Factors Affecting Corporate Governance and Its Impilcation on Accounting Information Quality: Indonesia Trusted Company Awardees

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Abstract

This study aims to explain the factors affecting corporate governance and its implications for accounting information quality. Globally, many companies collapsed due to misleading accounting information. Companies declare financial statements free from errors or misstatements wherein it misleads financial statement users. Thirty-six firm-year observations were analyzed using PLS-SEM to process the available data. The results showed that the audit committee and board of directors significantly affect good corporate governance, while institutional ownership has no significant effect on good corporate governance. On the other hand, corporate governance significantly affects accounting information quality. This indicates that the quality of accounting information depends on the practice of good corporate governance. Strict compliance with rules and regulations leads to better publicly listed companies' governance. The originality of this research is that this is the first-ever study focused on the awardees for the most trusted, trusted, and fairly trusted companies listed on the Indonesia Stock Exchange.

Keywords: corporate governance, accounting information, relevant, faithfully represented, PLS-SEM

1. Introduction

Misleading accounting information is detrimental to all financial statement users. Accounting information represents the financial statements and the notes accompanying it. The credibility of financial statements depends on the quality of accounting information the management presents to users. Several companies went to bankruptcy due to governance failure, as what the case of Enron and Lehman Brothers. Locally, the same case was experienced by Cipaganti Citra Graha and Meikarta. Both companies were poorly governed, disorganized financially, and did

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not project the real business scenario. Despite lousy governance, some companies maintain their reputation by complying with good governance regulations. Good governance is practiced when the factors such as audit committee, board of directors, and institutional ownership exist. The audit committee oversees the company itself and is in charge of monitoring the external auditor being hired. When accounting scandals struck in the previous years, the audit committees were tasked with strictly implementing corporate governance (Chandar et al., 2012) and overseeing the process of reporting the financial statement of every entity (Joshi & Wakil, 2004). Since the financial statement is the management's responsibility, the audit committee closely supervised the accounting information's credibility (financial statements). The board of directors is another mechanism that observes good governance. Bezemer et al. (2014) emphasized that boards of directors have a part in exercising a company's governance. The board's supervisory skills and experiences help companies execute effecting monitoring, thus leading to good governance. The last factor is institutional ownership. Investors who own a considerable number of shares can easily monitor the practice of good governance. Investors that own a majority share have the company's controlling factor (Hennesy, 2015). Bozec and Bozec (2007), along with Chung and Zhang (2011), mentioned that investors are the actors in implementing corporate governance. The previously mentioned statements link the theory of agency, the principal, and the agent relationship.

The gap in this study is the rationale behind changing one of the characteristics of accounting information from reliable to faithful representation. Also, to know why very few companies received such awards in compliance with good corporate governance rules set by the Indonesian Institute of Corporate Directors (IICD). IICD established its standards in rating the prospective companies to receive awards. This study focused on trusted company awardees for six consecutive years from 2011 to 2016. It showed how the companies maintained their standing as the most trusted companies. The mentioned monitoring mechanisms for good governance have huge implications on accounting information quality due to the function of each factor. The other uniqueness of this study lies in the standards used by IICD to measure corporate governance, which means that corporate governance is measured not based on its pillars but on the IICD criteria. Thus, this paper explores the factors that affect good corporate governance and its implication for accounting information quality.

2. Literature review

2.1 Accounting Information Quality (AIQ) and Corporate Governance

Accountants are the people responsible in generating financial statements. Accounting information is compressed into so-called financial statements. Financial accounting information is necessary information that should not be neglected at the end of the period. Financial accounting information is the basis of each stakeholder in making the decision.

Socea (2012) stated that decisions were usually based on accounting information. Decision makers rely on accounting information received from the preparers of the report. Predictive and confirmatory values constitute relevance, while complete, neutral, and free from error constitute a faithful representation (IASB, 2010). Both qualities represent accounting information with quality.

Previous studies by Nicoleta-Cornelia, et al. (2012) mentioned several indicators such as price-earnings ratio, economic value added, efficiency and the like to measure accounting information. Accounting information should not lose its relevance. One of the fundamental qualitative features of accounting information is relevance (IFRS, 2016). IFRS (2016) pointed out that accounting data is essential if it is apt to produce every user's distinctively different decisions. Evaluation of past, present, and future activities (IASB, 2010) helps determine which is essential in influencing decisions (ICAA, 2008). The appropriateness of accounting information makes it relevant for precise decisions (Eppler, 2006, p. 79-80).

Sufficient information creates a better disposition to be made by every financial user. Information relevance is tied up with materiality and usefulness. The financial reporting system helps all investors, creditors, and all stakeholders with company valuation and management evaluation (Yuan & Jaing, 2008). Relevant information confirms and corrects past evaluations (Miller & Bahnson, 2007). It talks about the predictive and confirmatory values of accounting information. Predictive value is when investors can predict or anticipate the changes in future earnings based on their current performance (Hussainey, 2009). It was affirmed by Jonas and Blanchet (2000) that predictive value is useful when investors can predict prospects. Accounting information is relevant when it gives a clear prospect for future investments. Likewise, confirmatory value focuses on confirmation of the accuracy or correctness of future predictions by Kimmel, et al. (2011, p. 65). Accounting information presents facts that need to be confirmed for a better decision. Accounting information quality is appreciated by financial users when it gives assurance that the information presented is valuable.

The other characteristic of accounting information quality is faithful representation. Reliability has been replaced by faithful representation (IFRS Foundation, 2016). Complete, neutral, and free from errors make the helpful accounting information. Thus, financial information is faithfully represented (Obradović, et al., 2012). Incomplete, biased, and erroneous information has no room for quality. Stice, et al. (2007, p. 25) mentioned that faithful representation exists when there is harmony between measurement and that is being measured (economic transactions). Accounting information comprises actual economic transactions and reflects the substance and honest portrayal of the activity incurred (Jonas & Blanchet, 2000). Accounting information quality exists when it is faithfully represented. It pictures out information that is not misleading; thus, users can depend on it in making the decision. It is the actual recording of actual transactions. Transactions recorded must be complete, with no omission (IASB, 2010. Incomplete transactions lessen the value of accounting information. In addition, accounting information must be free from any bias. It should not be subjective to influence the decision maker's judgment (IASB, 2010). Neutrality means fairness (Stice, et al. 2007, p. 25); conveying facts in an objective manner (Jonas & Blanchet, 2000).

To portray the whole reality, accounting information must be free from material errors (Obradović et al., 2012). Accuracy is at stake. There are substantial doubts when there are errors in the information. To reiterate, accounting information is best represented by its relevancy and faithful representation. There are no other qualities that could clearly describe accounting information quality.

Entity's corporate governance is the lifeblood of its long life existence. A well-governed company achieves its primary objective, financial stability. Ethical behavior in every business transaction and employees' welfare are the primary concern of good corporate governance (Zvavahera & Ndoda, 2014). Corporate governance is about exercising power (Indermun & Bayat, 2015); regulating and governing the entities (Zvavahera & Ndoda, 2014). Corporate governance is the application of control over a firm's rules and regulations that ensures transparency, fairness, and accountability (Cadbury, 2000). Corporate governance became a severe issue when the 1998 financial crisis broke up, and giant companies went bankrupt, which paved the way to introduce the Sarbanes-Oxley Act of 2002 (Ameer, 2013). With those unforgettable events, corporate governance was carefully considered to uphold stakeholders' interests. Business prosperity enhancement (Keasey et al., 1997) is rooted in a well-governed business. Aside from the fact that investors are risk-takers, investors still aimed a return from the company that is soundly managed (Hennessey, 2015). With the presence of the Indonesia Institute of Corporate Governance (IICG), several companies are bound to practice ethical business behavior. The IICG is the oversight institution for effective corporate governance implementation. IICG is the monitoring institution for the execution of good corporate governance. As an appreciation for well-governed companies, IICG awards (most trusted, 85%-100%; trusted, 70%-84%; and fairly trusted, 55%-69%) to corporate governance compliant (Anissa, 2011; Suryadi,2012,2013,2014; Rachman, 2015, 2016). Award recognition is done every year based on the survey that was collaborated by IICG with SWA, an official ranking surveyor for corporate governance.

2.2 Audit Committee on Corporate Governance

Various authors have their meaning of "audit committee". Bedard et al. (2004) and Klein (2002) defined an *audit committee* as the entrusted figure of the board of directors who are required to preserve shareholders' interests. According to Joshi and Wakil (2004), the audit committee manages the financial reporting of the entity and monitors financial information accuracy (DeFond & Jiambalvo, 1991; McMullen, 1996; Chandar et al., 2012). The audit committee has the power to control and monitor financial transactions. The audit committee structure consists of expertise, meetings, and independence. Audit committee monitoring skills contribute to corporate governance. Studies have proved that an audit committee is significant for accounting information quality. The previous studies conducted by Abbott et al. (2000); Bedard et al. (2004); Bronson et al. (2009); and Kang et al. (2011) mentioned that a positive relationship between independence of the audit committee and financial reporting was significant. The relatedness of the audit committee to financial reporting was also the result of studies conducted by (Ika & Ghazali, 2012; Klein, 2002; Carcello & Neal, 2003; and Bronson et al., 2009). Rahman and Ali, 2006 opposed the statement mentioned; Li, Mangena, and Pike, 2012 found that the association between the audit committee and financial reporting is insignificant. Thus, the hypothesis is:
H_1: Audit committee has a significant effect on corporate governance.

2.2 Board of Directors (BD) on Corporate Governance

Executive and non-executive directors play different roles in companies that are two-tier in nature. Executive directors (board of management) are responsible for day-to-day activities, while the non-executive directors (supervisory board) are responsible for overseeing the executive directors (Millet-Reyes and Zhao, 2010; Jungmann, 2006; Maassen, 1999). It was emphasized by Bezemer et al. (2014) that a company's governance is with the board of directors. The non-executive directors in Indonesia act as the board of commissioners. It is mandated in Republic Act No. 40 of 2007 that the Board of Commissioners shall supervise the management policy and management itself. The board of directors' structure consists of size, meetings, and independence. BOD size tells the number of directors that monitor the company. In previous studies, it was found that a large size of the board diminishes dominance (Forbes & Milliken, 1999), and business failures and fraud depend on board size (Virk, 2017, Dechow et al., 1996). Bacon (1993) and Yermack (1996) suggested that small size is better than big size, for it is more effective (Jensen, 1993). What matters most is how the BOD handles monitoring the company. The meeting is always conducted to discuss the company's improvements, strategies, and issues. A meeting is the best time to discuss remarkable things, events, or transactions, including expectations and forecasts (Leblanc & Gillies, 2005; Lorsch & MacIver, 1989). Frequent meetings mean frequent discussions (Al-Najjar, 2012) about the company. Ideas, suggestions, and opinions are being tackled in the meeting room. Meetings are conducted for the company's better governance. Meetings deter the occurrence of fraud (Salleh & Othman, 2016). Board meetings and restatement of financial statements have a negative relationship (Ndofor, et al., 2013). Also, violations of the Securities Exchange Board have nothing to do with the size of the board (Virk, 2017). Tantivanichanon, et al. (2015) concluded that board meeting was associated with governance rating. The notion that independence must not be impaired, non-executives must have to maintain objectivity. The findings by Rahman and Ali (2006) mention that independent directors are ineffective in monitoring functions. The reasons for ineffectiveness were independent directors' lack of expertise, skills, and knowledge in the business. No intervention in independent judgment (Tarus & Ayabei, 2016) proves that the board of directors is independent. With all the statements, the board has the authority to monitor and control all managers' dispositions. The board has all the authority to assess the performance that can improve corporate governance. Thus, the hypothesis is:

H_2: Board of directors has a significant effect on corporate governance

2.3 Ownership on Corporate Governance

Shareholders have the right to monitor the company's transactions. This right to monitor will lessen the agency and conflicts among shareholders (Ajina, et al., 2015; Miri & Rostami, 2015). Institutional owners own a large number of shares (Hennessey, 2015) in a specific company, discourage the opportunity for performance management earnings (Rahman, & Ali, 2006), and are expected to actively oversee the company's performance (Hennessey, 2015). Institutional investors can remove or replace managers who do not perform well. The power to vote and to elect officers is vested in institutional investors (Ning, et al., 2015). Information availability and accessibility are advantageous, especially in private

(Fehle, 2004). The monitoring job is costly. Thus, institutional investors can perform the job for which an incentive is given (Cornett et al., 2007). In short, institutional investors can be described as corporate actors, corporate monitors, and corporate controllers. The presence of institutional investors decreases the tendency for conflict of interest and asymmetry of information. However, it is thought that institutional investors assume the monitoring role for the benefit of ownership (Agrawal & Mandelker, (1990); Brickley & Lease, (1988); Jarell & Poulsen, (1987). Since institutional incentives benefit, their presence would positively influence a firm's performance, including accounting information (Navissi and Naiker, 2006). Institutional ownership strengthens the corporate governance system (Brandao & Crisostomo, 2015). Thus, the hypothesis is:

H_3: Ownership has a significant effect on corporate governance.

2.4 Corporate Governance on Accounting Information Quality

Corporate governance influences the quality of accounting information. Aside from its function as a monitoring mechanism, it also gives added value to accounting information. Accounting information quality is due to a firm's strong governance (Habib & Azim, 2008); and governance mechanisms (Ahmed & Hamdan, 2015; Ebaid, 2011). The company's performance (return on investment, margin of net profit, and equity return) is credited to corporate governance (Cengiz, 2016; Malik & Makhdoom, 2016). Simon et al. (2016) opposed and mentioned that good governance has a negative and insignificant effect on accounting information. Also, Ghazali (2010) explained that corporate performance was not significantly affected by corporate governance variables. On the other hand, Mohammadpoor & Teehankee's (2014) study proved that corporate governance classifications of top-performing publicly listed companies in the Philippines did not significantly impact firm performance (ROE) and stock price. Arora & Sharma (2016) documented no strong relationship between corporate governance and performance.

There were studies conducted on some specific governance mechanisms on which it affects performance and information quality. Corporate governance factors such as board size, age, tenure of chief executive officer (CEO), and directors' remuneration are significantly related to performance (Afrifa & Tauringana, 2015). In the study by Kao and Wei (2014), the correlation between ownership of state and accounting information (predictability and faithful presentation) was significant and negative. This implies that predictability and faithfulness in the presentation are being reduced by state ownership. The power of institutional owners (block holders, families, and foreigners) lowers the quality of reporting.

In contrast, good quality financial disclosure is under the control of the state and the financial institutions' regulations (Klai & Omri, 2011). The study by Hussainey & Aljifri (2012) found that the mechanism of corporate governance that drives capital structure decisions is institutional ownership. Also, with the absence of some essential corporate governance mechanisms, Hussainey & Aljifri (2012) found that it has no impact on the capital structure. Well-governed companies enhance the quality of accounting information. Relevant and faithful representation of accounting information provides a reasonable assurance for reasonable users of financial statements. Thus, the hypothesis is:

H_4: Corporate governance has a significant effect on accounting information quality.

3. Methodology

The study consisted of 199 firm-year observations, of which only 36 firm years were considered as samples based on the criteria that samples selected were from companies consecutively awarded for 6 (six) years. It strictly focused on companies that consistently maintained the implementation of good corporate governance. Data were gathered from the company's annual report and retrieved from the Indonesia Stock Exchange. The companies are as follows: PT. Aneka Tambang, PT. Bank Mandiri, PT. Bank Negara Indonesia, PT. Bank Tabungan Negara, PT. Jasa Marga, and PT. Timah.

The variables in this research are the endogenous (dependent) and exogenous (independent) variables. The method used in testing the model is Partial Least Square - Structural Equation Modeling (PLS-SEM) with a complete structural model.

The endogenous (dependent) variable is accounting information quality (measured by modified Jones model Discretionary Accruals), with the intervening variable on good corporate governance. While exogenous (independent) variables are the audit committee, board of directors, and institutional ownership. The audit committee is measured based on its expertise, frequency of meetings, and independence. The board of directors is measured based on size, meetings, and independence. Lastly, institutional ownership is measured through the accumulation of percentages held by institutional investors.

4. Result and Discussion

4.1 Descriptive Analysis

The audit committee has been given the power to monitor all the company's operations to ensure that it will operate accordingly. The audit committee's role in safeguarding shareholders' interests cannot be ignored, especially the financial aspects of the entity. Financial expertise is one of the qualifications to become an audit committee member. Financial expertise is gained through education, specifical education in the fields of accounting or finance. Likewise, financial expertise is also gained through rigorous training and experience. Audit committee expertise refers to members' being financially literate. Audit committee members, especially the chair, must be financially literate and believe that the chair understands the financial statements (IFC, 2014:498). Being financially literate assures the quality of accounting reports (Defond, Hann, & Hu, 2005; Kang, Kilgore, & Wright, 2011). At least one audit committee member who is an expert in financials should be selected, and this financial expert should chair the audit committee. At least one (1) financial expert among the members, as shown in Table 1.

Aside from being experts, audit committee members are diligent in attending meetings. Meetings are conducted to discuss company matters. Company matters include plans, strategies, and actions for the company's development and growth.

A committee meeting is another factor that affects corporate governance—internal control and the members' participation (Barua, Rama, & Sharma, 2010). Frequent meetings indicate properly disseminated duties and responsibilities (Mohamad-Nor, Shafie, & Wan-Hussin, 2010). Meeting once a quarter is quite enough for each member. (IFC, 2014:499). There are several meetings conducted very year in which at least 12 meetings are done as a minimum, as shown in Table 1.

Furthermore, lastly, audit committee independence is another criterion for being a member. Independence is essential to maintain credibility. Anybody else's decision cannot influence an independent party. Being impartial and subjective in decision-making is not appropriate to achieve a well-governed entity. This is in line with the IFC (2014:498) that the membership of the Audit Committee shall consist of 2 independent commissioners or any other external party. At least one (1) independent member complies with the corporate governance manual, as shown in Table 1.

Table 1 – Descriptive Analysis

Indicators	Mean	Std. Deviation	Maximum	Minimum	N
Expertise (AC1)	2,28	1,11	4	1	36
Meetings (AC2)	34,61	15,48	72	12	36
Independence (AC3)	3,47	1,25	7	1	36
Size (BOD1)	7.39	2.28	11	5	36
Meetings (BOD2)	56,67	26,49	138	13	36
Independence (BOD3)	3,00	0,83	4	2	36
Institutional (OWN)	90,67	13,51	99	51	36
Corp Governance (CG)	85,90	4,71	93	71	36
Relevance (IQ1)	1,32	0,49	0,23	2,64	36
Faithful (IQ2)	0,01	0,07	-0,16	0,20	36

Source: Author Computation

Companies' boards of directors play an essential part in their governance (Bezemer et al., 2014). The Board of directors is composed of three indicators: size, meetings, and independence. Table 1 shows the total number of directors on the Board. Also, it shows the meetings being held every year for each company. The Board of Directors conducts a meeting to discuss company-related matters.

Moreover lastly, it shows the total number of independent members. It is known that the mean of indicator SIZE is 7.39 members, of which the minimum is five, and the maximum is 11 members. For the indicator MEETINGS, the mean is 56 times with a total minimum of 13 times and a maximum of 138 times. For the indicator INDEPENDENCE, the mean is 3, the minimum is two, and the maximum is 4. Forbes and Milliken (1999) proved that a broader board of directors would reduce the CEO's supremacy. The size of the directors depends on the company's activities and the other nature of the business. In order to disseminate information to the members of the Board, the meeting is being conducted. The Board of

Directors meetings is essential in the company's business operations. Board meetings are the primary venue for directors to discharge their responsibilities and make critical corporate decisions (Kiel and Nicholson, 2003; Lawler and Finegold, 2006). The Board of directors had held numerous meetings. The Board seemed to have many agendas to discuss and decisions to make. The Board of directors does not have to meet a certain number of times, but the frequency of meetings should eventually be determined by the particular circumstances of each organization (IFC, 2014:201). It is known that Indonesia adopted a two-tier board system wherein the Board of Commissioners acts as the supervisors of the executive directors.

According to Indonesia's CG Code, a limited liability company's management consists of two boards: the Board of Commissioners and the Board of Directors, each of which has distinct authority and duties based on their respective duties as mandated by the articles of association and laws and regulations (IFC, 2014:108). With that, board commissioner independence connotes board of directors' independence. Klein (2002) said that a higher proportion of independent directors contributes to more successful supervision. Cui (2004) indicates that having a higher percentage of independent directors contributes to greater disclosure consistency, increasing corporations' accountability.

There is another factor that affects good corporate governance, which is ownership. Share-ownership is a governance mechanism (Ajina, Lakhal, & Sougné, 2015). Owning a large number of shares provides a mechanism that deters opportunistic behavior. Ownership is composed of one indicator, that is, institutional. The government institution owns the majority of the shares, and it has the most influence over each company. The focus of this study is institutional ownership. It is known that the mean of the indicator INSTITUTIONAL is 90.67%, while the minimum result is 51% and the maximum ownership is 99%.

Good corporate governance has a huge contribution to the company’s reputation. The way companies are regulated and controlled is referred to as corporate governance (Zvavahera & Ndoda, 2014). The way authority is exercised over corporate bodies is referred to as corporate governance (Indermun and Bayat, 2015).

The companies awarded according to each category were Most Trusted, Trusted, and Fairly Trusted. It is known that the indicator CORPORATE GOVERNANCE PERCEPTION INDEX (CGPI) resulted in a mean of 85.90% (falls in the range of 85 -100, which is Most Trusted), while the minimum is 71% (falls in the range of 70-84, which is Trusted). The maximum is 93% (which falls between 85 and 100, which is Most Trusted). It is known that the CGPI increased from the year 2010 to 2015. For this reason, the companies selected are the companies that have been receiving good scores based on its corporate governance criteria, which are, self-assessment, document, paper, and observation. In 2010, the average score is 83.9, which falls in the category of Trusted Companies, while companies from 2011 to 2015 fall in the category of Most Trusted Companies.

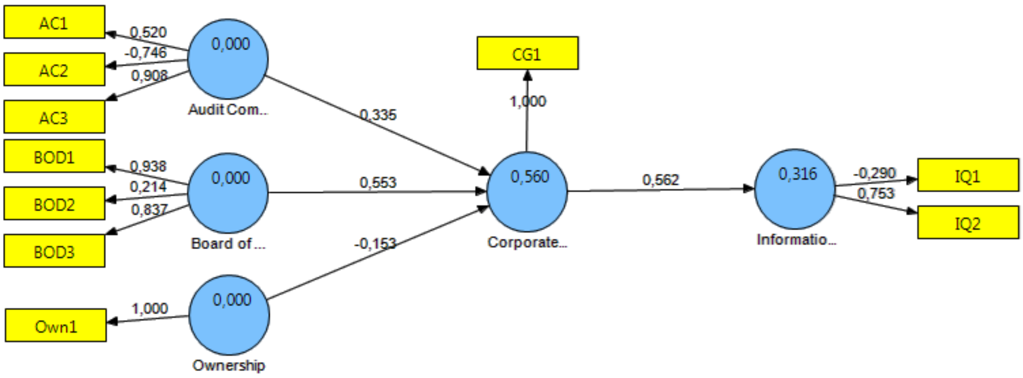
Accounting information quality is essential to every user. The quality of accounting information is the most needed one in making decisions. Accounting information must be relevant and faithfully represented. The ability of information to meet the practical, technological, cognitive, and aesthetic needs of information producers, managers, customers, and experts is known as information quality. (Eppler, 1999). The ability of information to meet or exceed consumer standards is known as information quality (Kahn & Strong, 1998).

Accounting information quality is composed of two indicators: Relevance and faithful representation. It is known that the mean for Relevance is 1.32, with a minimum of 0.23, and the maximum is 2.64. On the other hand, the mean for faithful representation is 0.01, with a minimum of -0.16, and the maximum is 0.20. The utility of information to an investor who wishes to measure (predict) the company's prospects are referred to as predictive value (Jonas & Blanchet, 2000). The predictive value was based on operating income over net income. Based on the Table above, the predictive value varies from 2010 to 2015. Information has the quality of Relevance when it influences the economic decisions of users" (ICAA, 2008). Accounting information is relevant if it makes a difference. Relevance is combined with faithful representation for a much better quality of accounting information. Discretionary accruals are used because most studies used it as a proxy for accounting information quality. If the material is an accurate and straightforward depiction of what happened, it is called Faithful Representations (Jonas & Blanchet, 2000). Table 3 shows that Faithful Representation represents Discretionary accrual values vary from 2010 to 2015. All accounting information must be represented faithfully, representing what it purports to be. The more it is near 0, the more it is faithfully represented. When information is free of content errors and prejudice and can be relied upon by users to faithfully reflect what it purports to represent or may fairly be expected to represent, it is said to be reliable (ICAA, 2008).

4.2 Discussion

The measurement model is a model that connects latent variables with manifest variables. There were five latent variables: audit committee, board of directors, institutional ownership, good corporate governance, and accounting information quality. The method used in testing the model is Partial Least Square Structural Equation Modeling (PLS-SEM) with a full structural model. Using the Partial Least Square method, a full path diagram for the influence of the audit committee, board of directors, and institutional ownership on good corporate governance and its implications on accounting information quality as shown in the following figure:

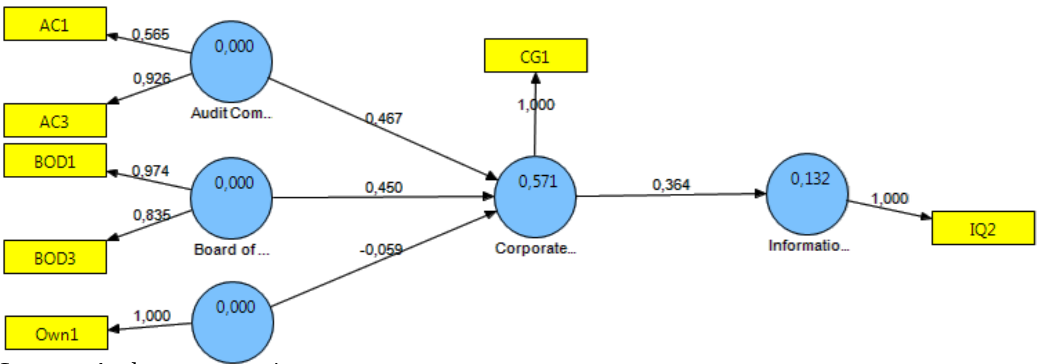
Figure 1. Diagram Full Model (Standardized)



Source : Author computation

All the first-stage measurement models (i.e., the indicator relationship with variables) are reflective. Among them are AC2 (Meetings), BOD2 (Meetings), and IQ1 (Relevance) indicators. Based on the weight of the factors found in the picture above, the validity and reliability of the construct of each indicator were tested. Figure 1 above shows that some indicators have a loading factor below 0.50, so the indicators must be removed from the model. The following are the results of testing after an invalid indicator is removed.

Figure 2 - Path Diagram Full Model Revision (Standardized)

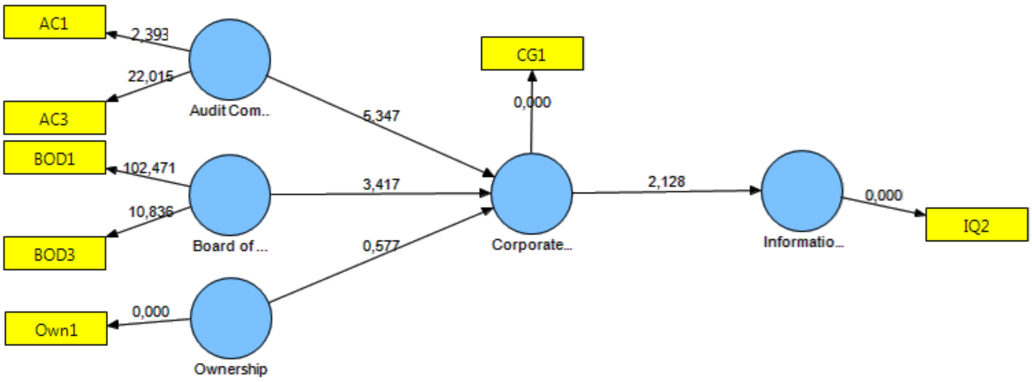


Source : Author computation

From Figure 2 above, it can be seen that almost all indicators have loading factors above 0.50. This shows that almost all indicators used are valid in reflecting each construct.

The structural model is a model that connects exogenous latent variables with endogenous latent variables, as shown in Figure 3 (Bootstrapping). This study's structural models are related to seven research hypotheses that indicate causality between latent variables. The structural model in this study involves three exogenous latent variables, namely audit committee, board of directors, and ownership, and two endogenous latent variables, namely corporate governance and accounting information quality. The bootstrapping results are shown in the following full model image:

Figure 3 - Full Structural Model (Bootstrapping)



Source: Author Computation

For a clearer picture, see Table 2.below.

Table 2 . Path Coefficient Structural Model

Sub structure	Correlation	Path	T Statistics	R Square Partial	R Square Simultant
1	AC -> CG	0,467	5,347	29,85%	57,09%
	BOD -> CG	0,450	3,417	26,68%	
	OWN -> CG	-0,059	0,577	0,56%	
2	CG -> IQ	0,364	2,128	-	13,22%

Significant if T statistics > 1,96

Table 2 above shows the value of R square (simultaneous) in the first sub-structure of 57.09%. This means that corporate governance can be explained by the audit committee, board of directors, and ownership variables of 57.09%. Based on the magnitude of the path that is most dominant in influencing corporate governance sequentially, namely the audit committee with a path value of 0.467 (29.85%), then the board of directors is 0.450 (26.68%) and finally ownership with a path value of -0.099 (0, 56%).

The value of R square (simultaneous) in the second sub-structure is 13.22%. Accounting information quality can be explained by the corporate governance variable of 13.22%.

4.2.1 The Effect of Audit Committee on Corporate Governance

The hypothesis tested is the influence of the audit committee on corporate governance. The higher the audit committee, the higher the corporate governance. Furthermore, the path coefficients were used to determine whether or not the audit committee variable had a significant impact on corporate governance. The table calculated from the path coefficient shows that the path coefficient between the audit committee and corporate governance is 0.467 with a positive direction.

Based on Table 2, it can be seen that the audit committee's value of 5.347 is greater than critical (1.96). Because the value is greater than the t table, the error rate of 5% is decided to accept H1 and reject H0 so that the first hypothesis is accepted. So based on the results of the test, it can be concluded that the audit committee has a significant effect on corporate governance with the direction of a positive relationship, which means that the higher the audit committee, the more corporate governance will increase. The audit committee's role is to monitor the company's activities, including overseeing the result of business operations. In this study, the audit committee significantly affects good corporate governance at a significance level of 5%, and it has a positive direction. The positive direction indicates that the more expert an audit committee, the better corporate governance, and the more independent an audit committee, the better corporate governance. The result of this study is in line with the study made by Joshi and Wakil (2004) stated that the audit committee had been regarded as a critical corporate governance control tool for the company's financial reporting process, and Braswell et al. (2012) presumed that audit committee characteristics affect monitoring effectiveness.

In this study, audit committee expertise and independence are the indicators for the audit committee. In this research, expert means competent and proficient in financial matters. An audit committee needs a financial expert to at least mitigate conflicts and enhance the quality of accounting information for reporting. Financial experts understand the company's financial condition, thus ensuring financial and non-financial disclosures lead to transparency. All matters that affect the company's operation must be properly disclosed to ascertain transparency. Transparency is one of the principles of good corporate governance.

Aside from being transparent, being independent must also be exercised by the audit committee. The presence of an independent member in an audit committee indicates that there is fairness. The existence of an independent audit committee is important for increasing the quality of information and providing exact information (Jackson, Robinson, & Shelton, 2009). The independent member will have to stand firm with the principle of being objective and never be influenced by others who have power in the company. As part of the corporate governance mechanism, the audit committee plays a vital role in every aspect of governance. The audit committee is a stalwart of good corporate governance. Establishing an audit committee in Indonesia is a very appropriate action by the regulators because the audit committee is in the best position to provide effective oversight. Good corporate governance is achieved when the audit committee closely monitors and effectively controls the company's operations.

4.2.2 The Effect of Board of Directors on Corporate Governance

The hypothesis tested is the influence of the Board of directors on corporate governance. In the table calculated by the path coefficient, it can be seen that the path coefficient between the Board of directors and corporate governance is 0.450 with a positive direction. This means that the higher the Board of directors, the more corporate governance will increase. Furthermore, the path coefficient is tested to prove the presence or absence of a significant influence of the Board of directors variable on corporate governance. Based on Table 2, it can be seen that the value of the Board of directors variable is 3.417, greater than critical (1.96). Because the value is greater than critical, then at the error rate of 5%, it is decided to accept H2 and reject H0 so that the second hypothesis is accepted. So based on the results of the test, it can be concluded that the Board of directors has a significant effect on corporate governance in the direction of a positive relationship, which means that the higher the Board of directors, the more corporate governance will increase. The Board of directors is also part of good corporate governance. In two-tier boards like Indonesia, the Board of directors is divided into two categories the executive boards (the management board) and the non-executive boards (the supervisory Board). In this study, the Board of directors significantly affects good corporate governance at a significance level of 5%. It showed a positive direction, which means that as the Board of directors increases, good corporate governance also increases. The result of this study is in line with Forbes and Milliken (1999) that there was evidence that a broader board of directors would reduce the chief executive officer's dominance. Diminishing the dominance of executive officers is a sign of good corporate governance. Indonesia's board independence is represented by the presence of an independent board of commissioners. An Independent board of commissioners is empowered to appoint qualified directors and ensures compelling conflict of interest management.

The final model in this study showed the two indicators for the board of directors: the size and independence, because both validly reflect the board of directors. It was found out that size matters for the board of directors. The bigger the size of the board of directors is, the better the corporate governance is. When the board of directors is large in number, more strategic decisions are to be made. Most of all, the board of directors should effectively coordinate the company's activities to achieve a good result for corporate governance. Another factor that makes the board of directors more convincing is their independence. Independent boards of directors are free of any company or partnership that could impair their ability to make independent decisions (Tarus & Ayabei, 2016). The presence of an independent board of directors contributes to better corporate governance. When it comes to board independence, the board of directors represents the shareholders' interest in an independent way at their cost. An Independent board of directors is more effective in carrying out their duties and discharging monitoring duties. Most of the independent board members possessed the appropriate skills, expertise, and experiences that would help the board members to increase corporate transparency. Being the supervisory board, an independent board of directors has the power to monitor the company on behalf of shareholders. The board of directors had functioned so well that it had followed the regulations mandated by the government. As a whole, the board of directors' size and independence elevate good corporate governance.

4.2.3 The Effect of Ownership on Corporate Governance

The third hypothesis tested is the influence of Ownership on corporate governance. The table calculated from the path coefficient shows that the correlation between Ownership and corporate governance is -0,059 with a negative direction. This means that the higher Ownership, the more corporate governance will decline. Furthermore, the path coefficients were tested to prove the presence or absence of a significant effect of ownership variables on corporate governance. Based on Table

2, it can be seen that the t value for the institutional ownership variable of 0.577 is smaller than critical (1.96). Because the value is smaller than critical at the error rate of 5%, it is decided to reject H3 and accept H0, so the third hypothesis is rejected. So based on the test results, it can be concluded that Ownership does not significantly affect Corporate Governance. Institutional Ownership is considered to be the corporate monitor. Having an interest or Ownership in the company gives the power to keep watch on corporate activities. Many studies have focused on institutional investors' position as key players in corporate governance systems (Bozec and Bozec, 2007; Chung and Zhang, 2011). In this study, institutional Ownership has no significant effect on good corporate governance at a significance level of 5% and showed a negative path coefficient.

The situation of owning a large portion by the government indicates power and domination in the activities of the corporations. The result of this study is supported by Brandao & Crisostomo (2015), stating that the concentration of Ownership has a negative impact on corporate governance efficiency, as assessed by a voluntary good governance index. The negative direction indicates that good corporate governance decreases as institutional ownership increases. Large shareholders are opposed to implementing better corporate governance practices, as shown by the negative linear relationship.

Various institutions own a share, and these institutions hold a certain percentage. In this study, most companies are government-owned or state-owned, where most of the shares were held by the government institution. The listed public companies and state-owned corporations are the objects of this research. Government institutions owned the highest percentage of ownership. Owning the highest percentage indicates that government has the power to intervene in the company's operations. Since the government has a controlling interest, their role as a monitoring mechanism for corporate governance may not be implemented accordingly. The role of institutional owners as actors in corporate governance may differ from its objectives. One of the reasons is that institutional investors may not act as active monitors if they have business relations with firms in which the institutional investors own certain shares. Such institutional investors may collude with the management of these firms to serve their interests, which may adversely affect firm performance (Pound, 1988). Brickley & Lease (1988) found that institutions with existing or future business relationships with firm management (i.e., passive institutions) are less likely than other forms of institutions to vote against management in anti-takeover amendment votes (i.e., active institutions). There is a tendency that institutional investors will collude and work together with the management to serve their interests. Those actions do not reflect good corporate governance. Despite those adverse effects, institutional investors are encouraged to promote the active involvement of shareholders as part of good corporate governance.

4.2.4. The Effect of Corporate Governance on Accounting Information Quality

The fourth hypothesis tested is the effect of corporate governance accounting information quality. The table calculated from the path coefficient shows that the correlation between corporate governance and accounting information quality is 0.364 with a positive direction. This means that the higher the corporate governance, the accounting information quality will increase. Furthermore, the path coefficient was tested to prove the presence or absence of a significant effect of corporate governance variables on accounting information quality. Based on Table 2, it can be seen that the t_{value} of the corporate governance variable is 2.128 greater than $t_{critical}$ (1.96). Because the value of t_{value} is greater than t_{table}, then at the error rate of 5%, it is decided to accept H4 and reject H0 so that the fourth hypothesis is accepted. So based on the results of the test, it can be concluded that good corporate governance has a significant effect on accounting information quality. Corporate governance pertains to rules and regulations or procedures for the companies to do business orderly.

Every stakeholder wants their interest in the company to be protected and adequately monitored through implementing the practice of good corporate governance. Every stakeholder expects accounting information with quality. In this study, good corporate governance significantly affects accounting information quality at a significant level of 5% with a positive path coefficient. The upward trend is evidence that as corporate governance improves, accounting information quality also improves. Several researchers backed up this finding, such as Klai & Omri (2011) revealed that governance structures affect the quality of financial data. Kao & Wei (2014) supported this study's findings that there was a strong and optimistic link between corporate governance and timeliness. In their studies, Habib & Azim (2008) stated that companies with a sound governance system have higher accounting information value relevance. Cadbury (1992) views corporate governance as an oversight tool for reducing stakeholder conflicts of interest by reducing agency expenses through the separation of ownership and management, as well as the presence of a majority of outside directors on the management board.

According to previous statements, good corporate governance is an internal, unavoidable consideration for accounting data quality. According to the Asian Development Bank (ADB), the tradition of good corporate governance in Indonesia has been improving yearly, based on the ASEAN Corporate Governance Scorecard. The scorecard provides information about how best corporate governance practices from around the world are being implemented. This is a sign that corporate governance in Indonesia is improving. Indonesian companies are quick to respond to corporate governance best practices, which impacts a company's accounting information consistency. There is no question that good corporate governance contributes to the consistency of accounting data. Good corporate governance impacts accounting information that is both important and accurately portrayed. Since it assesses the past and future and forecasts the future, relevant knowledge is beneficial for decision-making. However, in this study, only faithful representation represents accounting information quality. It is known that faithful representation of accounting information is consistent with facts and portrays the fundamental economics of every transaction. Accounting information must be complete, neutral, and free from errors. This makes accounting information of quality. A company that practices good corporate governance will eventually result in a proper reporting of accounting information; thus, good corporate governance enhances accounting information quality. In this study, it was proven that good corporate governance has a significant effect on accounting information.

5. Conclusion

The following are some conclusions from this research

1. Audit committee affects corporate governance. The audit committee was measured by its number of financial experts (expertise) and by the number of independent members (independence). It was found that an audit committee has a significant effect on good corporate governance. This research showed a positive path coefficient, which means that a higher number of financial experts and the higher number of audit committee increases good corporate governance. The positive direction of the audit committee to good corporate governance is due to the expertise audit committee in financial matters and the number of the audit committee who have the capabilities to monitor the company's business operations and make fair, transparent, and objective decisions.
2. The Board of Directors has a significant effect on good corporate governance. The board of directors affects corporate governance. The board of directors was measured by the total number of its members (size) and the number of independent Board of Commissioners (independence). This research showed a positive direction of the board of directors to good corporate governance, which means that the enormous number and the more independent board of directors increase good corporate governance. The significant effect is that the large board of directors can diminish the dominant executive officers and make more strategic decisions.
3. Institutional ownership affects corporate governance with a negative path coefficient. This means that an increase in institutional ownership means a decrease in good corporate governance. Institutional ownership does not significantly affect good corporate governance since the government owns most of the shares. The percentage of its ownership is measured by institutional ownership. Government institutions owned the highest percentage. Since the government has a controlling interest, their role as a monitoring mechanism for corporate governance may not be implemented accordingly.
4. Good corporate governance affects accounting information quality with a positive path coefficient, which means that, as good corporate governance increases, accounting information quality also increases. Good corporate governance is represented by the Corporate Governance Perception Index (CGPI). It was found that good corporate governance has a significant effect on accounting information quality. Good corporate governance supports accounting information quality. Good corporate governance provides relevant and faithfully represented information. As regulated by the government, good corporate governance practices are well implemented and affect accounting information quality. The essence of accounting information quality is when each company prepares complete, neutral, and free from error accounting information.

6. Recommendation

The following are the recommendation for this study:

1. All public and private companies are encouraged to comply with the best practices of corporate governance to be included in the awards for categories "Most Trusted, Trusted, and Fairly Trusted" companies conducted by the Indonesian Institute of Corporate Directors.
2. Increase the number of samples for only 36 firm-year observations, which is very limited to awardees from 2011–2016. It is recommended to add more years in gathering data.
3. Institutional investors must exercise power to monitor the management and be objective enough to do the role of investor who has the power over companies.

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