



Corporate Governance and Firm's Compliance on Disclosure of International Financial Reporting Standards—Indonesian Evidence

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Abstract: This paper describes empirical research which investigates how corporate governance (CG) affects the compliance level of disclosure for International Financial Reporting Standards (IFRS) in 2013 and 2014, the two years after full IFRS adoption. The CG is proxy by the board's structure, characteristics of an audit committee, and shares ownership structure, whereas IFRS disclosure's level of compliance is measured by disclosure index. This research uses ordinary least square to investigate the effect of corporate governance on the level of IFRS disclosure compliance along with profitability, industry, and leverage as control variables. This research finds that five elements of CG characteristics which are board's independence, board's size, audit committee's independence, audit committee's size, and management's ownership positively affect the level of IFRS disclosure compliance. Yet, the block holder's ownership negatively affects the compliance level of IFRS disclosure, whereas government ownership does not affect the compliance level of IFRS disclosure. This study provides additional evidence about the association of CG and the level of IFRS disclosure compliance by using Indonesian data. Furthermore, involving five elements of corporate governance mechanisms, this study provides additional finding about corporate governance comprehensively. Finally, this research provides values for all users of information including standard setters and other regulators to enhance reporting quality standards in Indonesia.

Keywords: CG Characteristics, IFRS Disclosure, Level of Compliance

1. Introduction

The objective of this study is to find empirical evidence about the compliance level of Indonesian public firms toward IFRS mandatory disclosures in the corporate governance perspectives. This research is motivated by previous research investigated the effect of IFRS on accounting information quality which reports mixed results. Some report that IFRS increases accounting information quality [23, 60, 61, 20, 39, 31, 11, 19, 21, 42], some report that IFRS decreases accounting information quality [51-52], and some report that IFRS does not affect accounting information quality [34, 12, 33]. Therefore, we conduct further research to investigate the compliance level of Indonesian firms toward mandatory

disclosure post full mandatory IFRS implementation.

Following several accounting scandals involving huge companies, i.e. WorldCom, Enron, and Xerox, accounting information quality had been the tireless concern, especially among practitioners, standard and regulation setters, government, and other stakeholders [38]. Research performed by Byrne and Deakin et al. reports that the scandal of financial accounting is one of the triggers for corporate governance (CG) since company's problems are usually related to the weaknesses of corporate governance systems [15, 22]. Such corporate problems are the effect of the conflict of interest between the agent (management) and owners (shareholders).

Corporate accounting information quality is affected by the

accounting standard and motivation preparers of financial statements to conform to the accounting standards [41]. In the last decades, many countries had implemented IFRS. This makes IFRS become one of the dominant change in the accounting regulatory. Yet, the IFRS implementation itself does not guarantee that a firm is able to produce high-quality accounting information. Firms need to act in accordance with all reporting and disclosure standards. Many research about IFRS compliance have been performed, for example, Hodgdon et al. which investigate the effect of IFRS's compliance find that the level of IFRS compliance negatively correlated with earnings forecast errors [29]; whereas Bova and Pereira report that the compliance of IFRS's disclosure positively affects the magnitude of share return [13]. Both types of research show that the IFRS implementation does not have an impact on the improvement of information quality if it is not followed by full compliance with accounting standard.

Other research performed by Pope and Measly; Cuijpers; and Krismiaji et al. who find evidence that firm-level corporate governance mechanism has an important effect on the financial report preparer to obey IFRS, especially in the lower enforcement country such as Indonesia [53, 41]. Another research performed by Brown finds the benefit IFRS attainment is affected by several aspects, such as regulation, reporting standards, and compliance level [14]. Moreover, reporting quality and benefit of IFRS adoption also depend on the incentive power of financial statement preparers to comply and disclose high-quality information [38]. This incentive depends on the degree of enforcement.

Basically, disclosures reflect the effectiveness of CG since CG provides information transparency both for shareholders and other stakeholders [38]. Additionally, a high-quality disclosure will happen if a corporation has a strong CG [63]. Disclosure level usually increases when corporations implement IFRS. Moreover, the higher the quality of CG a company has, the broader the financial information is disclosed. This view is in line with Forker who argues that governance mechanisms like the independence of board increase monitoring of firms' disclosure quality [25] and Williamson who suggests that board independence leads to higher transparency [66].

In term of governance, audit committee, as one of governance elements, is assumed as an important instrument to increase the trustworthiness and precision of financial information [62]. An audit committee in the firms increases information quality, quality of disclosure, the effectiveness of the internal control system, and the financial statements quality [25, 28]. The structure of ownership is another governance mechanism which also important. This is supported by Makhija and Patton who argue that disclosure degree and disclosure qualities are a result of the conflict of interest between the agent (management) and principle (shareholders) [43]. Since majority shareholders have more power than the minority one, they are likely to manage the level of information disclosure to maximize their own interest.

Governance mechanism is formed to ensure that managers work primarily to produce advantages for shareholders by enhancing a firm's economic value. Regulatory authorities, in order to keep the interests of shareholders, have issued some corporate governance regulations [16]. In Indonesia, such CG regulations are Minister Regulation No.01/MBU/2011 about good corporate governance and The Indonesia Corporate Governance Manual which is released by Financial Service Authority in the year of 2014.

Recently, there is increasing awareness about the benefit of CG to improve the quality of financial information. Yet, the involvement of corporate governance in the firm's research is still limited, if any, especially in an emerging market like Indonesia. Therefore, this research aims to fill such literature gap about the effect of corporate governance on the compliance of IFRS disclosure. This research also complements previous research and literature on corporate governance. Previous research investigated the effect of governance characteristics and IFRS compliance level in emerging countries had performed by Al-Akra et al. and Juhmani [6, 38]. Nevertheless, there are still limited similar research which investigates three categories of governance mechanism in a study, which are characteristics of the boards, characteristics of the audit committee, and structure of the ownership. This opens an opportunity to do research which investigates how corporate governance affects the level of IFRS disclosure requirement. Therefore, this research aims to investigate the impact of three categories of governance mechanism i.e. characteristics of boards, characteristics of audit committee, and structure of ownership on the compliance to IFRS mandatory disclosures. Specifically, the objective of this paper is to offer an answer to the following research questions:

RQ1: Do boards characteristics, which consist of boards independence and boards size affect the compliance to IFRS mandatory disclosure?

RQ2: Do audit committee characteristics, which consist of audit committee independence and audit committee size affect the compliance to IFRS mandatory disclosures?

RQ3: Do ownership structures, which consist of the ownership of block holders, managerial, and government affects the compliance to IFRS mandatory disclosure?

This paper is structured as follows: Section 2 describes the literature review and hypotheses development. Section 3 describes the research method. Section 4 presents the result analysis discussion. Finally, Section 5 presents conclusions, implications, limitations, and the opportunity for further research.

2. Literature Review and Hypothesis Development

Corporate governance mechanism affects the compliance to IFRS mandatory disclosure. The important role of external and independent boards of the director in the process of governance lead to the recommendation for the presence of

independent members on the boards of director [38]. The quality improvement of financial reporting practice was recognized as one of the main benefits for corporations from having an audit committee [54]. Additionally, corporate governance reform in many countries had strengthened committee roles in the supervision of the financial reporting process [58].

One of the important jobs for an audit committee is to recognize the interdependence between the audit committee, management, and external auditors [55]. An audit committee will be reliable if it has members with sufficient competence and full independence. Hannifa and Cooke stated that ownership structure establishes the extent of the monitoring which in turn affects the disclosure level [27]. Therefore, in a non-concentrated owned company, the managers may disclose the extra information to show that they had worked for the shareholder's optimum interest. In contrast, in a more concentrated owned company, managers may disclose less information. Previous research investigated the relationship between governance mechanism and financial information disclosure. Samaha et al. find that the level of disclosure is lower in the highly concentrated owned companies [56]. The level of disclosure increased in companies which have independent directors.

Verriest et al. investigate the relationship between corporate governance and the choice to adopt IFRS for European public companies in the year of 2005 [63]. They find that companies with strong CG are likely to present extra information. Additionally, Omar finds that some new regulations positively affect the level of disclosure [49]. The lower of compliance lead to disclosure practice became a problem, especially when management has the incentive to evade their compliances [10] and when the enforcement of the rules and corporate governance are not strong enough [47].

2.1. Board Independence and IFRS Disclosure Compliance

Board independence is presumed as one of the company's governance characteristics. Agency theory argues that the duality role reduces boards' monitoring ability. This lead to increases in agency problem which in turns affect boards independence [27]. Yermack and Ho et al. find that when boards and CEO are performed by the same person, there is a new agency problem because a person has both capability and power to reduce the flow of information to external parties [67, 27].

Chen and Jaggi support the presence of independent boards by arguing that the independent boards may provide a recommendation to management about a strategic decision, i.e. the decision to disclose information [17]. Moreover, the more independent board's member, the better performance in controlling and monitoring for decisions of management. This is supported by Abdullah who finds that independence of board positively affects the quality of earnings [2] and Abdullah and Nasir who show that the independence of board is not associated with earnings management [3]. Finally, Juhmani find that the board's independence

positively affects the level of the IFRS disclosures [38]. Based on the above description, we stated the hypotheses as follows:

H₁ Board independence positively affects the level of IFRS disclosure compliance.

2.2. Board Size and IFRS Disclosure Compliance

Previous research about the association between board size and disclosure are mixed. The large board is believed to be more effective to monitor the financial reporting process because firms have more resources to assign board members who have relevant knowledge and skill [59]. Yet, this does not guarantee that a large board affects positively on the management attitude to comply with the disclosure requirement. Although board size leads to the increase of monitoring ability for the board, John and Senbet argue that the benefit of better monitoring should be expensed by the incremental cost in which there is a decrease in effective communication and ability of decision-making as there are more people in the same room [37]. From the standpoint of the small board's effectiveness, Yermack finds that board size negatively affects firm value. This is evidence of the negative effect of large boards [67]. Differently, Alfraih finds a positive association between the size of boards and the level of IFRS disclosure compliance [8]. Additionally, Al-Akra et al. find that board size affects positively the IFRS disclosure compliance level [6]. The last research conducted by Juhmani finds that there is no association between board size and IFRS compliance level [38]. Based on the above description, we stated the hypotheses as follows:

H₂ Board's size positively affects the level of IFRS disclosure compliance.

2.3. Audit Committee Independence and IFRS Disclosure Compliance

Audit committee independence plays an important role in the financial reporting process, especially in term of mandatory disclosure compliance. This is supported by Klein who argues that the independence of audit committee affects the director's capability to effectively control the financial accounting reports [40]. Additionally, the independence of audit committee had been argued as an obligatory requisite for an audit committee in order to accomplish its responsibility objectively [24, 1]. Previous research performed by Sellami and Fendri find a positive association between the independence of audit's committee and the level of IFRS disclosure compliance [57], whereas Al-Akra, Eddie, and Ali find that audit committee's independence positively affects IFRS disclosure compliance level [6]. The finding of Al-Akra et al. was confirmed by Juhmani who finds that the audit committee's independence positively affects IFRS disclosure compliance level [38]. Based on the above description, we stated the hypotheses as follows:

H₃ Audit committee's independence positively affects the level of IFRS disclosure compliance.

2.4. Audit Committee Size and IFRS Disclosure Compliance

Generally, the size of an audit committee leads to improvement in corporate governance. This is supported by Vicknair et al. who stated that the audit committee should have sufficient members to perform its responsibilities effectively [64]. Previous research performed by Mazni finds that the audit committee size is associated with the level of compliance with IFRS disclosure requirements [45]. Additionally, Anderson, Mansi, and Reeb report that the bigger the audit committee size, the more effective the audit committee function, because the audit committee has more resources and competence to handle any duties and problems in the process of financial reporting [9]. Moreover, they find that the size of the audit committee positively affects company disclosure's transparency [9]. Finally, Al-Akra, Eddie, and Ali and Alanezi and Albuloushi find that the audit committee size positively affects the level of IFRS disclosure compliance [6, 7]. Based on the description, we stated the hypotheses as follows:

H₄ Audit committee size positively affects the level of IFRS disclosure compliance.

2.5. Blockholder's Ownership and IFRS Disclosure Compliance

When a company's shares are owned by large block holders, a firm is controlled by the small number of shareholders; consequently, the share's ownership is concentrated. Noe argues that concentrated ownership structure could be functioned as a monitoring mechanism which effectively prevents managers from expropriating the firm's resources for their benefits [48]. On the basis of the efficient-monitoring hypotheses, the large block holders are supposed to motivate the firm's manager to provide extra information in order to enhance the price of the firm's share and the value of the firm. Investors who have a large portion of the company's share may obtain the company's information from internal sources. Therefore, Marston and Poley argue that the larger the firm's share owned by the smaller people, the less information is disclosed by the company, because the dominant investors can access information internally [44]. This is supported by Abdullah who documents that outside block holders negatively affect the status of financial distress [2]. Therefore, the hypothesis can be formulated as follows:

H₅ Blockholders' ownership negatively affects the level of IFRS disclosure compliance.

2.6. Managerial Ownership and IFRS Disclosure Compliance

Managers who have the company's shares usually are motivated to increase a firm's value, enhance shareholders' wealth, and improve their own wealth [38]. Therefore, information disclosure will improve when managers have a large firm's share. This happens because they may obtain benefit from the more disclosure in the form of share price increase. Consequently, managers are expected to have a

similar interest as other shareholders. They will also more conform to the standard of financial information reporting and present more mandatory information. Based on the description, we stated hypotheses as follows:

H₆ Managerial ownership positively affects the level of IFRS disclosure compliance

2.7. Government Ownership and IFRS Disclosure Compliance

Government ownership could have a positive or negative impact on information quality as well as disclosure compliance. Previous research performed by Ghazali and Weetman find no association between the ownership of government and the level of disclosure and the extent of transparency [26]. They argue that in emerging countries, the state-owned companies tend to have strong political connections and consequently state-owned companies are likely to produce and present the less information in order to protect the political network and even their beneficial shareholders. Juhmani find that government ownership does not associate with IFRS disclosure compliance [38]. Based on the above description, we stated hypotheses as follows:

H₇ Government ownership negatively affects the level of IFRS disclosure compliance.

3. Research Method

3.1. Sample Selection

After gradually adopting IFRS since 2008, Indonesian companies fully adopt IFRS in the year of 2012. Consequently, Indonesian companies are required to prepare a financial statement based on IFRS start on the fiscal year of 2012. Therefore, the year selected for this research is 2013 to 2014, two years after full IFRS adoption. This research uses a purposive sampling method to select the firm's sample. To be involved in the sample, a company should be listed on the Indonesian Stock Exchange in the year 2012 then after. Secondly, the firms should have adopted IFRS since 2012. The third requirement is that the firms should have publicly available data. The data derives from the Indonesian Capital Market Directory (ICMD), www.idx.co.id, and the firm's website. Data is analyzed using multiple linear regression. Similar to the previous research, we use OLS (ordinary least-squares) to test our hypotheses. To achieve our research objective, all IFRS which are mandatorily implemented since 2012 were included. The reason is that our research objective is to test the entity's level of compliance in the first-time IFRS adoption.

3.2. Variables' Definition and Measurement

Dependent variable used in this research is the disclosure compliance index (DIND). Previous research investigated disclosure had constructed various disclosure compliance indices. Some research uses a self-constructed index and some researchers use the developed index which is designed by others. As it is used by Hodgdon et al. this research also

employs an index, which is constructed based on Indonesian regulations and consists of elements which mandatorily should be disclosed [30]. Disclosure compliance is measured by a dummy approach and compliance score is calculated for each company. Compliance score total for a company is total disclosure items presented in the financial statements. If an item is not stated in the financial statements, it is highlighted as not applicable. The next, disclosure index is calculated to proxy the compliance level of IFRS disclosure. Disclosure index is the ratio between the actual score for a company divided by the possible maximum score.

This study uses seven independent variables which are board independence (BIND), board size (BSIZE), audit committee independence (ACIND), the audit committee size (ACSIZE), block holder's ownership (BLOK), managerial ownership (MAN), and government ownership (GOV). BSIZE is measured by the total of the board's member, ACIND is measured by the proportion of non-executive members, ACSIZE is measured by the total of audit committee members, BLOK is measured by the ownership percentage with a minimum of 5% ownership, MAN is measured and calculated by the proportion of shares owned by managers, and GOV is measured by a dummy variable which has a value of 1 if a company is related to the government and 0 otherwise.

This research uses three control variables, namely profitability (PROF) which is measured by return on equity (ROE), industry (IND), measured by dummy variable which has value of 1 for financial company and 0 otherwise, and financial leverage (LEV) which is ratio between firm's total liabilities and firm's total assets. We use profitability as one of the control variables because profitable companies are likely to report more information [38]. Companies in a certain industry may face specific circumstances which affect their information reporting practices. Wallace et al. argue that industries are dissimilar to each other in term of operation and financial reporting practices [65]. Moreover, firms in the highly regulated industry, such as banks and insurance, may become a subject of oversight by a government which in turn affects significantly their policy and practice of information disclosure [50]. Therefore, some of the previous research about disclosure excludes financial industry from the samples and some use all industries, including this research. The empirical result on the correlation between information disclosures and industry's type tend to be inconclusive. Cooke, Meek et al., and Samaha et al. find that there is an association between the two variables [18, 46, 56], whereas Inchausti and Owusu-Ansah find that there is no association between them [32, 50]. Agency theory stated that information disclosure level increase when the firm's financial leverage increase [38]. In countries where companies highly depend on financial institution as a source of funding, companies are expected, especially for large debt companies, to disclose more information [5]. Such companies are likely to present more detail information in order to get additional fund from financial institutions.

3.3. Research Model Specification

The statistical method to test the hypotheses is multiple regressions using an ordinary least squares (OLS) model. To predict the effect of all independent variables which are BIND, BSIZE, ACIND, ACSIZE, BLOK, MAN, and GOV on dependent variable which is disclosure index (DIND), the research uses models as follows:

$$(1) DIND = \alpha + \beta_1 BIND + \beta_2 BSIZE + \beta_3 ACIND + \beta_4 ACSIZE + \beta_5 BLOK + \beta_6 MAN + \beta_7 GOV + \beta_8 PROF + \beta_9 IND + \beta_{10} LEV + \epsilon$$

DIND is disclosure index, BIND is the board independence, BSIZE is board's size, ACIND is audit committee's independence, ACSIZE is audit committee's size, BLOK is block holders' ownership, MAN is managerial ownership, GOV is Government's ownership, PROF is profitability, IND is the industry type, LEV is a financial leverage, and ϵ is error term (residual). We also split the first model, Model (1), into three additional models which are Model (2), Model (3), and Model (4) to determine the effect of each category of board characteristics on the disclosure index as follows:

$$(2) DIND = \alpha + \beta_1 BIND + \beta_2 BSIZE + \beta_3 PROF + \beta_4 IND + \beta_5 LEV + \epsilon$$

$$(3) DIND = \alpha + \beta_1 ACIND + \beta_2 ACSIZE + \beta_3 PROF + \beta_4 IND + \beta_5 LEV + \epsilon$$

$$(4) DIND = \alpha + \beta_1 BLOK + \beta_2 MAN + \beta_3 GOV + \beta_4 PROF + \beta_5 IND + \beta_6 LEV + \epsilon$$

4. Data Analysis and Result Discussion

On the basis of the described sampling process, this research uses 491 firm sample. The sample data are detailed in the industry sector and presented in Table 1. We include all industry sectors which have available and complete data.

Table 1. Firm Sample Data.

No	Industry Sector Type	Number
1	Agriculture	20
2	Basic industry and chemicals	39
3	Consumer goods industry	63
4	Infrastructure, utilities, and transportation	40
5	Mining	37
6	Miscellaneous industry	55
7	The property, real estate, and building constructions	50
8	Finance	79
9	Trades, services & investment	108
	Total	491

4.1. Univariate Analysis

Table 2 presents descriptive statistics for the sample data. This table shows that DIND has a mean value of 0.716 and standard deviation of 0.080. Because DIND is a measure of disclosure compliance, therefore the higher the value of DIND the more the firm's compliance. BIND and BSIZE has a mean value of 0.386 and 4.109 with a standard deviation of 0.170 and 1.970 respectively. ACIND and ACSIZE have a mean value of 0.133 and 2.870 with a standard deviation of 0.182

and 1.057 respectively, whereas BLOK, MAN, and GOV have a mean value of 0.878, 0.024 and 0.047 with a standard deviation of 3.658, 0.088 and 0.213 respectively.

Table 2. Descriptive Statistics.

	Mean	Median	Maximum	Minimum	Std. Dev
DIND	0.716	0.730	0.990	0.390	0.080
BIND	0.386	0.333	1.500	0.000	0.170
BSIZE	4.109	3.000	22.000	0.000	1.907
ACIND	0.133	0.000	0.750	0.000	0.182
ACSIZE	2.870	3.000	8.000	0.000	1.057
BLOK	0.878	0.698	70.880	0.000	3.658
MAN	0.024	0.000	0.742	0.000	0.088
GOV	0.047	0.000	1.000	0.000	0.213
PROF	12.526	10.070	423.210	-233.710	44.172
IND	0.159	0.000	1.000	0.000	0.366
LEV	0.581	0.530	12.000	0.000	0.681

4.2. Bivariate Analysis

To test research hypotheses, we use ordinary least square (OLS) regression. All classical assumptions test for these techniques have been done. The result proves that the residual data is normally distributed, no multicollinearity and no heteroscedasticity in the data. Specifically, Table 3 presents the multicollinearity test result and proves that the correlation between the independent variable is small with

the highest value of 0.306 which correlate ACSIZE and BSIZE. This means that there is no multicollinearity. Table 3 also shows that, except for GOV, all independent variables correlate in a similar direction as stated in each hypothesis. Although only one variable which has a significant correlation, namely ACSIZE, these are the initial indication for proving the hypotheses. Therefore, this result will be further tested in the multivariate analysis.

Table 3. Bivariate Analysis.

	DIND	BIND	BSIZE	ACIND	ACSIZE	BLOK	MAN	GOV	PROF	IND
BIND	.081									
BSIZE	.087	.045								
ACIND	.054	.237**	.060							
ACSIZE	.099*	.196**	.306**	.128**						
BLOK	-.062	-.031	.006	-.002	-.002					
MAN	.057	.019	.049	.056	-.013	.021				
GOV	.003	-.065	.146**	-.045	.209**	-.042	-.058			
PROF	.006	.026	-.024	-.016	.011	.007	-.028	-.010		
IND	.009	.248**	-.065	.148**	.210**	.076	.016	.038	-.006	
Lev	-.012	.081	-.041	.000	-.046	-.018	-.014	.012	-.013	.057

Notes: ** and * means that correlation is significant at the 0.01 and 0.05 levels, respectively (2-tailed).

4.3. Multivariate Analysis

Table 4 presents the result of multiple regression analysis. The result explains that the value of adjusted R² and F indicate all models are significant. Yet, there are distinctions in the explanatory power as is shown by the value of adjusted R². The value adjusted R² is 31.6 percent; 1.4 percent; 35.9 percent, and 42.7 percent for Model 1, 2, 3, and 4 respectively. To test whether board independence affects the level of IFRS compliance (H1), the variable to be investigated is board independence (BIND). Table 4 presents a positive (0.672) and significant coefficient of BIND in the level of 1%. This result shows that board independence positively affects the firm's IFRS compliance. Therefore we conclude that hypothesis 1 which states that board independence positively affects the level of IFRS disclosure compliance is confirmed and supported by the research data. Thus, the more independent the board, the more comply a firm toward IFRS. To test whether board size positively affects the level of IFRS compliance (H2), the variable to

be investigated is board size (BSIZE). Table 4 presents a positive (0.004) and significant coefficient of BSIZE at the level of 1%. This result shows that board size positively affects the firm's IFRS compliance. Thus, we conclude that hypothesis 2 which states that board size positively affects the level of IFRS disclosure compliance is supported by research data. An inference of the result is that the bigger the board size, the higher the IFRS compliance of the firm. The regression results in Model 1 to test H1 and H2 is supported by and consistent with the result from Model 2 which presents a positive coefficient of BIND (0.043) and BSIZE (0.004) and significant at the level of $\alpha=0.01$ ($p=0.000$). This result is in line with Jensen who stated that board independence is necessary to give pressure on management to disclose more information, which meets the shareholders' interest [36]. Therefore, the existence of an independent board is important for the effectiveness of the boards. This is believed to enhance the compliance of the disclosure requirements of the firm. This will increase the quantity and quality of information disclosed. Moreover, this finding supports prior

studies performed by Abdullah who find that board independence affects positively the firm's earnings quality [4], Abdullah and Nasir who report that board independence is not associated with the accrual management [3], Chen, and Jaggi who find that board independence positively affects the extent of information disclosure [17], and Juhmani who finds that board independence positively affects the firm's compliance level of IFRS disclosure [38]. These findings are also in line with the statement that the larger boards lead to the higher monitoring effectiveness of financial reporting. A rational explanation of this is that a company, with the larger board members, has more choice to hire directors and the

member of the audit committee who has the sufficient and relevant expertise, knowledge and skill [59].

$$(1) DIND = \alpha + \beta_1 BIND + \beta_2 BSIZE + \beta_3 ACIND + \beta_4 ACSIZE + \beta_5 BLOK + \beta_6 MAN + \beta_7 GOV + \beta_8 PROF + \beta_9 IND + \beta_{10} LEV + \varepsilon$$

$$(2) DIND = \alpha + \beta_1 BIND + \beta_2 BSIZE + \beta_3 PROF + \beta_7 IND + \beta_8 LEV + \varepsilon$$

$$(3) DIND = \alpha + \beta_1 ACIND + \beta_2 ACSIZE + \beta_3 PROF + \beta_4 IND + \beta_5 LEV + \varepsilon$$

$$(4) DIND = \alpha + \beta_1 BLOK + \beta_2 MAN + \beta_3 GOV + \beta_4 PROF + \beta_5 IND + \beta_6 LEV + \varepsilon$$

Table 4. Regression Analysis.

Variable	Model 1 Coefficient (t-Statistic)		Model 2 Coefficient (t-Statistic)		Model 3 Coefficient (t-Statistic)		Model 4 Coefficient (t-Statistic)	
Intercept	0.672 (409.557)	***	0.681 (80.349)	***	0.694 (546.788)	***	0.716 (958.617)	***
BIND	0.041 (18.600)	***	0.043 (2.791)	***				
BSIZE	0.004 (26.849)	***	0.004 (3.193)	***				
ACIND	0.005 (3.888)	***			0.012 (10.691)	***		
ACSIZE	0.004 (12.752)	***			0.006 (18.588)	***		
BLOK	-0.001 (-2.406)	**					0.001 (-3.499)	***
MAN	0.036 (4.921)	***					0.025 (11.612)	***
GOV	-0.007 (-0.115)						0.016 (4.525)	***
PROF	0.012 (1.056)		0.004 (0.777)		0.003 (4.652)	***	0.005 (5.228)	***
IND	-0.002 (-3.012)	***	-0.002 (-0.308)		-0.004 (-7.384)	***	0.005 (3.791)	***
LEV	0.001 (0.639)		-0.006 (-0.016)		0.001 (4.067)	***	0.001 (0.987)	
Adj. R ²	0.316		0.014		0.359		0.427	
F-statistic	430.835	***	3.940	***	109.895	***	122.923	***

***, **, * show that coefficient is significant at 0.01, 0.05, and 0.1 respectively.

To test whether audit committee independence affects positively the level of IFRS compliance (H3), the variable to be investigated is ACIND. Table 4 presents a positive (0.005) and significant coefficient of ACIND at the level of 1%. This result shows that the audit committee independence positively affects IFRS compliance. Therefore, we conclude that H3, which states that audit committee independence positively affects the level of IFRS compliance, is supported by research data. The consequence of this evidence is that the more independent the audit committee, the higher the firm's IFRS compliance. To test the effect of the audit committee size on the level of IFRS compliance (H4), the variable to be investigated is ACSIZE. Table 4 presents a positive (0.004) and significant coefficient of ACSIZE at the level of 1%. The result shows that the audit committee size positively affects IFRS compliance. We conclude that H4 which states that audit committee size positively affects the level of IFRS compliance is supported by research data. An explanation of this evidence is that the bigger the audit committee size, the more comply the firm toward IFRS disclosure. The regression result in Model 1 to test H3 and H4 is supported by and consistent with the result from Model 3 regression which presents a positive and significant at the level of $\alpha=0.01$ ($p=0.000$) coefficient of ACIND equals (0.012) and ACSIZE equals (0.006). This result supports some previous research performed by Al-Akra et al. and Juhmani who find that the presence of an audit committee affects positively firm's compliance of IFRS disclosure [6,

38]. Additionally, this evidence is also in line with the study which is performed by Alanezi et al. who find that the audit committee's size affects the level of IFRS disclosure compliance [7].

To test whether block holders' ownership negatively affects the level of IFRS compliance (H5), variable investigated is BLOK. Table 4 presents a negative (-0.001) and significant coefficient of BLOK at the level of 5%. This evidence implies that the block holders' ownership affects negatively the IFRS compliance's level. Therefore, we conclude that H5 which states that block holders' ownership negatively affects the level of IFRS compliance is confirmed by research data. A consequence of this evidence is that the bigger block holders' ownership, the higher the extent of firm's IFRS compliance. To test whether managerial ownership positively affects the level of IFRS compliance (H6), variable investigated is MAN. Table 4 presents a positive (0.036) and significant coefficient of MAN at the level of 1%. This evidence shows that managerial ownership affects positively the firm's IFRS disclosure compliance's level. Thus we conclude that H6 which states that managerial ownership positively affects the level of IFRS disclosure compliance is confirmed and supported by research data. This evidence implies that the bigger managerial ownership, the higher the extent of firm's IFRS compliance. Finally, to test whether government' ownership negatively affects the level of IFRS disclosure compliance (H7), variable investigated is GOV. Table 4 presents a negative (-0.007) and an insignificant coefficient

for GOV. This result shows that the government's ownership does not affect the level of IFRS disclosure compliance. Therefore, it is concluded that H7 which states that government ownership negatively affects the level of IFRS disclosure compliance is not confirmed by research data. This evidence implies that the change in the government's ownership will not change the IFRS compliance of the firm.

The regression result in Model 1 to test H5 and H6 is supported and consistent with the result from Model 4 regression which presents a negative (-0.001) and significant coefficient of BLOK at the level of 1% and a positive (0.025) and significant coefficient of MAN at the level of 1%. This finding supports previous research performed by Abdullah who finds that outside block holders negatively affects the status of financial distress [4]. For H7, the result of Model 1 is not supported by that of Model 4, since model 1 reports no significant value for GOV whereas model 4 reports a positive sign at the level of $\alpha=0.01$ ($p=0.000$) coefficient of GOV (0.016). This finding may verify the importance of the GC to impose government-owned companies to fully conform to the requirements of IFRS disclosure. This result is also in line with the view that CG mechanisms are supposed to affect management to more comply with IFRS disclosure. This finding confirms the previous study performed by Juhmani who reports that government ownership does not associate with the level of IFRS disclosure compliance [38].

5. Conclusion

This paper investigates the effect of corporate governance characteristics on the compliance level of IFRS disclosure. The research' evidence shows that five of CG mechanisms - board's independence, board's size, audit committee's independence, audit committee's size, and management ownership - positively affect compliance level of IFRS disclosure. Moreover, the results show that the block holder's ownership negatively affects the compliance level of IFRS disclosure, whereas government ownership does not affect the level of IFRS disclosure. The result supports H1 and H2 which stated that board characteristics positively affects the compliance level of IFRS disclosure. This result also supports H3 and H4 which stated that audit committee characteristics positively affects the compliance level of IFRS disclosure.

For ownership, the result provides mixed evidence. H5 which states that block holders ownership negatively affects compliance level of IFRS disclosure and H6 which states that managerial ownership positively affects compliance level of IFRS disclosure is supported by research data, whereas H7 which states that government ownership positively affects the level of IFRS disclosure compliance is not supported.

Some limitation exists in this research. First, this research uses data from one country which is Indonesia, which limits the generalization of the result. Future research is open to involving data for more countries. Second, this research uses data one year after full IFRS adoption. To enrich such disclosure literature, future research needs to consider data before full IFRS adoption

in order to get a comparative picture of disclosure compliance.

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