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A Study on Financial Statements Quality Based on Characteristic of Board Commissioners and Audit committee: An Explanatory Sequential Mixed-Method Approach

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Abstract: This study investigates financial statements quality (proxy by earnings quality and transparency) based on the characteristic of board commissioners and audit committees using an explanatory sequential mixed methods research design. First, the researchers doing experimental research designs. Experimental research is carried out by creating company case scenarios with strong (weak) commissioners and audit committee. The results conclude that investors provide a high assessment of the quality of financial statements produced by companies that have characteristics of the board of commissioners and audit committee following regulations. Second, a qualitative approach was introduced to obtain actual evidence in the practice of investor decisions. Data was collected through interviews with informants. The result showed that the informants did not consider the characteristics of the board of commissioners and the audit committee in making investment decisions. The informant agreed that good governance is crucial, but not only by looking at the characteristics of the board of commissioners and the audit committee. The primary information used by investors is the track record of CEOs, CFOs, and corporate actions.

Keywords: *Board of Commissioners, Audit Committee, Financial Statements, Earnings, Transparency, Investor Perception*

Introduction

Rational investors will assess investment risk and measure expectations of investment returns by using information from various sources. Financial reports are one of the necessary information used by investors to evaluate the company's fundamental performance. Previous research documented that the quality of financial statements is influenced by management's commitment to implementing corporate governance (Cohen et al., 2010; Bozec & Dia, 2007; Yang, Jio, & Buckland, 2017). Earnings quality and transparency are issues that are considered relevant by investors, creditors, and other stakeholders. Earnings quality can be said to be high if reported earnings can be used by users to make decisions, and can be used to predict future earnings, stock prices or stock returns (Shank, Paul, & Stang, 2013). Transparent means that company management provides sufficient quantitative and qualitative information disclosure and is relevant to the purpose of decision making (Harvey, Maclean, & Price, 2019).

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Asian Corporate Governance Association reported the implementation of Good Corporate Governance (GCG) in eleven (11) Asian countries during 2010-2016 and recorded that Indonesia was in the lowest rank (CG Watch Market Score 2010-2016). Several policies have been made by regulators and professional associations yet brings no positive impacts. These regulations on GCG Standards for Listed Companies in Indonesia include Circular No. 32/SEOJK.04/2015 of Financial Services Institutions on Disclosure of Corporate Governance Standards; Regulation of the Indonesia Financial Services Authority (OJK) No. 55/POJK.04/2015 on Establishment and Work Guidelines of Audit Committee; and Regulation of the Financial Services Authority No. 33 / POJK.05 / 2014 on Directors and Board of Commissioners of Issuing Companies or Public Companies.

All regulation aims to enhance the quality of GCG implementation in Indonesia public companies. A number of research on financial statements quality and GCG revealed a research gap. First, empirical evidence discovered that corporate governance implementation is more of a company's performance rather than earnings quality and the correlation is inconsistent (Larcker, Richardson & Tuna, 2007). Second, the research debate only involves the direct impact of corporate governance based on quantitative data (accrual accounting) on earnings quality (Amin, Lukviarman, Suhardjnato, & Setiany, 2018; Arniati, Puspita, Amin, & Pirzada, 2019; Bajra & Čadež, 2018; Bilal, Chen, & Komal, 2018; Gao & Huang, 2018; Nurdin, Hasbudin, Wawo, & Akib, 2018; Inaam & Khamoussi 2016). These studies failed to investigate the roles assumed by the Board of commissioners and the audit committee in earnings quality and transparency comprehensively. Therefore, this study seeks to (1) determine the quality of financial statements based on the characteristics of board commissioners and audit committee according to investor's perception, (2) investigate whether investors take into account the characteristic of board commissioners and audit committee in their decision making. Characteristics of the Board of commissioners and the audit committee referred to the perspective of the Indonesia Financial Services Authority Regulation, namely (1) independence of the board of commissioners; (2) independence of the audit committee; (3) board of commissioner and audit committee activities; (4) attendance rate of commissioners in meetings; (5) meeting frequency of Board of commissioner; (6) independent commissioners educational background; (7) Proportion of board commissioner has business educational background; and (8) independent audit committee educational background. The research question related to characteristics of the Board of commissioners and the audit committee are as follows,

1) Do investor's perceptions on earnings quality and transparency will be higher in the presence of strong characteristics of the board of commissioners than weak Board of commissioners
2) Do investor's perceptions on earnings quality and transparency will be higher in the presence of strong audit committee than weak audit committee.

The board of commissioners and the audit committee serve as the key elements of effective corporate governance. If the board of commissioners and the audit committee have characteristics complying with regulations, then they are considered strong, on the contrary, if they failed to comply with the regulations, they are considered weak.

Literature Review

Good Corporate Governance

Corporate governance is a structure, system, and process used by everyone in the company to provide added value to the company in a sustainable and long term (The Indonesian Institute of Corporate Governance). The main objective is to increase shareholder value in a long time by taking into account the interests of other stakeholders. The implementation of GCG principles in the Indonesian capital market can be seen from the Indonesia Financial Services

Authority (OJK) efforts to encourage issuers to implement transparency, accountability, responsibility, integrity, and fairness.

Based on Law no. 40 of 2007 in Indonesia uses a two-level system. In this system, Indonesia has the authority between the management function carried out by the board of directors who have greater power to carry out the company's management, and the supervisory function carried out by the supervisory board, which is more responsible for supervising the management within the company. According to Rosim, Filho, & Nagano (2020), small companies' management differs from large companies. In small companies, the owners manage themselves, while in large companies the owners (investors) are not involved in operations, so that good governance is needed. A better GCG mechanism is expected to increase investor perceptions of the reliability of company performance. According to Boulila Taktak & Mbarki (2014) showed that the market valuation of earnings quality was significantly higher for companies that expressed stronger GCG functions. Therefore, the structure of GCG such as the board of commissioners and audit committee occupies a critical role in the quality of financial reports (Sukmono, 2015). Another study discovered that the Board of commissioner's structure evaluated by the independent board commissioners exerts a significant impact on earning quality (Arniati et al.,2019).

The Sarbanes-Oxley Act puts forth that an audit committee is a committee (or equivalent body) established and consists of a board of directors to supervise the processes of accounting and financial reporting. To realize the principles of GCG in public companies, the principles of independence, transparency and openness, accountability, and fairness must serve as the main basis for the audit committee's activities (Setiany, Hartoko, Suhardjanto, & Honggowati, 2018). According to Ebaid (2013) an active audit committee has a proper assessment of earnings quality. Other studies have shown that audit committees can prevent opportunistic management behaviour and further improve earnings quality (Bilal et al., 2018). With the existence of an active audit committee that serves to approve accounting policies, review financial reports, and maintain the quality of internal control, the earnings quality can be improved (Hassan, 2013).

Earnings quality

An income statement is a financial statement that calculates a company's economic performance over a period of time. This report serves as information to investors and creditors to predict the amount, timing and certainty of cash flows distributed by the company in the future (Kieso, Weygandt, & Warfield, 2011). Earnings are used as primary information in many decicion such as company valuation (Ohlson, 1995), contracting agreement being used in both debt covenants and compensation (Watts and Zimmerman,1986). Earnings have quality if (1) is relevant to the user's decision needs; (2) reflect the real financial performance of the company (Dechow, Ge, & Schrand, 2010). The earnings quality elaborates the company's financial performance relevant to decision-makers and can be used to predict the company's future value (Li, 2014; Chan, Chan, Jegadeesh & Lokinsihok, 2006). The published earnings can be used to reflect and forecast changes in a company's wealth. Rather than the cash flow, the accrual aspect of earnings is often used to describe earnings efficiency (Pae, 2007). Corporate governance is one of the most critical determinants of earnings efficiency, according to numerous reports (Iliev, Lins, Miller, & Roth, 2015).

Transparency

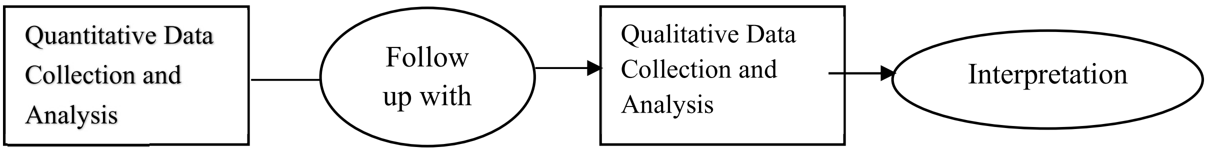
Bushman et al. (2004) define transparency as disclosing company-specific information for both internal and external stakeholders on a voluntary or compulsory basis. Transparency is related to information availability for all actors in the company, principals, agents, and stakeholders (Hebb, 2006). Baraibar-Diez & Luna Sotorrío (2017) maintains that the concept of transparency as the disclosure of corporate information is aimed at reducing information asymmetry between the company and its stakeholders so as to transaction costs can be reduced and efficiency can be increased. Lumentut, Rifai, Aburaera, & Sumardi, (2017) maintain that transparency is associated with companies' quality of information. Bushman et al. (2004) argue that financial disclosure is part of the transparency component. Disclosures relate to information in financial statements and complementary communications including footnotes, post-event statements, management discussions and operations analysis. An entity should disclose its material accounting policies that is reasonably expected to influence decisions made by primary users, namely investor and creditor (International Accounting Standards, par. 17, 2019). The board of commissioners and the audit committee have an important role in monitoring the transparency of financial reports (Saiful, Phua, & Haron, 2012; Ariati & Utama, 2018; Binti Nono & Khomsatun, 2018).

Methodology

Research Design

Creswell & Clark (2011) explained that there are four main mixed method designs namely (1) the convergent parallel design, (2) the explanatory sequential design, (3) exploratory sequential design, and (4) the embedded design. Following the research question, we choose explanatory sequential design. This design is conducted in two phases. The first phase started with the quantitative method by collecting and analysing quantitative data. In the second phase, some of the quantitative findings needed additional explanation. Therefore, the quantitative results were used to develop some of the qualitative research questions, interview process and data collection procedures. These studies offer new insight into corporate governance research.

Figure 1: The explanatory sequential design (Source: Creswell & Clark,2011)



The first phase was a quantitative method and the research design used was quasi-experimental research. The reason researchers use experiments because the purpose of this study is to investigate how investors' perceptions of the quality of financial statements based on the characteristics of the board of commissioners and audit committee. To be able to explore investor perceptions, a mini case was designed that illustrates the structure of the board of commissioners and audit committee, their activities and background. The experimental design was carried out by dividing participants into two groups. Each group is given a different case that reflects the characteristics of the board of commissioners and the audit committee which are strong (following the regulations of the financial services authority) and weak (not following the regulations). It is predicted that investors will give a high score on the quality of financial statements if the characteristics of the board of commissioners and audit committee are compiled to regulations and, if on the contrary. Participants will give score start from 1 to 10 score (Likert scale 1-10). The manipulation scenarios of the board of commissioner and audit committee in the context "strong" and "weak" is shown in Table 1.

Table 1: Manipulation of mini cases as an experiment instrument

No	Manipulation Scenario	Strong Characteristic	Weak Characteristic
1	Independence commissioner	The number of independent commissioners more 30% of the total members of the board of commissioners	The number of independent commissioners less 30% of the total members of the board of commissioners
2	Independence	The audit committee consist	The audit committee consist at

	committee audit	at least 3 (three) members from independent commissioners and parties from outside of company	least 3 (three) members from independent commissioners and parties from inside of company

Table 1: Manipulation of mini cases as an experiment instrument-Continued

No	Manipulation Scenario	Strong Characteristic	Weak Characteristic
3	Meeting agenda	The board commissioner has regular meeting agenda	The board commissioner has no regular meeting agenda
4	Meeting attendance of commissioner	The attendance level of board of commissioner more than 75%	The attendance level of board of commissioner less than 60%
5	Meeting frequency of commissioner	The board commissioner holds periodic meeting more than 6 times in a year	The board commissioner holds periodic meeting less than 6 times in a year
6	Education background of independence commissioner	independence commissioner has business education background	independence commissioner has no business education background
7	Proportion of board commissioner has business education	More than 50% of board commissioner has business education background	Less than 50% of board commissioner has business education background
8	Education background of audit committee	Audit committee has business or accounting education background	Audit committee has no business or accounting education background

Dependent Variables

The dependent variables are comprised of earnings quality and transparency quality. Based on the experiment instrument's information in Table 1, participants were asked to indicate their evaluation of the earnings quality and transparency based on a ten-point Likert scale. The lowest point of the scale is labelled "very low quality" and the highest point of the scale was labelled "very high quality".

Independent Variable

The study's experimental treatment is the board of commissioner and audit committee manipulated as either strong or weak. The Attributes of "strong" or "weak" was presented in Table 1 and the measurement scale is nominal.

Analysis method

The effect of each treatment was analysed by mean different between the strong characteristic and weak characteristic. It was assumed that the strong or weak characteristic will influence the quality of earnings and transparency. The analysis method was multivariate general linier model because there were two dependent variables namely earnings quality and transparency.

Qualitative method

The second phase is qualitative design to answer the question is wether investors really consider the characteristic of board commissioners and the audit committee in their decision making. The sub-questions are in line with the sub-questions related to investor perception. For answering this question, the author did qualitative research by interviewing many informan such as investor, investment manager, manager of securities companies.

Population and sample

The population are investors and investment manager in Indonesia. Samples were selected using the random sampling area. In the first phase, randomly selected provincial capitals in Indonesia. The sampling area that has been randomly selected are Medan, Bengkulu, Jakarta, Yogyakarta, Surabaya, Manado. Random investors and investment managers were selected and sent a questionnaire to find the perception of financial statement quality based on a characteristic of board commissioners and the audit committee. The qualitative research was done by interviewing informants to confirm investor practices in investment decisions. The informants are investment managers, investors, managers of a securities company.

Results and Discussion

The number of participants in this research was 64 from various provinces in Indonesia. The profile of respondents presents in Table 2.

Table 2: Profile of respondents based on participant status and education

Participant Status	Amount	%
Investors	49	77 %
Investment Manager	15	23%
Education Background		
Bachelor's degree	51	80 %
Postgraduate degree	13	20 %

The majority of the experiment participants were investors (77%), with bachelor's degrees (80%) and postgraduate degree 30%. Participants are investors and investment managers who are actively involved in the Indonesia Stock Exchange.

1) Independence of the board of commissioners and quality of earnings, transparency

According to the Indonesia Financial Services Authority Regulation (POJK) NO. 33 / PJOK.04 / 2014 Article 20 states that when the Board of Commissioners is more than 2 (two) people, the number of independent commissioners must be at least 30% (thirty percent) of the total members the board of commissioners. The board of commissioners has strong independence if the number of independent commissioners is higher than 30%, and conversely, if the number of independent commissioners is lower than 30%, their independence is categorized as weak. Table. 3 presents the mean score and standard deviation of investor perceptions on earnings quality and transparency based on the independence of commissioners.

Table 3: Independence of commissioner and earnings quality, transparency

Dependent Variable	Commissioner independency	Mean	Std. Error
Earnings quality 1	weak independency	6.853	.254
	strong independency	7.733	.271
Transparency 1	weak independency	7.029	.254
	strong independency	8.200	.270

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	Earnings quality 1	12.353^a	1	12.353	5.626	.021
	transparency 1	21.839^b	1	21.839	9.973	.002

a. R Squared = .083 (Adjusted R Squared = .068)

b. R Squared = .139 (Adjusted R Squared = .125)

Earnings quality and transparency mean scores (Likert scale 1-10) in companies with strong commissioner independence characteristics are higher compared to weak independence. Test of between-subject effects showed that earnings quality and transparency have significant (sig.) value less than 5%. It meant that empirically investors perceive that the independence of commissioners has a substantial effect on earnings quality and transparency. This finding in line with agency theory and Sukmono, (2015); Susanto, Pradipta, & Djashan, (2017), which revealed that the independence board of commissioners had an important role in improving earnings quality by suppressing revenue manipulation. Saiful et al., (2012); Ariati & Utama, (2018) showed that the independent board of commissioner could provide valuable advice that it has a positive impact on corporate transparency.

2) Independence of Audit committee and quality of earnings and transparency

The audit committee's establishment and work guidelines refer to regulation No.55 / POJK.04 / 2015 dated 29 December 2015, and the Decree of the Chairman of the Capital Market and Financial Institution Supervisory Agency No. KEP-643 / B / 2012. The regulation stipulates that when selecting the company's audit committee members, one of them must come from an independent commissioner. The audit committee has at least 3 (three) members from independent commissioners and parties outside the company. Table 4 presents the mean score of investor perceptions and the resulting test of between-subject effect.

Table 4: Independence of the audit committee and the quality of earnings and transparency

Dependent Variable	Audit committee	Mean	Std. Error
Earnings quality 2	weak independency	7.300	.286
	strong independency	7.412	.269
transparency 2	weak independency	7.067	.315
	strong independency	7.824	.296

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	Earnings quality 2	.199[a]	1	.199	.081	.777
	transparency 2	9.130[b]	1	9.130	3.063	.085

a. R Squared = .001 (Adjusted R Squared = -.015)

b. R Squared = .047 (Adjusted R Squared = .032)

The difference in mean score between strong and weak independence was small and was not significant. Test between subjects' effects showed that the independence of the audit committee did not affect earnings quality and transparency. This means that investors do not perceive that the independence of the audit committee has a significant effect on earnings quality. The results of this study are not in line with (Ebaid, 2013) who said that a strong audit committee would produce a proper assessment of earnings quality and (Hundal, 2013) showed that independent audit committee could encourage the quality of financial statements and improve the transparency of financial statements.

3) Activities of board commissioners and the quality of earnings and transparency

The POJK No.33/POJK.04/2014, Article 16 and Article 31, dated December 8, 2014, on board of directors and board of commissioners of public companies stipulates that periodic joint meetings must be arranged by the directors with the board of Commissioners at least once in 4 (four) months. Table 5 showed that the scheduled commissary and audit committees activities have higher earnings quality and transparency than those who do not have a planned activity.

Table 5: Commissioner meetings and the quality of earnings and transparency

Dependent Variable	Meeting agenda	Mean	Std. Error
Earnings quality 3	no schedule	7.618	.292
	Scheduled	7.133	.311
transparency 3	no scheduled	7.559	.359
	Schedule	6.667	.382

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	Earnings quality 3	3.738[a]	1	3.738	1.291	.260
	transparency 3	12.685[b]	1	12.685	2.902	.093

a. R Squared = .020 (Adjusted R Squared = .005)

b. R Squared = .045 (Adjusted R Squared = .029)

Test between-subject effects showed that the meeting schedule has a significant impact on the quality of earnings and transparency. This means that investors perceive that scheduled commissary activities and audit committee was important and have a substantial effect on earnings quality and transparency. Board of commissioners and audit committee meetings that are scheduled and known together are considered to commit to building good governance. Conversely, if there is no definite schedule, it is perceived as lower governance commitment (Sharma et al., 2009; Feng et al., 2012) and the others research revealed effectiveness of board meeting so as to minimize the possibility of earnings management within the company (Honesty, 2019).

4) Commissioner attendance and quality of earnings and transparency

Based on POJK No.33 / POJK.04 / 2014, article 31 stipulates that the attendance of the members of the board of commissioners at the meeting as referred to in paragraph (1) and paragraph (3) must be included in the annual report of the Public Company. Therefore, commissioners who are willing to attend meetings regularly can show commitment to good corporate governance. Conversely, those who do not attend meetings periodically show insufficient commitment to good corporate governance.

Table 6: Attendance of commissioners and quality of earnings and transparency

Dependent Variable	Meeting Attendance	Mean	Std. Error
Earnings quality 4	low attendance	6.324	.289
	high attendance	8.100	.308
transparency 4	low attendance	6.647	.269
	high attendance	8.300	.286

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	Df	Mean Square	F	Sig.
Corrected Model	Earnings quality 4	50.296[a]	1	50.296	17.704	.000

	transparency 4	43.545[b]	1	43.545	17.754	.000

a. R Squared = .222 (Adjusted R Squared = .210)

b. R Squared = .223 (Adjusted R Squared = .210)

Referring to Table 6, earnings quality and transparency mean scores for high attendance rates had higher than those with low attendance. Test between subject effects showed that investors perceive the high level of attendance of commissioners has a significant effect on earnings quality and transparency. The more often the board of commissioners attends the meeting, the better the supervisory actions were taken by the board of commissioners so that the board of commissioners can evaluate the policies taken by the board of directors (Chen, El Ghoul, Guedhami, & Wang, 2017).

5) The frequency of board commissioner meetings and the quality of earnings and transparency

Regulation of POJK No.33/POJK.04/2014, Article 31 dated December 8, 2014, concerning the board of directors and board of commissioners of a public company stipulates that the board of commissioners must regularly hold a meeting 1 (one) time in 2 (two) months. The more frequent meetings are held, the more the board of commissioners demonstrates its commitment to corporate governance.

Table 7: Frequency of board commissioners' meetings and quality of earnings and transparency

Dependent Variable	meeting frequency	Mean	Std. Error
earnings quality5	low frequency	6.267	.271
	high frequency	7.412	.254
transparency 5	low frequency	6.067	.261
	high frequency	7.471	.245

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	earnings quality5	20.898[a]	1	20.898	9.520	.003
	transparency 5	31.413[b]	1	31.413	15.416	.000

a. R Squared = .133 (Adjusted R Squared = .119)

b. R Squared = .199 (Adjusted R Squared = .186)

Based on Table 7, a higher frequency of board commissioners' meetings had higher earnings quality and transparency mean score compared to lower frequency meeting. Tests between-subject effects showed that investors perceive the frequency of meetings of a board of commissioners has a high effect on earnings quality and transparency. Board of commissioners meetings can be used to assess the effectiveness of the board of commissioners in carrying out supervision and control. Board of commissioners who hold meetings more often can reduce the likelihood of fraud because regular meetings allow the board to identify and resolve potential problems, especially those related to financial reporting quality (Chen et al., 2017; Honesty, 2019).

6) Independent commissioner education background and quality of earnings and transparency

To become an independent commissioner, the POJK No. 33/POJK.04/2014 article 4 regulates that one of the requirements is to have the knowledge and hands-on expertise required by Public Companies. Although it is not explicitly mentioned that a person should have a business educational background, his educational experience will most likely affect the managerial and leadership patterns. This phenomenon leads to examining whether investor gives different perceptions of the independent commissioner's educational background.

Table 8: Educational Background of Independent Commissioners

Dependent Variable	Business education	Mean	Std. Error
Earnings Quality 6	non business	6.382	.277
	Business	7.467	.295
transparency 6	non business	6.324	.284
	Business	7.667	.302

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	Earnings Quality 6	18.738[a]	1	18.738	7.194	.009
	transparency 6	28.752[b]	1	28.752	10.479	.002

a. R Squared = .104 (Adjusted R Squared = .090)

b. R Squared = .145 (Adjusted R Squared = .131)

Table 8 above indicated that the participants agree that the independent commissioners with a business educational background are more focused on earnings quality and transparency as compared to those with non-business educational background. The test between subjects' effects lead to the empirical findings that investors perceive independent commissioners with a business educational background significantly effect on earnings quality and transparency. This is in line with Nugroho & Bararah (2018) findings, which shows that a more competent board of commissioners will help mitigate the risk of financial reporting fraud.

7) The proportion of the board of commissioners with a business education background and the Quality of Financial Statements

One of the provisions in a Corporate Governance Guideline issued by the National Committee on Governance in 2011 stipulates that members of the board of commissioners must fulfil the requirements of competency and integrity to properly carry out the supervisory role and to provide advice in the company's best interests. Accordingly, the proportion of the Board of commissioners with a good business education gives more value to the supervisory and control roles as their tasks.

Table 9: The proportion of board commissioners with a business education background and the quality of earnings and transparency

Dependent Variable	The proportion of board commissioner – business education	Mean	Std. Error
Earnings quality 7	low proportion business edu	5.941	.282
	high proportion business edu	8.267	.300
transparency 7	low proportion business edu	6.059	.295
	high proportion business edu	8.233	.314

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected	Earnings quality 7	86.188[a]	1	86.188	31.855	.000
Model	transparency 7	75.360[b]	1	75.360	25.497	.000

a. R Squared = .339 (Adjusted R Squared = .329)

b. R Squared = .291 (Adjusted R Squared = .280)

According to Table 9, participants (investors) perceive the company with the proportion of commissioners who have a relatively high business background oriented to earnings quality and transparency compared to the proportion of commissioners with a non-business education background. The difference in mean scores between the two scenarios was relatively high, and the results of the test between subjects showed a significant effect. This means that empirically it is proven that investors pay serious attention to the proportion of commissioners who have a business background. This is in line with Ngamchom (2015) the high proportion of financial and accounting expertise can control earnings management more efficiently and increase earning quality.

8) The audit committee has a business/accounting education background and quality of earnings and transparency

The Decree of the Chairman of the Capital Market and Financial Institution Supervisory Agency Number: KEP-643/BL/2012 on the Establishment and Work Guidelines of the audit committee stipulates that there should be at least one member of the audit committee with an educational background and expertise in accounting and finance. Audit committees with business experience can understand business processes better than those with no experience. An understanding of business processes can assist the audit committee in estimating audit and business risk.

Table 10: The audit committee has a business/ accounting background and quality of earnings and transparency

Dependent Variable	Audit committee education	Mean	Std. Error
Earnings quality 8	Non-business/Accounting	5.967	.314
	Business/ Accounting	7.853	.295
transparency 8	Non-Business/ Accounting	6.100	.300
	Business/ Accounting	7.853	.281

Tests of Between-Subjects Effects

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	Earnings quality 8	56.706[a]	1	56.706	19.188	.000
	transparancy 8	48.973[b]	1	48.973	18.185	.000

a. R Squared = .236 (Adjusted R Squared = .224)

b. R Squared = .227 (Adjusted R Squared = .214)

The audit committee with a business/ accounting education background got a mean score higher in earnings quality and transparency compared to non-business/accounting, and the result of the test between-subject is significant. Thus, empirical evidence showed that investors perceive better competency for the audit committee, which has a business/ accounting educational background. This result was in line with Akhtaruddin & Haron (2010), which showed that the audit committee with the level of financial and business competence would have a significant effect on the quality of financial information. Amin et al., (2018) and Setiany et al., (2018) stated that audit committee members should have knowledge of the concepts of accounting and auditing process to improve understanding of the financial reporting.

Qualitative Data Collection and Analysis

The mechanism to collect the information on whether investors properly consider the characteristics of the board of commissioners and audit committee, a semi-structured interview with investors, investment managers, and securities company managers is conducted. The informants interviewed are different parties from the investors involved in the design of experimental research. Interviews were conducted with several informants, as presented in Table 11.

Table 11. Informant position

Informants Position	**Person**
Investor (interviewee 1)	17
Investment Manager (Interviewee 2)	6
Securities Company Manager (Interviewee 3)	6

The results of the first quantitative phase lead to the second qualitative phase design. The qualitative data were analysed to validate the quantitative study results and provide more in-depth and more insight into the characteristics of the board of commissioners and audit committee for investment decisions. Based on quantitative-experiment study done in the first phase, investors perceive the independence of commissioners has significantly affect earnings quality and transparency. If the board of commissioners and the audit committee have an influence on earnings quality and transparency, investors will certainly pay attention to this information in making investment decisions. The results of the interview revealed different facts, investors never pay attention to the board of commissioner in investment decisions as presented below:

> *Indeed, in general, investors or traders do not look deeper into the contents of the company, who is the commissioner and the audit committee. Because generally our society, when buying a stock, they only expect capital gains. So, it is more in the short term, even in the investor forum rarely talks about this issue.*

(Interviewee 1)

Other informants stated that when they were going to invest their money in the company, they only saw the financial performance; they did not see the characteristic of the board commissioner or the audit committee. The following is the statement:

> *For stock investors, they see PER, leverage, and dividends. They do not know what the GCG is and then who is the commissioner, it is indeed heavy and very rarely seen, because I personally rarely pay attention.*

(Interviewee 3)

Interviews with investment managers also gave a similar answer that they never saw the role of the board of commissioners and audit committee in investing. As stated below:

> *Personally, every investment manager does not see who the commissioners are, even the audit committee may know only internal parties, but outside investors do not know who the audit committee is, because the audit committee rarely appears.*

(Interviewee 2)

The board of commissioners' and the audit committee's expertise based on the educational background is important. The experimental results concluded that participants perceive that independent commissioners with a business academic background are more oriented to earnings quality and transparency compared to independent commissioners with a non-business educational background. The results of the interview showed different facts where investors did not pay attention to the educational background as revealed by the following statement:

> *Less than 5% pay attention to elements of educational background. Especially for mutual fund investors, all they see is the issuer, and which mutual fund will be stored*

(Interviewee 3)

One of the most important factors for us is who the directors are." We also know that commissioners do not have much expertise; maybe they return the favour to become commissioners. We look more at who the CFO and CEO are because that is important

(Interviewee 2)

…Most investors also do not understand the background of education or experience and do not understand about risk, the most important thing for them is the return.

(Interviewee 1)

There is an interesting fact that a good track record is more important than an educational background as revealed below:

There are some customers (investors) who are looking for the track record of their leaders in terms of commissioners or directors. If the track record is bad, for example: is there a corruption case or not? This can be a consideration of the customer itself.

(Interviewee 3)

The characteristics of a strong or weak board of commissioners and the audit committee can be seen from their activities, such as meeting frequency, scheduled meetings, and meeting attendance rates. The experimental results concluded that the activities of the board of commissioners and the audit committee have an effect on earnings quality and transparency. Do investors really pay attention to meeting activity information? The answers obtained from the informants showed that they did not pay attention to meeting activities; they only paid attention to the activities of shareholder meetings as follows:

We do not pay attention to various kinds of meetings. The most important meeting is the General Meeting of Shareholders because what is expected is dividend information

(Interviewee 1)

Another opinion states that meetings are not important, but more importantly corporate action, he stated,

We have always looked more at corporate actions, not meetings. Distribution of dividends, one of which is corporate action. Other corporate actions, for example, he made an acquisition, or issue bonds, or issue rights issues and others

(Interviewee 2)

The results of interviews with informants obtained a surprising fact that the informants did not consider the characteristics of the board of commissioners and the audit committee in making investment decisions. The informant agreed that good governance is vital, but not only by looking at the characteristics of the board of commissioners and the audit committee. The leading information used by investors is the track record of CEOs, CFOs, and corporate actions.

Conclusion

The objectives of this study were (1) to determine the quality of financial statements based on a characteristic of board commissioners and audit committee according to investor perception, and (2) to investigate whether investors consider the aspect of board commissioners and audit committee in their decision making. The result showed that: (1) Companies that have a strong independent of commissioners, business education background, business experience, fixed meeting scheduled, investors, perceived high meeting attendance as having a high quality of financial statement (earnings quality and transparency), vice versa, (2) independent audit committee were perceived by investors no effect in earnings quality and transparency, but audit committee who has more experience in the business field has higher earnings quality and transparency compared to an unexperienced audit committee, and (3) investor (investment manager) not consider the characteristics of the board of commissioners and audit committee in making investment decisions.

There are differences in findings between quantitative and qualitative methods. The different results can be caused by 1) simple scenario information related to the characteristics of the board of commissioners and the audit committee. In reality investors need diverse information to be able to assess a company's risk and prospects. The information was considered the most powerful is the track record of CEO and CFO, corporate action, performance, and dividends; 2) Indonesia used two-tier board system, the board of commissioners cannot control the directors because the function of the board only gives advice on director's policies, and 3) Investors think that GCG is an internal matter of the company and regulators.

Future research suggested that experiments can be developed by making criteria that refer to business practices that are applied in a different country. The interview with the informant was expanded by making questions related to the objectives and characteristics of investors.

Research implication, investors are only interested in the company's achievements; investors do not see the detailed characteristics of the board of commissioners and audit committee. Therefore, if GCG has to be implemented, it does not merely meet regulations, but GCG must be able to provide internal strengthening so that it has an impact on performance.

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