THE EFFECT OF AUDIT QUALITY AND GOOD CORPORATE GOVERNANCE TOWARDS DIVIDEND POLICY IN PUBLIC COMPANIES IN INDONESIA

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Abstract - The purpose of this study is to find the relationship between audit quality and good corporate governance (GCG) on dividend policy. Where the supervision provided by the company's independent auditors and independent board of commissioners has an impact on the returns received by investors in the form of dividends. The study was conducted using purposive sampling technique, taking 141 samples of non-financial public companies in Indonesia from the period of 2017-2019. The data were processed using the STATA program. The results of this study show evidence that the audit quality variable with the proxy of the Big 4 public accounting firm has a positive and significant effect on dividend policy. Which may be resulted from a better quality of supervision thus reducing agency conflicts. However, for the GCG variable, there is no evidence of an influence on dividend policy which may be resulted from different proxy variables.

Keywords: **Audit Quality; Good Corporate Governance; Dividend Policy; Independent Commissioner**

1. INTRODUCTION

In this era, investors are eager to invest their money in public companies in a form of share investment with a purpose to get a return. There are 2 types of return in share investments which are through capital gain and dividend. Therefore, dividend is a measurement of a rate of return for a share investment and a lot of investors are looking for a good dividend company. This drives reason for this paper to analyze the relationship between the factor of audit quality and good corporate governance towards dividend policy.

One study examined Good Corporate Governance (GCG) as an intervention variable on dividend policy (Puspaningsih & Pratiwi, 2017), but did not clearly explain the research model used. There is previous research that examines the determinants of dividend policy (Swastyastu et al, 2014), but does not use audit quality and GCG variables which will be the focus of this study. There have been many previous studies concerning audit quality, but they have not examined its effect on dividend policy (Tandiontong, 2016).

In short, the audit activity is a tracing process carried out by the auditor regarding the financial statement information published by the company by issuing an opinion regarding the auditor's belief that the information presented by the company is in accordance with existing standards, and does not contain material misstatements (Arens et al., 2006). The quality of the audit activity itself can be measured and is referred to as audit quality, which includes the ability and experience of auditors in accounting and specialization in the field of work being audited.

Good Corporate Governance (GCG) is a form of implementing good corporate governance that includes the relationship between stakeholders and company management in achieving common goals. The main parties covered by GCG are shareholders, management, and the board of directors. The other parties are employees, suppliers, customers, banks, creditors, government and the environment. GCG is a form of good corporate governance that directs and controls the company with the aim of achieving continuity between the power of authority required by the company to ensure its continuity of existence and at the same time accountability to all stakeholders (Surya & Yustivandana, 2008: 24).

Shareholders have the goal of seeking profit from shares through capital gains and dividends. Dividends are a form of return of profits to shareholders that are expected by shareholders. The dividend policy of each company also contains a kind of signal that is sent to the market and shareholders. This is closely related to dividend policy because dividends are used as a means of disseminating information to the public regarding the financial condition of a company.

Therefore, there is a possibility that there is a correlation between audit quality and dividend policy, because the high quality of information can indirectly encourage the quality felt by shareholders, which is obtained through dividends. Then regarding GCG, there is also a possibility of a correlation between GCG and dividend policy because GCG should be a bridge so that a higher quality company can be linked to can be reflected through the distribution of profits to shareholders, namely in the form of dividends.

Research related to the determinants of dividend policy has been carried out (Swastyastu et al, 2014) but did not measure the variables of audit quality and also GCG. Also many previous studies used different proxy variables in measuring audit quality and GCG, and also did not seek a correlation to dividend policy.

This can be a research gap that can be thorough and also this research motivates the author to find out the empirical truth that actually occurs in the market between audit quality, GCG and their effect on company dividend policy. The authors believe that these variables have a relationship and significance so that this research can be useful for use by both the market and investors as well as for further research.

The differences between this research and previous studies are the differences of sample, sample period, approaches, and proxy variables used in this study to measure the relationship between each variable, and also seeks to find the relationship between audit quality towards dividend policy which there is no similar previous study conducted.

1.2 Literature Review and Hypothesis Development

1.2.1 Agency Theory

Agency theory is a theory that describes the relationship between principal and agent, a relationship that occurs when one party as owner (principal) employs another party as an employee (agent) to carry out a job (Jensen and Meckling, 1976). Jensen and Meckling (1976) define an Agency relationship as an engagement or agreement between one or more parties (owners) and other parties (agents) to complete a job to the owner, where there is a job or decision in the agent's work which is influenced by the owner's power. pushy.

1.2.2 Stewardship Theory

This theory was put forward by Donaldson et al, (1997) who distinguishes between Agency Theory and Stewardship Theory. This Stewardship Theory describes a situation where management does not act on the motivation of personal interests but is based more on their mutual interests, namely for the benefit of the organization. The theory assumes a strong relationship between satisfaction and organizational success. Organizational success illustrates the utility maximization of the principals and management group. Maximizing the utility of this group will ultimately maximize the interests of individuals in the group organization.

This theory is the opposite of agency theory which assumes that principals and agents have self-interest and act solely from self-interest motivation. This theory argues that if managers at the top level who act as stewards will have a pro-organizational attitude when the company's management structure provides high authority and flexibility and always makes decisions based on the best considerations of all stakeholders (Donaldson and Davis, 1989, 1991).

1.2.3 Audit Quality

The purpose of an audit of financial statements is to ascertain whether the financial statements are free from material misstatements so that they do not harm the interested parties in the company (Arens, et al. 2008). Meanwhile, audit quality can be explained as the ability or quality of the audit activity, that material errors in the financial statements can be detected and reported by an auditor (DeAngelo, 1981 in Balsam, et al., 2003).

Audit quality itself can consist of the ability, experience, and specialization possessed by auditors, because this will help auditors to conduct audits better and professionally in improving the quality of financial reporting (Becker et al, 1998).

Audit activity is a tool that is expected to be a monitoring tool due to the potential for agency conflicts between owners and management in a company (Watts, 1977). Audit is a means of monitoring within the company to suppress agency conflicts where additional supervision from independent auditors on the agent's ability or opportunity to apply for personal motivation (Deangelo, 1981).

1.2.4 Good Corporate Governance

Good Corporate Governance (GCG) is a bridge to improve the quality of performance and its relation to stakeholder expectations (IICG, 2007). The implementation of GCG in the company has a direct impact on the relationship between office holders and stakeholders in the company (Carcello, 2009).

The most important aspects of GCG are accountability and corporate responsibility so that stakeholders can have confidence that there is good faith protecting their rights, including improving supervision and quality of financial reporting so that it can be relied upon and ensuring the company is heading in the right direction in the long term.

In practice, companies distribute dividends as a form of return to shareholders. Dividends themselves must be approved in advance by management, which is then formulated as the company's dividend policy.

Based on the study of audit quality theory, companies with good audit quality can be seen by increasing supervision and also reducing agency conflicts between owners and management. If the audit quality is said to be good, then management cannot be arbitrary and is required to act rationally by prioritizing common interests, especially the interests of the principal in terms of sharing of profits or returns that will be received by investors. Thus, it can be attributed the existence of a directly proportional relationship between audit quality and dividend policy.

Based on Herusetya (2009), the audit quality variable is measured using the auditor size, namely Big 4 and non-big 4

H1: Audit quality has a positive influence on dividend policy.

Good Corporate Governance is a system that sufficiently determines the direction of a company. Good GCG will lead to a better company and vice versa. The quality of GCG itself will certainly have a considerable influence on all decision-making processes and the quality of decisions to be taken.

In general, in GCG, there are three types of directors, namely insiders, outsiders, and affiliated (gray) directors (Core, et al., 1999; Klein, 2002; Farber, 2005). Each of them has a different role. Inside directors are employees, as well as CEOs and other officers, who are both management and directors. Outside directors are not affiliated with the company in which they are directors. Affiliated directors are related with businesses, such as suppliers, consumers, employees of affiliated companies and public accounting firms, legal advisors, consultants, investment bankers, executives from advertising agencies, and former employees. Each type of board has its own role.

Studies of board composition generally focus on the contribution of independent directors to performance. The measure of independence is the proportion of independent directors to the total board size and the number of independent directors (Core, et al., 1999; Klein, 2002; Ahmed and Duellman, 2007; Coles, et al., 2008). While some studies also use a proxy for the percentage of independent commissioners to measure GCG (Beasley, 1996 in Ahmed and Duellman, 2007; Dechow et al, 1996; and Farber, 2005).

The independent board of commissioners is considered to be able to play a role in the quality of GCG of a company to reduce agency cost because it has no affiliation with the company. This can be reflected in the quality of the company's operations, one of which is in terms of profitability and returns to shareholders.

So based on the above arguments, the hypothesis that the writer will test is that the number and percentage of independent commissioners has an influence on one of the most important policies in the company, namely dividend policy.

H2: The number of independent commissioners has an influence on dividend policy.

H3: The percentage of independent commissioners has an influence on dividend policy.

2. RESEARCH METHODS

2.1 Population, Sample, Data Source

The population of this study came from all non-banking companies (financial industry) listed on the Indonesia Stock Exchange (BEI). Samples were taken using purposive sampling technique. The criteria have been determined by the author, namely: 1) companies that issue dividends for 3 consecutive years from 2017-2019, 2) the company has never received a going concern opinion, and 3) the company's shares are traded on an exchange with a trading duration above 3 year. The number of initial samples collected to conduct the study was 216 observations. The criteria used as an attempt to homogenized the characteristics of the sample for a better statistical result. After being reviewed, there are 75 observations that cannot be used as samples because they do not meet the predetermined sample criteria. So that the final total sample used to conduct this research is 141 observations.

2.2 Research Empirical Model

The empirical model in this study is as follows, where this study will then focus on α_1, α_2, and α_3, namely the relationship between audit quality and good corporate governance on dividend policy, and the rest are control variables to support the empirical model of the study.

$$DIV_{it} = \alpha_0 + \alpha_1 AQ_{it} + \alpha_2 JDKI_{it} + \alpha_3 PDKI_{it} + \alpha_4 Lev_{it} + \alpha_5 Size_{it} + \alpha_6 CR_{it} + \alpha_7 Prof_{it} + \alpha_8 SG_{it} + e_{it}$$

Where:

Div: Dividend payout ratio
AQ: Audit Quality is measured by the dummy variables big4 and non big4
JDKI: Number of Independent Commissioners
PDKI: Percentage of Independent Commissioners
LEV: Leverage or capital structure
Size: The size of the company with the natural logarithm of total assets
Prof: Profitability or profit from the company is measured by ROA
SG: Sales Growth or sales growth
CR: Current Ratio (Liquidity)
e: error

3. RESULTS AND DISCUSSION

3.1 Descriptive statistics

Table 1. Descriptive Statistics

variables	obs	mean	std.dev	min	max
dpo	141	.5020114	.4014193	.0030923	2.248693
big4	141	.6595745	.4755416	0	1
jdki	141	2.106383	.9312214	1	5
pdki	141	.397104	.1146018	1666667	.8333333
lev	141	.4909352	.6001085	.0830641	6.891964
size	141	16.49329	1.487081	12.78387	19.96395
cr	141	2.848102	4.110559	.2010993	42.93996
prof	141	.1022243	.1102657	-.108347	1.003054
sg	141	.1077545	.1860847	-.3566701	1.020923

Source: Stata 14 output

Table 2. Hypothesis Testing

Source	SS	df	MS	
Model	9.75451316	8	1.21931415	Number of obs = 141 F(8,132) =3.33 Prob>F = 0.0017
Residual	48.3636477	132	.36639127	R-squared = 0.1678
Total	58.1181608	140	41512972	Adj R-squared = 0.1174 Root-MSE = .6053

div	Coef	Std.Error	t	P>|t|	[95% Conf. Interval]	
big4	.2080652	.1184731	1.76	0.081	-.0262864	.4424168
jdki	.115418	.1085799	1.06	0.290	-.0993637	.3301997
pdki	-.2544523	.7516955	0.34	0.736	-1.74138	1.232476
lev	.0182269	.0892923	0.20	0.839	-.1584022	.1948559
size	-.0699273	.0475342	1.47	0.144	-.1639547	.0241002

cr	-.0043488	.0135408	0.32	0.749	-.0311338 .0224363
prof	.9303888	.5416046	1.72	0.088	-.1409587 2.001736
sg	-.8521496	.2796107	-3.05	0.003	-1.405247 -.299052
_cons	.1361748	.7880805	0.17	0.863	-1.422726 1.695076

The results of the data processing above show that from 141 observations and an F-value of 3.33, as well as an adjusted R-squared of 11.74%, α_1 which is represented by the variable big4 as a proxy for the audit quality variable shows a coefficient of 0.2080652 with a t-count of 1.76. It can be concluded that in this study, audit quality has a significant and significant influence on dividend policy at a 90% confidence level with a two-tailed test. And it can be concluded that audit quality has a positive and significant effect on dividend policy at a 95% confidence level with a one-tailed test. So, H1 is accepted. This means that with better audit quality, the dividend payout ratio is increased. This result is aligned with the audit quality theory to be able to supervise better and reduce the agency conflict while at the same time maintaining the goal to satisfy every stakeholder.

The results above also show the jdki variable which has a coefficient of 0.115418 and a t-count of 1.06. Based on these results, it is evident that the jdki variable as a proxy for the GCG variable does not have a significant effect on dividend policy. So, H2 is rejected. This may result from a distortion of too many voices and opinion that led to indecisive and less responsive board which failed to address the agency conflict which occur because of a human nature. This result failed to meet the GCG theory.

The results above also state the pdki variable with a coefficient of -0.2544523 and t-count -0.34. It can be concluded that the pdki variable does not have a significant effect on dividend policy. So, H3 was rejected.

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As for the results of the control variables leverage, size, and current ratio do not have a significant effect on dividend policy. However, for the control variable profitability has a significant and significant influence on dividend policy with a coefficient of 0.930388 t-count 1.72 and sales growth has a significant effect on dividend policy with a coefficient of -0.8521496 and t-count -3.05 at the 90% confidence level. on a two-tailed test.

The results of this study indicate that there is agreement with the results of previous studies on audit quality variables which have a positive and significant effect on dividend policy (Setiawan & Yuyetta, 2014). However, for the GCG variable, it can be concluded that the results of this study are not in line with previous studies (Puspaningsih & Pratiwi, 2017). However, this is due to differences in the proxy variables to measure the GCG variable as well as differences in the time and samples used in each study.

4. CONCLUSIONS AND SUGGESTIONS

4.1 Conclusion

This study aims to examine the relationship between audit quality variables and good corporate governance (GCG) on dividend policy in public companies in Indonesia. Based on the results of the research and discussion in the previous chapter, it can be concluded that with the sample evidence taken and processed by the author, audit quality has a significant and significant influence on dividend policy, while GCG, represented by the jdki and pdki proxies, has no significant effect on dividend policy.

This research implies that the better the quality of the audit, the more it will provide benefits in the form of protecting the rights of shareholders, especially in terms of dividend policy. This study is in line with previous research for audit quality variables, but not in line with previous studies for GCG variables which are caused by differences in the proxy variables used as measurement tools and also differences in the time of sampling.

4.2 Implication

This study has found that audit quality has significant positive impact towards dividend policy in Indonesia. This implied that the auditor in charge are able to bring better supervision and reduce agency conflict between management and shareholder, while also maintaining independence and taking care of shareholder's interest in return in a form of dividend.

This study also found the implication that good corporate governance with the specification of the number and percentage of independence board in Indonesia has not yet been proven to have an impact towards the return for shareholder in a form of better dividend policy. This may also show that the independence board still has not shown significant role on the board.

4.3 Research Limitations

This study is not a perfect study and there are shortcomings. This study has many limitations in terms of time, cost, and research techniques. Some of the limitations experienced by the author are as follows:

- Initial data on the dependent variable requires a treatment to pass the normality test.
- The authors' sampling criteria did not include the financial industry in the research sample.
- Limited sample time can reduce the validity of the results of this study.
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4.4 Suggestions

In this study, author has faced several challenges and hardship which leads to a few suggestions
for future researchers, as follows:

- Use a longer sample period
- Use more sample size with better purposive sampling criteria
- Use another proxy variable as a measurement for each variable

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