The Effect of Good Corporate Governance Structure to the Financial Report Quality with Disclosure of Corporate Social Responsibility as an Intervening Variable in Islamic Bank in Indonesia

Firdaus A. Rahman, Zulhelmy
Economic Faculty, Universitas Islam Riau
Corresponding Author: Firdaus A. Rahman

ABSTRACT: The purpose of this study was to identify the effect of the structure of Islamic good corporate governance (GCG) towards corporate social responsibility (CSR) and the quality of financial reporting of Islamic banking in Indonesia. GCG is proxied by the board of directors, the audit committee and the supervisory board of sharia. In addition, this study also aimed to identify the influence of corporate governance on the quality of financial reporting and CSR as an intervening variable. Methodology: This study was designed using primary data from 12 (twelve) Islamic Banks in Indonesia with 107 respondents as a sample. Data analysis was performed using structural equation modeling (SEM). Findings: The analysis showed that the Islamic GCG simultaneously dealing with the disclosure of corporate social responsibility (CSR) Islamic banking. Islamic GCG is also associated with the quality of corporate financial reporting. Islamic GCG proxied by the board of directors and audit committees, does not affect the partial disclosure of CSR, while sharia supervisory board to influenced CSR disclosure. Furthermore, the board of directors and audit committee does not affect the quality of financial reporting, while the sharia supervisory board affect the quality of financial reporting. Contribution: This study proves that the disclosure of CSR variables not yet to be proven as a mediator in relation between Islamic GCG with the quality of financial reporting on Islamic banking in Indonesia.

Keywords: Good Corporate Governance, Corporate Social Responsibility, Quality of Financial Reporting

I. BACKGROUND

Theoretically, financial statements are important tools as media information for shareholders. The accuracy of the decision on the financial statements is determined by the quality of information that presented in the financial statements. The quality of information allows the investors to make a rational and qualified decision making as well.

Factually, cases that have occurred in recent years have caused the quality of financial reporting to be questioned. Several legal cases publicly revealed the seriousness of fraud that occurs in financial reporting (Hidayat & Elisabet, 2012). The emergence of similar cases raises questions for many parties, especially regarding the implementation of good corporate governance (Susiana and Herawaty, 2007).

Providing protection to the shareholders is by given the information about the company with served the qualified annual financial statement. Susiana and Herawaty’s (2007) research proves that auditor independence, good corporate governance and audit quality have insignificant impact on the integrity of financial statements.

John J. Forker (1992) examined the relationship of Good Corporate Governance (GCG) and disclosure of the quality of financial information. If there is a dominated role of executive and management, it will be threaten the quality of monitoring. Geoffrey Whittington (1993) found that there is a relationship between financial reporting and Good Corporate Governance (GCG) by strong rules of regulations on financial reporting. Hatta (2010) found that the structure of Good Corporate Governance (GCG) affects the quality of financial reporting.

The implementation of Good Corporate Governance is needed to fulfill the trust of the community and the international world as an absolute requirement for the industrial to develop with the ultimate goal to realizing stakeholder value (Murwaningsari, 2009). The main idea of Good Corporate Governance (GCG) is to realize social responsibility (Corporate Social Responsibility). The main idea of Good Corporate Governance (GCG) is to realize social responsibility (Corporate Social Responsibility).

Murwaningsari (2009) said that corporate social responsibility (CSR) is related to Good Corporate Governance. Like two sides of a coin, both have a strong position in the business world also yet related to one
another. Social responsibility is oriented towards stakeholders and is in line with the main principle of Good Corporate Governance, namely responsibility.

Corporate Social Responsibility (CSR) is the relationship between a company and the community and the environment in which it operates. Theoretically, Corporate Social Responsibility (CSR) can be defined as the moral responsibility of a company towards its stakeholders, especially the community around the work area and its operations. A company must uphold morality. The parameter of a company's success in the perspective of CSR is to promote moral and ethical principles, such as achieving the best results, without harming other community groups (Febrina & Suaryawan, 2011).

Good Corporate Governance must be considering the issue of corporate social responsibility in a broad historical and philosophical context. Disclosure of social, ethical, environmental and sustainability aspects is a way for companies to communicate their forms of accountability to stakeholders.

Raharjo and Amalia (2004) conducted a study on the effect of the publication of the application of GCG principles on the price of shares of companies listed on the Indonesia Stock Exchange. The results are known that the publication of company ratings that apply the principles of GCG has a significant negative effect on the company's stock price. Wafa et al. (2002) also examined the price of shares of companies that listed on the Malaysian Stock Exchange, and the results are different where in that good corporate governance drift to attract foreign investors and economic growth. Based on a literature search it is known that research on Good Corporate Governance and Corporate Social Responsibility in Islamic banking is still small, although the growth of Islamic banking in the world is very fast.

According to Shamsad Akhtar (2007), GCG in Islamic financial institutions has uniqueness based on two principal elements which is (1) faith based approach where are business practice accordance with sharia principles; and (2) profit motive, admitting business transaction and investment, also the maximum welfare of stakeholder. GCG on Islamic financial institutions has grown significantly in line with the development of the Islamic financial system in regional and global level. Islamic financial institutions provide attractive choices for customers and investors who tend to be with the religious and ideological Islamic financial system.

The issue of GCG has become more attractive to Islamic financial institutions because of its uniqueness, where the stakeholders receive a reasonable return on their investment and at the same time their business practices are based on Islamic sharia. Asyraf Wajdi Dusuki (2008) provides a work plan for company management to solve problems that arise from potential conflicts regarding accountability to stakeholders.

A GCG study on Islamic banking has also been done by M. Umer Chapra and Habib Ahmed in 2002 with a survey of GCG in Islamic financial institutions in 13 countries. The survey results show that the implementation of GCG is still very weak in Muslim countries. Salleh Hasan (2003) tried to explain the difference between the value of GCG with sharia-based companies and non-sharia-based companies. The results show that there are differences between it. The GCG value of a sharia-based company is worse compared to the value of a non-sharia-based.

Irma Aulia R. Kasri and Niki Lukviarman (2009) examined the implementation of the principles of GCG and governance disclosure in Islamic Banks in Indonesia. The results indicated that the object of his research, Muamalat Indonesia Bank and Bank Syariah Mandiri, have adopted GCG practices. Both banks have shown a positive tendency to disclose information regarding GCG implementation.

Some of the research is still limited to GCG surveys implementation that found in conventional banking institutions and Islamic banking institutions. Based on authors' observations are still very limited in research examining how the relationship between the existence of GCG structures and the application of CSR disclosures and their effects on the quality of financial reporting in Islamic banking institutions. Therefore, it is deemed necessary to study the relationship between the existence of GCG structures, the implementation of CSR disclosures and the quality of sharia banking financial reporting in Indonesia.

The implementation of GCG in Islamic banking is expected to increase public trust (stakeholders) of the Islamic banking business. The beneficial element that should be fulfilled through the implementation of GCG is the fulfillment of community needs for information about corporate social responsibility. Corporate social responsibility (CSR) is a theoretical basis for the company to build harmonious relationships with the community and the environment of its area. The question is whether the implementation of GCG in Islamic banking will affect the disclosure of corporate social responsibility information? Also, corporate financial reporting. Does the implementation of GCG in Islamic banking affect the quality of financial reporting and does CSR disclosure also affect the quality of corporate financial reporting? This study tries to look at the relationship between the structure of Islamic GCG and CSR disclosure on the quality of Islamic banking financial reporting in Indonesia. Based on this, a problem can be stated, namely how is the relationship between the structure of Islamic GCG, CSR disclosure and the quality of financial reporting in Islamic banking in Indonesia.
II. LITERATURE REVIEW

The implementation of GCG in a company cannot be done without applying an accounting system. The accounting system provides information for various interested parties. The application of a good accounting system helps the company achieve its goal of increasing profits. And will provide guidance in making decisions so that companies can develop and survive though in conditions of economic and financial crisis.

However, a good GCG and accounting system is according to the Islamic concept which is based on the Qur'an and Al-Hadith. Islam principle of awareness that all actions that carried out in this world will be held accountable by Allah SWT in the letter Al-Mudatatsir verses 37-38; "Each person is responsible for what he did". This is referred to as an accountability, the horizontal and vertical accountability.

Accountability that must be carried out by organizations, especially public sector organizations, consists of several dimensions. Ellwood (1993) explains that there are four dimensions of accountability that must be met by these institutions, namely; (1) honesty and legal accountability; (2) process accountability; (3) program accountability; and (4) policy accountability.

Sulaiman (2005) says that someone who is Muslim believes that everything created by God has a meaning and purpose. These goals provide important meaning for human existence. Humans have accountability to their Lord and their success depends on their achievements in the life of this world.

Accounting in a broad sense is the center of attention in Islam, accountability to God and society for all activities is the highest belief for Muslims. One of the main objectives of the accounting system (accounting system) is to hold or help realize accountability. In the use of economics resources, we must be responsible for its management, as well as those related to government organizations and those related to private entities. Accountability based on Islamic sharia, its a comprehensive ethic that can be specifically formulated as how it should run the company, how business should be organized and managed, and how financial reporting should be made, (Lewis, 2006).

In the Muslim community, accounting (accounting) are expected to be affected by the economic system that is managed and become a fundamental philosophy in its system. If we examine the role of economic activity in Islam, we will find that the philosophy of human activity should be directed towards achieving falah in the form of comprehensive welfare both in the world and the hereafter. To achieve this phase, economic activity must have morality. In various economic decisions, financial reporting on economic activities, ethical values should act as norms and economic relations must be considered as a morality relations (Rahman, 2008).

The role of accountability and value enhancement for Good Corporate Governance closely related in the context of financial reporting. Koh at.al. (2007) conducted research relating to the relationship and influence of GCG on its role in the financial reporting process. The result is that GCG has a direct role in the financial reporting process.

Garyat.al. (1987) says that accountability in Islam is includes vertical accountability, which is accountable to God, and horizontal accountability that is responsible to fellow human beings.

This is consistent with Hamid (2000) stated that in an Islamic perspective there are two levels of accountability: the first level is closely related to human accountability to God (primary accountability) and the second level (secondary accountability) which states that individual accountability to the company.

The accounting function plays the role of realizing corporate accountability as a result of the separation of ownership and management. User could be as a shareholders, creditors, potential investors and the public. In Muslim societies, the concept of accountability is related in the creation of humans as a Khalifa of Allah on earth. Human mission on earth is to fulfill the purpose of its existence in universality (Rahman, 2008).

Starting from this explanation, it can be said that accountability is something that is very important in examining issues of Islamic influence on accounting and information disclosure practices by an institution or company.

**Corporate Social Responsibility (CSR)**

Corporate social responsibility (CSR) which is also known as corporate social responsibility, corporate citizenship, responsible business, sustainable responsible business (SRB), or corporate social performance is a form of company regulation that is integrated in a business model. Ideally, CSR policies will have built-in functions, self-regulating mechanisms, control in business, and ensure compliance with applicable laws, ethical standards, and international norms. CSR includes responsibility as an impact on their activities on the environment, customers, workers, communities, stakeholders, and other users. Essentially, CSR is an action taken by the company in an effort to raise the public interest by considering three basic lines (triple bottom line): people, planet, and profit.

Social responsibility (social responsibility) which is the alignment of stakeholders, including the alignment of managers, employees, stockholders, creditors, traders, and consumers (Richard N Farmer and W. Dickerson Hogue, 1973) in Inawesnia, 2008. It was further stated, that the company not only had an interest in increasing profits (profit), but also taking into account the interests and needs of community groups both
internal and external. Because there is coherence between efforts to increase the profitability of companies to the legitimacy of the company through increased corporate social responsibility.

The World Business Council for Sustainable Development (WBCSD) which is an international organization founded in 1955 and consists of 120 multinational companies from 30 countries of the world, through the publication "Making Good Business Sense" defines corporate social responsibility (CSR) as "continuing commitment by business to behave ethically and contributed to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large."

It shows that corporate social responsibility is a form of action that departs from the ethical considerations of companies that are directed to improve the economy, which is accompanied by an increase in the quality of life of the surrounding community and the wider community.

The idea of social responsibility is basically how companies pay attention to their environment, that affect the company's operational activities. Dauman and Hargreaves (1992) in Hasibuan (2001) state that corporate responsibility (CSR) can be divided into the following 3 (three) levels:

1. Basic responsibility (BR). At the first level, related to the first responsibilities is because of the existence of the company such as: the company must pay taxes, meet the law, meet work standards, and satisfy shareholders. If responsibility at this level is not fulfilled it will have a very serious impact.

2. Organization responsibility (OR). At the second level this shows the responsibility of the company to meet the changing needs of stakeholders such as workers, shareholders and the surrounding community.

3. Social responsibility (SR), at this level, shows the stages when the interaction between business and other forces in society is so strong that the company can grow and develop in a sustainable manner.

**Qualitative Characteristics of Financial Reporting**

Nurhayati and Wasila (2008) said that the qualitative characteristics are the uniqueness of the useful financial report for the users. There are four main characteristics, which is, understandability, relevance, reliability, and comparability. It is same as the qualitative requirements of financial reporting according to AAOIFI (Accounting, Auditing and Organizations of Islamic Financial Institutions) which is relevant, reliable, comparable, consistent and understandable (Harahap, 2007).

Zaid (2004) explains the purpose of qualitative characteristics of the useful financial report for the users could be as guidelines in the preparation and manufacture of financial information, so that it can be utilized by its users.

The basic purpose of sharia accounting financial reporting based on material side is to provide information (accounting), while on the spirit side is for accountability. Both of these goals are mutually inclusive, like the one goal cannot negate the other; both are in unity of bodies and spirits. Provision of information seems as a body, while accountability is a spirit. The body will not exist without spirit. Vice versa, the spirit can not be grounded without the body (Triyuwono, 2006).

**Good Corporate Governance, Corporate Social Responsibility and Quality of Financial Reporting**

According to Murwaningsari (2009) Good Corporate Governance has a close relationship with social responsibility (CSR). Like two sides of a coin, both have a strong position in the business world but are related to one another. Social responsibility is oriented towards stakeholders. This is parallel with one of the five main principles of Good Corporate Governance, responsibility.

At this time there are a movement in the paradigm of Good Corporate Governance, like expanding the theoretical of paradigm from agency theory to stakeholder theory perspective. As a result of it, Good Corporate Governance must be consider and pay attention to the issue of corporate social responsibility in a broad historical and philosophical context (Murwaningsari, 2009).

Furthermore Murwaningsari (2009) said the disclosure social aspect, ethical, environmental and sustainability became a way for companies to communicate their forms of accountability to stakeholders. Sustainability reporting as recommended by the Global Reporting Initiative focuses on three aspects of performance, such as economic, environmental and social. These three aspects are known as Triple Bottom Line. It is expected to have a positive relationship between corporate social responsibility and corporate financial performance (CFP), as expected as be positively related to the quality of financial reporting.

**Muamalah Theory and Tawhidy String Relations (TSR)**

The implementation of GCG and CSR disclosure as well as quality financial reporting are part of the scope of the discussion in muamalah theory. In Fatah (2013) it is said that muamalah theory in terminology is a theory that discusses interactions between one party and another. Whereas in epistemology the muamalah
theory is a reciprocal relationship between parties that give roles to both empirical and tangible material relations as well as emotional and spiritual relationships that are and intangible. Muamalah theory ontologically refers to human existence as social beings who cannot live alone and always need the services and help of others, and refers to human existence as God's creatures (Al Kholik) who have a spiritual relationship with God who created it and with the universe as an integrated whole system of life (Chowdhury, MA, 2000).

Muamalah theory integrates science and religion. The role of science as a guide to human life in the world and the role of awareness of the existence of God (faith) as a guide to ethical living (berakhabq) for the life of this world and the hereafter. The development of Islamic economics and its implementation in various forms of entities and instruments such as Islamic banking, Islamic insurance, Islamic financing, Islamic investment and scientific studies relating to Islamic accounting, Islamic finance and Islamic management are the development of Muamalah's theory, Fatah (2013).

Muamalah theory has developed rapidly from behavior to civilization, especially after the development of the Interaction, Integratim and Evolution methods in the Tawhidy String Relations (TSR) theory by Professor Masudul Alam Choudhory through a philosophical approach (philosophical thought) as a unity of knowledge that philosophically returns science to a unified and not dichotomistic unit. Unity of knowledge is epihstemologically referring to the unity of divine law where the source of knowledge is from the side of God the Creator (Chowdhury, MA, 2000).

Professor Masudul Alam Choudhory introduces this theory as a method of developing new knowledge that integrates philosophical and religious thought in human life that is integrated with its environment (the universe) and God as its Creator. The essence of understanding this theory is recognizing the existence and role of God that is active in human life both through inspiration (deductive reasoning) as well as through faith and works of faith. He emphasized that the axis of everything is God present but invisible, existent (tangibles) but also abstract (intangible) (Fatah, 2013).

Furthermore, the TSR theory is translated into an operational form by developing a mathematical model of circular education, where each variable is interconnected with each other at the same time so that this theory has not only sued the conventional scientific thinking framework, with the simplicity caters paribus method, with the assumption that two or three of the independent variables being moved then the dependent variable does not move, so that there will be implications for the changes in the dependent variable by simplifying the view that the case and events can be protested at a certain point of time if there are several independent variables affect one or two dependent variables, then these interactions can be measured by mathematical quantitative models and can be analyzed by statistical science.

The model developed by Professor Masudul Alam Choudhory departs from an Islamic worldview that is different from the conventional scientific scene. According to him, the complexity dimension as a real thing from various phenomena so that the scientific methodology that must be applied is a methodology that is better than the current one, which is an integrated method that can measure complex problems of various dimensions with a matrix approach and analytical network process in a circular model cauaction (Chowdhury, MA (2000) in Harahap (2008)).

Furthermore, TSR is a methodology that illustrates the existence of interactive and integrative processes that occur in the interrelation of elements of a system with the encouragement of learning experience, understanding, knowledge and beliefs about Islamic teachings that originate from the Qur'an and Al Hadith. The process is a process of change in a positive direction and takes place continuously (shuratic process) until it evolves into the best conditions or conditions expected.

Al-Qur'an is the foundation of TSR methodology which is the word of Allah SWT was revealed to be the main source and the beginning of science (primordial stock of knowledge) in the universe. Choudhury (2006) explains that the existing knowledge in the Al-Qur'an has absolute truth (absolute) and covers all aspects of life in a comprehensive (complete) and holistic manner, therefore it cannot be reduced or added (irreducible).

The knowledge contained in the Qur'an is actually implemented into the life and noble behavior of the Prophet Muhammad in the form of Hadith or As Sunnah, where As Sunnah is the other source of knowledge after Al-Qur'an. Furthermore, Al Qur'an and As Sunnah is the guideline of knowledge which is revealed in the world system of life, especially for humans as servants of Allah SWT in order to seek the ultimate truth to achieve benefit and fallah.

The knowledge contained in the Qur'an and Sunnah refers to the main message conveyed to all humanity about the ultimate truth, the knowledge of the Oneness of Allah or the legal unity of Illayah that called Tawhidy. This means that all knowledge about essential truths will never be separated from the legal unity of Illayah (tawhidy).

In the TSR methodology, the process of finding the ultimate truth until it reaches fallah is called the shuratic process. Shuratic comes from the word Shura which means deliberation and indicates a consultative and dynamic process. This means, that humans will not necessarily be able to reach fallah without the shuratic
process in which in search of the ultimate truth. Shuratic process will continue until a bad situation changes (evolves) into a better state.

In Choudhury (1999) and Choudhury and Harahap (2007), it is explained that the TSR methodology is a process of Interaction, Integration and Evolution (IIE), where a condition is expected to be achieved if the IIE and shuratic process are based on knowledge derived from Al Quran and Al Hadith. In the method Tawhidi String Relation (TSR), morals, ethics and knowledge symbolized by a (θ) will flourish when everything is based on the instructions / guidelines derived from Allah the Al Quran (Ω) and the Hadith / Sunna of prophet Muhammad (S).

III. RESEARCH METHOD

The population in this research is the Sharia Banks (BS) that operating in Indonesia, has the headquartered and domiciled in Jakarta. Sample selection by purposive sampling method. There are 34 banks with sharia based principles, this research has classification sample criteria it must have a GCG and CSR report and there is 12 sharia bank became sample of this study. This study uses primary and secondary data relating to information on GCG and CSR reports. Primary data are the perceptions of Islamic bank stakeholders on the implementation of GCG and CSR and their effects on the quality of financial reporting. Primary data collection was carried out by distributing questionnaires to respondents in this study, like the Board of Directors, the Audit Committee and the Sharia Supervisory Board for each sample. In this study the sample that was successfully obtained and can be used is 107. So it can be said that the number of samples has fulfilled the requirements in this study.

In this research the TSR theory is only applied conceptually at the level of ephistemology and research framework on the development of some dimensions of the measurement of the Islamic Social Indexing Index as conducted by Fatah (2013). From 77 ISR index measurement indicators to 99 indexes by adding wellbeing dimensions. This study adopted the index as the basis for the development of a perceptional questionnaire instrument for disclosing corporate social responsibility (CSR) information.

The data analysis technique used in this study is the Structural Equation Model (SEM). Structural Equation Model (SEM) models are statistical techniques that allow the simultaneous testing of a series of relatively complex relationships. Complex relationships can be established between one or several dependent variables with one or several independent variables. There may also be a variable that has a dual role, as an independent variable or a dependent variable because the causality of the relationship. Each dependent and independent variable can be in the form of factors or constructs that are built from several indicator variables. Likewise, among the variables can be in the form of a single variable that is observed or measured directly in a research process.

Based on the study literature to examine the factors that affect the reporting of CSR and the quality of financial reporting, the role of the structure of GCG in this research consists of a board of directors, audit committee, and the board sharia, in addition to CSR disclosure as an intervening variable that affects the relationship of GCG structure to the quality of financial reporting, then the research model is made as shown in Figure 1 below.

![Fig.1. Framework](image)

**Hypothesis**

H₁: Boards of Direction significantly effect to CSR disclosure.
H₂: Audit Committee significantly effect to CSR disclosure information
H₃: sharia supervisory boards significantly effect to CSR disclosure
H₄: Boards of Direction significantly effect to Financial Report Quality
H₅: Audit Committee significantly effect to Financial Report Quality
H₆: sharia supervisory boards significantly effect to Financial Report Quality
H₇: GCG significantly effect to Financial Report Quality through CSR as an intervening variable.
The Effect Of Good Corporate Governance Structure to The Financial Report Quality

The SEM model flow chart of this study is presented in Figure 3.3

Fig. 3.3. Structural Model Of The Effect Of GCG and CSR to Financial Report Quality in Indonesian Sharia Banking Industries.

IV. DISCUSSION OF FINDINGS

Hypothesis I is The Boards of Direction significantly effect to CSR disclosure. Based on data processing, known that the Critical Ratio (CR) value shows that there is no influence of the board of directors on CSR disclosure, as shown in Table 4.1 the CR value is -0.917 and the probability value (P) is 0.359. The value (CR) below 1.978 and above 0.05 for the Probability (P) value, thus it can be said that the hypothesis I of this study was rejected.

The findings of this study are consistent with the results conducted by Sembiring (2005) and Aggraini (2005) and Fatah (2013) which empirically prove that there is no direct influence between the GCG structure of the board of commissioners with the disclosure of CSR information. However, the findings of this study are different from the results of Farook and Lanis (2005) who found that the structure of GCG is positively correlated with disclosure of social responsibility information. In BAPEPAM No. XK6 of 2012, it was stated that the board of commissioners and the board of directors must be responsible for the contents of the annual report published, including the disclosure of CSR.

In agency theory, a director or top-level management authorized by the owner of the company and shareholders is required to provide welfare maximization to shareholders. For this reason, managers usually try to maximize the profits every year. Managers try to do how to manage earnings or known as earnings management (earning management) to maintain performance, with income smoothing techniques.

The impact of the use of income smoothing techniques results in the non-transparency of financial reporting. The presentation of financial statements that are supposed to present them as they are is biased, so the financial statements and CSR disclosures are less in meaning.

In theory perspective muamalah, Boards of directors are the ones who are given the mandate to manage the company as well as possible in accordance with the roles, functions and responsibilities. As the party given the mandate, then they are obliged to account for the mandate both horizontally to the trust holder ( horizontal accountability ) and other stake holders and vertically to Allah SWT ( vertical accountability ). Among the verses regarding the obligation to fulfill the mandate and the prohibition of treason is the word of Allah Azza wa Jalla in Surat An-nisa ’verse 58:
Indeed, Allah commands you to render trusts to whom they are due and when you judge between people to judge with justice. Excellent is that which Allah instructs you. Indeed, Allah is ever Hearing and Seeing. [An-Nisa : 58]

For this reason, it is necessary to keep the principles of managing Islamic finance through the application of Islamic financial accounting standards issued by the Indonesian Institute of Accountants. Especially in the matter of presenting financial statements for Islamic financial institutions that make the principles of honesty, objectivity, and transparency in every transaction. Starting from the manufacture of sharia products, sharia implementation, presentation of sharia financial statements and sharia auditing. Thus, sharia accounting standards in the form of Sharia Accounting Standards (PSAK) Sharia can be a guideline for actors, examiners and policy makers of sharia products in sharia financial institutions especially sharia banks.

Hypothesis II is there is an influence of the audit committee on CSR disclosure. The findings in this study are consistent with the results of Fatah (2013) which states that the audit committee has no effect on the disclosure of corporate social responsibility information. The results of Nussy's research (2013) on companies listed on the Indonesia Stock Exchange also prove that the audit committee has no effect on CSR disclosure. That is, the existence of an audit committee within the Islamic banking company does not affect the availability of corporate social responsibility information.

The results of this study are different from the findings of Said et. al. (2009) which proves that the proportion of non-executive directors on the audit committee influences the extent of CSR disclosure. Ho & Wong (2001) in his research proved that the existence of an audit committee in a company has a positive effect on the practice of voluntary disclosure.

The audit committee is the party that assists the board of commissioners in carrying out their duties, functions and responsibilities, especially in overseeing the performance of the board of directors. Like the existence of an audit committee should have an influence on the disclosure of CSR information, which is in this study was not successfully proven empirically. Conceptually, the establishment of an audit committee within a company is expected to carry out its functions properly so that it can help the achievement of company goals. However, the formation of an audit committee can also be caused by only fulfilling government regulations without considering the competence of the audit committee. This can be seen with the appointment of audit committee members in public companies, which are mostly not based on adequate competence and capability.

### Table 1. Results of Regression Weights the analysis of Structural Equation Model

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but based on closeness with the company’s board of commissioners (Effendi, 2009). This situation will certainly affect the weak implementation of the roles and functions and responsibilities of the audit committee in influencing management performance.

In the perspective of the muamalah theory, the existence of an audit committee that should be assist the board of commissioners in carrying out the oversight function of the management to influence in producing information is useful for corporate management accountability. Supervision is an act to measure and correct the work of subordinates to ensure that the organization’s objectives and pre-determined plans being implemented. In this context, the implementation of sharia based on three pillars of supervision, which is : 1). The Individuality of taqwa, isthe development of human resource became taqwa as human being; 2). Member control, the condition of the organization as a team that will oversee the sustainability of the organization in accordance with a predetermined direction; 3). Application / supremacy of rules, The organization operates according to clear and transparent rules and does not conflict with Islamic principles(Yusanto & Wijjajakusuma, 2003).

Based on this perspective, the audit committee must be sure to carry out its role and function, the duty as the party of supervision with the board of commissioners. If that is goes well as should be then the audit committee will have an impact on the disclosure of corporate social information, also the availability of corporate social responsibility (CSR) information.

Hypothesis III is the influence of the Sharia Supervisory Board on CSR disclosure. The results of this study differ from the results found in Fatah (2013) which states that the size of the DPS has no effect on the disclosure of CSR information. Likewise, research conducted by Rizkiningisih (2012) showed that the Islamic governance score did not significantly influence the disclosure of ISR, the study concluded that there was still a lack of attention from the sharia supervisory board over the disclosure of ISR.

This study found that the presence of the sharia supervisory board actually has a significant effect on the disclosure of CSR information. This result is consistent with the research of Farook and Lanis (2005) who examined the transparency of CSR disclosure in Islamic banking throughout the world. The study found that Islamic Governance (as a corporate governance in Islamic banks) proved to have a significant positive effect on disclosure of social responsibility. The Islamic Governance variable is discussed about the number of sharia supervisory boards, where more DPS can increase the level of CSR disclosure.

The concept of corporate social responsibility (CSR) in Islam came from social contracts that are supposed to be in line with the organization’s value system with a larger value system in Islamic societies. Management and capital owners, are responsible for their actions both inside and outside the company. Responsibility as accountability to the community for socio-economic justice building in its capacity. A number of commands in the Qur’an and the hadiths of the Prophet Muhammad determine what must be done in order to establish socio-economic justice. Examples such as mandatory payments of income and wealth (zakat), endowments, alms, interest-free loans (qard-ul-hassan) (Sadeghzadeh, 1995).

In Surah Al-Baqaroh verse 267, Allah SWT says:

O you who have believed, spend from the good things which you have earned and from that which We have produced for you from the earth. And do not aim toward the defective therefrom, spending [from that] while you would not take it [yourself] except with closed eyes. And know that Allah is Free of need and Praiseworthy.

With this rationale, DPS as an institution whose role is to oversee and be responsible for the fulfillment of Sharia Compliance in Sharia Bank business practices will encourage management to provide social responsibility information to the public so that the public can judge that the company has conducted its business in accordance with Islamic sharia. Thus, the intensity of DPS's role in the sharia banking business will further enhance corporate social responsibility reporting (CSR).

Hypothesis 4 in this study is, the board of directors influences the quality of financial reporting. This finding is different from the research conducted by Zulhelmy (2012), which states that the board of directors as one of the implementing components of GCG has a significant effect on the quality of financial reporting. It is also different from the results of research by Wulandari & Budianta (2014) who found that the variable of the board of directors affected the integrity of financial statements. This shows that the existence of the board of directors influences the quality of the sharia banking financial reporting.

This research is consistent with research conducted by Yermarck (1996) that the board of directors has no effect on the quality of financial reporting. His research found that the board of directors did not affect the company's performance, generally it did not affect the integrity of financial statements.

Hypothesis 5 of this study is that there is an influence of the Audit Committee on the quality of financial reporting. This study proves that the audit committee has no effect on the quality of financial reporting, but is different from the results of research conducted by Zulhelmy (2012). Zulhelmy (2012) states that the audit committee has a significant effect on the quality of financial reporting. As also stated in the results of
Mutmainnah and Wardhani’s (2013) research that companies with a large number of audit committees can have good quality financial reports. Rezaee (2004) in her research report states that the number of members of the audit committee determines the quality of the financial statements produced by the company.

McDaniel et al. (2004) propose that the accounting and financial expertise requested by the audit board will be positive for the company’s financial statements because it will change the structure and focus of work and will affect the overall evaluation of the company’s financial statements. In other words, audit committee members who lack expertise in accounting and finance will affect the poor quality of the company’s financial reporting.

In the perspective of muamalah theory, certain work or tasks must be given to people who have the competence to carry out the mandate. A job mandate or a specific task given to someone who is not an expert will be the cause of something unexpected happening. As stated in the Prophet’s hadith:

إذا وسد الأمر إلى غير أهله فانتظر الساعة (البخاري)

"If something is left to an expert person, then wait for the moment of its destruction " (HR. Bukhari).

Hypothesis 6, that there is an influence of the Sharia Supervisory Board on the quality of financial reporting. This study proves that the sharia supervisory board as an element of GCG implementation in sharia banking has a significant effect on the quality of corporate financial reporting. These results are consistent with Hatta (2012). The results of this study also reinforce the results of previous research conducted by Nasim (2010) which states that there is a positive influence between the role of the Sharia Supervisory Board on the quality of financial statements. The existence of DPS is able to improve quality financial reporting. Hypothesis 7 in this study is the influence of corporate social responsibility on the quality of financial reporting.

This research proves that the disclosure of CSR information does not as a mediator of relationship between the implementation of GCG on the quality of corporate financial reporting. This finding is different from the results of Murwaningsari’s (2013) that CSR can be a mediator for the relationship between GCG and corporate value. In other words, Islamic banking that presents information on social responsibility through CSR reports does not affect the quality of published financial reporting.

V. CONCLUSION

This study aims to obtain empirical evidence about the influence of the existence of good corporate governance (GCG) on the corporate social responsibility (CSR) disclosure and the quality of financial reporting, as well as the influence of the existence of good corporate governance (GCG) on the quality of financial reporting with disclosure of corporate social responsibility (CSR) as an intervening variable in banking industries in Indonesia. The results of the research simultaneously GCG elements (board of directors, audit committee and sharia supervisory board) relate to the disclosure of corporate social responsibility (CSR) information and the quality of corporate financial reporting. The board of directors which is part of the structure of good corporate governance directly does not significantly influence the disclosure of corporate social responsibility. The audit committee which is part of the structure of good corporate governance directly does not significantly influence the disclosure of corporate social responsibility. The Sharia Supervisory Board which is part of the structure of good corporate governance in sharia banking directly has a significant effect on the disclosure of corporate social responsibility. The board of directors which is part of the structure of good corporate governance directly has no significant effect on the disclosure of the quality of sharia banking financial reporting. The audit committee which is part of the structure of good corporate governance in Islamic banking directly does not significantly influence the disclosure of the quality of its financial reporting. The Sharia Supervisory Board which is part of the structure of good corporate governance in sharia banking directly has a significant effect on the disclosure of the quality of the sharia banking financial reporting. The findings in this study also show that the disclosure of corporate social responsibility has no significant effect by the mediating of the structure of corporate governance in producing quality financial reporting.

The managerial implications of the results of this study are: the need for efforts to improve the oversight function of the implementation of GCG in sharia banking in Indonesia by the government, in this case the Financial Services Authority (OJK), especially to the board of directors and audit committee so that the role and function of the role and function would be improved as well as competence so as to produce quality corporate social responsibility disclosure and financial reporting. In addition, in the case of electing the board of directors and audit committee for sharia banking, it is expected that the OJK also understands the environment and principles of sharia banking industries and can set appropriate standards in selecting the board of directors and audit committee. Majelis Ulama Indonesia (MUI) which is incorporated in the National Sharia Council, in terms of approving the appointment of someone as a Sharia Supervisory Board (DPS) in Islamic banking is needed to consider someone's expertise in matters relating to muamalah fiqh, financial fiqh, accounting and banking. Because the existence of sharia supervisory boards can determine the disclosure of corporate social responsibility information and the quality of corporate financial reporting that is useful for stakeholders in
making decisions related to the company. For Islamic banking, it is very necessary to consider the ability of parties related to the preparation of financial reports, especially the accounting department, so that CSR reporting and Islamic banking financial reporting fulfill the quality of financial reporting and sharia principles.

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