	80.28	77.46	80.28	80.28	79.43
8	Risk							
	IFRS7: 31	1	84.51	81.69	80.28	77.46	76.06	80.00
	33	3	77.00	76.06	76.53	78.87	78.87	77.46
	34	6	86.38	84.04	83.33	83.57	84.04	84.27
	35	1	90.14	84.51	78.87	87.32	73.32	85.63
9	Credit Risk							
	IFRS7: 36	3	85.45	82.16	77.93	82.63	83.10	82.25
	37	2	81.69	76.76	79.58	79.58	79.58	79.44
	38	1	85.92	80.28	80.28	81.69	81.69	81.97
	39	15	80.19	75.96	81.41	80.09	79.06	79.34
10	Market Risk							
	IFRS7: 40	3	73.71	68.08	74.65	70.89	69.01	71.27
	41	1	78.87	71.83	74.65	70.42	67.61	72.68
	42	1	80.28	78.87	83.10	73.10	81.69	79.41
11	Transfer of financial assets							
	IFRS7: 42A	2	76.06	74.65	76.06	73.94	73.24	74.79
	42D	1	78.87	76.06	73.24	74.65	74.65	75.49
	42E	1	84.51	80.28	78.87	80.28	80.28	80.84
12	The adoption of the amendment to the standard prior to the effective date							
	IFRS7: 44	1	78.87	76.06	76.06	73.24	73.24	75.49
	Total	96	81.60	79.15	79.56	80.22	79.86	80.08

Source: processed data

Table 4. Regression Test Analysis Results

Model	Unstd.Coefficients		Std.Coefficients	T	Sig.
	B	Std.Error	Beta		
Constant	603	.499		12.416	.000
CG	.178	.052	.181	3.418	.001
AQ	.018	.010	.093	1.734	.084
PO	.100	.032	.166	3.119	.002
FO	.50	.018	.151	2.850	.005
ROA	.071	.036	.106	1993	.477
Leverage	.042	.023	.095	1805	.72
Ln_size	.000	.001	-.022	-410	681
F-test				5.188	.000a
Adjusted-R Square		0.076			

Source: Data processed with SPSS

Furthermore, Adjusted R Square-of 0.076, meaning that CG, AQ, PO, FO, Leverage, ROA, and Ln_size explain FID at 7.6%. The remaining 92.4% is explained by other variables-from the regression equation-in-this research. On the other hand, F count of 5.188 and the p-value is 0.000. As the figure is below 0.405, it is concluded that CG, AQ, PO, FO, ROA, Leverage, and Ln Size simultaneously have a significant effect on the FID.

Table 5. Results of-Hypothesis Test

Hypothesis	Description	B	T-Stat	P-Value	Result
H1	CG → FID	0.178	3.418	0.001	supported
H2	AQ →FID	0.018	1.734	0.084	supported
H3	PO → FID	0.100	3.119	0.002	supported
H4	FO → FID	0.050	2.850	0.005	supported
	ROA → FID	0.071	1993	0.047	supported
	Leverage → FID	0.042	1.804	0.072	supported
	Ln_size → FID	0.000	-0.411	0.681	not supported

Source: Data processed with SPSS

Based on the description of the analysis results, corporate governance (CG) has a significantly positive influence-on FID. Thus, CG and FID are directly proportional to the manufacturing firms. This is similar-with Taylor et al. (2008) who find that corporate governance structure-measured by CG presents a significantly positive influence through extensive financial instrument disclosure by the firm. Next, audit quality has an a-significantly positive influence-on FID, meaning that better quality-audit, in this case, the use of Big Four auditor, leads to quality FID presented by the firm as the financial instruments disclosure is more comprehensive (Birt et al., 2013). The extent of this disclosure is significantly related to size, status, and type of auditor, as well as whether the firm engages in the financial/non-financial sector (Lopes & Rodrigues, 2006).

Audit Quality has a significant positive effect on FID. The better the quality of audits (using big 4) then FID the more qualified. Companies audited by Big 4 auditors provide broader disclosure of financial instruments (Birt et al., 2013). This level of disclosure is significantly related to the size, type of auditor, status, and economic sector (financial/non-financial). Large companies listed on more than one currency market and audited by international audit companies are closer to their requirements (Lopes & Rodrigues, 2006).

The positive influence of public ownership on FID shows that an increasing percentage of public ownership will increase the extent of FID in manufacturing firms since the amount of public shareholding has an impact on policy and completeness/extent of disclosure by the firm. This is intended to serve more parties that require more detailed information, thus firms are becoming more open in their disclosure (Hardiningsih, 2008). This result is parallel with Susanto (1992) who attests that dominant public ownership-is pushing for demands for more complete and better disclosure. Higher public-shareholding will encourage managers to provide more disclosure to market shares and-minimize-pressure from the government as a regulator. Agents may use policies regarding the timing of disclosure of information that depends on their impact on themselves (Agents) and stakeholders (Watts & Zimmerman, 1990). Agency theory is also used to explain managerial behavior in corporate governance (Van der Zahn et al., 2005; Welker, 1995). In terms of agency theory, corporate governance is related to how best to reduce managerial opportunistic behavior. Agency theory suggests that internal and external governance mechanisms are designed to reduce agency costs arising from deviant manager actions. Transparency of financial communication can minimize agency conflicts between shareholders and managers inherent in the separation of ownership and control of the company (Jensen & Meckling, 1976).

The positive influence of foreign ownership-on FID indicates that greater foreign ownership will increase the FID because financial instruments are contracts that result in the emergence of financial assets for one entity and financial obligations or equity instruments for other entities (IAS 32).

This is corroborated by Hassan (2013) who confirms that foreign ownership can increase voluntary disclosure in the United Arab Emirates (UAE). This study supports Barako et al. (2006) who verifies that foreign ownership has a positive influence on voluntary disclosure for firms in Kenya. Foreign investors listed on the Chinese stock market, international financial institutions, and those registered as corporate shareholders behave as effective external supervisors (Ho & Taylor, 2013).

Leverage and ROA as the control variables also have a significantly positive influence on FID. Birt et al. (2013) state that is a higher level of leverage, derivative usage, and audits conducted by the Big Four reveals a wider range of financial instruments. Jensen and Meckling (1976) validate that higher levels of corporate leverage incur more monitoring costs-so management will attempt to reveal-more information in its annual report to reduce-these costs.

High profitability encourages managers to disclose more information to expose the firm's performance in its annual report. Profitability (ROA) has a positive influence on-voluntary the disclosure of financial instruments (Wulandari, 2011). Every firm makes every effort to achieve the expected performance, as it reflects the firm's ability to allocate and manage its resources (Febriyanti & Zulfadin, 2003). Their capability to illustrate their operation is one indicator of firm performance (Payamta & Setiawan, 2004). Performance is also a measure of success in-making profit. A firm is considered to have a sound performance among others from their level of ROA and ROE as a measure of profitability ratios. Companies that do voluntary disclosure in New Zealand are much lower than companies in the US and London. Some potential relationships between company characteristics and disclosures indicate that size and industry are significantly related to the number of disclosures, while profitability is not related to the level of disclosure. Besides, the relationship between corporate size and corporate disclosure is stronger for large industrial companies (Hackston & Milne, 1996). Following IAS 32 that foreign ownership has a significant positive effect on the Disclosure of financial instruments (FID) if foreign ownership is increased then FID will increase. The results of this study are in line with Hassan's opinion (2013) which states that the presence of foreign ownership as an aspect of the indicated ownership mechanism can increase voluntary disclosure.

Conclusion

The results of the multiple regression analysis for simultaneous tests indicate that CG, AQ, PO, FO, as well as Leverage, ROA, and Size has a significant influence on the FID index. While from the partial test results, all of these variables excluding the size have a significant influence on FID. The coefficient of determination test results shows the FID can be explained by the CG, AQ, PO, FO, Leverage, ROA, and Ln_size at 7.60%, while the rest is explained by other variables unused in-this research.

Some of the limitations of the research that can influence the results of this study are the different formats of the presentation of financial statements that make it difficult to search financial disclosure data in detail so that it is possible that a lot of data is not revealed. Besides, the lack of independent variables used and the limited use of samples in manufacturing companies led to a very small Adjusted R Square score of just 7.60%. Furthermore, researchers who will be researching FID are suggested to increase the number of variables that have an influence on FID that have not been included in this study, as well as increase the number of research samples other than manufacturing companies, to increase the fit of the model used. For stakeholders who have authority in the creation of financial statements presentation rules such as Financial Services Authority, it is expected to make rules about the format of additional financial statements standard to facilitate the users of financial statements in reading and analyzing additional financial statements as needed.

Practical Implications for Asian Businesses

This research is expected to have implications for the public, especially in the region, regarding the influence of governance, audit quality, ownership, leverage and ROA on FID so that the public knows the importance of disclosure of financial statements. Disclosure in these financial statements is a source of information in investment decision making. The effectiveness of investment decisions depends heavily on the quality and breadth of disclosures presented in the annual report. The Asian Development Bank (ADB) in September 2020 reported that economies in Asian countries fell drastically due to the covid-19 outbreak. The ADB expects emerging economies in Asia to shrink in 2020 to 0.7%. This is due to the implementation of regional closures that cause businesses to lose money and make many people fall in poverty.

The Asia Disclosure Index 2019 disclosed by Forensic Technologies International (FTI) Consulting shows a figure of 6.4/10 for voluntary disclosure score, 2.4/4 for board quality score, and 3/5 for risk disclosure score. The index is a benchmark for non-financial voluntary disclosure in Asia, especially in the Association of Southeast Asian Nation (ASEAN) and India regions. The determination of this index is following existing disclosure regulations, including the 2014 The European Union (EU) Non-Financial Reporting Directive on non-financial disclosures, and the expectations of global institutional investors. But disclosure of financial instruments is also a very important thing that should be considered by investors, where this research alludes to financial instruments.

Good corporate governance ensures organizations can conduct business ethically and fairly, as it takes into account the interests of all stakeholders for reasons of long-term growth sustainability. Strong corporate governance development can strengthen companies to deal with capital market changes, climate shifts and pressures, population change and digitalization. The push to build better corporate governance in Japan requires organization management to align financial targets through industry analysis, corporate governance reform where companies become more passionate about returning money to shareholders, and pleasing investors. In Malaysia, the core of good governance is a culture of integrity and ethics, and this must be applied in all aspects of the company's operations. Indeed, governance is very important to be considered to develop business, especially in the Asian region.

An audit is a process of assessing or examining the validity of transactions made by the company. Audit activities are conducted by third parties or outside parties that are independent, and this is very important for a company to do. Audits conducted by big name parties, such as The Big Four, will ensure that the audit process has been implemented very well and the audit results can be more trusted by all stakeholders. This applies also to the scope of businesses and companies in the Asian region.

The ownership structure especially at the level of public ownership will also encourage the widespread disclosure of information by the company. The high public ownership of the company's shares has an impact on the increasing need for shareholders to complete disclosure to develop policies for shareholders. So companies are required to serve the needs of more information parties, by providing more detailed information and more details/items disclosed. Furthermore, the company develops and includes investors from various countries in the Asian region or even the wider region.

Next, to be able to further improve and expand the scope of the business, more investment will be needed from investors. Therefore, the company must provide the widest possible information to be better used by investors so that investors feel confident to invest in business entities in the Asian region, to improve the economy and business in Asia as a whole and how the picture of governance relationships, audit quality, and ownership of the disclosure area, especially in Indonesia, has been discussed by the authors in this study. The authors hope the study can be used as a reference for disclosure of financial instruments in the Asian region.

References

Adina, P., & Ion, P. (2008). *Aspects regarding corporate mandatory and voluntary disclosure* (No. 1407–1411; 3).

Akhtaruddin, M., Hossain, M. A., Hossain, M., & Yao, L. (2009). Corporate governance and voluntary disclosure in corporate annual reports of Malaysian listed firms. *Journal of Applied Management Accounting Research, 7(1)*, *7*(1), 1–20.

Al-Janadi, Y., Rahman, R. A., & Omar, N. B. (2013). Corporate governance mechanisms and voluntary disclosure in Saudi Arabia. *Research Journal of Finance and Accounting*, *4*(4), 25–35.

Alhazaimeh, A., Palaniappan, R., & Almsafir, M. (2014). The Impact of Corporate Governance and Ownership Structure on Voluntary Disclosure in Annual Reports among Listed Jordanian Companies. *2nd International Conference on Innovation, Management and Technology Research*, 341–348.

Allegrini, M., & Greco, G. (2013). Corporate boards, audit committees and voluntary disclosure: Evidence from Italian Listed Companies. *Journal of Management & Governance*, *17*, 187–216. https://doi.org/10.1007/s10997-011-9168-3

Ananchotikul, N. (2008). *Does foreign direct investment really improves corporate governance? Evidence from Thailand* (No. 2008–09).

Archambault, J. J., & Archambault, M. E. (2003). A multinational test of determinants of corporate disclosure. *The International Journal of Accounting*, *38*(2), 173–194. https://doi.org/10.1016/S0020-7063(03)00021-9

Ball, R. (2006). International financial reporting standards (IFRS): Pros and Cons for investors. *Accounting and Business Research*, *36*(1), 5–27. https://doi.org/10.1080/00014788.2006.9730040

Barako, D. G., Hancock, P., & Izan, H. Y. (2006). Factors influencing voluntary corporate disclosure by Kenyan companies. *Corporate Governance: An International Review*, *14*(2), 107–125. https://doi.org/10.1111/j.1467-8683.2006.00491.x

Barth, M. E., & Schipper, K. (2008). Financial reporting transparency. *Journal of Accounting, Auditing & Finance*, *23*(2), 173–190. https://doi.org/10.1177/0148558X0802300203

Bhattacherjee, A. (2012). *Social Science Research: Principles, Methods, and Practices. Social Science Research: Principles, Methods, and Practices* (2nd ed.). Scholar Commons.

Birt, J., Rankin, M., & Song, C. L. (2013). Derivatives use and financial instrument disclosure in the extractives industry. *Accounting and Finance*, *53*(1), 55–83. https://doi.org/10.1111/acfi.12001

Burrell, G., & Morgan, G. (1979). *Sociological Paradigms and Organisational Analysis Elements of the Sociology of Corporate Life* (2nd ed.). Routledge.

Chalmers, K., & Godfrey, J. M. (2004). Reputation costs: the impetus for voluntary derivative financial instrument reporting. *Accounting, Organizations and Society*, *29*(2), 95–125.

Chau, G., & Gray, S. J. (2010). Family ownership, board independence and voluntary disclosure: Evidence from Hong Kong. *Journal of International Accounting, Auditing and Taxation0*, *19*(2), 93–109.

Coe, M., & Delaney, J. (2013). Trabeck prepares for IFRS: An IFRS case study. *Journal of*

Accounting Education, *31*(1), 53–67.

Davidson's, R. A., & Neu, D. N. (2010). A note on the association between audit firm size and audit quality. *Contemporary Accounting Research*, *9*(2), 479–488.

DeFond, M. L., & Jiambalvo, J. (1994). Debt covenant violation and manipulation of accruals. *Journal of Accounting and Economics*, *17*(1–2), 145–176.

Eng, L. L., & Mak, Y. T. (2003). Corporate governance and voluntary disclosure. *Journal of Accounting and Public Policy*, *22*(4), 325–345.

Febriyanti, A., & Zulfadin, R. (2003). Analisis kinerja bank devisa dan bank non devisa di Indonesia. *Jurnal Kajian Ekonomi Dan Keuangan*, *7*(4), 38–54.

Gamayuni, R. R. (2009). Perkembangan akuntansi keuangan Indonesia menuju international financial reporting standarts. *Jurnal Akuntansi Dan Keuangan*, *14*(2), 153–166.

Ginglinger, E., & L'Her, J.-F. (2006). Ownership structure and open market stock repurchases in France. *European Journal of Finance*, *12*(1), 77–94.

Godfrey, J., Hodgson, A., Tarca, A., Hamilton, J., & Holmes, S. (2010). *Accountinng Theory* (7th ed.). Wiley.

Hackston, D., & Milne, M. J. (1996). Some determinants of social and environmental disclosures in New Zealand companies. *Accounting, Auditing and Accountability Journal*, *9*(1), 77–108.

Hardiningsih, P. (2008). Analisis faktor-faktor yang mempengaruhi voluntary disclosure laporan tahunan perusahaan. *Jurnal Bisnis Dan Ekonomi*, *15*(1), 67–79.

Hassan, M. (2013). Corporate governance characteristics and voluntary disclosure: The case of UAE listed corp orations. *International Conference on Business, Economics, and Accounting.*

Hassan, M. K. (2009). UAE corporations specific characteristics and level of risk disclosure. *Managerial Auditing Journal*, *24*(7), 668–687.

Healy, P. M., & Palepu, K. G. (2001). Information asymmetry, corporate disclosure, and the capital markets: A review of the empirical disclosure literature. *Journal of Accounting and Economics*, *31*(1–3), 405–440.

Ho, P., & Taylor, G. (2013). Corporate governance and different types of voluntary disclosure: Evidence from Malaysian listed firms. *Pacific Accounting Review*, *25*(1), 4–29.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Management behavior, agency costs and ownership structure. *Journal of Financial Economics*, *3*(1976), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

Jones, S., & Finley, A. (2011). Have IFRS made a difference to intra-country financial reporting diversity? *The British Accounting Review*, *43*(1), 22–38.

Kamolsakulchai, M. (2015). The impact of the audit committee effectiveness and audit quality on financial reporting quality of listed company in stocks exchange of Thailand. *Review of Integrative Business and Economics Research*, *4*(2), 328–340.

Kustina, K. T. (2012). Dampak konvergensi international financial reporting standard (IFRS) bagi pelaporan akuntansi perusahaan di Indonesia. *Jurnal Ilmiah Manajemen Dan Akuntansi STIE Triatma Mulya*, *17*(2), 70–82.

Law, P. (2008). An empirical comparison of non-Big 4 and Big 4 auditors' perceptions of auditor independence. *Managerial Auditing Journal*, *23*(9), 917–934.

Lee, C.-W. J., Liu, C., & Wang, T. (1999). The 150-hour rule. *Journal of Accounting and Economics*, *27*(2), 203–228.

Lopes, P. T., & Rodrigues, L. L. (2006). Accounting practices for financial instruments. How far are Portuguese companies from IFRS? *Financial Reporting Regulation and Governance*, *5*(1), 1–36.

Lowensohn, S., Johnson, L. E., Elder, R. J., & Davies, S. P. (2007). Auditor specialization, perceived audit quality, and audit fees in the local government audit market. *Journal of Accounting and Public Policy*, *26*(26), 705–732.

Mangena, M., & Tauringana, V. (2007). Disclosure, corporate governance and foreign share ownership on the Zimbabwe stock exchange. *Journal of International Financial Management & Accounting*, *18*(2), 53–85.

Marshall, A. P., & Weetman, P. (2002). Information asymmetry in disclosure of foreign exchange risk management: can regulation be effective? *Journal of Economics and Business*, *54*(1), 31–53.

Mokhtar, E. S., & Mellett, H. (2013). Competition, corporate governance, ownership structure and risk reporting. *Managerial Auditing Journal*, *28*(9), 838–865.

Mutawaa, A. Al, & Hewaidy, A. M. (2010). Disclosure level and compliance with IFRSs: An empirical investigation of Kuwaiti companies. *International Business & Economics Research Journal*, *9*(5), 33–50.

Payamta, P., & Setiawan, D. (2004). Analsisis pengaruh merger dan akuisisi terhadap kinerja perusahaan publik di Indonesia. *The Indonesian Journal of Accounting Research*, *7*(3), 265–282.

Probohudono, A. N. (2012). *A comparative analysis of voluntary risk disclosures*. Curtin Theses.

PWC. (2011). *Rebooting Your IT Strategy: Using IT to Accelerate Your Business*.

Soderstrom, N. S., & Sun, K. J. (2007). IFRS adoption and accounting quality: A review. *European Accounting Review*, *16*(4), 675–702.

Suhardjanto, Dj., & Afni, A. N. (2009). Praktik corporate social disclosure di Indonesia. *Jurnal Akuntansi*, *8*(3), 265–279.

Sunaryo, K., Astuti, S., & Zuhrohtun, Z. (2019). The role of risk management and good governance to detect fraud financial reporting. *Journal of Contemporary Accounting*, *1*(1), 38–46. https://doi.org/10.20885/jca.vol1.iss1.art4

Susanto, D. (1992). *An empirical investigation of the extent of corporate disclosure in annual reports of companies listed on the Jakarta stock exchange*. University of Arkansas.

Taylor, G., Tower, G., & Neilson, J. (2010). Corporate communication of financial risk. *Accounting & Finance*, *50*(2), 417–446.

Taylor, G., Tower, G., & Zahn, M. Van Der. (2011). The influence of international taxation structures on corporate financial disclosure patterns. *Accounting Forum*, *35*(1), 32–46.

Taylor, G., Tower, G., Zahn, M. Van Der, & Neilson, J. (2008). Corporate governance determinants on Australian resource companies' financial instrument disclosure practices. *Asian Review of Accounting*, *16*(1), 56–73.

Utami, W. D., Suhardjanto, D., & Hartoko, S. (2012). Investigasi dalam konvergensi ifrs di Indonesia: Tingkat kepatuhan pengungkapan wajib dan kaitannya dengan mekanisme corporate governance. *Simposium Akuntansi Indonesia Ke XV*.

Van der Zahn, J.-L. W. M., Singh, I., & Brown, A. (2005). Exploratory Analysis of the Association between Remuneration Committee Characteristics and Executive Director Compensation. *17th Asia-Pacific Conference on International Accounting Issues*.

Wallace, W. A. (2004). The economic role of the audit in free and regulated markets: a review.

Research in Accounting Regulation, *17*, 267–298.

Wardayati, S. M., Miqdad, M., Efendi, H. I., & Arisandy, F. N. (2019). Performance improvement through internal control, experience and individual rank. *Journal of Contemporary Accounting*, *1*(2), 107–119. https://doi.org/10.20885/jca.vol1.iss2.art4

Watkins, A. L., Hillison, W., & Morecroft, S. E. (2004). Audit quality: A synthesis of theory and empirical evidence. *Journal of Accounting Literature*, *23*, 153–193.

Watts, R. L., & Zimmerman, J. L. (1979). The demand for and supply of accounting theories: The market for excuses. *The Accounting Review*, *54*(2), 273–305.

Watts, R. L., & Zimmerman, J. L. (1990). Positive accounting theory: A ten year perspective. *The Accounting Review*, *65*(1), 131–156.

Welker, M. (1995). Disclosure policy, information asymmetry, and liquidity in equity markets. *Contemporary Accounting Research*, *11*(2), 801–827.

Weygandt, J. J., Kimmel, P. D., & Kieso, D. E. (2016). *Accounting Principles* (12th ed.). Willey.

Wulandari, D. (2011). *Analisis Pengaruh Kebebasan Ekonomi dan Variabel Moneter terhadap Harga Saham di Lima Negara ASEAN*. Universitas Brawijaya.