



# Appliance of Good Corporate Governance Structure Integrity Against Financial Report On Mining Companies Listed

The Indonesia Stock Exchange Period 2013-2017.

Indah Rahayu Lestari, SE, MAkt 1

Rinny Meidiyustiani, SE, MAkt2

E-mail: [Indahrahayu\\_lestari@yahoo.com](mailto:Indahrahayu_lestari@yahoo.com)  
[meidiyustiani@gmail.com](mailto:meidiyustiani@gmail.com).

*Faculty of Economics and Business, University of Budi Luhur*

## Abstract

This study aims to determine the application of Good Corporate Governance Structure for the Integrity of Financial Statements. Where the GCG seen from the rights of shareholders, policy Corporate Governance, Corporate Governance Practices, Disclosure (disclosure) and the Audit Function. Sampling technique used in this research is purposive sampling. The samples are mining companies listed on the Indonesia Stock Exchange in the observation period (2013-2017). The research shows that the shareholder rights, corporate governance and disclosure policies have a significant effect on the integrity of the financial statements, while the audit function did not significantly affect the integrity of the financial statements.

**Keywords :** The rights of shareholders, policy Corporate Governance, Corporate Governance Practices, Disclosure, and Integrity Audit of Financial Statements.

## Background

Financial statements is a record of a company's financial information on [accounting period](#) which can be used to describe the performance of the company. These financial statements are part of the process [finance report](#), (IAS 2017). The purpose of the financial statements in accordance with financial accounting standard itself provides information regarding the financial position, performance and changes in financial position of an enterprise that will benefit a large number of users in making economic decisions. One device that can generate financial statement information is an adequate accounting system. So the report should be presented with high integrity. It can be a measure of the extent to which the financial statements presented by the company showed the correct information and not mislead users of financial statements.

To implement and produce financial statements in accordance with standard rules of accounting is necessary to good governance in the company. The implementation of Good Corporate Governance (GCG) is applied to the cooperatives is important so that the company can change the system of organization, with the purpose is to create performance, internal

control and reduced governance weaknesses cooperative professional and accountable and have a good relationship for stakeholders and shareholders and supported by information systems that can take advantage of technological developments have been more helpful and efficient. Erstiawan and Soebijono (2017).

## **Literature review**

### **Integrity Financial Statements**

Understanding financial statements by the Indonesian Accountants Association as stated in the Financial Accounting Standards No. 1 (IAI, 2017: 3), is a structured presentation of the financial position and financial performance of an entity. The purpose of financial statements is to provide information regarding the financial position, financial performance and cash flows of the entity that will benefit the majority of reports among users in making economic decisions. The financial statements also show the results of management accountability for the use of the resources entrusted to them. In order to achieve this objective, financial statements provide information about an entity include: assets, liabilities, equity, income and expenses, including gains and losses, contributions from and distributions to owners in their capacity as owners and cash flows.

### **Definition of Good Corporate Governance**

The World Bank defines corporate governance as a collection of laws, regulations and rules that must be met, which can push the performance of company resources to function efficiently in order to generate long-term economic value that is sustainable for our shareholders and the communities as a whole. According to Effendi (2009) "GCG is a set of systems that regulate and control the company to create value for stakeholders". According to Cadbury, corporate governance is a system that directs and controls the company in order to achieve a balance between the power and authority of the company.

Besides, FCGI also explained that the purpose of corporate governance is to provide added value to the interested parties (stakeholders). For that there are several tools that can digunakan as a self assessment (self-assessment) whether the corporate governance of a company are good. One of the tools to conduct independent assessments were developed by FCGI. The tool tangible set of checklists that can be loaded to judge on several areas of Corporate Governance, where the field includes:

1. The rights of shareholders
  - a. Implement annual shareholders meeting within six months after the end of the fiscal year in accordance with article 65 paragraph 2 of the Limited Liability Company Act.

- b. Convey to the notices of the AGM of Shareholders at least 28 days prior to the implementation of the GMS.
  - c. Giving impetus to the Shareholders to attend and cast his vote.
  - d. Provide adequate opportunity for Shareholders transform and ask questions at the AGM.
2. Corporate Governance Policy
- a. Having a code or a written Code of Corporate Governance, which clearly describes the rights of shareholders, the duties and responsibilities of directors and commissioners.
  - b. Provide access for the public to know the company policy regarding investor.
  - c. Determine the organ responsible (eg Commissioner) to ensure that the company complies with the corporate governance code.
  - d. Has a Code of Conduct / Ethics for employees
  - e. Rules of conduct such behavior are communicated and implemented properly.
3. Corporate Governance Practices
- a. The Board of Directors regularly meets regularly with the Commissioner
  - b. There is a strategic plan and a business plan that gives direction to the Board of Directors and Commissioners in carrying out its duties and functions.
  - c. Directors and Commissioners received training or have sufficient background to support the implementation of the work.
  - d. Commissioners and Directors are free from conflicts of interest (conflict of interest).
  - e. There is a performance evaluation system for Directors and Commissioners
4. Disclosure (disclosure)
- a. Provide equal access for shareholders and financial analysis.
  - b. Provide an adequate explanation of the risks involved.
  - c. Reveal remuneration / compensation of Directors and Commissioners adequately.
  - d. Disclose transactions with parties related.
  - e. Menyajaikan the results of its financial performance and management analysis via the internet.
5. Audit
- a. Have an effective internal audit
  - b. Audited by an independent public accountant
  - c. Having an effective audit committee
  - d. Create effective communication between internal audit, external audit and audit committee.

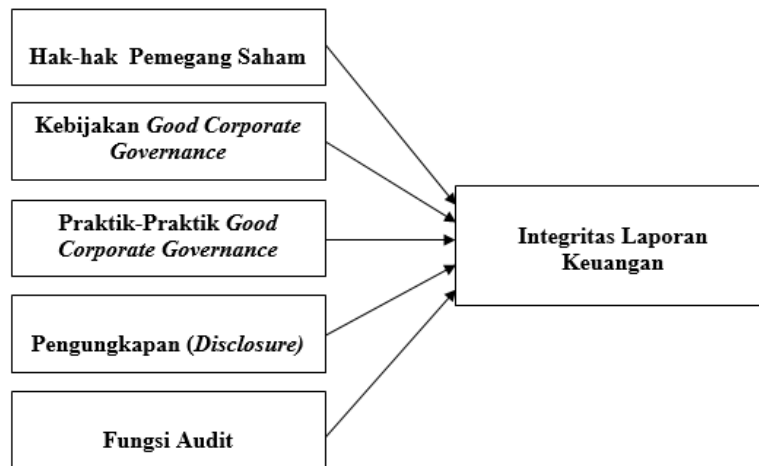


Image: Conceptual Framework

### Research hypothesis

Framework of the above it can be arranged hypothesis is as follows:

- H1 : The rights of shareholders significantly affect the integrity of the financial statements of companies mining the period 2013-2017.
- H2 : Policy *Corporate Governance* significantly affect the integrity of the financial statements of companies mining the period 2013-2017.
- H3 : Practices *Corporate Governance* significantly affect the integrity of the financial statements of companies mining the period 2013-2017.
- H4 : disclosures (*disclosure*) Significantly affect the integrity of the financial statements of companies mining the period 2013-2017.
- H5 : Audit significantly affect the integrity of the financial statements of companies mining the period 2013-2017.

### Research methods

This type of research is explanative research using a quantitative approach. According Sugiyono (2015), the study by the level of explanation is research intended to explain the position of the variables that were analyzed and the relationship between one variable with another variable. The population in this study is the subsector coal mining company listed on the Indonesia Stock Exchange 2013-2017 period. Total population of 22 companies and not all of the population will be the object of research, so we need more sampling.

## Data analysis method

Selection of Panel Data Regression technique According to Winarno (2015) panel data is a combination of time series and cross section. Time series data (time series data) is a collection of observations within a specified time retang. These data were collected in continuous intervals, while the cross section (of data between places or spaces) is the data that is collected within a certain time of the sample

## Results and Discussion

Based on the results of this research panel regression equation is as follows:

$$Y = 4.191709 + \text{LogX2 } 5.308432\text{LogX1} + 2.445389 - 0.602463 \text{ LogX3} - 2,535229\text{Log X4} - 0.644556 \text{ LogX5}$$

From the panel data regression equation, it can be interpreted for each - each variable as follows:

- 1) The constant of 4.192 means that if (X1), (X2), (X3), (X4) and (X5) is 0, then (Y) value is equal to 4.192
- 2) The regression coefficient variable (X1) of 5.308432 means that if another independent variable value is fixed and X1 rose 1 point, then (Y) will increase .Koefisien 5.308432 positive value means there is a positive influence between independent variables and the dependent variable, the rose variables x1 then further increase the value of the variable y and vice versa.
- 3) The regression coefficient variable (X2) of 2.445 means that if another independent variable value is fixed and X2 rose 1 point, then (Y) will increase .Koefisien 2,445 positive value means there is a positive influence between independent variables and the dependent variable, the variable x2 ride it further increase the value of the variable y and vice versa.
- 4) The regression coefficient variable (X3) sebesar-0.602463 meaning that if another independent variable value is fixed and X3 increases 1 unit, then (Y) will decline .Koefisien 0.602463 worth negative meaning a negative influence between independent variables and the dependent variable, the variable ride x3 then getting down the value of the variable y and vice versa.
- 5) The regression coefficient variable (X4) sebesar-2.535229 meaning that if another independent variable value is fixed and X4 rose 1 point, then (Y) will decline 2.535229 .Koefisien worth negative meaning a negative influence between independent variables and the dependent variable, the variable ride x4 then getting down the value of the variable y and vice versa
- 6) The regression coefficient variable (X5) sebesar-0.644556 meaning that if another independent variable value is fixed and X5 rose 1 point, then (Y) will decline 0.644556, Worth negative coefficient means going negative influence between independent variables

and the dependent variable, the variable ride x4 then getting down the value of the variable y and vice versa.

### 1. Feasibility Model (Test F)

F test is used to test the significance of the model. This test can be done by looking at the value of the probability of the level of significance.

- a. If the probability value <significance level, there are independent variables affect the significance of the relevant variables.
- b. If the probability value > level of significance, the independent variable has no effect on the dependent variable.

**table 4.10**  
**F Test Results**

|                    |           |                              |          |
|--------------------|-----------|------------------------------|----------|
| R-squared          | 0.866166  | Mean dependent var           | 1.614869 |
| Adjusted R-squared | 0.818930  | SD dependent var             | 1.757395 |
| SE of regression   | 0.747813  | Akaike information criterion | 2.482859 |
| Sum squared resid  | 28.52040  | Schwarz criterion            | 3.093165 |
| Log likelihood     | -67.90005 | Hannan-Quinn criter.         | 2.725280 |
| F-statistic        | 18.33712  | Durbin-Watson stat           | 1.421949 |
| Prob (F-statistic) | 0.000000  |                              |          |

source: Processed results Eviews 9

A probability value = 0.000 and the probability value <0.05, it means that  $H_0$  is rejected so that it can be concluded that the regression model can be used and the five independent variables are able to explain the dependent variable.

### 2. Partial Coefficient Test (Test T)

Results of Partial Regression Coefficients Test (Test T) is as follows:

1. Hypothesis Testing Shareholder Rights variable (X1) to the Financial Statements variable (Y) significant values of 0.0074 <0.05, so it can be concluded that  $H_1$  is accepted, it means in partial rights of shareholders a significant effect on the integrity of financial statements
2. Hypothesis Testing Policy Variable GCG (X2) to variable Keuangan report (Y) significant values of 0.0076 <0.05 so that it can be concluded that the  $H_2$  is accepted, that is partially GCG policy variables significantly influence the integrity of financial statements.
3. Variable Hypothesis Testing Practices GCG (X3) of the reactor financial statement variable (Y) significant value of 0.1682 > 0.05 so that it can be concluded that the  $H_3$  is

rejected, meaning partial variable GCG practices did not significantly affect the integrity of the financial statements.

4. Variable Hypothesis Testing Pengungkapan (X4) to the financial statements variable (Y) significant values of  $0.0421 < 0.05$  so that it can be concluded that the H4 is accepted, it means in partial disclosure of significant effect on the integrity of financial statements.
5. Variable Hypothesis Testing audit function (X5) to variable financial report (Y) significant value of  $0.2983 > 0.05$  so that it can be concluded that H5 is rejected, it means in partial audit function did not significantly affect the financial statements.

## **CONCLUSION**

1. shareholder rights variables significantly influence the integrity of financial statements
2. GCG policy variables significantly influence the integrity of financial statements
3. GCG practices variables did not significantly affect the integrity of the financial statements.
4. disclosure variables significantly influence the integrity of financial statements.
5. audit function variables did not significantly affect the integrity of the financial statements.

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