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Original Research Article

The Role of Company Age in Moderating the Effect of Political Connections, Audit Committees and Institutional Ownership on the Quality of Financial Reports

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Abstract

This study aims to determine the effect of Political Connections, Audit Committees and Institutional Ownership on the Quality of Financial Reports with Company Age as a moderating variable. Research is an exploratory study conducted to find out and explain more deeply and holistically the characteristics of the variables studied in a situation. The sample used in this study was the LQ45 companies listed on the Indonesia Stock Exchange for the period 2020-2022, while the technical data analysis used in this study was Panel Data Regression and Moderated Regression Analysis. The results of the study provide empirical evidence that Political Connections do not affect the Quality of Financial Reports, the Audit Committee affects the Quality of Financial Reports, Institutional Ownership affects the Quality of Financial Reports, Company Age moderation can strengthen the influence of Political Connections on the Quality of Financial Reports, Company Age moderation can strengthen the influence of the Audit Committee on the Quality of Financial Reports, Company Age moderation can weaken the influence of Institutional Ownership on the Quality of Financial Reports.

Keywords: Political Connections, Audit Committee, Institutional Ownership, Financial Reporting Quality, Company Age.

1. INTRODUCTION

In realizing good company performance, it is also necessary to improve financial reports in order to produce quality financial reports. Transparency and accountability in company financial management can be realized through the submission of company financial accountability reports that meet the principles of being on time and prepared according to accounting standards (Yupa Saruno & Penawutkun, 2021) . The quality of information in a company's financial reports is greatly influenced by compliance with accounting standards (Costa *et al*., 2022) . Referring to *the resource based view* (RBV) theory, political connections are believed to provide benefits for the company. These benefits include less strict supervision of existing regulations, such as easier obtaining permits for credit (Giosi & Caiffa, 2021) . Good relations with the government can also help companies gain easier access to valuable resources and obtain contracts and can overcome market weaknesses that occur so that political connections can also improve the company's growth and survival prospects. Various studies have tried to prove that there is a relationship between political connections and the quality of financial reports (Ahmad *et al*., 2023; Auliana, 2023; Chi *et al*., 2019; Hartanto, 2023; Hashmi *et al*., 2018; Sani *et al*., 2020; Valdian & Nurcholisah, 2024) .

Research conducted (Ahmad *et al*., 2023) shows that political connections have a positive effect on the quality of financial reports, this is because companies that have political connections are considered to have very strong pressure in the eyes of the public so this creates a public spotlight which causes management to be very careful. -be careful in managing company finances. However, this is contrary to the results of research (Valdian & Nurcholisah, 2024) which provides empirical evidence that the existence of political connections has no influence on the quality of financial reports. This is due to the special privileges that politically connected companies have so that their actions inefficiencies are possible for companies to carry out due to privileges obtained from the government. Research (Auliana, 2023) provides empirical evidence that there is an influence of political connections on earnings management. This result means that some manufacturing companies in Indonesia that have political connections do not take advantage of their political connections to carry out earnings management, which means that the quality of the company's financial reports increases.

In financial reporting issues, companies that have political connections tend to use these political connections to resolve information asymmetries in financial reports so that solving problems within the company does not use corporate mechanisms but uses political mechanisms, so that reports have low quality. However, interesting findings are proven empirically by research (Hartanto, 2023) which finds that political connections have a negative effect on financial statement fraud. This shows that the existence of political connections can suppress acts of financial statement fraud that occur, which means it can be said that financial statements presented by management shows the actual conditions. However, these results are not in line with research results (Hashmi *et al.*, 2018) which found empirical evidence that political connections can reduce the quality of a company's profits. Research conducted by (Chi *et al*., 2019)shows that the existence of political connections allows companies to carry out financial reporting more conservatively, with political connections requiring companies to recognize transactions appropriately according to the occurrence of the transaction. This result is in line with research results (Sani *et al*., 2020) which empirically proves that having a politically connected CEO can increase the reliability of financial reporting by reducing real earnings management actions carried out by company management.

The audit committee is an important element in realizing the implementation of the principles of *good corporate governance*. The existence of this audit committee is an effort to improve the way the company is managed, especially the way it supervises the company's management, because it will act as a liaison between the company's management and the board of commissioners and other external parties. There is research that proves that the audit committee related to the quality of financial reports (Ermawati *et al.*, 2020; Harwandita & Srimindarti, 2023; Inawati *et al.*, 2021; Isynuwardhana & Rahmawati, 2023; Kalembe *et al.*, 2023; Makhlouf, 2022; Mardessi, 2022)The audit committee is responsible for overseeing financial reports, overseeing external audits, and overseeing the internal control system. The audit committee is expected to reduce earnings management activities which will affect the quality of earnings in the financial reports published by the company. This result is proven empirically by research (Isynuwardhana & Rahmawati, 2023)which found that there is an influence of the audit committee on improving earnings quality, this shows that The financial reports presented by management are of reliable quality. These results are in line with research results (Kalembe *et al.*, 2023) which found empirical evidence that the existence of an audit committee can improve the quality of financial reports. However, the research above is different from the findings from research (Ermawati *et al.*, 2020; Harwandita & Srimindarti, 2023)which found empirical evidence that there is no influence of the audit committee on the quality of financial reports. This shows that the existence or function of the audit committee has not been running according to the expected objectives, where the existence of the audit committee is an additional monitoring mechanism which is expected to help the board of directors to increase the company's accountability. These results are in line with research (Inawati *et al*., 2021)which provides empirical evidence that the existence of an audit committee does not guarantee quality financial reports. An audit committee that has background and experience in accounting, auditing and finance does not guarantee quality financial reports. The more competent the audit committee is, the more parties will take opportunistic actions to benefit themselves. This is not in accordance with research conducted by (Makhlouf, 2022; Mardessi, 2022)proving that the existence of an audit committee should be able to improve the quality of financial reports.

The relationship between institutional ownership and the quality of financial reports can be explained through agency theory. This theory is used to explain the company's goal of providing prosperity for investors by increasing company value by increasing the amount of institutional ownership so that this is possible if the financial reports presented are of high quality. Institutional ownership is considered capable of being an effective control mechanism in every decision taken by managers. The effectiveness of this control will guarantee prosperity for investors because institutional ownership plays an important role as a monitoring agent through a fairly large investment value in the capital market. There is research in the context of the Indonesian Stock Exchange which proves that Institutional Ownership is related to the Quality of Financial Reports (Azzah, 2021; Kurniawan & Fahrunniza, 2022; Mairiza Selvia *et al*., 2022; Megawati Nawara Putri *et al.*, 2022; Sari, 2022; Yoga Inganta Sinulingga *et al.*, 2020). The research results (Azzah, 2021)provide empirical evidence that Institutional Ownership influences the Quality of Financial Reports, this is because share ownership by institutions is an important management monitoring in playing an active and consistent role in protecting the share investments they invest in the company. The higher the institutional ownership, the stronger the external control of the company and reducing agency costs, so it is hoped that it can improve the quality of financial reports.

The same thing is proven by research results (Kurniawan & Fahrunniza, 2022)which found empirical evidence that the role of institutional ownership, as one part of GCG, is expected to be able to limit the opportunistic behavior of managers. With institutional ownership, institutions can carry out monitoring to improve company performance. An increase in company performance reflects that the company is well managed, which will help improve the quality of financial reports. However, the results of this research are not in line with the results of research (Mairiza Selvia *et al*., 2022; Megawati Nawara Putri *et al*., 2022)which empirically proves that Institutional Ownership has no effect on the Quality of Financial Reports. Institutional ownership cannot interfere in management decision making so that supervision carried out by institutional ownership has not had an impact on the company due to information asymmetry, besides that institutional shareholders tend to side with management and ignore the interests of minority shareholders so this shows that institutional ownership has not can be a mechanism that can improve the quality of financial reports.

Interesting research findings have been proven empirically by (Sari, 2022; Yoga Inganta Sinulingga *et al*., 2020)where research results show that institutional ownership has a negative effect on the quality of financial reports. These results indicate that the higher institutional ownership, the lower the quality of financial reports , this indicates that institutional ownership will have an incentive to monitor company decision making so that institutional ownership has a strong motivation to carry out tighter supervision over activities that occur within the company, this can lead to Other investors were less interested because they thought the company was more in favor of Mayritos ownership than the interests of the public in general. Company age is a reflection of the length of time the company has been operating. The longer the company's age, the higher quality the financial reports presented should be because they have strong resources and in order to show their existence in the eyes of stakeholders. A company with a long existence will provide a positive signal so that investors will be interested in investing capital in the company. So in research on Company Age it is necessary to prove empirically whether it is able to strengthen/weaken the relationship between factors that are thought to influence the Quality of Financial Reports.

2. LITERATURE REVIEW

Agency Theory

An agency relationship is described as a relationship that arises due to a contract established between principals who use an agent to provide services for the benefit of the principals. (Jensen & Meckling, 1976). Furthermore, agency theory is defined as a contract where one or more (principals) hire another person (agent) to perform several services for their benefit by delegating some decision-making authority to the agent . The relationship that arises between principals and agents due to the delegation of duties and authority given by the principals to the agent will give rise to a conflict of interest where there is a tendency for the agent to act in his own interests at the expense of the interests of the principals . This conflict of interest arises due to differences in interests within the company, so agency theory tries to explain the potential conflict of interest.

Signaling Theory

Signaling theory is a theory that is useful for describing the behavior of two parties, namely individuals or organizations, when they have access to different information. In this condition, one party (signal sender) must choose how and in what form to communicate information and the other party (signal receiver). must choose how to interpret those signals (Connelly *et al*., 2011). *Signaling theory* is principally related to reducing information imbalances or information asymmetries that occur between two parties (Spence, 2002).

Quality of Financial Reports

According to (Biddle *et al*., 2009) financial reporting quality is the accuracy of financial reporting in conveying information about company operations, especially expected cash flows, which inform investors' equity. Financial Report Quality refers to the accuracy and fairness of information about financial position and economic performance displayed in financial reports (Dmour *et al*., 2018). Financial information is said to be useful when it displays qualitative characteristics consisting of relevance, i.e. the ability to make a difference to user decisions and faithful representation, i.e. the substance of what it is intended to represent. High quality financial reports are expected to mitigate the existence of information asymmetry in the principal-agent relationship by informing parties where the first party includes investors and banks who need quality reports to assess the value of existing assets and growth opportunities before making investment decisions (Roychowdhury *et al*., 2019) and the second refers to shareholders who use financial reports to monitor managers' investment decisions through contractual compensation that is based on reported accounting information.

Political Connections

Political connections have a very significant influence on the economic activities of a company (Faccio, 2006) . Previous research shows that politically connected companies not only avoid land expropriation by the government, but this also allows them to enjoy large political benefits (Duchin & Sosyura, 2012) . Politically connected companies actively build and obtain political resources through appropriate government channels and authorities, companies can receive financial assistance and bailouts for companies, avoid strict regulations, and reduce contract costs.

Audit Committee

The audit committee plays a role in ensuring good corporate governance and improving the company's financial performance. Companies that are ineffective in implementing governance mechanisms can cause financial difficulties, this can be mitigated with an effective audit committee (Aldamen *et al*., 2012) . Several studies have confirmed that the existence of an audit committee can improve company performance, reduce accounting weaknesses , improve internal control so that it can improve the quality of financial reporting (Lutfi *et al*., 2022) . The audit committee plays an important role in ensuring the integrity of financial reports so that it can increase the trust of stakeholders , so that the audit committee has a substantial role and impacts the company's financial reporting process (Weber, 2020) .

Institutional Ownership

The increasing presence of institutional shareholders or institutional ownership has made it a major force in the economy in the capital market. According to (Burns *et al*., 2010) , the existence of institutional shareholders improves the quality of financial reporting in United States companies because there is an incentive to proactively safeguard investments. Institutional investors are investors with shares owned by an institution where the institutional shareholders are highly skilled, have good resources and carry out their ownership functions well so as to reduce the possibility of earnings management which can reduce acts of management opportunism and agency problems which in ultimately can improve the quality of financial reports (Al-Rassas & Kamardin, 2016) .

Company Age

According to (Bassiouny, 2016) company age is the time that the company has, starting from its founding until an indefinite period of time. The age of the company reflects that the company continues to survive and is proof that the company is able to compete and can take advantage of business opportunities that exist in the economy. Company age is used to measure the effect of the length of time a company has been operating on company performance. Companies that have been established for a long time have a reputation and are trying to maintain it and have the ability to minimize costs and improve quality in production from their experience, so that the company will be better able to generate profits (Hamzah *et al.*, 2022) . Furthermore, according to (Hamzah *et al.*, 2022) , the age of the company is how long the company has been established and can survive on the Stock Exchange. The age of the company shows how long the company has to continue to exist and be able to compete in the business world. The age of the company shows the company's ability to overcome difficulties and obstacles that can threaten the life of the company so that the longer the company has been around, the more capable the company is of increasing investor confidence.

The Influence of Political Connections on the Quality of Financial Reports

Political Connection is a direct connection where one of the officials in a company organ such as Commissioner and Director holds a political position, namely president or vice president, minister, senior government employee or member of parliament (Chi *et al.*, 2019; Sani *et al*., 2020) . Previous research provides empirical evidence that policies implemented by CEOs can reduce the tendency of real earnings management and improve reporting quality. However, the policies of a politically connected CEO can reduce the reliability of financial reports, which means that political connections have an unfavorable influence on the quality of financial reports. (Sani *et al*., 2020) . According to (Chi *et al*., 2019) Family companies that have political connections weaken conservative financial reporting, this shows that political connections can reduce the quality of financial reporting. This is reinforced by research results (Elang Sudrajat & Uzliawati, 2023; Thi Mai Khanh & Vinh Khuong, 2018) that the existence of politically connected companies can reduce the quality of financial reports so that the hypothesis in this is:

H1: Political connections influence the quality of financial reports

The Influence of the Audit Committee on the Quality of Financial Reports

The audit committee is tasked with assisting the board of commissioners to monitor the financial reporting process by management to increase the credibility of financial reports. In carrying out its duties, the committee provides formal communication between the board, management, external auditors and internal auditors. So that formal communication between the audit committee, internal auditors and external auditors will ensure that the internal and external audit processes are carried out well, which in the end can improve the quality of financial reports. Previous research has provided empirical evidence that the effectiveness of the audit committee is positively related to earnings quality, meaning that the existence of an effective audit committee can improve earnings quality thereby providing assurance that the quality of financial reports is good (Isynuwardhana & Rahmawati, 2023; Kalembe *et al*., 2023) . The results of other research provide empirical evidence that the existence of an audit committee has a negative effect on earnings management so that the financial reports presented show better quality (Mardessi, 2022) . According to (Makhlouf, 2022) , independence, financial expertise and the presence of women on the audit committee can reduce manipulation of financial reports so that they can improve the quality of financial reports. Based on these descriptions, the hypothesis in this research is:

H2: The Audit Committee influences the Quality of Financial Reports

The Effect of Institutional Ownership on the Quality of Financial Reports

Institutional shareholders have a recognized voice at the General Meeting of Shareholders (GMS) which encourages managers to be vigilant in making decisions. Through institutional ownership, institutional shareholders can apply their knowledge and professionalism to monitor management performance and assess financial reports. Institutions that own a high percentage of shares will encourage management to act according to the rules because institutional shareholders have professionalism in assessing, analyzing and testing whether financial reports are reliable or not. The research results (Potharla *et al*., 2021) provide empirical evidence that institutional ownership can reduce the level of earnings management, which means the level of quality of financial reporting is more reliable. Research results (Mela *et al*., 2023) show that institutional ownership is positive for informative earnings management. This shows that institutional shareholders play an influential role in monitoring managerial behavior, especially in encouraging informative earnings management practices rather than opportunistic practices so that this can encourage the quality of financial reporting. In addition, research results (Susanto *et al*., 2021) provide evidence Empirically, the influence of institutional ownership on earnings management is significant and negative, which shows that the large number of shares owned by institutional investors can monitor management and tend not to carry out earnings management so that it can improve the quality of financial reporting. Based on these descriptions, the hypothesis in this research is:
H3: Institutional Ownership influences the Quality of Financial Reports

Interaction of Company Age in the influence of Political Connections, Audit Committee and Institutional Ownership on the Quality of Financial Reports

As time went by, the company discovered its expertise and the company learned how to do things better by focusing on newly discovered techniques to standardize, coordinate, and speed up production processes, as well as minimize costs and improve quality. Based on previous research, companies that have been in the market for a long time tend to have a low level of earnings management compared to relatively new companies, this is because companies that have been around for a long time have great value in the market and have a reputation that must be protected, so that companies are aware of the rules and regulate the practices that companies carry out (Bassiouny, 2016). Company age is used to show that a company is able to survive and compete in a country's economy with other companies. Companies that have been on the Stock Exchange for a long time tend to have low earnings management compared to new companies (Martinus Robert Hutauruk *et al.*, 2022; Safitri *et al*., 2021; Thi Mai Khanh & Vinh Khuong, 2018; Wulandari & Suganda, 2021) . Companies that have long had a high market value and a reputation that must be protected so that companies are also aware of the code of ethics and regulations that govern their daily practices, because companies that have been established for a long time have a strong reputation to protect and try to improve , then these companies have a tendency to smaller ones to take actions that could harm their reputation, one of which is taking aggressive action on financial reports to benefit some parties.

The assessment of a company's performance can be known through the financial reports presented. External and internal parties are greatly helped by the company's financial reports which can be used to predict the company's future conditions. Financial reports can be used to help parties involved in decision making. When making decisions, a company has a very important indicator to use, namely earnings quality, where the quality of a company's earnings is the company's ability to report profits that should be obtained, so that it can be used to predict future profits. A company's long life is better able to suppress actions that could be detrimental to the company. This is because age is a representation of a long journey and the complexity of problems resulting from the company's experience in running the company, so in this case the company's age should be able to be a bridge or link in order to improve the quality of the company's financial reporting. Based on this, the hypothesis in this research is:
H4: Company Age moderates the influence of Political Connections on the Quality of Financial Reports.
H5: Company age moderates the influence of the Audit Committee on the Quality of Financial Reports.
H6: Company Age moderates the influence of Institutional Ownership on the Quality of Financial Reports.

3. METHOD

The objects of this analysis are Political Connections, Audit Committee, Institutional Ownership, Financial Reporting Quality and Company Age. This analysis uses secondary data, namely data on the Indonesia Stock Exchange (www.idx.co.id), in this case the annual report. The population in this analysis is LQ45 that have been listed on the IDX in 2020-2022. Sampling design with purposive sampling based on purposive. According to the specified sample selection criteria, the sample institutions that met the criteria were 28 companies with a period of 3 years (31 December 2020 – 31 December 2022). The measurement variables for this research are:

Table 3.1: Variable Indicators

Variable	Indicator
Political Connections (X_1)	1 = Politically Connected 0 = Not Politically Connected
Audit Committee (X_2)	Σ Audit Committee
Institutional Ownership (X_3)	Proportion of Shares Owned by Institutions
Financial Reporting Quality (Y)	Total Current Accrual
Company Age (Z)	Research Knowledge – Year of company founding

The data analysis techniques used in this research are Panel Data Regression and Moderate Regression Analysis to test partial or simultaneous effects.

4. RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive statistical analysis was carried out to find out the minimum, maximum, mean and standard deviation values of the research data using the EVIEWS program.

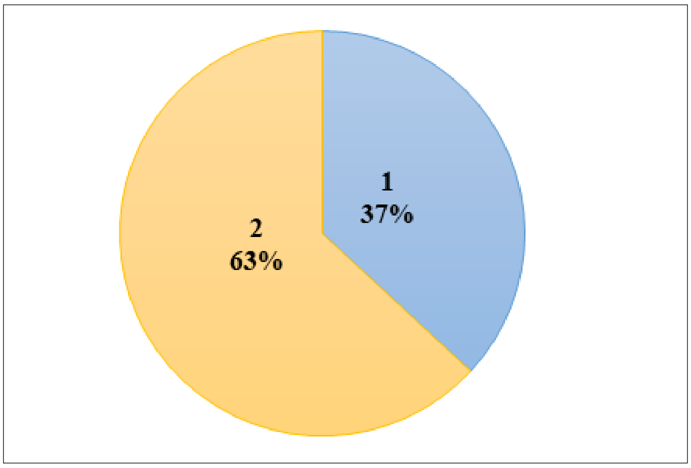


Figure 4.1: Frequency of Political Connections

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Audit Committee	84	2.00	8.00	3.8214	1.31864
Institutional Ownership	84	3.56	95.82	53.2951	24.31398
Financial Reporting Quality	84	.44	9.29	2.0202	1.44154
Company Age	84	11.00	127.00	47.1071	23.62458
Valid N (listwise)	84				

The following is an explanation of the research variables based on the results of descriptive statistics:

1. Based on the pie chart above, it is known that 63% of companies from the number of data observations used are politically connected, while 37% of companies from the number of data observations used are politically connected. This provides an illustration that in the LQ45 companies listed on the Indonesia Stock Exchange, the majority are politically connected for their Board of Directors.
2. The Audit Committee during the research period had an average value of 3.82 with the highest value of 8 and the lowest value of 2 while the standard deviation value was 1.31, this shows that the number of Audit Committees owned by the sampled companies has an average of 3 to 4 people where the lowest number of Audit Committees is 2 people, namely at PT XL Axiata Tbk, while the largest number of Audit Committees is 8 people, namely at PT Bank Rakyat Indonesia (Persero) Tbk.
3. The average value of Institutional Ownership during the study period was 53.29 with the highest value of 95.82 and the lowest value of 3.56 while the standard deviation value was 24.31, this shows that the shares owned by Institutions for the sample in the companies used with an average ownership value of 53.29% with the highest value of 95.82% and the lowest value of 3.56%. The company whose shares are highest owned by Institutions is PT XL Axiata. Tbk while the lowest shares owned by institutions are PT Wijaya Karya (Persero) Tbk.
4. The average Quality of Financial Reports during the study period was 2.02 with the highest value of 9.29 and the lowest value of 0.44 while the standard deviation value was 1.44, this indicates the level of profit accrual based on management policy where

the higher the accrual value indicates opportunistic actions taken by management which indicates low Financial Report Quality, the company with a high profit accrual value is PT XL Axiati Tbk while the lowest company for its profit accrual value is PT Wijaya Karya (Persero) Tbk.

5. The average age of the company during the study period was 47.10 with the highest value of 127 and the lowest value of 11 while the standard deviation value was 23.62, this shows that the level of company age in the sample companies used with an average value of 47.10 years and the highest value of 127 years while the lowest value was 11 years. The company that has been established for 127 years is PT Bank Rakyat Indonesia (Persero) Tbk while the company that has only been established for 11 years is PT Indofood CBP Sukses Makmur Tbk.

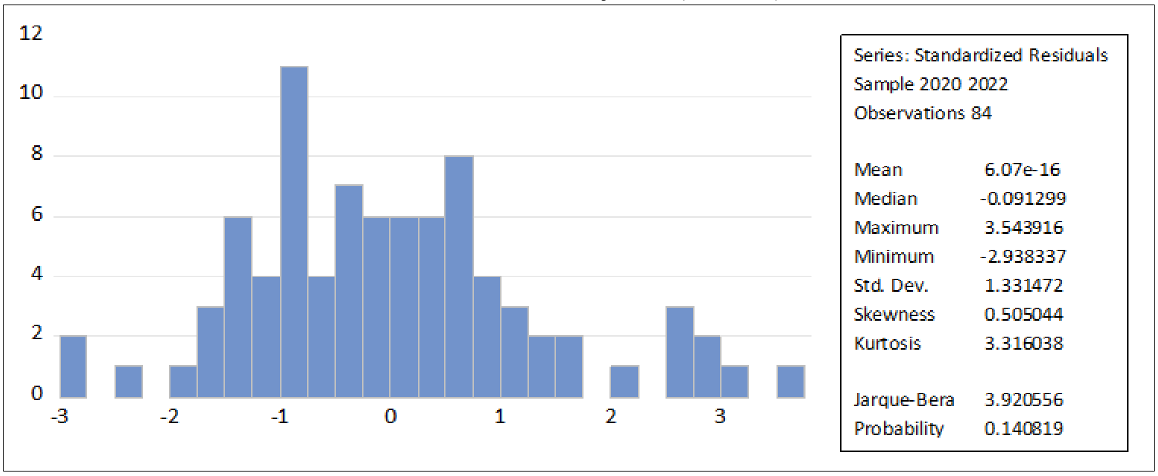
Classic Assumption Test

The requirement before testing a hypothesis is a classic assumption test (before running multiple linear regression analysis). The classical assumption test consists of the normality test and multicollinearity test.

Normality Test

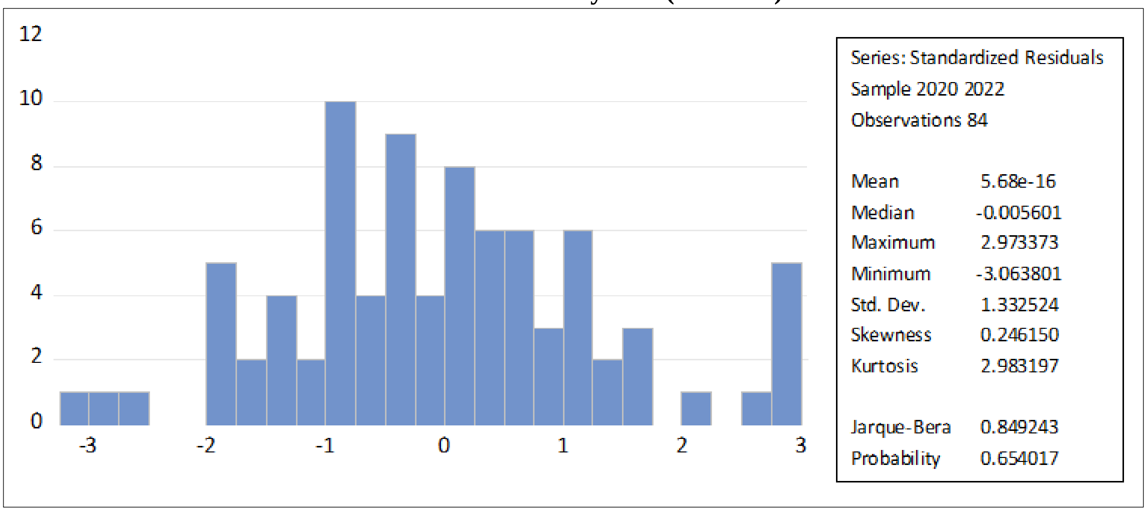
Finding out whether research variables, including confounding or residual factors, follow a normal distribution is the goal of a normal test.

Table 4.2: Normality Test (Model I)



We know the probability value is 0.14 > 0.05 because the normality test came back positive. Thus, the research regression model data was determined to have a normal distribution, satisfying the assumption of normality.

Table 4.3: Normality Test (Model II)



We know the probability value is 0.65 > 0.05 because the normality test came back positive. Thus, the research regression model data was determined to have a normal distribution, satisfying the assumption of normality.

Multicollinearity Test

The multicollinearity test is used to determine whether in the regression model I there is a relationship between the independent variables.

Table 4.4: Multicollinearity Test

Variance Inflation Factors			
Date: 05/29/24 Time: 21:46			
Sample: 1 84			
Included observations: 84			
	Coefficient	Uncentered	Centered
Variable	Variance	VIF	VIF
C	0.110319	5.038212	NA
X1	8.12E-05	1.320140	1.028992
X2	0.110306	3.679517	1.029100
X3	3.543411	2.584222	1.003119

According to the table, all variables have a VIF value < 10, so it can be stated that there is no multicollinearity in all variables in this analysis.

Selection of Panel Data Regression Models

The selection of the panel data regression model was carried out using 2 tests, namely the Chow test and Hausman test. The results of the three tests are summarized in the following table:

Table 4.5: Selection of Panel Data Regression Model

	Chi-Square Probability	Conclusion
Chow Test	0.0000	Fixed Effect Model
Hausman Test	0.0006	Fixed Effect Model

Hypothesis Testing

Panel Data Regression

According to the results of selecting the panel data regression model, the model for hypothesis testing that will be used is the Fixed Effect Model.

Table 4.6: Panel Data Regression Model

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 05/30/24 Time: 09:51				
Sample: 2020 2022				
Periods included: 3				
Cross-sections included: 28				
Total panel (balanced) observations: 84				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.119305	0.366364	5.784702	0.0000
X1	-0.006593	0.008776	-0.751299	0.4558
X2	11.43548	2.455619	4.656864	0.0000
X3	-0.731313	0.363772	-2.010364	0.0495
	Effects Specification			
Cross-section fixed (dummy variables)				
R-squared	0.884407	Mean dependent var	2.660762	
Adjusted R-squared	0.818977	S.D. dependent var	2.036949	
S.E. of regression	0.866657	Akaike info criterion	2.829222	
Sum squared resid	39.80796	Schwarz criterion	3.726310	
Log likelihood	-87.82734	Hannan-Quinn criter.	3.189844	
F-statistic	13.51684	Durbin-Watson stat	2.672735	
Prob(F-statistic)	0.000000			

The F test aims to test the influence of independent variables simultaneously or simultaneously on dependent variables. Based on Table 4.6, the Prob. value (F-statistics) is known, namely 0.000 <0.05, then it can be concluded that all independent variables, namely Political Connections, Audit Committee and Institutional Ownership simultaneously have a significant effect on the Financial Report Quality variable. It is known that the regression coefficient value of Political Connection is -0.006 with a Prob value of 0.455 > a significance level of 0.05, then Ho is accepted, which means that Political Connection does not affect the Quality of Financial Reports. It is known that the regression coefficient value of the Audit Committee is 11.435 with a Prob value of 0.000 < a significance level of 0.05, then Ho is rejected, which means that the Audit Committee has a positive effect on the Quality of Financial Reports. It is known that the regression coefficient value of Institutional Ownership is -0.731 with a Prob value of 0.049 < a significance level of 0.05, then Ho is rejected, which means that Institutional Ownership has a negative effect on the Quality of Financial Reports. Based on Table 4.6, the determination coefficient value is known as Adjusted R^2=0.8189. This value can be interpreted that Political Connections, Audit Committees and Institutional Ownership simultaneously have a significant effect on the Financial Report Quality variable of 81.89%, the remaining 18.11% is influenced by other factors.

Moderate Regression Analysis

In testing the hypothesis of model II, we use Moderated Regression Analysis by conducting an interaction test by multiplying the independent variable by the moderating variable.

Table 4.7: Moderated Regression Analysis

Dependent Variable: Y				
Method: Panel Least Squares				
Date: 05/30/24 Time: 10:35				
Sample: 2020 2022				
Periods included: 3				
Cross-sections included: 28				
Total panel (balanced) observations: 84				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.927168	0.269293	3.442969	0.0009
X1*Z	1.160354	0.130423	8.896845	0.0000
X2*Z	0.051102	0.026060	1.960921	0.0434
X3*Z	-0.001673	0.000690	-2.423640	0.0176
R-squared	0.572053	Mean dependent var		2.660762
Adjusted R-squared	0.556005	S.D. dependent var		2.036949
S.E. of regression	1.357279	Akaike info criterion		3.495289
Sum squared resid	147.3765	Schwarz criterion		3.611042
Log likelihood	-142.8021	Hannan-Quinn criter.		3.541821
F-statistic	35.64633	Durbin-Watson stat		1.137477
Prob(F-statistic)	0.000000			

The F test aims to test the influence of independent variables simultaneously or simultaneously on dependent variables. Based on Table 4.7, the Prob. value (F-statistics) is known, namely 0.000 <0.05, then it can be concluded that the interaction of independent variables, namely Political Connections, Audit Committee and Institutional Ownership with the moderating variable, namely Company Age, simultaneously has a significant effect on the Financial Report Quality variable. It is known that the regression coefficient value of the moderation of Company Age with Political Connections is 0.927 with a Prob value of 0.000, where < with a significance level of 0.05, then Ho is rejected, which means that the moderation of Company Age can strengthen the relationship between the influence of Political Connections on the Quality of Financial Reports. It is known that the regression coefficient value of the moderation of Company Age with the Audit Committee is 1.160 with a Prob value of 0.043, where < with a significance level of 0.05, then Ho is rejected, which means that the moderation of Company Age can strengthen the relationship between the influence of the Audit Committee on the Quality of Financial Reports. It is known that the regression coefficient value of the moderation of Company Age with Institutional Ownership is -0.001 with a Prob value of 0.017, where < with a significance level of 0.05, then Ho is rejected, which means that the moderation of Company Age can weaken the relationship between the influence of Institutional Ownership on the Quality of Financial Reports. Based on Table 4.7, the coefficient of determination is known to be Adjusted R^2=0.5560. This value can be interpreted as the moderation of the Company Age variable with the independent variables, namely Political Connections, Audit Committee and Institutional Ownership simultaneously having a significant effect on the Financial Report Quality variable of 55.60%, the remaining 44.40% is influenced by other factors.

5. DISCUSSION

The Influence of Political Connections on the Quality of Financial Reports

The results of testing the first hypothesis show that the significance or probability value is 0.4558 (greater than 0.05), then Ha is rejected and H_0 is accepted, this provides empirical evidence that there is no influence of political connections on the quality of financial reports. These results are in line with research results (Auliana, 2023) which state that Political Connections do not significantly influence the Quality of Financial Reports. These results provide empirical evidence that not always companies in Indonesia that are politically connected use their connections to gain business profits, especially short term without paying attention to long term business aspects at the expense of the quality of financial reporting. This is because with quality financial reporting, a business will think more about the existence of its business in the long term. Apart from that, if we look at the direction of the relationship statistically, the results of this research show that the presence of politically connected companies can reduce the quality of financial reports. This result is in line with research results (Chi *et al*., 2019; Elang Sudrajat & Uzliawati, 2023; Hoang *et al*., 2022; Sani *et al*., 2020) that politically connected companies are associated with lower reporting quality where the political relationship that occurs involves investment from the government and directors who have political connections. However, research results (Harianto, 2022) show that political connections do not always have a tendency to reduce the quality of financial reporting.

These results support *agency theory* that management's responsibility to company owners, which is shown through financial reports, functions as an indication of whether management has fulfilled the agreed commitments (Utami *et al*., 2024). So that the existence of disclosure in the corporate reporting mechanism is a tool for management to clearly show the actual performance of the company to its owners. By disclosing reliable and relevant information, it is hoped that it will be able to reduce agency problems *and* ensure efficient company operations and the existence of adequate level of monitoring and control (Donnelly & Mulcahy, 2008). Apart from that, the results of this research also support the concept of *signaling theory* that reporting carried out by a company will certainly add to the information needed by its users, especially in attracting investor interest. This is certainly a good signal in order to increase investor confidence in the company, although A company is politically connected, but the company must still carry out quality reporting to increase public trust.

The Influence of the Audit Committee on the Quality of Financial Reports

The results of testing the second hypothesis show that the Significance or Probability value is 0.000 (smaller than 0.05), then Ha is accepted and H_0 is rejected, this provides empirical evidence that there is an influence of the Audit Committee on the Quality of Financial Reports. The results of this research are in line with research results (Inawati *et al*., 2021; Isynuwardhana & Rahmawati, 2023; Kalembe *et al*., 2023; Makhlouf, 2022; Mardessi, 2022)which state that the existence of an Audit Committee can improve the Quality of Financial Reporting. The results of these empirical findings are in accordance with the concept that the main task of the audit committee in principle is to assist the Board of Commissioners in carrying out its supervisory function, this includes reviewing the company's internal control system, the quality of financial reports, and the effectiveness of the internal audit function. The duties of the audit committee are also closely related to reviewing the risks faced by the company, as well as compliance with regulations (Mardessi, 2022).

The audit committee plays a role in ensuring good corporate governance and improving the company's financial performance. Companies that are ineffective in implementing governance mechanisms can cause financial difficulties, this can be mitigated with an effective audit committee (Aldamen *et al*., 2012). In addition, financial literacy in the context of the audit committee refers to the ability to understand and interpret important financial reports which emphasizes that accounting principles, details in financial reporting, and the role of the audit committee must be understood in depth by members of the Audit Committee. Evaluation of the accounting policies chosen by management requires high analytical skills from Audit Committee members in the field of financial reporting, with the hope of being able to create accurate, responsible and clear financial reports.

The Effect of Institutional Ownership on the Quality of Financial Reports

The results of testing the third hypothesis show that the significance or probability value is 0.049 (smaller than 0.05), so Ha is accepted and H0 $_{\text{is}}$ rejected. This provides empirical evidence that there is an influence of Institutional Ownership on the Quality of Financial Reports. The results of this research are in line with the results of research (Mela *et al*., 2023; Potharla *et al*., 2021; Susanto *et al*., 2021)which empirically proves that Institutional Ownership influences the Quality of Financial Reports. This shows that institutional investors are investors with shares owned by an institution where these institutional shareholders are very skilled, have good resources and carry out their ownership functions well so that they can reduce the possibility of earnings management which can reduce management opportunism and agency problems which can ultimately improve the quality of financial reports (Al-Rassas & Kamardin, 2016).

However, the results of this research are not in line with the results of research (Kuncara Widagdo *et al*., 2021; Lestari & Advenda, 2022)which states that institutional ownership has no effect on Earnings Management which is a proxy for the Quality of Financial Reports, this proves that there are many or few shares owned by the institution cannot influence the level of profit accrualization carried out by management. If we look at the direction of the statistical relationship in this research, it shows a negative direction, which means that institutional ownership can actually reduce the quality of financial reports. This result supports the results of research (Tarmidi *et al*., 2023)which states that institutional ownership has a negative effect on the quality of earnings. where these results explain that the higher the company's ownership of institutions, the more motivated management is to take policies that have an impact on the lower level of earnings quality.

Interaction of Company Age in the influence of Political Connections, Audit Committee and Institutional Ownership on the Quality of Financial Reports

The results of testing the fourth hypothesis show that the significance or probability value is 0.000 (smaller than 0.05), so Ha is accepted and H_0 is rejected. This provides empirical evidence that there is a moderation of company age in the influence of political connections on the quality of financial reports. The research results provide empirical evidence that the existence of the Company Age variable can strengthen the relationship between Political Connections and the Quality of Financial Reports. This shows that companies that have long had great value in the market and have a reputation that must be protected, so that companies are aware of the rules and regulate practices that the company carries out. The research results support the research results of (Martinus Robert Hutauruk *et al*., 2022)which found evidence that company age has a negative effect on earnings management as a proxy for financial report quality, which means that companies produce relevant and reliable financial information to reduce the risk of fraud. can mislead users of the company's financial statements.

The results of testing the fifth hypothesis show that the significance or probability value is 0.043 (smaller than 0.05), so Ha is accepted and H_0 is rejected. This provides empirical evidence that there is a moderation of company age in the influence of the audit committee on the quality of financial reports. These results provide empirical evidence that the existence of the Company Age variable can strengthen the relationship between the Audit Committee and the Quality of Financial Reports. This shows that companies that have long had high market value and a reputation that must be protected so that companies are also aware of the code of ethics and regulations that govern In daily practice, because companies that have been around for a long time have a strong reputation to protect and try to improve, these companies have a smaller tendency to take actions that could harm their reputation, one of which is taking aggressive action on financial reports to benefit some parties. One of the efforts made is the existence of a supervisory mechanism, one of which is the existence of an Audit Committee whose task is to assist the Board of Directors in carrying out its supervisory function. The research results support research results from (Safitri *et al.*, 2021)which states that long company life is better able to suppress earnings management. This is because age and size represent a long journey and the complexity of the problems resulting from the company's experience in running the company.

The results of testing the fifth hypothesis show that the significance or probability value is 0.017 (smaller than 0.05), so Ha is accepted and H_0 is rejected. This provides empirical evidence that there is a moderation of company age in the influence of institutional ownership on the quality of financial statements. These results provide empirical evidence that the existence of the Company Age variable can weaken the relationship between Institutional Ownership and Financial Report Quality. The results show that Company Age is not a strengthening factor in the relationship between Institutional Ownership and Financial Report Quality because the market is inefficient due to the existence of two types of investors. namely investors who have fundamental and technical analysis skills and naive investors or what are often called *noise traders* . Market conditions can also explain this behavior, where when the market is in *bullish conditions* , investors become optimistic and therefore do not place too much importance on fundamental factors. Meanwhile, when market conditions *are bearish* , investors' confidence in investing weakens even though fundamental factors show promising conditions. The results of this research support research (Thi Mai Khanh & Vinh Khuong, 2018)that company age has a negative effect on earnings management, this shows that company age can improve the quality of financial reporting presented by the company.

6. CONCLUSIONS AND SUGGESTION

According to the test results, data analysis and discussion presented in the previous section, this analysis produced several results, namely:

1. The results of the study indicate that Political Connections do not affect the Quality of Financial Reports.
2. The results of the study indicate that the Audit Committee affects the Quality of Financial Reports.
3. The results of the study indicate that Institutional Ownership affects the Quality of Financial Reports. In addition, for testing on Model I which tests the Influence of Political Connections, the Audit Committee Institutional Ownership simultaneously has a significant effect on the variable Quality of Financial Reports.
4. The results of the study indicate that the moderation of Company Age can strengthen the influence of Political Connections on the Quality of Financial Reports.
5. The results of the study indicate that the moderation of Company Age can strengthen the influence of the Audit Committee on the Quality of Financial Reports.
6. The results of the study indicate that the moderation of Company Age can weaken the influence of Institutional Ownership on the Quality of Financial Reports. In addition, testing on Model II empirically proves that the moderation of Company Age has a joint influence on the Quality of Financial Reports.

It is expected that further research can increase the research period in order to provide consistent research results, develop research by adding other variables to test the Quality of Financial Reports such as corporate governance mechanisms, information asymmetry, audit quality and expand the scope of the research period and sample in order to be able to more generalize the conditions of the Indonesia Stock Exchange as a whole.

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