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The Influence of the Implementation of International Financial Accounting Standards (IFRS) and Audit Quality

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Abstract. *This research was conducted with the aim of analyzing the consequences of implementing IFRS and audit quality on the quality of financial reports in technology sector companies listed on the IDX during the 2019-2022 period. The research method used is a quantitative approach with logistic regression. The research results show that separately, the implementation of IFRS and audit quality have a significant influence on the quality of financial reports in technology sector companies listed on the IDX during the 2019-2022 period. Therefore, from the results of this research, it is recommended that companies focus on implementing standards such as IFRS 15 (Revenue from Contracts with Customers) or IFRS 9 (Financial Instruments) can provide more detailed insight into the practical impact of adopting these standards.*

Keywords: *IFRS, Audit Quality, Financial Report Quality.*

1. INTRODUCTION

In the era of growing globalization, international accounting standards are becoming increasingly important for companies operating in various countries. Quantitative data of a company is represented by financial statements. The income statement is a financial statement that is often used as a reference when making decisions. The profit earned by the organization is used as the main indicator to assess the operational performance of the organization. Profit figures are used by investors and creditors to evaluate management performance, estimate potential profits, and anticipate future profits.

The quality of monetary announcements refers to how effectively and clearly the information provided by monetary authorities (such as central banks) communicates their policies and decisions to the public and capital markets. The main viewpoint proposes that the quality of monetary disclosure is associated with the general presentation of the organization, as reflected in its benefits. Monetary announcements are considered good on the assumption that the current year's benefits successfully anticipate the organization's future benefits (Jogiyanto, 2013).

There are two methods for studying financial reporting quality. The first strategy investigates the factors that contribute to the production of high-quality financial reporting. This includes factors within the organization, often referred to as explicit firm factors or organizational attributes. The second strategy looks at how people who use financial reporting feel about the quality of the reporting. This strategy focuses on external factors, specifically the extent to which users' responses are influenced by information from financial reporting. Investor confidence can be enhanced by high-quality financial reporting (Jumingan, 2013).

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The implementation of International Financial Reporting Standards (IFRS) aims to improve transparency, consistency, and comparability of financial statements worldwide. This is especially relevant for companies listed on stock exchanges, including the Indonesia Stock Exchange (IDX), which operate in the technology sector. This sector is known for its rapid dynamics and innovation, thus requiring accurate and reliable financial statements to support informed decision-making by stakeholders (Brigham & Houston, 2015).

The implementation of IFRS is expected to improve the quality of the company's financial statements through stricter standards and more transparent reporting procedures. However, the quality of financial statements is not only determined by the accounting standards applied, but also by the quality of the audit performed. A high-quality audit can detect and prevent errors and fraud in financial statements, thereby increasing investor and other stakeholder confidence in the information presented (Harahap, 2013).

In Indonesia, many underwriters continue to make mistakes and require transparency in presenting their financial data. Two outstanding models demonstrate this problem: PT Inovisi Infracom Tbk: In the second quarter of the last quarter of 2014, the Indonesian Stock Exchange (IDX) found around eight errors in the monetary report of PT Inovisi Infracom Tbk, a venture organization (Idris, 2015). Investors and IDX are still waiting for an explanation from the business world regarding the errors. The many errors in the financial report raise suspicions of possible manipulation to deceive investors. Since the authors of the company's financial report have a lot of experience and high-level jobs, the errors may be caused by deliberate manipulation. However, it is also possible that the errors are unintentional, for example, missing accounts or negligence (Idris, 2015). This case shows that the monetary data introduced is not fully in accordance with relevant norms, which may reduce the trust of financial supporters in their speculation choices. PT The Frozen North Industrindo: This critical organization in Indonesia, which is engaged in general trading, product description, contracting, production, metal handling, printing, and land, was involved in a public outcry over its finances in October 2014. The scandal made it clear that a large amount of money had been misappropriated to cover losses from stock investments. The report showed that the losses were as much as 130 billion yen (US$1.68 billion), which were disguised by taking advantage of the increase in assets from consolidation and acquisition (M&A) costs in 2011. Michael Woodford, the company's former chief executive, revealed that payments of US$687 million to M&A advisors had been miscalculated (Source: http://m.koranjakarta.com/, downloaded on June 18, 2024).

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Based on the background of the problem above, this study aims to analyze the effect of IFRS implementation and audit quality on the quality of financial reports in technology sector companies listed on the IDX. By understanding the relationship between the implementation of international accounting standards and audit quality on the quality of financial reports, it is expected to provide deeper insight into the importance of both factors in maintaining the integrity and transparency of financial information. In addition, this study is also expected to provide practical recommendations for companies and auditors in improving the quality of financial reports in accordance with international standards.

2. LITERATURE REVIEW

Agency Theory

The organizational hypothesis serves as the basic structure for today's strategic approaches to organizations. Economic theory, decision theory, sociology, and organizational theory are all incorporated into this theory. The contractual working relationship between the principal (investor) and the agent (manager) is emphasized in its core principles (Aye & Wafom, 2021). The agency concept is often cited in the accounting literature to support the need for mandatory or voluntary disclosure in financial statements. The purpose of this disclosure is to reduce the information gap between the agent and the principal. Accounting data is used by shareholders acting as principals to monitor how well management, or agents, is performing. In addition, stakeholders and shareholders can now obtain information about management performance in a cost-effective and effective manner via the internet.

Financial reports submitted on time can reduce information asymmetry, thereby reducing the possibility of conflict between agents and management and increasing agent supervision and control over management. This study uses this theory to investigate the relationship between owners and management, focusing on the importance of the date of submission of financial reports provided by management to shareholders. A high level of information relevance in the report is indicated when a business entity submits its financial report within the time period set by Bapepam LK(Surya et al., 2018).

Financial statements

The statement of financial position, statement of comprehensive income, statement of changes in equity, statement of cash flows, and notes to the financial statements are all contained in PSAK No. 1 of 2012. The essence of this report is to provide data on the organization's monetary position, execution and income, which is useful for a large number of clients in pursuing financial choices.(Ayem et al., 2023)said that these reports also show

how well management has managed the resources that have been given to it. To account for the company's responsibilities, management prepares financial statements. These reports are intended to help many people make better financial decisions by providing information about the company's financial situation. As indicated by the Principles of Monetary Accounting (IAI, 2016), monetary statements are an important part of the monetary detailing process. Balance sheets, income statements, statements of changes in financial position (such as cash flow statements or fund flows), notes, and other supporting materials are part of a complete financial statement.

The subjective quality of monetary reports is considered to ensure that the data in the report is valuable to the client (IAI, 2016). Understandability, relevance, dependability and comparability are the four characteristics. These qualitative characteristics should be considered when presenting financial reports. According to Belkaoui (2006), financial reporting is a means by which a business can convey various economic information and measurements to interested parties regarding its resources and performance. All public companies are required to submit annual financial reports in accordance with Government Regulation Number 64 of 1999.

Quality of Financial Reports

Financial reports are a framework for presenting the financial position and performance of an organization, as stated by the Indonesian Accounting Association (2012:5). Disclosure of information on the financial position, performance, and cash flow of an entity, which is very important for users in making economic decisions, is the main objective of the report, which is intended for the public interest. To achieve this objective, monetary reports provide data on substantial parts, including resources, liabilities, values, payments (calculating profits and losses), costs, changes in value and income. Users can estimate future cash flows with the help of this information and records. According to(Hery, 2013), balance sheet, income statement, and statement of changes in equity are usually included in financial statements. The monetary statements present all of an organization's resources, liabilities, and value as of approximately a specific date. By efficiently managing employee salaries and benefits, organizations can keep labor costs under control, which in turn improves the overall financial outlook, including revenues and expenses over a period of time, while the statement of changes in value provides an explanation of the organization's changes in value.

Characteristics of monetary reports reviewed from their quality, as described in the Bookkeeping Standards Guide (Harahap, 2013), are as follows: Understandability: Monetary data should be presented in a manner that is clear and understandable to customers, with the expectation that they have reasonable information about financial and business activities and accounting standards. It is inappropriate to omit complex information necessary to understand financial statements simply because it may be difficult for some users. Relevance: Information in financial statements should be relevant to the decision-making needs of users. It should impact their financial choices by helping them assess past, present, or future events. Present value is enhanced when financial statements include the intricacies of past exchanges and events, such as wages or unexpected expenses. Materiality: The nature of the information and its effect on the financial statements determine its significance. Data are material if its exclusion or misquotation would influence a client's choice with respect to the statements. The extent of the error or omission and its context determine its materiality. Reliability: Financial information should be reliable and free from significant errors or misrepresentations. As a true representation of the underlying transactions and events, users should be able to rely on it. Faithful Representation: When financial data are presented, they should accurately reflect the transactions and events themselves, not just their legal form. This ensures that the data accurately reflects economic reality. Substance over Structure: Financial disclosures should focus on the financial substance of the exchanges and events over their authoritative documents, recognizing that both may not always be true. Neutrality: Information should meet the needs of all users without favoring the interests of any party. There should be no attempt to skew the data to favor one party to the detriment of another. Prudence: In uncertain circumstances, such as estimating the useful life of an asset or the collectibility of a receivable, prudent judgment should be exercised. However, this should not result in the creation of hidden allowances or reserves that distort the true financial situation. Ultimately: Monetary statements should include all significant data within the bounds of materiality and pragmatic necessity to ensure that they provide a comprehensive perspective on the financial position and performance of the entity.

International Financial Accounting Standards (IFRS)

The adoption of IFRS in Indonesia officially began in 2008 and was completed in 2012, as verified by Warren. Indonesia is under significant pressure to align Indonesian Financial Accounting Standards (SAK) with IFRS due to the prominence of IFRS in the world. Through Regulation VIII.G.7, the Financial Services Authority (OJK), the Indonesian government agency responsible for accounting and financial disclosure of public companies, has mandated SAK compliance. In an effort to bring Indonesian public companies into line with IFRS, this regulation mandates that they comply with SAK issued by DSAK (Financial

Accounting Standards Board). However, the fact that DSAK and the International Accounting Standards Board (IASB) independently set accounting standards for their respective jurisdictions poses a significant obstacle to achieving convergence. As a result, efforts to achieve convergence do not result in a single global accounting standard. This process only applies to standards jointly developed by DSAK and IASB; other standards go through different procedures. Please refer to the summary table below for a brief overview of the most important IFRS decisions in Indonesia(Rukmana, 2018).

Table 1 Brief Overview of IFRS Decisions in Indonesia

No	IFRS	Description	Implementation in Indonesia
1	IFRS 1	**First Adoption of IFRS**- Guidance for entities adopting IFRS for the first time.	Implemented as PSAK 1
2	IFRS 9	**Financial Instruments**- Classification, measurement, impairment and hedge accounting.	Implemented as PSAK 71
3	IFRS 15	**Revenue from Contracts with Customers**- Revenue recognition guide.	Implemented as PSAK 72
4	IFRS 16	**Rent**- Guidelines for recognizing, measuring, and presenting lease transactions.	Implemented as PSAK 73
5	IFRS 10	**Consolidated Financial Statements**- Principles for the preparation of consolidated financial statements.	Implemented as PSAK 65
6	IFRS 11	**Shared Settings**- Reporting for joint arrangements in business.	Implemented as PSAK 66
7	IFRS 12	**Disclosure of Interests in Other Entities**- Disclosure requirements for interests in other entities.	Implemented as PSAK 67
8	IFRS 13	**Fair Value Measurement**- Fair value measurement and disclosure guidelines.	Implemented as PSAK 68
9	IFRS 2	**Share Based Payment**- Guidelines for recognizing and measuring share-based payments.	Implemented as PSAK 53

10	IFRS 3	**Business Combination**- Principles and requirements for accounting for business combinations.	Implemented as PSAK 22

Audit Quality

Review quality refers to an auditor's ability to recognize and report errors in a client's accounting practices. During a review, the auditor is expected to demonstrate proficiency in accounting standards and evaluation techniques. Effectively identifying and disclosing significant errors or misstatements in the financial statements is necessary for high audit quality.

The quality of the review includes the status to reveal major errors and dishonest accounting practices in monetary reports and to convey this data impartially, without settlement.(Resza, 2022). In addition, according to Ardianingsih (2018), audit quality can be used as a predictor of whether or not the auditor will find and report material nonconformities in the financial statements. This highlights that the quality of the review addresses the potential for evaluators to distinguish and report violations of the accounting framework in client assignments based on their abilities and expert information.

Hypothesis Development

The Relationship of IFRS to the Quality of Financial Reports

The implementation of International Financial Accounting Standards (IFRS) has a significant impact on the quality of a company's financial statements. IFRS sets stricter and clearer guidelines in the process of preparing financial statements, ensuring that the information presented is more transparent, consistent, and comparable with other companies in the global market. By implementing IFRS, companies in the technology sector listed on the Indonesia Stock Exchange (IDX) are expected to reduce subjectivity in presenting financial information and increase their accountability to stakeholders. In addition, the adoption of IFRS also encourages companies to use measurement methods that are more objective and relevant to global market conditions, thereby increasing investor confidence and the company's ability to access capital internationally. Thus, the implementation of IFRS not only improves the quality of financial information presented, but also opens the door for companies to integrate global best practices in their financial management and reporting.

Research result(Rukmana, 2018)the implementation of IFRS can increase the predictability of earnings which means indicating poor earnings quality. The results of this test do not match the proposed hypothesis. The continued adherence to the principle of conservatism also has an impact on the accuracy of predicting future cash flows, this is because the principle of conservatism affects the final results of financial statements.

Relationship between Audit Quality and Financial Report Quality

Audit quality plays a crucial role in determining the quality of a company's financial statements. Independent and competent auditors help ensure that financial statements are prepared accurately and in accordance with applicable accounting standards. A well-conducted audit can detect and reduce the risk of errors or irregularities in financial reporting, thereby increasing stakeholder confidence in the information presented. A qualified auditor is also able to provide objective and transparent opinions regarding the company's compliance with accounting standards and the accuracy of measurement and disclosure of financial information. In addition, an audit that meets high standards can identify potential irregularities or fraud, providing better protection for the interests of investors, creditors, and other parties who rely on the reliability of financial statements for decision making. Thus, good audit quality not only improves the integrity and transparency of financial statements, but also supports the company's long-term growth by ensuring accurate and reliable financial information for all parties involved.

Research result(Resza, 2022) There is a positive and significant relationship between auditor quality and financial report quality. This indicates that managers as agents who have been given trust by shareholders to manage the company will tend to have a quality public accounting firm and have a high degree of independence in auditing the company's financial reports because they are considered more effective and reliable and the results of the audit report are in accordance with the fairness of the company's financial reports which are no longer in doubt.

3. RESEARCH METHODS

This study is included in the category of quantitative research that aims to investigate the impact of IFRS implementation on the quality of financial reports of technology sector companies listed on the IDX. The population of the study is technology sector companies listed on the IDX. The observation years start from 2019-2022. The sample in this study was taken using the Purposive Sampling method, namely sampling carried out in accordance with the objectives of the research that has been carried out, by looking at the annual financial reports of technology sector companies listed on the IDX. Of the 32, there were 23 companies that did not present their complete financial report data in implementing IFRS, so that the sample of this study was 9 companies multiplied by the analysis unit annually for 4 years, so that the research sample was determined as much as 9x4 = 36 number of data observations. Data analysis was carried out using logistic regression techniques using SPSS 27 software.

4. DISCUSSION

Descriptive statistics are used to obtain the characteristics of data that are the object of research. Descriptive statistics show the maximum value, minimum value, average value and standard deviation value of the data used in the study. The following is a descriptive statistics table using the SPSS 27 application:

The number of materials used in this study was 36 materials, which is the number of samples taken for the period 2019-2022, according to the calculation results in the table above. Examination of the IFRS variables using descriptive statistics produced a general value of 1.8607 and a standard deviation of 0.80653. Examination of the descriptive statistics of audit quality produced the following results: Mean of 0.9950, standard deviation of 0.07053, maximum and minimum values of 1 and 0, respectively.

The findings from the descriptive analysis of financial report quality also show that the maximum and minimum values are 1 and 0 respectively, with a mean value of 0.0050 and a standard deviation value of 1.17236.

Logistic Regression Test

Statistical analysis of the data used in this study is binary logistic regression analysis. Logistic regression analysis has four model tests, namely, Assessing the Overall Model Test, Testing the Feasibility of the Regression Model (Goodness Fit Test), Determination Coefficient, and Classification Matrix. Model testing based on the data to be presented using Microsoft Excel data processing tools and Statistical Package For Social Science (SPSS) Version 27.

Overall Model Fit Test

The test is designed to determine whether the hypothesized model fits the material or not. By comparing the value of -2 Log Likelihood (block number = 0) when the model consists of constants and independent variables, this test evaluates the overall model using Log Likelihood. Below are the results of this research model test:

Table 2. Overall Model Fit Test

-2 League Likelihood Block Number = 0	-2 League Likelihood Block Number = 1

55,947	55,928

The overall model fit test shows that the -2LogL statistic value of 55.947 in block number 0 has decreased by 0.019 to 55.928 after the addition of two new variables. This can also be contrasted with table c2, which displays the difference in df between constants and df between four variables: df1=(nk) =**36**and df2= 36-2 = 34, so the difference df = 36-4 = 32. Since 0.019 is larger than the table chi-square, this potential difference may imply the most robust regression model—that is, the model that is predicted to fit the data best.

Testing the Suitability of the Regression Model (Goodness of Fit Test)

Table 3. Hosmer and Lemeshow Test

Step	Chi-square	df	Sig.
1	9.010	8	.497

Based on table 3 obtained from the results of the regression analysis shows that the results of the Hosmer and Lemeshow Goodness of Fit Test obtained a chi-square value of 9,010 with a significance level of 0.497. The test results show that the probability value (P-value) ≥ 0.05 (significant value) is 0.497 ≥ 0.05, then H0 is accepted. This indicates that there is no significant difference between the model and the data so that the regression model in this study is feasible and able to predict its observation values.

Coefficient of Determination (Nagelkerke's R Square)

Table 4.*Nagelkerke's R Square*

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	111.985[a]	.131	.250

Based on table 4 obtained from the results of the regression analysis, it shows that the determination coefficient value seen from the Nagelkerke R Square value is 0.250. This indicates that the ability of the independent variable, namelyaudit tenure, audit fee, auditor reputation and client company sizein explaining the dependent variable, namely audit quality, is only 25.0%. While the rest is explained by other variables outside of this research model, which is 75.0%.

Test*Classification Matrix*

Table 5. *Nagelkerke's R Square*

Classification Table[a]

			Predicted		
			KLK		
Observed			Non Manajemen Laba	Manajemen Laba	Percentage Correct
Step 1	KLK	Non Manajemen Laba	0	20	55.6
		Manajemen Laba	0	16	44.4
	Overall Percentage				100.0

Based on table 5obtained from the results of regression analysisshows that the ability of the model to predict the occurrence of good financial report quality or poor financial report quality is 55.6%. From the table above, the possibility of a company having good financial report quality is 55.6% of the total sample of 36 data. While companies that do not have poor financial report quality are 44.4% of the total sample of 36 data.

Table 6. Logistic Regression Test

		B	SE	Wald	df	Sig.	Exp(B)
Step	IFRS	.158	1.237	.016	1	.000	.898
1a	KA	.361	.562	.414	1	.000	.520
	Constant	1,517	4.975	.000	1	.999	4.445

From the table above, the logistic regression model equation can be determined as follows:

$$KLK = 1.517 + 0.158 IFRS + 0.361 KA$$

The logistic regression equation consists of the regression coefficient numbers of each independent variable and can be used to understand the constant value and coefficient of the independent variable. In this study, the odds ratio, also known as Exp (B), is used to calculate the logistic coefficient. The interpretation of the logistic regression equation for the regression coefficient is as follows:

1. Assuming all independent variables are 0, the expectation of a business to receive a quality audit is 0.00 compared to its chance of not receiving quality financial statements. This is because the intercept (constant) value of the regression equation is 1.517, and the odds ratio value is 4.445.
2. Assuming that other independent variables do not change, the regression coefficient of the IFRS variable is 0.158 and the odd ratio is 0.898, indicating that if IFRS increases by one unit, the expectation of a business obtaining quality financial reports will increase by 0.158.
3. Based on the regression coefficient of the audit quality variable of 0.361 and the odds ratio value of 0.520, then every one unit increase in audit quality will increase the company's chances of producing quality financial reports by 0.361.

Hypothesis Testing

Based on the table above, the partial test results can be seen as follows:

1. At a significance level of 1, the Wald value of the audit tenure variable is 0.158. The significance level is 0.000, which is smaller than 0.05, which is smaller than the

significance value. Therefore, the hypothesis is accepted, namely that the implementation of IFRS has an effect on the quality of financial statements.

2. The Wald value of the audit quality variable is 0.361 with a significance level of 0.000. The significance level of 0.000 is smaller than 0.05 so that the significance value is less than that value. Therefore, the hypothesis is accepted, namely that audit quality affects the quality of financial statements.

The Impact of IFRS on the Quality of Financial Reports

The partial or individual implementation of IFRS has a positive effect on the quality of financial reports of technology sector companies listed on the IDX. These results are in line with the theory stated by(Jumingan, 2013), Adoption of IFRS can limit earnings management actions. IFRS also reduces the available accounting alternatives so that it can reduce the tendency of management to commit fraud.

The implementation of International Financial Accounting Standards (IFRS) has a significant impact on the quality of a company's financial statements. IFRS sets stricter and clearer guidelines in the process of preparing financial statements, ensuring that the information presented is more transparent, consistent, and comparable with other companies in the global market. By implementing IFRS, companies in the technology sector listed on the Indonesia Stock Exchange (IDX) are expected to reduce subjectivity in presenting financial information and increase their accountability to stakeholders. In addition, the adoption of IFRS also encourages companies to use measurement methods that are more objective and relevant to global market conditions, thereby increasing investor confidence and the company's ability to access capital internationally. Thus, the implementation of IFRS not only improves the quality of financial information presented, but also opens the door for companies to integrate global best practices in their financial management and reporting.

Research results (Awaliyah, 2019; Aye & Wafom, 2021; Ayem et al., 2023; Chairunnisa, 2019; Olivia & Nurmala, 2020; Surya et al., 2018), the results of the study stated that IFRS has an effect on the quality of financial reports.

The Influence of Audit Quality on Financial Report Quality

Audit quality partially affects the quality of financial reports in technology sector companies listed on the IDX. These results are in line with those conveyed by (Indrawati & Suhendro, 2016), Audit quality has a crucial role in determining the quality of a company's financial reports. Independent and competent auditors help ensure that financial reports are prepared accurately and in accordance with applicable accounting standards. A well-conducted audit is able to detect and reduce the risk of errors or irregularities in financial reporting, thereby increasing stakeholder confidence in the information presented.

A quality auditor is also able to provide objective and transparent opinions regarding the company's compliance with accounting standards and the accuracy of measurement and disclosure of financial information. In addition, an audit that meets high standards can identify potential irregularities or fraud, providing better protection for the interests of investors, creditors, and other parties who rely on the reliability of financial statements for decision making. Thus, good audit quality not only improves the integrity and transparency of financial statements, but also supports the long-term growth of the company by ensuring accurate and reliable financial information for all parties involved.

The results of this study are in accordance with research conducted (Olivia & Nurmala, 2020; Palupi et al., 2017; Resza, 2022; Rukmana, 2018) that audit quality can affect the quality of financial reports.

5. CONCLUSION AND SUGGESTIONS

Conclusion

The implementation of IFRS and audit quality partially (individually) have a significant influence on the quality of financial reports in technology sector companies listed on the IDX.

Suggestion

For further research, it is expected to examine more deeply how each IFRS standard specifically affects the quality of financial reports of technology companies on the IDX. Focusing on the implementation of standards such as IFRS 15 (Revenue from Contracts with Customers) or IFRS 9 (Financial Instruments) can provide more detailed insights into the practical impact of adopting these standards. Comparing the quality of financial reports prepared using IFRS with those prepared using local Indonesian accounting standards (eg PSAK). This study can provide perspectives on the advantages and challenges of both types of standards in the context of the Indonesian capital market.

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