

The effect of audit committee role and sharia supervisory board role on financial reporting quality at Islamic banks in Indonesia

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ABSTRACT

This research examines the effect of audit committee role and sharia supervisory board role on financial reporting quality. The data is provided from 33 Islamic banks in Indonesia that were taken by questionnaire from 173 employees (head of group, head of division, and internal auditor), audit committee members, and sharia supervisory board members. The questionnaire consisted of 51 questions. Research instrument contains 15 questions about audit committee role, with two dimensions (role related financial reporting quality and role related internal control); 12 questions about sharia supervisory board role, with two dimensions (control over process of new product development and control over bank activity); and 24 questions on financial reporting quality, with eight dimensions (timeliness, verifiability, completeness, representation faithfulness, neutrality, comparability, consistency and clarity). Data analysis used multiple regressions. The result of this research showed that audit committee role and sharia supervisory board role influenced financial reporting quality simultaneously and partially.

ABSTRAK

Penelitian ini menganalisis pengaruh peranan audit committee dan sharia supervisory board terhadap kualitas laporan keuangan. Data berasal dari 33 Bank Islam di Indonesia yang didapat dengan kuesioner terhadap 173 karyawan (ketua kelompok, ketua divisi, dan internal auditor), anggota audit committee, dan anggota sharia supervisory boards. Kuesioner terdiri atas 51 pertanyaan. Instrumen penelitian terdiri atas 15 pertanyaan tentang peranan audit committee, dengan dua dimensi (peranan terkait kualitas laporan keuangan dan peranan terkait internal control); 12 pertanyaan tentang peranan sharia supervisory board, dengan dua dimensi (control proses pada pengembangan produk baru dan control aktivitas bank), dan 24 pertanyaan terkait kualitas laporan keuangan, dengan 8 dimensi (timeliness, verifiability, completeness, representation faithfulness, neutrality, comparability, consistency, dan clarity). Data analisis menggunakan multiple regression. Hasilnya menunjukkan bahwa peranan audit committee dan peranan sharia supervisory board berpengaruh pada kualitas laporan keuangan baik secara parsial maupun simultan.

1. INTRODUCTION

As it has been noted, an Islamic bank is a form of Islamic financial institution. For example, Chapra and Khan (2000) defined Islamic bank as the bank that applies Islamic law in all its beliefs and practices. Another proponent, Antonio (2001), states that Islam regulates financial institution related to its operations in order to comply with Islamic rule. To assure that the Islamic Bank meets sharia Compliance, each bank should have Sharia Supervisory

Board (Karim 1990b; Briston and El Ashker 1986). In that case, Sharia Supervisory Board should be involved in accounting policy. This statement is also supported by Abdallah (1994) in Syafei (2010), which the Sharia Supervisory Board is also responsible for running audit ex ante and ex post to justify whether the operation of Islamic bank already meets the sharia compliance.

Such characteristics Islamic bank, different from conventional bank, most likely will influence

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the practical of financial report (Naser and Pendlebury 1997). The operation of Islamic bank complying with Islam rules should affect financial report (Tomkins and Karim 1987). Islamic bank should guarantee that all transactions have followed the sharia ethic, not only formal and legal aspect, but also they have to reach the purposes of social economic base on the purposes of sharia (Dusuki 2008). The roles of SSB to give opinion for compliance of institution to sharia rule (Alexakis and Tsikouras 2009). Accounting and auditing organization for Islamic Financial Institution stated that sharia supervisory board (SSB) and financial auditor of Islamic Bank reported the compliance of Islamic bank with sharia rule (AAOIFI 2004). AAOIFI standard as explicit stated that SSB should investigate the suitability of the operational of Islamic bank with principles of sharia rules in all bank activities. Investigation included bank agreement and rules of association, contracts, financial reporting and other reports (Bakar 2002). Karim (1995) emphasized that SSB authority should be the same as external auditor.

Conventional banking was fall because of global financial crisis, in otherwise Islamic bank get significant profit, and by prediction it will growing twice. Although in global financial crisis, its profit decreased slightly, its popularity keeps growing. It shows that, in general, Islamic financial outlook tends to be steadily positive (Arif 2011).

A rapid growing of Islamic banking needs a controlling. As tightly controlled, fraud can be minimized so that the investor and customer interest will be protected (Sutaryono 2011). The board of commissioner acts as a supervisor of company operation with concerning to stakeholder interest. In running the role as a supervisor, the board of commissioner can use service of professional advisory or develop special committee. One of special committee that can be developed by board of commissioner is audit committee, with one or more of commissioner board member as the member of committee. The board of commissioner could request people from outside of company with skills, experiences, and other qualification as member of audit committee to achieve the target of role of audit committee (national Committee - Corporate Governance Policy 2002).

The effectiveness of audit committee in monitoring of process of financial reporting was researched by Klein (2002); Felo, Krishnamurthy, & Solieri (2003); Xie, Davidson & Dadalt (2003); Abbott et al. (2004); Bedard, Chtourou (2004); Persons (2005); Lin, li & Yang (2006); Qin 2007) and Ar-

chambeault, Dezoort, & Hermanson (2008). They found that there was relationship between audit committee characteristics and quality of financial report.

Other roles of audit committee that expressed by Elbannan (2009) that mention the effectiveness of audit committee as one of mechanism of corporate governance is to increase the effectiveness of internal control of financial report. Elbannan opinion's was supported by Teamnuay and Sapleton (2009) with divide the roles of audit committee in relation with 1) External Audit, 2) Internal Audit, 3) External Financial Reporting, 4) Other functions and 5) The quality of Financial Reporting.

Ventje Rahardjo (President Director of PT Bank Rakyat Indonesia Sharia - interview of Bisnis Indonesia, 17 April 2011) mentioned that Islamic Bank use the issue financial fraud to improve the internal control. Indonesian Policy stated that mostly the big cases in Indonesia involve internal staff of the bank (Banjarnahor 2011).

The Important things in related to financial accounting system reported the cause of default of big companies such Enron, Worldcom, and global crossing in first of 21 century, made business world realize how important quality of the financial reporting is (Kintzele 2008). This bankruptcy was caused by financial reporting problem (Fogarty and Rigsby 2010). Robinson and Munter (2004) mentioned that base on survey to portfolio manager and securities analyst done by Association for investment Management and research (AIMR), found that the quality of financial report is very important (43%) and important (22%) for user.

Many researchers have expressed the concept of financial reporting quality. Miller and Bahnson (1999) mentioned that quality of financial reporting was proxed with expression the information completely, punctual and reasonable. Jonas and Blanchet (2000:360) stated that quality of reporting was showed from achievement of conceptual frame work. They said that the frame work to assess of quality of financial report are 1) Relevance/earning persistence, 2) Relevance/earning persistence, 3) Relevance/feedback value, 4) Timeliness, 5) Verifiability, 6) Completeness, 7) Representation Faithfulness, 8) Neutrality, 9) Comparability, 10) Consistency, and 11) Clarity.

One way to measure the quality of financial report is by a review to see whether there is a problem in recognition of revenue (George and Philip 2001). Meanwhile, Broadley (2007) resumed of the result of discussion from Hundred Group of Finance Directors that quality of financial report should be meas-

Table 1
The Banking Cases due to Financial Reporting Problem

No.	Cases
1.	Bank Syariah Mandiri (BSM) and BNI (Sharia Unit) joint in syndication financing to Indosat Multimedia Mobil (IM3) project and got interest for that financing 19% pa. Islamic Bank may not use Interest concept, so the revenue of this financing could not report the income statement.
2.	Islamic Bank of South Africa bankrupt on November 1997 with debt between R50 – R70 million. This event causes bad management as well as accounting system and improper management. The loan in big amount without collateral caused interference credit in balance statement.
3.	Dubai Islamic Bank got lost approximate US\$300 billions on 1998. It caused improper bank financial report.
4.	Takwa Bank and Islamic Money Management Companies in Mesir was bankrupt. Whereas previous financial report had no problem.
5.	It was not complete presentation of financial report by sharia bank in Indonesia yet. Some of the banks did not present the source of report and using of benevolence fund, and the source of report and using of zakah fund.

Source: Agustianto (2008), Rajhi & Hasairi (2011) and annual report of Islamic banks in Indonesia.

ured from fulfilled of eight factors: 1) The objective of financial report, 2) Framework of Financial report, 3) Accounting Standard, 4) The convergency, 5) Performance Report, 6) The measurement base 7) narrative reporting and supplemental information, 8) forward-looking information.

Some Islamic Accounting experts orientate this with Al quran and Hadist which mentioned that framework of financial report cover: 1) Timeliness, 2) Verifiability, 3) Completeness, 4) Comparability, 5) Consistency, 6) Representational Faithfulness, 7) Neutrality and 8) Clarity (Syahatah 2001; Lewis 2001 2006; Zaid 2004; Isgiyarta 2010).

There were some cases related to financial reporting problem in Islamic Banking. This also happened both in Indonesia and other countries. Table 1 describes these cases.

Financial Reporting is source of information used by the users to know management performance and company financial position. In Islamic banks, an important concept is revenue sharing, which requires financial reporting quality. To give best revenue sharing to funding customer or receive revenue sharing from financing customer, it requests the qualify financial reporting. The Qualify of financial reporting should meet accounting standard and sharia supervisory board should guarantee (Karim 1990b). The objective of sharia financial reporting is to determine of zakah (Baydoun and Willet 2000). Sharia supervisory board has 3 duties, namely ex ante auditing, ex post auditing and determine of zakah (Brishton & El Ashker 1986, Karim 1990a).

Based on phenomenomn on above, it can be resumed that the center of this research is on the quality of financial report sharia bank. This can be achieved well if role of sharia supevisory board and audit committee is also well implemented. In doing so, the problem formulation deals with how far the role of audit committee and sharia supervisory

board influences financial reporting quality in Indonesian Islamic Banks.

2. THEORETICAL FRAMEWORK AND HYPOTHESIS

McMullen (1996) found relationship between audit committee existence and financial reporting quality that was measured by 5 factors such as shareholder litigation alleging Fraud, corrections of reported earnings, SEC enforcement action, illegal acts, or auditor turnover involving disagreements between client and the auditor. Audit committee significantly influences financial reporting quality. Firm with reliable financial reporting likely has audit committee.

In line with McMullen, George (2003) suggested bad financial reporting quality be resulted by audit committee failure to ask management choice in accounting methods. High financial reporting quality is only be produced by effective relationship between board of company, internal and external auditor, and standard board. Audit committee influences financial reporting also be supported by Pomeroy & Thornton 2010; Labelle et al. 2007; dan Chen et al. 2005. In corporate governance that be described by Algoud & Lewis (1999), the board of company in Islamic banking consists of sharia supervisory board, audit committee, internal auditor, and etc. The Islamic banking is complied with Islamic rule (Chapra and Ahmed 2000; Antonio 2001). To assure sharia compliance, Islamic bank must have sharia supervisory board (Briston & El-Ashker 1986; Karim 1990a 1990b; Algoud & Lewis 1999; Chapra & Khan 2000; etc).

Briston and El-Ashker (1986) declared that sharia supervisory boards (SSB) have three most functions such as: provision of advice, monitoring performance and the audit of zakah fund. SSB ought to all banks' operations meet Islamic rule. Karim (1990b) also noted SSB and external independent

Table 2
Role of Sharia Supervisory Board

Functions	Abu Ghudda	Hammad	Abdulla	Ahmed	Al Qari	Al Haiti	Al Qorra Daghi	Al Beriquiridar
<i>Shari'a approval for official documents</i>	x	x		x		x	x	x
<i>Shari'a approval for IFI's transactions</i>	x	x	x	x	x	x	x	x
<i>Issuing fatwas for new products</i>	x		x		x	x	x	
<i>Shari'a auditing for completed transactions</i>	x	x	x	x	x	x	x	x
<i>Finding solutions to non non-compliant transactions</i>	x	x		x		x		x
<i>Approving and contributing to creating new products</i>	x		x			x		x
<i>Equipping the employees</i>	x	x	x	x		x		
<i>Auditing the annual financial statements</i>	x	x	x			x	x	x
<i>Excluding the non-Shari'a income</i>	x							x
<i>Explaining the way of computing Zakat</i>	x							x
<i>Submitting the annual report</i>	x	x	x	x		x	x	
<i>Providing Shari'a legislation</i>	x	x			x	x		
<i>Representing the IFI</i>	x	x			x		x	
<i>Answering the inquiries</i>	x	x	x	x		x	x	x
<i>Consulting the shareholders, BoD, and CEO</i>		x	x	x			x	
<i>Conducting Research in Islamic banking</i>			x			x		
Total functions	14	11	10	8	5	12	9	9

Note: The italicized functions are the functions most used by researchers

Source: Garas and Pierce (2010).

auditor assured financial statement credibility. Chapra & Khan (2000) also asserted urgency role of SSB. In Islamic banking need internal control quality to ensure financial reporting quality. The most important responsibility of SSB is to monitor internal control in sharia aspect. This is supported by Ikhsan and Hasibuan 2004; Prasetyo 2005; Suprayogi 2007; Dusuki 2008; Syafei 2010. So SSB have a role in monitoring financial reporting quality passively.

Garas and Pierce (2010) accumulated opinion from many expertises about role of sharia supervisory board. The role of SSB can be shown in Table 2.

In connection with the previous research, Rosly (2010) stated role of sharia supervisory board is to ensure implementation of maqasid sharia or sharia objectives and to examine *akad* application in Islamic banking transaction. It also influences financial reporting. He illustrated in Figure 1.

Jonas & Blanchet (2000) defined financial reporting quality in refer to some characteristics of financial information quality. Financial reporting quality is resulted in meet characteristics as follow: earning persistence, disaggregated information, feedback value, timeliness, verifiability, completeness, comparability, consistency, representational faithfulness, neutrality dan clarity.

In accordance with Jonas & Blanchet idea, Syahatah 2001; Lewis 2001, 2006; Zaid 2004; Isgiyarta 2010 in refer to Qur'an and Hadits clarified some characteristics of financial information quality, such as: timeliness, verifiability, completeness, comparability, consistency, representational faithfulness, neutrality, and clarity.

Based theoretical framework above, hypothesis

in this research is as follows.

Ha1: the role of audit committee influences financial reporting quality

Ha2: the role of sharia supervisory board influences financial reporting quality.

Ha3: the role of audit committee and sharia supervisory board influences financial reporting quality simultaneously.

3. RESEARCH METHOD

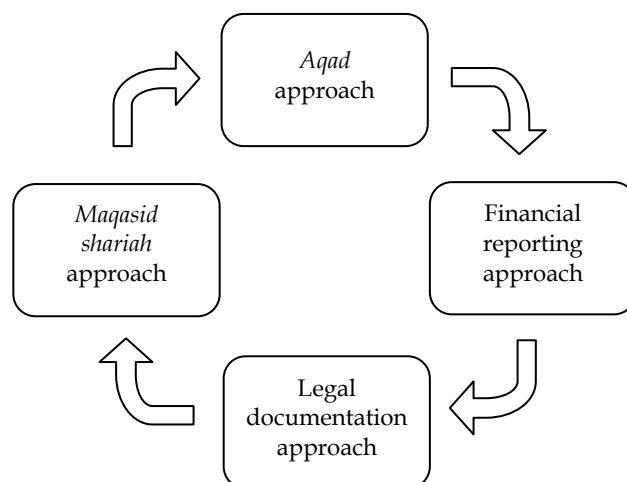
This used a survey and the data collection was done by means of questionnaires. A total of 51 questions covering 15 attributes of audit committee' role (Teamnuay and Stapleton 2009), 12 attributes of sharia supervisory board' role (Garas and Pierce 2010; Regulation from Central Bank of Indonesia No.12/13/DPbS 2010) and 24 attributes of financial reporting quality (Jonas and Blanchet 2000). Using a five - point Likert scale, respondents were asked to indicate their frequency with each statement (1 as never to 5 as always frequency). The survey was distributed at Islamic Bank in both the firm (BUS) and group/division (UUS).

Data analysis used multiple regressions with SPSS software. The preliminary test contains quality data test (validity and reliability) and classic assumption test (normality, heterocedastisity and multicollinearity). Analysis test used determination coefficient test, F test and t test.

4. DATA ANALYSIS AND DISCUSSION

All questionnaires were personally distributed to a group of 245 respondents (accounting employee, internal auditor, sharia supervisory board member, audit committee member, group head and division

Figure 1
Four Parameters in Sharia Compliance



Source: Rosly (2010).

head) at 34 unit Islamic Bank. 179 responses were received and 173 usable responses that originated from 11 units Islamic Bank Firm (BUS) and 22 unit Islamic Bank Group/Division (UUS)

Data analysis with SPSS software described some results. Quality data test (validity and reliability) and classic assumption test (normality, heterocedastisity and multicolonierity) complied with requirements (see appendices). Furthermore we explained the results of determination coefficient test, F test and t test (Table 3).

Determination coefficient test showed that this model explained the role of audit committee and sharia supervisory board described financial reporting quality in the amount of 78, 3%. Whereas in the amount of 21, 7% were elaborated by others variables, such as: effectiveness of internal control over financial reporting (Jennifer and Beatty 2010), internal auditor role (Kintzele et al. 2008), management commitment, and corporate governance (Algoud and Lewis 1999).

The result of F test demonstrated that role of audit committee and sharia supervisory board influenced financial reporting quality simultaneously. Based on sig value in t test showed role of audit committee and sharia supervisory board in fluenced financial reporting quality partially. With the result that F test and t test proved role of audit committee and sharia supervisory board influenced financial reporting quality simultaneously and partially.

Research result supported George (2003) stated that high financial reporting quality only can be succeeded by effective relationship between corporate board, internal and external auditor and standard committee. At Islamic bank corporate board consist of audit committee, sharia supervisory board and

other committees. Therefore, at Islamic bank, to bring high financial reporting quality needs effective relationship between audit committee and sharia supervisory board. They must implement their role related to financial reporting quality.

This finding relevant with Islamic banking theory was noted by Algoud & Lewis (1999), sharia supervisory board is center of framework for corporate governance at Islamic Bank. Another framework is audit committee. Chapra & Ahmed (2002) also said addition on normally corporate governance structure at conventional banking, such as board of director, audit internal and audit committee; there was sharia supervisory board at Islamic banking. It was supported by auditing theory by Arens et.al (2012) stated that audit committee must cooperate with other corporate board (at Islamic bank, other corporate board is sharia supervisory board). Financial reporting quality related with corporate governance (Archer & Karim 1997; Algoud & Lewis 1999; Chapra & Ahmed 2002, Persons 2005). This result proved urgency Islamic bank implemented QS 5:2 that said "...and cooperate in righteousness and piety, but do not cooperate in sin and aggression. And fear Allah; indeed, Allah is severe in penalty.

The importance of audit committee role is to bring financial reporting quality relevant to the previous research. Many research including Agami (2006), Klein (2002); Felo, Krishnamurthy, & Solieri (2003); Xie, Davidson, & DaDalt (2003); Abbott et al. (2004); Bédard, Chtourou (2004); Persons (2005); Lin, Li & Yang (2006); Qin (2007); and Archambeault, DeZoort, & Hermanson (2008) that stated there was relationship between audit committee characteristics and financial reporting quality. This

Table 3
Resume of Statistics Test

Adjusted R Square		.783
F - test	F	58.633
	Sig	.000a
t - test	Sig - ACR	.003
	Sig - SSB	.000

a. Predictors: (Constant), ACR, SSB

b. Dependent Variable: FRQ

result originated from primer data (questionnaire), and is also supported with secondary data (annual report). There was increased role of audit committee related with financial reporting quality every year at Islamic bank. It showed an increase in meeting intensity audit committee to control banking operation.

The result showed role of sharia supervisory board influenced financial reporting quality. It supported Rosly (2010) that said that sharia supervisory board has role to enactive maqasid sharia (sharia objective) implementation and to examine akad implementation in Islamic banking transaction that influenced financial reporting quality. This was relevant with Brishton & El-Ashker (1986) and Karim (1995) that implied that sharia supervisory board has a passive role to control financial reporting quality.

Many prior researches found importance of sharia supervisory board (Chapra dan Khan 2000; Ikhsan dan Hasibuan 2004; Prasetyo 2005; Suprayogi 2007; Dusuki 2008; Syafei 2010). If sharia supervisory board did not work optimally there would be transaction not complied with sharia (Agustianto 2008). For that reason, financial reporting provided by Islamic bank was not well made (Karim 1990; Abdallah 1994 in Syafei 2010).

Other finding in this research revealed that the most important dimension in financial reporting quality at Islamic banking was representation faithfulness. It showed urgency to apply QS 2:282 that stating as follows.

O you who believed! When you contract a debt for a specified term, write it down. Let a scribe write it down between you in justice. Let no scribe refuse to write as Allah has taught him. So let write and let the one who has the obligation dictate. And let him fear Allah, his Lord, and not leave anything out of it. But if the one who has the obligation is limited understanding or weak or unable to dictate himself, then let his guardian in justice... (QS 2:282)

This finding strengthens quality financial reporting that was declared by Jonas and Blanchet (2000) and relevant to financial reporting quality in Islamic accounting theory that was expressed by

accountants which concerned with Islamic Accounting (Syahatah 2001; Lewis 2001, 2006; Zaid 2004; Isgiyarta 2010). It also supports Islamic accounting theory which was explained by Thaheri. He asserted Accounting in Islamic financial institution constitute as a form of responsibility to Allah, so that it should be done honestly and appropriated with QS 2:282; 8:58 and 83:1. These verses showed importance honesty in transaction and record trusted asset. In such a way, it finally could compute zakah obligation. It is the objective of accounting at Islamic financial institution (Karim 1987).

5. CONCLUSION, IMPLICATION, SUGGESTIONS, AND LIMITATIONS

This study was designed to investigate the effect of audit committee and sharia supervisory board role on financial reporting quality at Islamic bank in Indonesian. A data resources originated from questionnaire was distributed to employee (internal auditor, accounting staff, division head, and group head), sharia supervisory board and audit committee member. Furthermore, role of audit committee and sharia supervisory board at Islamic banking were also investigated. Finally, the key attributes used by Islamic bank in making financial reporting quality were also examined.

The general conclusions which can be derived from this study are related to the role of audit committee and sharia supervisory board that influence financial reporting quality simultaneously and partially. This finding proved importance of these organs to bring Islamic banking toward the objective of Islamic accounting attainment.

The implication of this research is the urgency of the role of audit committee and sharia supervisory board. They should apply tight control in order to ensure transaction complying with Islamic law. It also needs honesty from many parties in Islamic bank.

This research did not cover other variables related with financial reporting quality. Therefore, further study can explore other variables such as effectiveness of internal control over financial reporting, internal auditor role, management com-

mitment, and corporate governance. It can also use financial reporting quality proxy (high, low and very low) too.

There are some limitations in this study such as (1) the secondary data was not available; (2) Some Islamic banks did not provide financial statement and annual report completely; (3) many items of the disclosure were not available in annual report of Islamic banks.

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APPENDICES

Research Instruments

Variables	Dimension	Indicator
ACR = Audit committee role Beasley et.al, 2000; Rezaee et.al, 2003; Mohammed, 2005; Hoitash, 2008; McMullen & Raghunandan, 1996; DeZoort & Salterio, 2001; Ten-gamnuay & Stapleton, 2009	Role related to financial reporting	1. A. To ask information about accounting policy change and 1. B. appraised it comply with accounting standard. 2. To review transaction disclosure that caused conflict of interest. 3. To review propriety some accruals, allowances, and estimations. 4. To review disclosure on assets impairment. 5. To appraise risk that caused overstated or understated in financial statement. 6. To review disclosure on financial instrument. 7. To ensure information in annual report and other reports not be in contradiction. 8. To review disclosure in segment report.
	Role related to effectiveness of internal control	9. To review evaluation and recommendation from external auditor that be done by management. 10. To review management respond to internal control recommendation by external auditor. 11. To review internal control system feasibility. 12. To monitor complied with rule by law. 13. To review accounting policy and practice. 14. To review changes in accounting policy and practice.
SSB = Sharia supervisory Board Brishton, 1986; Al-goud, 1999; Archer & Karim, 1997; Ikhsan & Hasibuan, 2004; Suprayogi, 2007; Dusuki, 2008; Syafei, 2010; Surat Edaran Bank Indonesia No.12/13/DPbS, 2010; Garas & Pierce, 2010	Monitoring process of new product development	1. To ask explanation about objectives, characteristics, and agreement (akad) that be used in new product will be launching. 2. To examine whether agreement (akad) be used in new product had get approval by fatwa DSN MUI (2 questions). 3. To review system and procedure new product will be launching. 4. To give sharia opinion on new product.
	Monitoring bank activity	5. To analysis management report. 6. To determine amount of transaction samples that will be examined. 7. To examine transaction documents as sampling. 8. To do inspection, observation, confirmation, or information request. 9. To review standard operating procedure about sharia aspects. 10. To give sharia opinion on banking activity. 11. To report monitoring output to board of director and board of commissionaire.
FRQ=Financial Reporting Quality Jonas & Blanchet, 2000; Beasley, 2000; Pomeroy & Thornton, 2007; Labelle et.al, 2007; Chen et.al, 2005; Cohen, 2003; Syahatah, 2001; Zaid, 2004; Isgiyarta, 2010.	Timeliness	1. To meet requirement of stock exchange board in term of timeliness. 2. Bank compare with competitors in the timely publishing of its financial statements. 3. To ensure that it provides the same information to all interested users at the same time.
	Verifiability	4. Information in financial statements allow the most judgmental aspects of financial reporting. 5. Information in financial statements communicates the significant estimates and assumption used to develop financial information. 6. Estimates and assumptions based on best information available.
	Completeness	7. The most significant events be communicated to investors. 8. Negative events or unsatisfactory outcomes be presented in financial statement. 9. Positive events or outstanding outcomes be presented in financial statement.

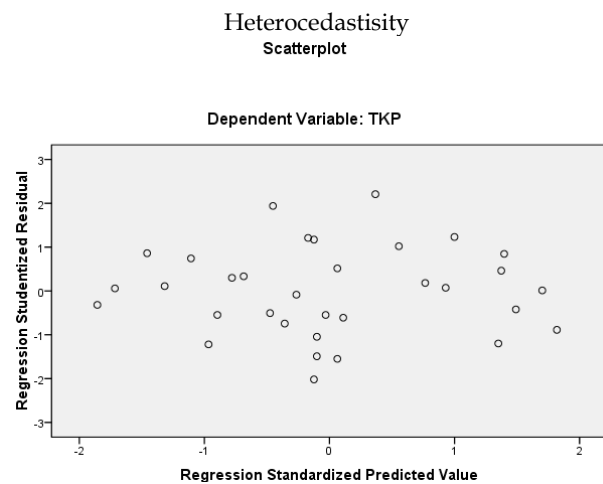
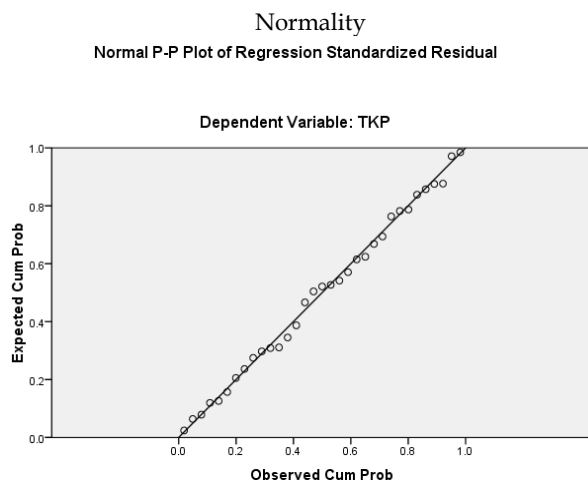
Variables	Dimension	Indicator
	Representation faithfulness	10. Accounting principles selection appropriately conveys the underlying economics of the transactions. 11. Valuation for precision in apply principle accounting. 12. Accounting is a honesty and clear portraying/description about substance and objective of transaction. 13. Bank provide information (in footnotes and others) to supplement the investor understanding.
	Neutrality	14. Management's assessment of the likely outcome was neutral. 15. Management's selection of accounting principle was neutral.
	Comparability	16. Accounting policies, disclosures, format of financial statement and other financial communications compare to competitors. 17. Accounting policy reflects a specifics industry practice. Practice in accordance with accounting requirement specifically codified as part of GAAP.
	Consistency	18. The effect of the changes in accounting policies, or in the application of the policies and the use of estimates and judgments on all periods presented should be appropriately disclosed. 19. The changes in accounting policies, or in the application of the policies and the use of estimates and judgments are motivated by management's desire to achieve a specific accounting result.
	Clarity	20. Disclosures go beyond complying with the absolute minimum requirements of GAAP. 21. The bank's presentation of information (considering the constraints of GAAP) well organized and easy to follow. 22. The language used in the financial reports easily understandable by non accountants. 23. Bank made clear graphs and charts in its financial report, to enhance the understandability of the financial information. 24. Financial statement and other disclosures form a comprehensive, cohesive, and coherent set of financial information that describe the whole event in banking.

Validity and reliability test:

Based on Pearson correlation and sig., All of statements in audit committee and financial reporting quality were valid (person correlation < 0, 05). Two statements in sharia supervisory board were not valid.

Reliability for all variables:

	Cronbach's Alpha
Audit committee	0.886
Sharia supervisory board	0.830
Financial reporting quality	0.955



Multicollonierity

Coefficients

Model	Unstd. Coefficients		Std. Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-18.174	11.170	-1.627	.114		
	ACR	.662	.201	.352	.3289	.592	1.690
	SSB	1.765	.302	.625	.000	.592	1.690

a. Dependent Variable: FRQ