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Article

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Company Monitoring Analysis on Financial Report Quality in Indonesia Stock Exchange Manufacturing Sector

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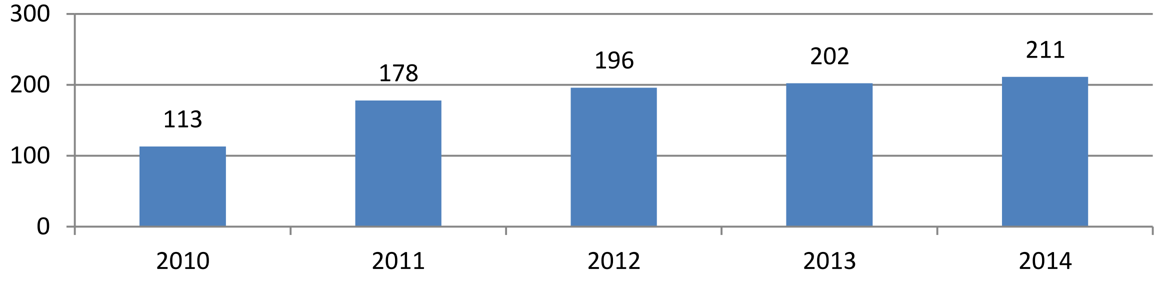
Abstract *This research study aims to get information about the company monitoring analysis in manufacturing sector of Indonesia Stock Exchange. The sample used in the study was Indonesia Stock Exchange Manufacturers that were consisted of 100 respondents in 5 years observation. Probability sampling method and proportionate stratified random sampling, Statif, technique was employed in the study. The analysis model used in the study was SEM (Structural Equation Model) analysis, with partial least square alternative method by using SmartPLS software. The study found that simultaneously, monitoring and the quality of external auditor have significant effect on the quality of the market-based financial report. Whereas partially, monitoring has significant effect on the quality of the market-based financial report and the quality of external auditor does not have significant effect on the quality of the market-based financial report.*

Key words Company monitoring, board of directors' composition, financial report quality, economic consequent, information asymmetry and equity capital cost

JEL Codes: D53, G14, L60

1. Introduction

Johnson *et al*., (2002) stated that the quality of financial report becomes the interesting issue because financial report is the communication facility of financial information to the external users. The use of the financial report is to assess the economic performance and the condition of the company's business in monitoring the management's behavior in making economical decision (Reeve, 2005). Even further, Ball and Brown (1968) stated that the information of financial report is the crucial element for investors and entrepreneurs/ businessmen as the tool in making decision. In Indonesia, financial report is viewed as crucial problem that has to be noticed by the user of the financial report because the accounting information contained will indicate whether the economic performance in the company that affects the investor is good or not. Financial report presentation by the manager of the company to the investor is as the information for the investor to hopefully be able to differ the high-quality company and low-quality company. Starting from the point that quality financial report is important, with the agency theory that the company work performance is influenced by the conflict of interest between the agent and the owner of the company, in which every party makes effort to achieve or maintain the desired wealth. The empirical fact of financial report quality of the company can be seen from the audit's opinion result on the company's financial report. In Indonesia Stock Exchange, the audit's opinion, besides being reasonable, without exception, there are still many financial reports of the company in Indonesia Stock Exchange that do not meet the report standard. *Capital Market Authority Republic of Indonesia* (BAPEPAM)/ Investment supervisory board shows the rise of publicized law cases showing the seriousness of fraud in financial report which can be seen in Figure 1.



Source : processed data from Bapepam/OJK report

Figure 1. The Offence Development of Company Registered in Indonesia Stock Exchange

Figure 1 shows the development of the offence case that continuously rising from year to year. There were 130 cases in 2010, 178 cases in 2011, 196 cases in 2012, 202 cases in 2013, and 211 cases in 2014. According to Warsono *et al.* (2009), the reason of those cases, generally, was the failure of the company's divisions that function to select the method for the accounting record. According to Fanani (2008), there are two factors that have effect on the quality of financial report, including internal and external company monitoring. The first factor is in the company itself which is called firm characteristics. Hassan and Bello (2013) stated that one of factors that come inside the company is company monitoring (the board of directors' composition, institution ownership). The second, it is the factor that comes from outside the company. It is about how far the information of the financial report is responded by the users. The quality information is able to rise the users' believe, as the auditor's quality (Gul *et al*., 20013; Cohen, 2003; Francis *et al*., 2004; Francis *et al*., 2005; Muda, 2017). Christiani *et al*. (2014) stated that the good quality audit is the external auditor's quality which is about the measurement of public accountant office and the audit's specialization.

The term of financial report quality is still diverse. However, basically, it can be viewed from two viewpoints. The first viewpoint is the characteristics of the financial report itself (Fanani, 2008; Erlina *et al*., 2018; Sari *et al*., 2018; Sadalia *et al*., 2018 and Fannai *et al.,* 2009). In quality financial report, Lev and Thagarajan (1993); Chen and Jaggi (2007); Francis et al. (2004) explained the current year's profit can explain the upcoming year's profit, including persistence, profit even distribution, and predictability. Schipper, (2004), in Fanani, (2008), Fannai *et al.,* (2009) and Geert and van Beest (2013) stated that the quality of financial report by the first viewpoint is called accounting-based attribute. Whereas Feng *et al.* (2014) said this proxy (persistence, profit even distribution, and predictability) is called accounting-based term.

The second viewpoint is the financial report quality in relation with the capital market performance in the form of rewards, so that the relationship between the company's profit and the rewards indicates the financial report high information (Ayres, 1994; Lubis *et al*., 2016 and Muda *et al.,* 2017), that is relevance, punctuality, and conservatism. This view is known as Dechow and Dichev model or DD model (Dechow and Dichev, 2002 and Cohen, 2003). According to Schipper, (2004), in Fanani, (2008), Fannai *et al.,* (2009), and Geert and van Beest (2013), the financial report quality with the secod viewpoint is called as the market-based attribute. Whereas Feng *et al*, (2014) stated that this proxy (relevance, punctuality, and conservatism) is called the market-based term. This study used financial report quality with market and accoiunting based term [Schipper (2004), in Fanani (2008); Fannai *et al*. (2009), Geert and van Beest (2013) dan Feng *et al*. (2014)]. Based on such background, this study discusses the diverse determinant of financial report quality that is seen from the company monitoring either inside the company or outside the company, and the market and accounting based financial report quality as the measurement of financial report quality as the implementation of opportunistic theory, agency theory, and contract theory. The object of the study is manufacturing company registered in Indonesia Stock Exchange or in Indonesian, *Bursa Efek Indonesia (BEI)*. This is because the manufacturing company in Indonesia is the company with the highest growth in ASEAN (BPS, 2013). This study used structural equation modeling instrument and partial least square alternative method with SmartPLS software, which is able to analyze several indicators simultaneously with panel data.

2. Literature review

Every variable in the study was supported by several theories that were formulated by previous researcher as the connecting theory on the variables. This study used agency theory, the theory that explains the relation between contractual agency and principal agency (Jensen and Meckling, 1976). In this study, the agency theory was used to relate the monitoring variable and the market and accounting-based financial report quality. Agency theory forms a company as the defining factor of the quality document, profit, and independent membership of the council and the institutional stock ownership that is bigger and able to limit the manager's behavior that has positive relation with the good quality financial report (Farber, 2005). The theory that relates the external auditor quality and the financial report quality is also linked by the agency theory, in which conflict between the agency and the principal exists because of the imbalanced information so that another party, which is the external auditor, is needed to balance the information (Jensen and Meckeling, 1976).

3. Methodology of research

3.1. Data Source Type

The type of data used in the study was secondary data. The data source was from the internet, from http://www.idx.co.id/ in a form of financial reports of manufaturers that were published.

3.2. Research Population and Sample

The population on the study was target population in manufacturing companies that were registered in Indonesia Stock Exchange starting from 2011 until 2015. Those companies provided the data about monitoring, external auditor quality, and financial report quality. There were 132 companies. The method in taking the sample was probability sampling. The amount of the sample of this research was based on slovin formula (Umar 2005; Mahdaleta *et al*., 2016; Dilham *et al*., 2018; Sofiyah et al., 2018; Kesuma *et al*., 2018). There were 100 companies taken as the sample. Proportioate stratified random sampling, based on Ferdinand (2014), is used to obtain the number of sample that was taken based on each part of it and defined again by using this following formula:

n = $\frac{\text{class population}}{\text{total number of population}}$ x defined number of sample.

3.3. Operational Definition and Variable Measurement Method

a. Operational Definition

Table 1. Operational Definition of Research Variables

Name/Variable Type	Variable Definition	Indicator	Scale
Independent Variable Market-Based Financial Report Quality (Fanani *et al,*. 2009) **Indicators**	Representation of the accuracy of the financial report with market-based measurement, how far the financial information is responded by the market	Unobserved	Ratio
1.Relevance (Fanani *et al,*. 2009; Muda and Dharsuky, 2015; Erlina et al., 2017; Eriadi *et al*., 2018 and Tambunan *et al*., 2018)	The result of the financial report information may affect the user and use the estimated data for five years	Negative value of adjusted R2 from the following equation $RET_{jt} = \beta_{o\ jt} + \beta_1\ \Delta_{jt} + \varepsilon_{jt}$ Relevance = $-R^2_{jt}$ (Francis et al., 2004) RET_{jt}= earnings for 15 months that ended 3 months after the last month of the fiscal year of the company j year t $_{jt}$= net income of company j year t Δ_{jt}=net income difference company j year t-1	Ratio
2.Punctuality (Fanani et al,. 2009)	The punctuality of annual report submission that was published on the website, www.idx.go.id based on the Decision of Bapepam Chairperson and LKN no. Kep-134/BL/2006 on the Responsibility to Submit Annual Report for Eminent and Public Company that stated that the time limit to submit the company's annual financial report is 91 days after the end of the book year.	The financial reports that were published on www.idx.go.id less than 90 or 91 days after the end of the book year or before April 1st were valued as 1 whereas if they were published more than 90 or 91 days after the end of the book, they were valued as 0 because they were published late. Whether the reports have been done or not could be searched by observing the statements of financial report submissions that were uploaded on www.idx.com. (Lutfi *et al*., 2015; Rahmayanti, 2016),	Dummy
3.Conservatism (Fanani et al,. 2009; Maksum *et al*., 2014; Nurzaimah et al., 2016)	The ability to verify the similarities and differences between two sets of economic phenomena to be able to prove whether it is profit or loss that results and use the estimated data for five years.	Fixed effect value from the following equation, multiplied by -1 as the proxy of market-based conservatism $BTM_{jt} = \beta + \beta_j + \beta_t + \sum_{k=0}^{6} \beta_k R_{jt-k} + Ejt$ (Ahmad *et al*., 2008) BTM_{jt} = Book value ratio against the market value company j in fiscal year that ended in t β =intercept of the whole companies and all of the years β_i =Specific company bias that was fixed from the ratio of book value to the market value (BTM) during the sample period β_t = book value ratio component to the market value in a particular year for the whole companies R_{jt-k} =Stock Return (excluding dividend) for company j year t. (Muda and Dharsuky, 2016)	Ratio

Name/Variable Type	Variable Definition	Indicator	Scale
3. Accounting-Based Financial Report Quality (Fanani *et al,*. 2009; *Erlina et al.*, 2018; Muda and Windari, 2018; Erwin *et al.*, 2018; Yahya *et al.*, 2018 and Muda *et al.*, 2019) **Indicators :**	The representation of accuracy of financial report with accounting-based measurement: the profit of current year is able to reflect the profit of the upcoming year.	Unobserved	Ratio
1.Persistence (Fanani *et al,*. 2009)	The revision of upcoming year's profit as the implication of the current's year's profit and use the estimated data for five years	The regression coefficient of the equation: $\frac{earning_{jt}}{outstanding\ shares_{jt}} = \beta_0 + \beta_1 \frac{earning_{jt-1}}{outstanding\ shares_{jt-1}} + E_{jt}$ (Fanani *et al,*. 2009) $_{jt}$= net profit of company j year t jt-1= profit before outstanding shares company j in previous year Outstanding shares$_{jt}$= stock shared of company j year t	Ratio
2.Predictability (Fanani *et al,*. 2009; Rasdianto *et al.,* 2014; Khaldun *et al.*, 2014; Lubis *et al.*, 2016; Sadalia et al., 2017)	The ability of the previous profit to predict the next profit and use the estimated data for five years	The root variant error of the equation: $\frac{earning_{jt}}{outstanding\ shares_{jt}} = \beta_0 + \beta_1 \frac{earning_{jt-1}}{outstanding\ shares_{jt-1}} + E_{jt}$ (Fanani et al,. 2009) $_{jt}$= net income of company j year t jt-1= profit before outstanding items of company j in previous year Outstanding shares$_{jt}$=stock shared of company j year t	Ratio
3.Profit even distribution (Fanani *et al,*. 2009)	The effort to normalize profit to the desired rate and use estimated data for five years	Profit even distribution $\frac{{}^{s}NIBE_{jt}}{{}^{s}CFO_{jt}}$ (Fanani et al,. 2009) $NIBE_{jt} =$ net profit of company j year t $CFO_{jt} = cash\ flow\ company\ j\ operation\ j\ year\ t$	Ratio
1. Monitoring **Indicators :**	The supervision process that is done by internal parties to company management opportunistic behavior	Unobserved	
1. Board of Directors' Competition (Hasan and Bello, 2013; Muda, 2017)	The composition of the board of directors is often used to identify the existence of collusion and dominance of directors.	The number of the broad of director members (Francis *et al*., 2004; Muda *et al*., 2018)	Ratio
2.Institution Ownership (Hasan and Bello, 2013)	% of share ownership by the institution such as, LSM, private company, securities, insurance, pension funds, Banks, government and investment.	*Institution ownership*= $\frac{institutional\ share\ value}{shared\ stock\ value} x\ 100\%$ (Francis *et al*., 2004)	Ratio
2. External Audit Quality Gerayli et al.*,* 2011; Erlina *et al.*, 2018; Muda et al., 2018)	The supervision process that is done by external audit parties by viewing whether the process of audit is good or not	Unobserved	

Name/Variable Type	Variable Definition	Indicator	Scale
Indicators			
1.KAP (Public Accounting Office) measurement Gerayli *et al.* (2011)	KAP scale (Big Four) that is issued by Center for Accounting and Appraisal Services (PPAJP): 1 KAP Tanudiredja wibisana & colleagues 2 KAP Purwantono, Sarwoko, and Sandjaja 3 KAP Osman Bing Satrio & colleagues. 4 KAP Siddharta, and Widjaja	Score 1 for Big Four KAP and Score 0 for non Big Four KAP Gerayli *et al.* (2011)	Dummy
2.Auditors' Industrial Specialization Gerayli *et al.*, (2011) and Erlina *et al.*, (2018)	Specialization by seeing the market share from the total of the asset and the total client of the company that is audited by a KAP in the industry	SPEC= $\frac{Total\ KAP\ client\ in\ industry}{Total\ emitent\ in\ industry}\ x\ \frac{client's\ asset\ average\ in\ industry}{total\ client's\ asset\ average\ in\ industry}$ (Gul et al., 2009)	Ratio

3.4. Data Analysis

The data analysis that was used in the study was correlation test and SEM (Structural Equation Model) analysis technique. The analysis also used structural equation modeling tool with partial least square alternative method and SmartPLS software. The steps of the analysis were: (1) Developing Model Based on Theories, (2) Making Track Diagram and (3) Formulating Equation and Structural Measurement.

4. Results and discussions

4.1. Result

4.1.1. Measurement Model (Outer Model) Test

Before testing structural model, measurement model (outer model) of each latent variable was tested. The result of the measurement model would define the significant indicators that reflect latent variable (Muda *et al.*, 2018). The result of the calculation of Smart PLS was full model flow chart below:

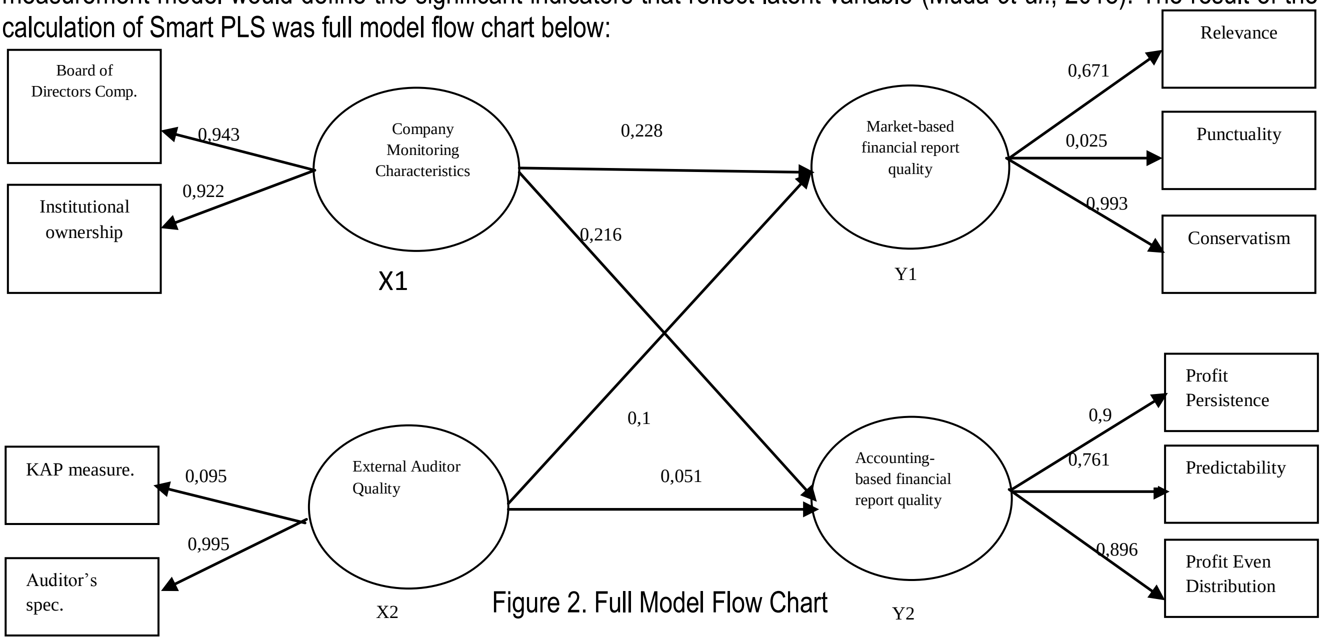


Figure 2. Full Model Flow Chart

Figure 2 shows that the external auditor quality variable with public accounting office (KAP) measurement indicator and market based financial report quality variable with punctuality indicator have loading factor below 0.5. Therefore, they are not valid in reflecting their each latent variable. Then, they were reduced from the model. The figure below is the calculation result of full model flow chart after the invalid indicators were reduced from the model. All of the equation models for the effect of Monitoring and the Auditor's Quality on the Market-Based Financial Report and Accounting-Based Financial Report can be expressed in the structural equations below:

Y1 = 0,228 X1 + 0,170 X2 + e

Y2 = 0,215X1 + 0,055X2 + e

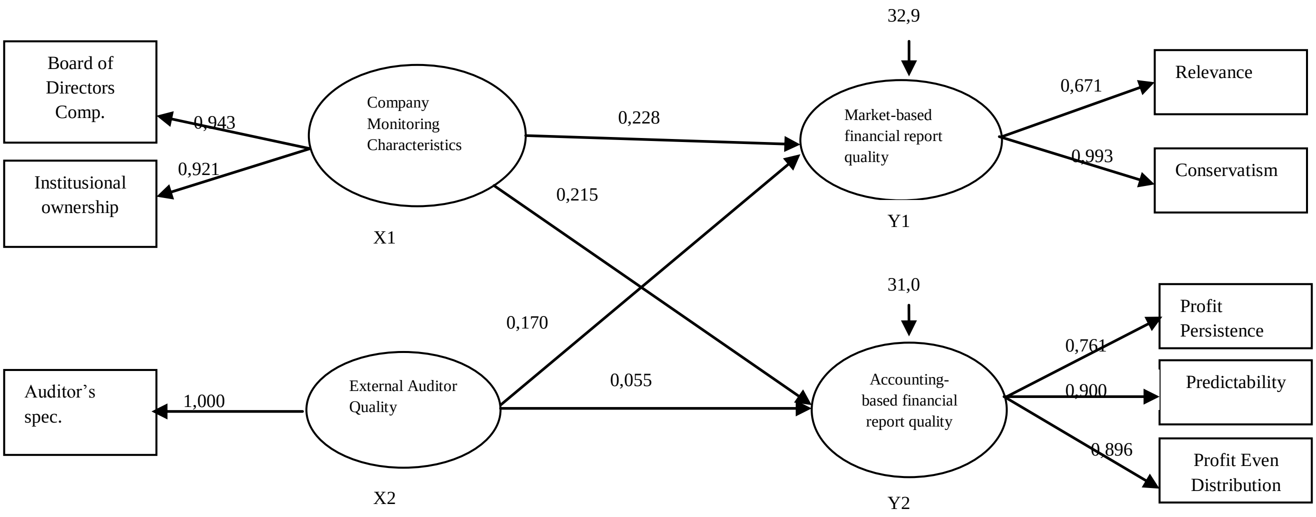


Figure 3. Full Model Flow Chart (Revised)

4.1.2. Measurement Model of Market-Based Financial Report Latent Variable (Y1)

Market-Based Financial Report consists of 3 (three) indicators. However, in the previous test, punctuality indicator (Y1.2) was not valid and then reduced from the model. Therefore, in the next model, punctuality indicator was only reflected by the other two indicators: relevance and conservatism.

Table 2. The Loading Factor of Each Indicator of Market-Based Financial Report Variable

Indicator	*Loading Factor*	R^2	$t_{calculate}$
Relevance (Y1.1)	0,671	0,450	5,627
Coservatism (Y1.3)	0,993	0,986	44,487
Composite reliability(CR)= **0,831**			
Average Variance Extracted(AVE) = **0,718**			

Source: Output SmartPLS (2017)

Table 2 shows that all loading factor values for each indicator are higher than 0.5 and $t_{calculate}$ value is higher than critical value (1.96). These data shows that both indicators reflect the market-based financial report quality latent variable significantly. The value of Composite Reliability (CR) for the market-based financial report quality latent variable, which is 0.831, describes that the value of compatibility of the indicators in reflecting the market-based financial report quality latent variable is higher than the recommended value (0.70). The Average Variance Extracted (AVE) value which is 0.718 shows that, on average, 71.8% information in both indicators can reflect on the market-based financial report quality latent variable. Between two indicators, conservatism has higher effect on reflecting the market-based financial report quality latent variable compared to relevance.

4.1.3. Measurement Model of Accounting-Based Financial Report Quality Latent Variable (Y2)

Accounting-Based Financial Report Quality consists of 3 indicators and the loading factor of each indicator in reflecting the accounting-based financial report quality variable is shown on the Table 3 below.

Table 3. The Loading Factor of Each Indicator of Accounting-Based Financial Report Quality Variable

Indicator	*Loading Factor*	R^2	$t_{calculate}$
Persistence (Y2.1)	0,761	0,579	12,257
Predictability (Y2.2)	0,900	0,810	26,976
Profit Even Distribution (Y2.3)	0,896	0,802	18,293
Composite reliability(CR)= **0,890**			
Average Variance Extracted(AVE) = **0,730**			

Source: Output SmartPLS (2017)

Table 3 shows that all loading factor values for each indicator are higher than 0.5 and $t_{calculate}$ value is higher than critical value (1.96). These data shows that those three indicators reflect the accounting-based financial report quality latent variable significantly. The value of Composite Reliability (CR) for the accounting-based financial report quality latent variable, which is 0.890, shows that the value of compatibility of the indicators in reflecting the accounting-based financial report quality latent variable is higher than the recommended value (0.70). The Average Variance Extracted (AVE) value which is 0.730 shows that, on average, 73% information in those three indicators can reflect on the accounting-based financial report quality latent variable. Among the three indicators, predictability has higher effect on reflecting the accounting-based financial report quality latent variable compared to the others.

4.1.4. Structural Model Test (Inner Model)

The hypothesis tested in the study was the effect of Monitoring and the External Auditor Quality on the market-based financial report and accounting-based financial report. The hypothesis was tested by t test with critical value 1.96.

Table 4. The Result of Hypothesis Test Summary

Sub structur	Flow	Coefficient	$t_{calculate}$	*p-value*	R^2
First	X1 -> Y1	0,228	2,487	0,015	0,329
	X2 -> Y1	0,170	1,608	0,111	
Second	X1 -> Y2	0,215	1,437	0,154	0,310
	X2 -> Y2	0,055	0,467	0,641	

Source: Output SmartPLS (2017)

By seeing the determined coefficient (R^2), we know that sub structure 1: monitoring (X1), and external auditor quality (X2) have effect on the market-based financial report quality simultaneously with 32.9% value. Then, from the sub structure 2, we know that monitoring (X1) and external auditor quality (X2) have effect on the accounting-based financial report simultaneously with 31.0% value.

4.1.5. Hypothesis Testing

1) The Effect of Monitoring (X2) on the Market-Based Financial Report (Y1)

The hypothesis tested here was the effect of Monitoring Characteristic on the Market-Based Financial Report. The statistical formula of the hypothesis:

H_0: Monitoring does not have effect on the market-based financial report quality of manufacturing company in Indonesia Stock Exchange.

H_1: Monitoring has effect on the market-based financial report quality of manufacturing company in Indonesia Stock Exchange.

Table 5. The Test Result of the Effect of Monitoring on the Market-Based Financial Report Quality

Coefficient of Flow	$t_{calculate}$	p-value	H_0	H_1
0,228	2,487	0,015	rejected	accepted

Source: Output SmartPLS (2017)

In Table 5, we can see the $t_{calculate}$ value of the flow of monitoring characteristic on the market-based financial report is 2.487 with probability value 0.015. Because the value of $t_{calculate}$ is higher compared to the value of $t_{critical}$ (1.96), the error value 5% was decided to reject H_0 so that H_1 was accepted. Based on the test result, it can be concluded that the monitoring characteristic has effect on the market-based financial report quality. The coefficient of flow which is 0.228 and positive shows that the monitoring characteristic has positive correlation with the quality of the market-based financial report. It means, the better monitoring characteristic will increase the quality of the market-based financial report.

2) The Effect of External Auditor Quality (X4) on The Market-Based Financial Report Quality (Y1)

The hypothesis tested here was the effect of external auditor on the market-based financial report performance. The statistical formula of the hypothesis:

H_0: External auditor quality does not have effect on the market-based financial report quality of manufacturing company in Indonesia Stock Exchange.

H_1: External auditor quality has effect on the market-based financial report quality of manufacturing company in Indonesia Stock Exchange.

Table 6. The Test Result of the Effect of External Auditor Quality on the Market-Based Financial Report Quality

Coefficient of Flow	$T_{calculate}$	p-value	H_0	H_1
0,170	1,608	0,111	accepted	rejected

Source: Output SmartPLS (2017)

In Table 6, we can see the $t_{calculate}$ value of the flow of external auditor quality on the market-based financial report quality is 1.608 with probability value 0.111. Because the value of $t_{calculate}$ is lower (1.608) compared to the value of $t_{critical}$ (1.96), the error value 5% was decided to accept H_0 so that H_1 was rejected. Based on the test result, it can be concluded that the external auditor quality does not have effect on the market-based financial report quality. The coefficient of flow which is 0.170 and positive shows that the external auditor quality has positive correlation with the quality of the market-based financial report. It means, the higher external auditor quality will increase the quality of the market-based financial report.

3) The Effect of Monitoring Characteristic (X2) on the Accounting-Based Financial Report Quality (Y2)

The hypothesis tested in this section was the effect of monitoring characteristic on the accounting-based financial report quality. The statistical formula of the hypothesis.

H_0: Monitoring characteristic does not have effect on the accounting-based financial report quality of manufacturing company in Indonesia Stock Exchange.

H_1: Monitoring characteristic has effect on the accounting-based financial report quality of manufacturing company in Indonesia Stock Exchange.

Table 7. The Test Result of the Effect of Monitoring Characteristic on the Accounting-Based Financial Report Quality

Coefficient of Flow	$T_{calculate}$	p-value	H_0	H_1
0,215	1,437	0,154	accepted	rejected

Source: Output SmartPLS (2017)

In Table 7, we can see the $t_{calculate}$ value of the flow of monitoring characteristic on the accounting-based financial report quality is 1.437 with probability value 0.154. Because the value of $t_{calculate}$ is lower (1.437) compared to the value of $t_{critical}$ (1.96), the error value 5% was decided to accept H_0 so that H_1 was rejected. Based on the test result, it can be concluded that the monitoring characteristic does not have effect on the accounting-based financial report quality. The coefficient of flow which is 0.215 and positive shows that the monitoring characteristic quality has positive correlation with the quality of the accounting-based financial report. It means, the better monitoring characteristic will increase the quality of the accounting-based financial report.

4) The Effect of External Auditor Quality (X4) on the Accounting-Based Financial Report Quality (Y2)

The hypothesis tested in this section was the effect of external auditor quality on the accounting-based financial report quality. The statistical formula of the hypothesis:

H_0: External auditor quality does not have effect on the accounting-based financial report quality of manufacturing company in Indonesia Stock Exchange.

H_1: External auditor quality has effect on the accounting-based financial report quality of manufacturing company in Indonesia Stock Exchange.

Table 8. The Test Result of the Effect of External Auditor Quality on the Accounting-Based Financial Report Quality

Coefficient of Flow	$t_{calculate}$	p-value	H_0	H_1
0,055	0,467	0,641	accepted	rejected

Source: Output SmartPLS (2017)

In Table 8, we can see the $t_{calculate}$ value of the flow of external auditor quality on the accounting-based financial report quality is 0.467 with probability value 0.641. Because the value of $t_{calculate}$ is lower (0.467) compared to the value of $t_{critical}$ (1.96), the error value 5% was decided to accept H_0 so that H_1 was rejected. Based on the test result, it can be concluded that external auditor quality does not have effect on the accounting-based financial report quality. The coefficient of flow which is 0.055 and positive shows that the external auditor quality has positive correlation with the quality of the accounting-based financial report. It means, the better external auditor quality will increase the quality of the accounting-based financial report.

4.2. Discussions

4.2.1. The Effect of Monitoring and External Auditor Quality on Market-Based and Accounting-Based Financial Reports

The quality of accounting-based financial report is when the current year's profit is able to reflect the next year's profit, whereas the market-based financial report quality is when that profit is able to explain the stock price. In determining the quality of those reports' quality, there are factors that affect them. The first factor comes inside the company, which is the company characteristic. The second is from outside the company, which is legalizing the information that is delivered by the company (external auditor). The direct effects are monitoring and external auditor quality. If we see the coefficient values of flow in Table 3 and 4 of hypothesis test result by determined coefficient (R^2) on model 1 and 2, it can be drawn that monitoring and external auditor quality, simultaneously, have effect on the market-based financial report quality by 32.9% and 31% for the accounting-based financial report quality. The result supports the study by Hassan and Bello (2013 and Fanani (2008) through the result of comprehensive assessment of company monitoring. The company monitoring will increase the financial report quality which will affect the user of economical decision making and increase the efficiency of the whole market. This condition is also caused by the Indonesia Stock Exchange's success in implementing financial report submission after being audited for Indonesia Stock Exchange's issuers. This policy has positive impact on Indonesia Stock Exchange's investors that feels confident in the company's financial report presentation as the communication tool between the management and the investor (Muda, 2017). This finding is contradictory with the study of Hidayat and Elisabet (2008) that shows the institutional ownership, management ownership and the composition of the broad of directors have insignificant effect on the company's financial report quality. This is caused by the difference in the variables in limiting management's opportunistic behavior. By limiting the management's opportunistic behavior in the form of auditor's independence in the company, the financial report quality will be increased. It is proven in this study that having good structure, monitoring, company's performance and external auditor will affect in quality financial report. This result is also caused by the different financial report quality measurement can increase the financial report quality. In this study, the company researched has implemented IFRS in presenting financial report that may affect the financial report quality.

4.2.2. The Effect of Monitoring on Market-Based and Accounting-Based Financial Report Quality

The monitoring characteristic of a company is a supervision that is done by internal parties or the parties that concern on the opportunistic behavior of the manager. This supervision's objective is to increase the company's performance and survival by performing monitoring that can limit the opportunistic behavior of the manager and the increasing the quality of the information presented by the manager (Muda *et al*., 2014). In this study, the manifested variable is the composition of directors and the institutional ownership. This is because the composition of the broad of directors is often used to identify the existence of collusion and director's dominance and stock share by an institution that is bigger that can limit the opportunistic behavior of the manager (Muda *et al*., 2018). The result of this study is the monitoring characteristic variable has effect on market-based financial report quality. However, the monitoring characteristic does not have effect on accounting-based financial report quality (Syahyunan *et al*., 2017). Then, it can be concluded that monitoring that is done for the opportunistic behavior of the manager can increase the investor's respond or the investor's confidence to the information given, but cannot increase the predictability value of the basic item. This finding supports the study of Hassan and Bello (2013) that shows the monitoring characteristic has sifnificant effect on the financial report quality. Fanani (2008) found that the institutional ownership has effect on the financial report quality. This is because the big percentage of investor's share has the function as monitoring tool to prevent the manager from being opportunistic in managing the earnings. The big share of institutional investor can represent the controlling shareholder's vote or the higher vote if the decision making is based on the most votes. This study is contradictory with Hidayat and Elisabet (2008) that stated the composition of the broad of directors has insignificant effect on the company's financial report. Chalaki *et al.* (2012) found that institutional share does not have relationship with the quality of financial report. The condition explained above occurs because the proportional composition of the board of directors matches with the amount of stock share that is not owned by the controlling stockholders, may not be able to represent the non-controlling stockholders' concern. It is because if the decision making is done by taking the most votes, the controlling stockholders will have higher votes, also because the indicators of financial report quality measurement are different.

4.2.3. The effect of external auditor quality on market-based and accounting-based financial report quality

The quality of external auditor is a test that is done carefully and systematically for assessing the company's financial report in terms of its consistence, punctuality, and the equitability of the accounting standard implementation that is accepted by public. The good testing system will result in the quality information. External auditor works independently and impartially based on the existing principal and code of ethics. In this study, the manifested variable was the auditor specialization because auditor's specialization will increase the credibility in performing responsibilities and will add knowledge about the industry being audited. In this study, the quality of external auditor does not have effect on market-based and accounting-based financial report partially. This finding is the same as what Christiani and Nugrahanti (2004) found. Their study shows that the measurement of KAP does not have effect on the profit management. Kurniawati (2009) found that the quality of auditor does not have significant effect on the profit management. Maleki *et al.* (2012) found that there is negative relation between the quality of auditor and the quality of financial report. This is because the company has eagerness to make the financial performance of the company good for investor and the company tends to ignore the quality of their financial report. Besides, the function of specialized auditor is not meant to increase the quality of financial report, but it is for increasing the credibility of the financial report presented, because the status of specialized auditor is for motivating the auditor to maintain his reputation as auditor, not for increasing the financial report quality. However, this finding is in contrast with the study of DeAngelo (1981), Hidayat and Elisabet (2008) and Fanani *et al.* (2009) that stated the quality of the auditor has significant positive effect on the quality of financial report. Palmer (2008) said that the company that is audited by the high-quality auditor has more presentation in terms of comprehensiveness and quality. This is because the auditor's professionalism and qualification in performing his job tends to maintain his reputation. Therefore, the more quality financial report can be made.

5. CONCLUSIONS

1. Simultaneously, the quality of external auditor has significant effect of the quality of market-based financial report. This result supports some studies of Hassan and Bello (2013) and the other researchers.

2. Monitoring has significant effect on the quality of market-based financial report. This result supports some studies of Hassan and Bello (2013) and the other researchers.

3. The quality of external auditor does not have effect on the quality of market-based financial report. This result supports some studies of Christianti and Nugrahanti (2014) and the other researchers.

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