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The Effect of Good Corporate Governance and Intellectual Capital on the Quality of Financial Reporting (Case Study of Banking Companies in Indonesia Stock Exchange)

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Abstract
This study aims to examine and to assess the Influence of Good Corporate Governance and Intelectual Capital on the Quality of Financial Reporting, a case study at Banks listed on the Indonesian stock exchange. The independent variables researched are the GCG variables consisting of the number of members of the board of directors, independent commissioners and the attendance of committee members who are directly responsible for the company policy and the presentation of financial reporrts. The sample used in this research use purposive sampling method. The data used in the research are secondary data in the form of annual financial statements whereas the method used is multiple linear regression data analysis and also SPSS analysis tool for data processing.The result of the this research concluded that only the number of attendance of the meeting committee member significantly influences the quality of the financial reporting while the variable of the board of director member, the number of independent commissioner and intellectual capital have no significant effect on the the quality of the quality of financial reporting.
Keywords: Good Corporate Governance, Intellectual Capital, and Quality of Financial Reporting.

1. Introduction

The regulation of the Financial Services Authority Number 6/POJK.03 /2015 on transparency and the publication of banking financial statements stating that in order to create market discipline and in line with the development of international standards, it is necessary to improve the transparency of the Bank's financial condition and performance through the publication of the report. From the banks, to facilitate assessment by the public and market participants, efforts to improve transparency are made through the provision of timely, accurate, relevant, and adequate quantitative and qualitative information (an element of the quality of financial statements). This regulation replaces the regulation of Bank Indonesia, namely Bank Indonesia Regulation Number 14/14PBI of 2012. The issued rule regarding the publication of banking financial statements in Indonesia aims to facilitate the assessment conducted by the community and market participants. The purpose of the financial statements is to convey useful information to assess management's ability to effectively utilize enterprise resources to achieve its main objectives (Belkaoui, 2006). Hendra Lie (2014) argues that the transparency of information in banking is an effective means of bank communication to increase public trust and can increase the value of the company (bank) which is reflected in its share price.

For the benefit of investors, the information contained in the financial statements should contain information about the performance of the company and it will be useful to analyze the increase or decrease in the value of shares or bonds issued by the company (Schipper and Vincent, 2003). (World Bank, 2011: 5; Rezaee, 2010: 8081). The information contained in the financial statements should contain quality information so as to increase investor confidence. The result of research of the Indonesian Association of Certified Fraud Examiners (ACFE) in 2016 in the fraud survey in Indonesia put the financial industry and banking in the first position of the aggrieved organization with the 15.9% percentage with the amount of corruption occurring in the industry.

Another phenomenon is the decline in the value of stock prices occurred in 2017 ie shares of Bank Permata fell 25 points or 3.44% from the closing price the day before. One other thing that weighed on the performance of Bank Permata was the increase in operating expenses by 4.6% , Rp 4.57 trillion in 2016 compared to the previous year of Rp 4.37 trillion. This resulted in the performance of Bank Permata 2016 fiscal year falling significantly, especially in terms of profit . (Warta Ekonomi.co.id, Peb 2017). Rahmat Waluyanto (2013) said that the distortion of financial statements in financial institutions is still high, especially in banking and financial institutions. The related departments in performing financial reporting manipulations consist of accounting departments, operations, sales, executive /upper management, customer service, purchasing, and finance (ACFE, 2014).

Liputan6.com, Jakarta Financial Services Authority (OJK) gives special attention to the financial reporting of PT Bank Tabungan Negara Tbk (BTN). The move is done because there is allegedly irregularities in the financial statements of the state bank. This is followed by the findings of OJK and Bank Indonesia (BI) related to the non-fulfillment of the determination of the collectibility of the restructured loans. Deputy Commissioner for Banking Supervision of Financial Services Authority (OJK) Irwan Lubis said that the window dressing is a deliberate act to obfuscate the recording and financial statements, thus seriously affecting the financial condition

of the bank.

In situations such as this global competition, the implementation of good corporate governance is a necessity in order to build a strong and sustainable company. The implementation of good corporate governance can effectively improve the quality of financial reporting (Setiyawati et.al 2014). The measurement of the quality of financial reporting calculated using the discretionary accrual approach is an accrual component derived from the results of manipulations conducted by the company. Discretionary accrual derived from total accrual (TACC) minus non discretionary accrual (NDAC) (Dechow et al, 1995). Improper or problematic financial reporting in Indonesia shows a lack of good corporate governance. Good corporate governance rating Indonesia is ranked 107 out of 175 countries in the world (Ilya Avianti, 2014). The Regulation of the Financial Services Authority Number 55 /POJK.03/2016 on Implementation of Commercial Bank Governance is a Bank management procedure that applies the principles of transparency, accountability, responsibility, independency, and fairness. Banks are required to have Board of Commissioners, Directors, Committees (consisting of audit committee, risk monitoring committee, remuneration and nomination committee), Provision of funds to related parties and provision of substantial funds, Strategic bank plans, Transparency of financial and non-financial conditions.

Another problem in the banking industry in Indonesia is the management and development of competent human resources (HR) which is a very important and necessary, so that human resources in accordance with their areas of expertise and is the most important components in intellectual capital (Mojhtahedi , 2013), (Zulkifli Zaini, 2014); and Irman A. Zahirrudin, 2014). Toward the enactment of free market in the banking industry, Indonesia has difficulty finding qualified human resources (HR) reflected in the Indonesian Banking Survey 2014 conducted by Pricewaterhouse Coopers (PwC). The survey results indicate that 44 percent of respondents mentioned the lack of qualified human resources as a major obstacle. In the banking industry, employee hijacking often occurs with the reason of better salary and benefits mentioned by 54 percent of respondents, while better career prospects are called by 37 percent of respondents as a key factor of employee mobility. Research conducted by the United Nations Development Program (UNDP), 2014 reveals that Indonesia's human development index is ranked 108 out of 152 countries in the world in terms of human resource quality. Based on the phenomenon and description above, the factors that can affect the quality of financial reporting include good corporate governance and intellectual capital.

2. Review of the Literature

2.1 Agency Theory

According to Jensen and Meckling (1976), agency theory is a concept explaining the contractual relationship between principals and agents. Principal party is party that provides benefits to other parties ie agents to conduct all activities on behalf of the principals in their capacity as decision makers. It can be said that in the relationship, there is a contract where one or more persons (agents) perform a service on behalf of principals and authorize the agent to make the best decision for principals. The relationship between principal and agent can lead to a condition of information imbalance (asymmetrical information) because the agent is in a position that has more information about the company than the principal. Assuming that the individuals act to maximize self-interest, then with their asymmetry information owned, it will encourage agents to hide some information that the principal does not know. Under such asymmetric conditions, the agent may affect the accounting figures presented in the financial statements by means of earnings management

2.2 Accountability Theory

Accountability can be interpreted as accountable (Ihyaul, ulum 2004). Accountability means accountability either by persons or institutions that have been determined against the choices and actions taken by the company or agency. Public accountability is the obligation and the responsibility of the holder (agent) to provide accountability, presenting, reporting and disclosing all activities to the principal who have the right and authority to ask for the accountability. Accountability consists of:

1) Accountability for the management of funds to a higher authority (accountability 14 vertical).
2) Responsibility to the all public (horizontal accountability).

Mardiasmo (2002: 20). The term accountability is often defined as having the same meaning as stewardship as accountability. However, stewardship refers more to the management of an activity economically and efficiently without the burden of reporting while accountability refers to the accountability of a person who is authorized to the responsible person and is obliged to make disclosure reporting in detail and clear.

2.3 Resource Based View Theory

Resource Based Theory according to Wernerfelt (1984), states that for firms, resources and products are two sides of a currency coin. Newbert (2007) in Ulum (2015) states in other words, the performance of the company is directly driven by its products and indirectly driven by the resources that play a role in the production process. Resource based theory suggests that firms have resources that can make a company have competitive advantage

and can lead the company to have good long-term performance (Ulum, 2015). Resource based theory is a thought that develops in strategic management theory and competitive advantage of companies believing that the company will achieve excellence if it has excellent resources. In context to explain the effect of IC on financial performance, growth and market value of the company, Wernerfelt (1984) explains that in the view of resource based theory the company will excel in business competition and get good financial performance by owning, mastering and utilizing the important strategic assets. These important assets are tangible and intangible assets (Solikhah, Rohman, & Meiranto, 2010). Based on the approach of resource-based theory, it can be concluded that the resources owned by a football club have an effect on the performance of the company which will ultimately improve the performance and value of the company. Resource-based views emphasize internal organizational factors and criticize industrial organization approaches that emphasize external organizational factors.

Based on resource-based view, the organization can determine the strategy that will be done in accordance with the capabilities of the organization. The main substance of resource-based view is the resource that is able to produce sustainable competitive advantage that is valuable, rare or unique resource, difficult to imitate, and no substitution. Company resources are said valuable when they are used for strategy implementation to produce effectiveness and efficiency. Resources are said to be scarce if they are not owned by other companies, especially competitors.

2.4 The Quality of Financial Reporting

According to Azhar Susanto (2008) the quality of financial statements is the suitability between the required specifications compared with the specifications produced (used) by the company, the quality leads to the level of suitability of an ouput based on characteristics to user satisfaction. The International Accounting Standards Board (2010: 16) views the financial statements as an economic phenomenon that provides information about the entity's financial position and the effects of transactions and other events that alter economic resources and claims against entities. Matching with the definition of signal theory that looks at how companies should signal to users of financial statements. This signal is information about what has been done by the management to realize the desire of the owner. The company also signals outsiders to reliable financial information and may reduce uncertainty about future prospects (Sugiarto, 2009: 49). Hema (2012), financial reporting is the process of making and disseminating financial information to users of such information in various forms.

The main purpose of the financial reporting process is to provide high quality financial information (Hooper and Fornelli, 2010), while Miller (2002) says that the quality of financial reporting is defined as the manager's attitude in presenting financial information in a timely manner and understandable to the users. Jonas and Blanchet (2000) argue that the quality of financial reporting can be seen from two perspectives, the perspective where the quality of financial reporting is determined by the usefulness of financial information for information users. A second perspective in which the general purpose of financial reporting is to provide useful information to users (shareholders / investors) in decision making. Dechow, et al (1995) and Barth et al (2007) reveal tha the quality of financial reporting can be seen from the side of the accrual model (discretionary accrual /DAAC), how much the managements do discretion by utilizing the accrual basis in financial reporting. The accrual model assumes that managers use discretionary accruals and are negatively assumed to affect the quality of financial reporting as it reduces the usefulness of decision making (Beest et al, 2009). The accrual component is divided into two components: discretionary accrual and non discretionary accrual. Discretionary accruals are accrual components that can be measured and engineered according to discretion. Non discretionary accruals are the accrual sections whose variations can be explained by variations of the company's economic phenomena. Here is the formula to calculate the Discretionary accrual and Non discretionary accrual.

$$NDACit/TAit\text{-}1=(\alpha(1/TAit\text{-}1)+\beta 1(\Delta REVit/TAit\text{-}1\text{-}\Delta RECit/TAit\text{-}1)+\beta 2(PPEit/TAit\text{-}1)+\beta 3\Delta(CFOit/TAit\text{-}1))$$

$$DACCit = TACCit - NDACit \text{ or}$$

$$DACCit/TAit\text{-}1=TACCit/TAit\text{-}1-(\alpha(1/TAit\text{-}1)+\beta 1(\Delta REVit/TAit\text{-}1\text{-}\Delta RECit/TAit\text{-}1)+\beta 2(PPEit/TAit\text{-}1)+ \beta 3\Delta(CFOit/TAit\text{-}1))$$

2.5 Good Corporate Governance

In an era of openness, society needs a accountable and transparency of company reports, one of the form broader transparency to the public by applying Good Corporate Governance (Indracahya,Erik and Faisol, Dewi ,2017). The implementation of Good Corporate Governance can increase investor confidence, protect shareholders and can improve better decision making and also can improve the quality of financial reporting. Conversely, weak Corporate Governance can reduce investor confidence (Rezaee and Riley, 2003; Zarkasyi, 2008; World bank, 2010). Good Corporate Governance is a responsibility and accountability for the entire operation of an organization, where it is more emphasized on external and internal accountability (Bohen in Taylor, 2000). Solomon and Solomon (2004: 14) define Good Corporate Governance as a system of checks and balances in the internal and external environment of the company which to ensure the company in carrying out accountability

and responsibility for its business activities. According to Anand (2013: 76) Good Corporate Governance is a principle whereby the board carries out effective oversight and directs the company's business activities. The structure of good corporate governance in Indonesia embraces two tier system, a system derived from Europe Continental where in this system the function of policy maker and supervision function is differentiated. The decision-making function is run by the board of directors.

The Board of Directors is the president director and other operational directors who have a role in managing the company's activities. The supervisory function is run by the board of commissioners which is the representative of the company's shareholders whose duty is to supervise the board. However, if there are problems in financial reporting, board of directors and board of commissioners are responsible (World Bank, 2011). The Limited Liability Company Law Number 40 Year 2007 (UUPT) defines that the board of commissioners is the organ of the company responsible for general and/or special surveillance in accordance with the articles of association and advises the Board of Directors. Bank Indonesia Regulation Number 8 of 2006 states that the Board of Commissioners is chaired by the President Commissioner and the main Commissioners and the composition of the Board of Commissioners of at least 3 (three) persons and at most equal to the number of members of the Board of Directors (Article 4). Board of Commissioners consists of independent commissioners and commissioners where the number of independent members of the Board of Commissioners is at least 50% of the total members of the Board of Commissioners (Article 5).

The Limited Liability Company Law No. 40 of 2007 requires the number of directors of at least 3 people and must be domiciled in Indonesia and at least have 5 (five) years experience in the operational field as Executive Officer of the bank (Bank Indonesia Regulation Number 8 Year 2006). The President Director or other directors are actively managing the day-to-day business while the board of commissioners perform supervision to the directors (World Bank, 2011). The audit committee is mandated to assist the functions and duties of the board of commissioners (World Bank, 2010, 20-21), so as not to take operational decisions. The audit committee advises the board of commissioners on the various corporate issues, such as annual financial reports, the effectiveness of internal control systems, risk management, the effectiveness of internal and external audit functions (Cohen et al., 2004).

The important role of the audit committee is to assist the board of commissioners in fulfilling the supervisory duties on: a) the integrity of the company's financial statements, b) the compliance of the company with the applicable laws and requirements of the regulator; c) the qualifications and independence of the independent auditor (external auditor);) the performance of external auditors and internal auditors (Husnaini, 2009: 45-46). The structure of audit committee members as stipulated in Bank Indonesia Regulation Number 8 Year 2006 shall at least consist of an independent commissioner, someone from independent party who has expertise in finance or accounting, and an independent party with expertise in law or banking. Furthermore, independent commissioners and independent parties who are members of the audit committee shall be at least 51% of the total members of the audit committee. Bapepam-LK in Kep-643/BL /2012 stipulates that audit committee meetings are at least held once in 3 (three) months and the meeting minutes contain *dissenting opinion* (if any). The State Minister of State-Owned Enterprises (BUMN) in PER-12/MBU/2012 stipulates that the number of audit committee meetings is the same as the number of board of commissioners' meetings, or in accordance with the articles of association.

2.6 Intellectuall Capital

Roos (1997) in Bontis et al. (2000: 87) states that intellectual capital is:

"IC includes all the processes and the assets which are not normally shown on the balance-sheet and all the intangible assets (trademarks, patents and brands) which modern accounting methods consider . . . it includes the sum of the knowledge of its members and the practical translation of his/her knowledge".

According to Stewart (1997) in Wang et al. (2014), IC is an intellectual material, including knowledge, information, intellectual property, experience, etc. that can be used to create wealth. According to Widiyaningrum (2004), IC resources is the form of knowledge available to the company that will eventually bring profits in the future of the company.

According to Sawarjuwono and Kadir (2003), it is stated that intellectual capital can be defined as the sum of what is produced by the three main elements of the organization (human capital, structural capital, customer capital) related to knowledge and technology that can give more value for the company in the form of organization competitive advantage. Sawarjuwono and Kadir (2003) state that many practitioners (Stewart 1998, Sveiby 1997, Saint-Onge 1996, Bontis 2000) said that intellectual capital consists of three main elements: Human Capital (HC), Structural Capital (SC), and Customer Capital (CC). Pulic (2004) states that the most valuable asset of a 21st century institution comes from the knowledge and productivity of the workers. To understand the measurement efficiency of intellectual capital, the added value is the most important indicator for business success. Formally, VAIC^{TM} is the aggregate sum of three separate indicators:

(*asymmetrical information*) because the agent is in a position that has more information about the company than

a) Capital Employed Efficiency (CEE) – value-added efficiency indicators of the capital used.
b) Human Capital Efficiency (HCE) – value-added efficiency indicators of the human capital,
c) Structural Capital Efficiency (SCE) – value-added efficiency indicators of the structural capital, and the calculation formula of VAIC™:

$$VAIC^{TM} = (HCE + SCE) + CEE$$

information:
VAIC™ : Value added intellectual coefficient of the company,
CEE : Capital employed efficiency,
HCE : Human capital of the company, and
SCE : Structural capital of the company.

According to Pulic and Bornemann (1999) in Firer and Williams (2008), the main reason supporting the use of VAIC™ is that VAIC™ provides consistent standards and measurement grounds.

2.7. The Influence of Good Corporate Governance to Quality of Financial Reporting.
The main purpose of the financial reporting process is to provide high quality financial information (Hooper and Fornelli, 2010), while Miller (2002) says that the quality of financial reporting is defined as the manager's attitude in presenting financial information in a timely manner and understandable to the users. Improper or problematic financial reporting in Indonesia shows a lack of good corporate governance. The results of a survey on Good Corporate Governance (implementation of Good Corporate Governance) conducted by World Bank (2010) indicate that Indonesia from the board of commissioner's responsibility is (score 66). According to Jensen and Meckling (1976), agency theory describes the company as the focus of the agency relationship between the company owner (principal) and the management company (agent). The agent is the party responsible for managing the company and has more information about the company's capacity, work environment, and the company as a whole. Principals are shareholders who delegate business decision-making to managers who are representative or agents of shareholders.

The relationship between principal and agent can lead to a condition of information imbalance the principal. Assuming that individuals act to maximize self-interest, then with their asymmetry information owned, it will encourage agents to hide some information that the principal does not know. Under such asymmetric conditions, the agent may affect the accounting figures presented in the financial statements by means of earnings management.

Based on the agency theory, it can be concluded that corporate governance has an important role in improving the quality of financial reporting (Kangarlouei, 2013: 61). This is confirmed by Cohen et al (2004) who says that one of the most important functions of corporate governance is to ensure the quality of the financial reporting process.

H1 :Good Corporate Governance significantly influences the Quality of Financial Reporting 2.8 The Influence of Intellectual Capital on Financial Reporting Quality.

The agency theory that separates the owners of capital and managers, the owners of capital will tend to insist that managers display all information about the entities they manage, so the demands for intellectual capital will be very high. For that agent who is part of the intellectual capital of the human resources component by using his expertise and knowledge to manage the company mandated in accordance with the wishes of the principal.

Intellectual capital is an important asset of a company that is intangible that it is difficult to be measured *reliably* to be presented in the financial statements. To that end, Pulic (1998) proposes an indirect measurement of intellectual capital with a measure to assess the efficiency of value added as a result of the firm's intellectual capabilities, including resource investments including salaries and interest on financial assets, dividends, taxes and research costs and development. Intellectual capital has an influence with the quality of financial reporting. Intellectual capital is closely related to the human resources owned by the company and human resources are also the major factor in intellectual capital.

Human resources is an integrated ability of the power of thought and physical power possessed by individuals. The more companies have human resources with high credibility then the more the company is able to provide financial statements with a high degree of accuracy and the level to perform manipulation will be low, as to improve the quality of financial reporting. These human resources in the company have a sense of ownership and loyalty to the company high. On the other hand, human resources lacking ownership and high loyalty tend to engage in self-serving actions (opportunistic behavior) by using information they know to manipulate reporting (eg speeding up research and development costs, speeding up/delaying income, raising/lowering the cost of amortization/depreciation, etc.).

H2 : Intellectual Capital significantly influences on Financial Reporting Quality

3. Research Methodology

This research is a causality research examining the influence of independent variable (good corporate governance and intellectual capital) on the dependent variable (quality of financial report). Operationalization of variables for corporate governance variables uses the proxy size of the board of directors, independent commissioners and attendance of committee meetings. The dependent variable which is the quality of financial statements uses the proxies of discresionary accrual measurement.Data used in the study, the secondary data are the annual bank reports. The population in this study are banks listed on the Indonesia Stock Exchange as many as 40 banks. Sampling method used is purposive sampling, sampling conducted based on certain criteria that is completeness of data in annual report bank that will be used as research data period 2015 - 2017. This research use multiple linear regression model with and SPSS analysis tool.

4. Result Analysis and Discussion

4.1 Result Analysis

4.1.1 Descriptive Statistics

Table 1 Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KLK	73	.002	.334	.11914	.074887
IC	73	.140	4.610	1.79863	.847929
ADD	73	1.00	11.00	5.9589	2.51903
KI	73	1.00	6.00	2.7671	1.06093
RKA	73	4.00	47.00	12.3425	9.04651
Valid N (listwise)	73				

Source : Processed Data

In the table 1 above, it is seen that the dependent variable KLK (Financial Reporting Quality) has the lowest value of 0.002 and the highest value of 0.334 with an average value of 0.119. Independent Variable IC has the lowest value of 0.14 and the highest value of 4.610 with an average value of 1.79. GCG variables proxied with the variable number of members of the Board of Directors (ADD) has at least 1 board of directors, on average there are 6 directors and the most consist of 11 directors. The number of independent commissioner (KI) consist of at least one person and a maximum of 6 persons. The number of committee meetings (RKA) conducted at least done as many as 4 times. The results of the classical assumption test in the study concluded that the data are normally distributed, the other test; multicolinearity test, heteroscedasticity test and autocorrelation test all meet the required criteria.

4.1.2 Hypothesis Test

Table 2 coefficient of determination

R	R Square	Adjusted R Square
.366a	.134	.083

Source : Processed Data

Based on table 2, it is seen that the coefficient of determination value (Adjusted R2) is 0.083 or only 8.3% of the influence of independent variables that is IC, the number of directors, independent commissioner and the Board Meeting Frequency to the dependent variable, the remaining the Quality of Financial Reporting influenced by other variables investigated.

Table 3 F Test (Goodness of Fit)

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.545	4	.886	2.629	.042b
	Residual	22.922	68	.337		
	Total	26.468	72			

Source : Processed Data

The Goodness of Fit test in principle aims to determine whether a distribution of data from a sample follows a certain theoretical distribution (normal distribution) or not (Singgih, 2010). Based on table 3 above, it is seen that the value of F is equal to 2.629 with a significance value of 0.042. The value of significance is less than 0.05

proved that the model used is in accordance or the distribution of data from the sample is normally distributed. Independent variables (GCG and IC) together affect the dependent variable (Quality of Financial Reporting).

Table 4 T Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.971	.356		-8.339	.000
	LnADD	.147	.258	.088	.568	.572
	KI	-.064	.055	-.170	-1.162	.249
	LnRKA	.335	.131	.344	2.563	.013
	LnIC	-.137	.113	-.137	-1.210	.231

According to Ghozali (2012), statistic t test is used to test how far the influence of one independent variable individually in explaining the variation of independent variables to the dependent variable. Based on table 4 above, it can be concluded that only variable member of Committee Meetings (RKA) have a significant effect on the quality of financial statements with a significance value of 0.013 (under 0.05), number of director (ADD) variables have no significant effect, as well as variable Independence commissioners (KI), and Intellectual Capital (IC).

The regression equation from the above table is as follows:

FRQ = - 0,971 + 0,147 Dir – 0,064In.Com + 0,335ACM - 0,137IC + e

4. Discussion

1) The Influence of Good Corporate Government (GCG) to the Quality of Financial Reporting.

The Influence of Good Corporate Government (GCG) to Quality of Financial Reporting. From the result of examination of data, it is found that the Frequency of Audit Committee Meeting have significant effect to the Quality of Financial Reporting. The audit committee has a role as an adviser to the board of commissioners on various corporate issues such as, annual financial reports, the effectiveness of internal control systems, risk management, the effectiveness of internal and external audit functions (Cohen et al., 2004). An important role of the audit committee is to assist the board of in fulfilling the supervisory duties so that the company will operate properly. The meetings conducted several times a year will result in policies that can be used by commissioners in particular and directors in general in decision-making. This research is in line with Hanum and Juwita (2008) research, but does not support Yasmeen and Hermawan's research (2015).

2) The Influence of Intellectual Capital (IC) to the Quality of Financial Statement.

Hypothesis testing for Intelectual Capital variable concluded there is no effect of IC on the Quality of Financial Report. Intellectual Capital in the banking industry is considered good, many banks provide training programs to improve employee competence, the impact is improving the company's performance so that the quality of financial statements will increase by itself. This is in accordance with the opinion of Firer and William (2003), banking industry is one sector that has the most efficient intellectual capital and more homogeneous employees. This study does not support the research of Darabi, Roya and Kamran Rad (2012) and Mojtahedi, Payam. (2013).

5. Conclusion

The Regulation of the Financial Services Authority Number 55 /POJK.03/2016 on Implementation of Commercial Bank Governance is a Bank management procedure that applies the principles of transparency, accountability, responsibility, independency, and fairness. Banks are required to have Board of Commissioners, Directors, Committees (consisting of audit committee, risk monitoring committee, remuneration and nomination committee), Provision of funds to related parties and provision of substantial funds, Strategic bank plans, Transparency of financial and non-financial conditions. This research is to examine the effect of good corporate governance variables proxied by number of directors, number of independent commissioners and board committee meetings and intelectual capital variables (VAIC proxies) on the quality of financial reporting. The conclusion is GCG variables (number of committee meetings) have a significant effect while the other proxies from other GCGs and Intelectual Capital have no effect.

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