

Social Audit Efforts to Improve Company Performance in Indonesia

Eni Wuryani

Universitas Negeri Surabaya

ABSTRACT

Disclosure of accounting information must also meet the characteristics of clarity, namely disclosure that is able to convey information that is free from misleading understanding, material errors and can be relied on by users as a sincere and honest presentation. This research approach uses qualitative descriptive. The analysis unit of companies in Indonesia. The approach and measurement and reporting of social audits have not had standard standards, but companies are given the freedom to sort out relevant social problems and voluntarily report them. Disclosure of social problems to stakeholders and the wider community. Companies conducting social audits are highly dependent on the needs and demands of their users or market mechanisms. Companies that conduct social audits have more complete information in operations so that it will have an impact on company performance.

KEYWORDS: Social Audit, Accounting Information, Company Performance, Financial Reporting

ARTICLE DETAILS

Published On:
16 December 2024

Available on:
<https://irijsh.com/>

INTRODUCTION

Research on CSR (Corporate Social Activity) has been widely conducted, including (Yongming & Yini, 2017), (Yusliza et al., 2019), and (Ortiz-Martínez et al., 2023). According to (Attig et al., 2014) explains the impact of Corporate Social Responsibility (CSR) on Investment Cash Flow Sensitivity (ICFS). CSR affects ICFS through information asymmetry and agency costs. Investment responds to the availability of internal cash flow. According to (Lys et al., 2015) Corporate social responsibility spending to anticipate stronger financial performance in the future. According to (Ortiz-Martínez et al., 2023) research conducted in Spain on small and medium enterprises, the implementation of policies that encourage CSR practices and sustainability strategies will create a better society and have a positive impact on performance.

According to (Pereira da Silva, 2024) explains the stronger impact of environmental, social, and governance disclosure in countries with higher labor market strength and higher levels of unionization, controlling for the institutional and legal background of the country. According to (Liu et al., 2024) research conducted by US companies on financial risk is mandated by the SEC's general regulations to report material financial risks. Disclosure of material financial risk reporting provides economically relevant information. Financial accounting traditionally meets the needs of its users by presenting the company's historical financial information. The role of financial reports produced by financial accounting is only able to meet the needs of accountability and decision-making from a financial aspect.

The role of financial accounting has recently received a lot of attention regarding the level of reliability of quantitative financial data information that has not yet shown the disclosure of the company's social benefits and social costs. The current developing issue is the increasing demand for corporate social responsibility by various parties. This is due to the increasingly critical society which indicates that the knowledge and intelligence of the community are increasing so that they demand accounting techniques that allow for social audits. The development of social accounting has led to corporate social responsibility.

The complexity of social audit problems that need to be handled carefully, for example, through government regulations and the establishment of standard reporting standards or through generally accepted accounting practices, but the most important thing is corporate behavior, namely awareness and willingness to make social disclosures. The focus of this article is not to polemicize about the need for standards that regulate social audits but to identify the scope, objectives, approaches, measurements, and reporting of corporate social problems based on studies of several research results around social audits. Social audit is a new issue in auditing that originated from the development of accounting that tries to adopt social problems in the company's financial

Social Audit Efforts to Improve Company Performance in Indonesia

statements. Based on the results of observations, social audit research has only been carried out partially and no one has defined it precisely, but tries to identify the scope of discussion of social audits through several references obtained.

Research conducted (Palea, 2013) IAS/IFRS in Europe on financial reporting quality. This company adopts the perspective of stock market investors and focuses on value relevance research. The adoption of IAS/IFRS in Europe is an example of accounting standardization among countries with different institutional frameworks and enforcement rules. Accounting regulations can affect the quality of financial reporting and lead to convergence in financial reporting. This is a key issue for standard-setting purposes because IAS/IFRS has been adopted in various countries around the world.

According to (Zhang & Zhao, 2023) Research conducted in China to investigate the effect of stock market liberalization on the quality of company-level financial reporting. The results of this study explain (1) qualified companies experience a significant increase in financial reporting quality, as measured by a combined proxy of accrual earnings management, real activity manipulation, and restatement of financial statements, (2) Having a greater impact when companies face less external pressure and have more effective corporate governance before stock market liberalization, (3) improving financial reporting quality is associated with reduced regulatory compliance costs, increased stock price efficiency, and mitigation of funding constraints.

According to (Angelia & Suryaningsih, 2015) Environmental performance and Corporate Social Responsibility disclosure simultaneously have a significant effect on Return on Assets and Return on Equity. Belkaoui (2000), Social Accounting requires companies to report on economic and social interactions between the company and its environment. Companies gain added value because of the contribution of the surrounding community including the natural environment (social resources). Damaged social resources cause social costs that must be borne by the community.

Companies as part of society. Company activities improve the quality of social resources, then the social benefits that will be obtained by the community. For example, Dzinkowski highlighted several concepts of intellectual capital management (Intellectual Capital Management (ICM)) in companies in the UK and Europe, finding that the Brookings Institute's intangible asset value has grown significantly since 1992 by 62% of a company's market value compared to 38% in 1982. In 1995, health care and personal care companies had the highest market to book value in the world with almost 75% of their market value. In 1996, Microsoft's market value was 11.2 times its tangible assets, indicating a market estimate of Microsoft's intellectual capital stock not reflected in the financial statements.

According (Du et al., 2020) firms with higher CSR performance are more likely to choose Big N auditors and less likely to switch to non-Big N auditors, consistent with socially responsible firms demanding higher audit quality. Furthermore, we provide strong evidence that firms with higher CSR performance pay lower audit fees using both the level and change models, suggesting that higher CSR performance reduces auditor engagement risk. Our analysis based on the difference-in-differences approach suggests that higher CSR performance lowers audit fees, not the other way around. Overall, these results highlight the important role of CSR performance in the auditor-client contract.

The study conducted by (Özer et al., 2024) aims to examine the impact of environmental, social, and corporate governance activities on the quality of financial reporting. The results of the study explain that companies with higher environmental, social, and governance activity scores have higher financial reporting quality. According to (Kareem AL Ani, 2021) a study conducted in the member countries of the Gulf Cooperation Council (GCC), a study that examines the effect of corporate social responsibility disclosure on earnings quality.

The corporate social responsibility disclosure variable measured by dummy variables and EQ variables is proxied through 3 measurements, namely value relevance, accrual quality, and earnings persistence. The results of this study explain that corporate social responsibility disclosure in three of the six GCC countries (Bahrain, Saudi Arabia, and the United Arab Emirates) has a positive and significant relationship with earnings quality which is proxied in value relevance.

The use of Generalized Least Squares (GLS) shows that corporate social responsibility disclosure affects accrual quality in Kuwait and Bahrain, while corporate social responsibility disclosure affects earnings persistence only in Kuwait. Capital market regulators should use CSR information as a guideline to improve the quality of financial reporting and achieve better resource allocation in the capital market. According to (Yusliza et al., 2019) Research in Malaysia, top management commitment in implementing environmentally friendly human resource management practices and CSR efficiently to create positive environmental performance. The purpose of social audit is to bridge the interests of the company with the interests of users with the aim of: (1) revealing environmental hazards, (2) to anticipate environmental safety protection, (3) air pollution control can be carried out, (4) to protect parties interested in financial reports, such as investors, creditors, and manufacturers.

Brooks (1977) concluded that social audits are accepted because they have several benefits, namely: (a) facilitating opinions on prospective performance, (b) the ability to compare horizontally, vertically or functionally the social attitudes of employees in an organization between companies or even between industries, (c) separation of problems with specific questions, (d) the possibility of quick, appropriate relief actions by company management, (e) increased awareness among employees as indicated by low absenteeism and turnover rates, increasing the importance of corporate social performance and profits in the eyes of employees (Chambers, 1974), (f) the use of company employees who are more familiar with the ins and outs of their companies than outside auditors, to audit and determine the level of corporate social performance, (g) relatively moderate expenditure and saving resources

Social Audit Efforts to Improve Company Performance in Indonesia

in other areas of social audit that require similar extensive reviews.

(Fox, 2015) Empirical evidence on the real impact of social accountability initiatives is mixed. The difference between tactical and strategic approaches in increasing citizen voice to contribute to improving public sector performance. An environment that supports collective action and is supported by the capacity of the state to respond to public voice is more promising. According to (Alsmady, 2022) research conducted in six countries, namely Saudi Arabia, Bahrain, Oman, Qatar, Kuwait, and Kuwait.

The results of the study explain that earnings power, audit quality, and financial reporting quality have a positive effect on company performance. Based on agency theory, it is stated that financial reporting quality and audit quality increase the reliability of financial reports and reduce information asymmetry. According to (Mi et al., 2024) research conducted on companies listed in the United States in 1995 - 2019. The results of the study explain the positive impact of bank market power on the quality of company financial reporting, mainly driven by increased monitoring by banks with greater market power, thus supporting the assumption of tight monitoring.

Approach and Measurement.

Brooks and Davis (1997), there are 4 primary approaches used for social responsibility assessment: (1) cost-benefit analysis. Some cost and benefit approaches appear structurally incomplete because they focus only on voluntary expenditures or for the main constituents of an organization, (2) performance review. This approach focuses on planning and goal formulation, control, and accurate conclusions from company performance, (3) process review. The main emphasis is on goal setting, planning, control, which are considered as the main indicators of future actions through current verification, (4) attitude survey. This approach emphasizes the social responsibility attitude of management and employees will better support the correct understanding of future company activities.

The problem of measuring social audit is how to measure the impact of the company on its social environment, both social benefits and social costs. Zulfikar (1987), provides measurement techniques that can be used, including: (1) substitute assessment, namely something that has approximately the same activity as the one being measured, (2) survey techniques, including ways to obtain information from those affected, namely groups of people who are harmed or receive benefits, (3) repair costs and prevention of damage, (4) assessments from independent appraisers are useful for assessing certain goods, (5) court decisions, for example fines due to an impact of an activity often indicate social value.

In relation to the measurement of intellectual capital or intangible assets, Dzinkowski (1977) in his research stated several measurements used, namely: (a) Market to book value, where the value of intellectual capital or intangible assets is the difference between the market value and the book value of the company, (b) Tobin's "q", an intellectual capital evaluation method at a certain time that is free from asset valuation methods, (c) calculated Intangible Value (CIV), a method used by the US internal tax service.

REPORTING

Social accountability is very important because it is continuously (1) on the world's political and business agenda, (2) universally accepted. Thus, companies need to know several aspects of social accountability reports, including; report subject, report audience, report content, report motivation, and reliability (Gray et.al, 1996). The clearer these aspects are, the more they show the suitability of the social accountability report to the demands of its environment. In terms of this reporting, Medawar (1976.C 19), found differences between Australia, England, and the US in terms of the level and type of quantification of social disclosure.

In Australia, non-monetary reports are preferred, while in the US and UK, a combination of monetary and non-monetary is preferred. The complexity of the scope of social audits, which includes internal and external company problems such as human resources, air and water pollution, industrial waste, energy, and others, of course, does not always support the smooth practice of social audits. Some factors that influence social audits include: (a) government regulations, which can force companies to comply, (b) Implementation of disclosure standards, especially in the field of information on corporate social responsibility by various accounting standard-setting bodies in various countries has increased corporate social disclosure, (c) pressure from interest groups, trade unions and also labor unions that put a lot of pressure on companies to issue social responsibility disclosures, (d) corporate awareness itself, this arises because companies expect to obtain a positive image from the public. Medawar (1976), in social audit research - a political review, stated that the main problem of social audits in the future is the impact of business behavior and behavioral standards (good or bad) achieved by the company.

This statement shows that corporate social responsibility depends on corporate behavior. Companies that have good behavior will voluntarily disclose their social responsibility to stakeholders and vice versa. Furthermore, in a symposium organized by the AICPA, it was agreed that there are variations in relevant information in each group of companies, so it is better to choose those that do not need to be regulated by standards. Let the market decide for itself, what information is needed and best in meeting user needs to make decisions (Noll and Weygandt, 1997). The solution used by companies so far is voluntary companies to conduct social audits with the main intention of meeting the needs of their users. According to (Dembo & Rasaratnam, 2014). Research in Nigeria, companies that implement corporate governance with transparency and internal control have very good performance.

SOCIAL DISCLOSURE IN ANNUAL REPORTS.

According to Zuhroh and Sukmawati, (2003) the themes included in the discourse of social responsibility accounting are: (a) society, including community activities participated in by the company, for example activities related to health, education and the arts, as well as disclosure of other community activities, employment, the impact of company activities on people in the company. These activities include: recruitment, training programs, salaries and benefits, transfers and promotions and others, (c) products and consumers, qualitative aspects of a product or service, including usability, durability, service, customer satisfaction, honesty in advertising, clarity/completeness of contents on packaging, and others, (d) environment, environmental aspects of the production process, which include pollution control in carrying out business operations, prevention and repair of environmental damage due to natural resource processing and conversion of natural resources.

According to research (Hanskamp-Sebregts et al., 2020) explains that internal audit results can be conditionally shared with external supervisors. When the internal audit results show that the organization is open, learning and self-reflective, the service inspectorate can reduce the burden of supervision. According to (Arena, 2013) research conducted at the University of Italy, has the aim of exploring the application and specific control mechanisms - internal audits that are increasingly common in the public sector of organizations. The results of the study provide evidence of similarities and differences that characterize internal audits in higher education compared to private organizations.

Higher education systems in several European and non-European countries are under strong pressure to use resources more effectively and efficiently, thus encouraging the diffusion of accountability and control instruments typical of the private sector. Research conducted (Munteanu & Zaharia, 2014) explains that internal audit is a long-standing profession, always trying to meet the changing needs of organizations. Internal audit initially focused on accounting issues, but has now become a powerful tool for detecting the main risks of the organization. In terms of function, internal audit is a relatively new occurrence,

According to (Achua & Alabar, 2014) research conducted at the University of Nigeria, aims to outline the conceptualization of internal audit marketing as a necessity to enhance the perception of internal auditors as partners in increasing value, and not as roadblocks and detectives. The results of the study are the importance of building strategic relationships for effective marketing of internal audit services in the system. According to (Silva et al., 2023) research conducted in Portugal, aims to (1) understand the impact of the Enterprise Resource Planning (ERP) system on internal audit work, (2) to assess the influence of the system on the effectiveness and efficiency of audit work and (3) the level of satisfaction of internal auditors in its use. The results of the study explain the ERP systems used by internal auditors in Portugal, the most widely used are SAP ERP, and the Financial Accounting, Treasury, and Purchasing modules. Internal auditors agree that the use of ERP functions has a positive effect on the effectiveness and efficiency of their work, and they are generally satisfied with the use of the functions in their work. The study conducted (Wang & Li, 2011) aims to illustrate that engineering companies must carry out internal audits for risk management by adopting the method of identifying and evaluating risks.

Another research objective is to analyze the benefits of internal audit involvement and the development situation of Engineering risk. The results of the study to improve risk-oriented internal audit are suggested to be applied comprehensively in engineering company risk management so that companies can successfully improve core competitiveness to drive economic development in the world. comprehensive risk management age. According to (Alqudah et al., 2023) this study on Listed Service Companies in Jordan aims to emphasize the empowerment of top management towards internal auditors, namely general qualifications, electronic qualifications, and independence, which affect the quality of internal audits. The results of the study indicate that general qualifications, electronic qualifications and independence have a significant effect on the quality of electronic internal audits, supported by a resource-based view. According to (Jamil et al., 2022) a study conducted in the Local Government in Malaysia, aims to investigate internal auditors, governance structures play their role in environmental audit practices.

The results of the study explain that governance structures affect the role of the internal audit department. This study explores environmental audit practices using expectation development based on Role Theory to describe the process of environmental audit practices. These findings describe building environmental audit practices and improving the effectiveness of practices in government organizations. According to (Oldrieve et al., 2024) the purpose of the study is to build an internal audit quality evaluation index using a combined approach of the Balanced Scorecard, the Delphi Process, and the Analytical Hierarchy Process.

The results of the study based on a systematic literature review, examination of the company's internal audit guidelines, the Balanced Scorecard, and the Delphi approach produced a tiered internal audit quality evaluation index with five dimensions (stakeholder satisfaction, stakeholder contribution, financial results, internal audit process, and learning and growth) and 36 indicators. Based on the Analytical Hierarchy Process, it was revealed that the most prioritized dimension was the internal audit process. The consistency ratio and evaluation feedback from internal auditors, management, and members of the issuer's audit committee showed valid and reliable results.

The study conducted by (Petraşcu & Tieanu, 2014) explains the role of internal audit in detecting possible fraud, and highlights the importance of this role in preventing fraud in an entity. The results of the study explain that auditors are not enemies of an entity, internal audit is a function of assistance provided to the leadership of the entity so that they can manage activities better,

Social Audit Efforts to Improve Company Performance in Indonesia

express assessments of all decisions taken by the leadership that ensure the normal and efficient functioning of activities, creating added value. According to (Caratas & Spatariu, 2014) the purpose of the study is to present the role of internal audit in the contemporary life of a company. The internal audit function plays a major role in the company, exercising control in the financial sector and all other matters resolved by management, maintaining company assets and ensuring the security of accurate records. The relationship between internal audit and the prosperity of a company is strongly linked, leading to an increase in the value of the company and the achievement of its goals.

According to (Jin et al., 2019) Research conducted on government and private banks in the United States. social capital is negatively related to the bank's credit expansion strategy (proxied by bank credit growth). Social capital is negatively related to growth in risky loans (proxied by real estate loans, construction loans, and commercial and industrial loans). Social capital is negatively related to bank loan loss provisions, changes in loan loss provisions, and changes in problem loans. This study is consistent with the notion that social capital is related to higher loan quality.

According to (Adomako et al., 2023) Research conducted in two African and two Asian countries, examined the relationship between corporate political activity (CPA) and corporate social responsibility (CSR) in companies. The results showed that CPA and CSR have a strong combined effect that allows small and medium enterprises (SMEs) to leverage complementary resources to face challenges in emerging markets, which in turn increases competitiveness.

The study conducted by (Vuong & Bui, 2023) examines the role of corporate social responsibility (CSR) dimensions on employee perceptions and the importance of CSR activities to improve brand reputation by increasing brand equity. The results of the study indicate that internal and external CSR activities increase employee satisfaction and the implementation of CSR activities supports the improvement of brand reputation and adds brand equity value. CSR dimensions positively affect internal and external activities of companies in Ho Chi Minh City. This study provides valuable insights that can support company managers in Vietnam in implementing CSR practices more intensively by focusing on the core values of employee satisfaction and brand management.

According to (Gálvez-Sánchez et al., 2024) The study aims to evaluate the value given by consumers to Corporate Social Responsibility activities in economic, social and environmental dimensions in generating brand equity, corporate reputation and willingness to pay. The results of the study indicate that each CSR dimension makes a different contribution to the formation of Brand Equity (BE), corporate reputation (CR) and Willingness to Pay (WTP), also highlighting the value of brand credibility as a variable with an important mediating effect. (Lee & Choi, 2021) The results of the study found that companies involved in internal and external CSR have higher values. Overall, by showing that internal CSR is a core activity that increases company value, our study provides policy implications for regulatory bodies in various countries.

According to (Mkadmi & Ben Ali, 2024) a study conducted on companies in Tunisia, aims to better understand the relationship between financial ratios and tax avoidance in businesses that practice corporate social responsibility. The results of the study found that companies involved in corporate social responsibility activities inhibit tax avoidance behavior, especially in businesses that actively participate in corporate social responsibility activities. Companies with higher levels of profitability, cash flow, and sales growth tend to avoid taxes. Companies with high liquidity are less likely to abandon tax avoidance. Tax authorities can use corporate social responsibility activities to encourage businesses to pay taxes. According to (Yongming & Yini, 2017) The results of the study show that internal control contributes to improving company performance and CSR.

According to (Yongming & Yini, 2017) The results of the study indicate that internal control contributes to improving company performance but tends to be affected by CSR. Corporations towards shareholders, government responsibility significantly plays a positive role in internal control, and has a positive impact on company performance. Corporate responsibility towards creditors has a negative effect on internal control. Corporate responsibility towards suppliers, employees, customers, and internal control is not visible.

DISCLOSURE QUALITY

According to (Ezzi & Jarbouli, 2016) research conducted in Tunisia aims to analyze the impact of innovation strategy on financial, social and environmental performance. The results of the study showed that innovation strategy has a significant impact on company performance, including financial, social and environmental performance. According to (Peng & Yang, 2014) research conducted in Taiwan that examined the impact of ownership concentration on moderating the relationship between corporate social performance and financial performance.

The results of the study provide strong support for the idea that the difference between control rights and cash flow rights of controlling owners negatively moderates the relationship between short-term and long-term corporate social performance. According to (Wu et al., 2024) revealed the impact of semi-mandatory non-financial disclosure requirements on environmental, social and corporate governance performance and its mechanisms.

The results of the study revealed that semi-mandatory non-financial disclosures have a greater impact on environmental, social and governance performance in companies with high institutional investor attention and non-polluting companies, and a smaller impact in companies with executives who have experience abroad. According to (Iqbal et al., 2022) the study conducted on Chinese companies aims to analyze the mediating role of financial reporting quality in the relationship between product market

Social Audit Efforts to Improve Company Performance in Indonesia

competition and analyst forecast quality. The results of the study show that intense product market competition improves the quality of financial reporting of listed companies in China, and in turn improves the quality of analyst forecasts.

According to (Farah et al., 2024) this study aims to examine the effect of audit committee social capital, measured using network centrality from social network theory, on the implementation of the updated internal control framework (COSO 2013). Well-connected audit committees have information advantages and reputational issues that encourage them to learn more about industry best practices and adopt them in their own organizations. The results of the study indicate the relationship and control between the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO). According to (Nguyen et al., 2020) this study investigates the relationship between corporate social responsibility (CSR) and debt maturity.

The results of the study explain that socially responsible companies show longer debt maturities than other companies, supporting the view that CSR facilitates companies' access to long-term debt. Further analysis shows that the effect of CSR on debt maturity is stronger in companies with higher information asymmetry. According to (Bilal et al., 2023) a study conducted on listed companies in China, has a research objective related to the educational profile, gender, and professional experience of audit committee financial experts to reduce the level of earnings management.

The results of the study explain that female audit committee financial experts with postgraduate qualifications are more effective in mitigating earnings management than male ones. The professional experience of audit committee financial experts helps reduce the level of earnings management. More obvious results are seen in the case of female audit committee financial experts who have more professional experience. Audit committee financial experts working in Chinese private companies mitigate earnings management better than those working in Chinese state-owned companies.

The study conducted (Monteiro et al., 2024) in Portuguese Companies aimed to analyze non-financial performance influenced by the quality of accounting information systems and the quality of financial information and the influence of companies managed by women. The results of the study indicate that (1) companies managed by women have the highest quality in terms of accounting information systems and financial information, (2) the quality of the usefulness of financial information determines its usefulness in the decision-making process, and (3) the quality and usefulness of financial information have a significant impact on non-financial performance.

Within the framework of contingency theory, this study provides empirical evidence that the non-financial performance of companies in Portugal is associated with the presence of women in management, having organizational success in improving the quality of financial reporting. This study is relevant for accounting and management professionals, as it explains the importance of quality financial reporting for the sustainability and growth of a company, while emphasizing the importance of gender diversity in company management. According to (Hsu & Yang, 2022) Research conducted by a Company in the UK The results of the study explain that the quality of company financial reporting is lower during the Covid 19 pandemic.

MATERIALITY CONCEPT

According to (Khalil, 2022) Research conducted in Pakistan in 2011-2018. The results of the study explain that there is no significant difference between the quality of financial reporting of banks audited by Big-4 Affiliates and Non-Big-4 Affiliates. The Banking Industry in Pakistan can obtain quality audit services at lower audit fees and Non-Big-4 Affiliates provide a fair opportunity in the local audit market in Pakistan. Research conducted (Goel, 2012) explains the importance of quality financial reporting in shaping the true economics of business and maximizing shareholder profits, in the context of Earnings Management.

This report analyzes the battle between legality vs. quality of financial reporting and emphasizes the need to improve the quality of international financial reporting. The reasonable materiality guidelines believed by most members of the accounting profession are standards relating to financial information for users, where accountants must determine based on their considerations about the magnitude of something/information is said to be material. The role of the Materiality concept affects the quantity and quality of accounting information needed by auditors in making decisions related to evidence. The study (Özer et al., 2024) aims to examine the impact of companies' Environmental, Social, and Governance (ESG) activities on the quality of financial reporting.

The results of the study explain that companies with higher ESG activity scores have higher financial reporting quality. According to (Acar, 2023) Research that analyzes the quality of audit clients' financial reporting is more influenced by the national culture of the country of origin of the international parent audit firm or the national culture of the host country of its affiliates. The quality of financial reporting is proxied by accrual-based earnings management. The results of the study indicate that the national culture of the parent company's country of origin has a more significant impact on earnings management than the national culture of the foreign affiliate country.

According to Moriarity and Barron (Hastuti, 2003) materiality is viewed as an ordinal variable. For example, if two items are considered material, the two items can be compared, with the result that one item is more material than the other. The relationship of materiality aspects can be examined independently by whether decisions are grouped as special situations that are material. Materiality can also be separated into relational and thereashold aspects. It is possible to specify how various factors affect the materiality level of an item, separate from the decision at what level materiality is required for a specific type of disclosure.

Financial Report Integrity

Social Audit Efforts to Improve Company Performance in Indonesia

According to (Larrick et al., 2022) updated conflict of interest guidelines or principles will provide conflict of interest guidelines to protect integrity and credibility, a shift in the scientific community towards increased transparency. According to (Ali et al., 2023) concluded that structural assurance, competence, integrity, benevolence, and transparency can be applied to financial trust, because financial trust is an important consideration along with other barriers to financial inclusion. Research (Skarlicki et al., 2023) shows that analysts' perceptions of integrity leader performance mediate the influence of CEO accounts on analysts' evaluations of the company. This study adds to the theory of the causal relationship and perceptions of leader integrity, while also offering guidance on how leaders' reports can be linked to observers' evaluations of these leaders and their companies.

According to (Lee & Yeo, 2016) Research conducted in South Africa, examines the relationship between Integrated Reporting and company valuation. The results of the study explain that company valuation is positively related to Integrated Reporting disclosure. These results indicate that on average the benefits of Integrated Reporting exceed its costs. We expect that Integrated Reporting reduces information processing costs in firms with complex operating and information environments. The positive relationship between firm valuation and Integrated Reporting is stronger in firms with higher organizational complexity. Integrated reporting improves the information environment in complex firms such as firms with high intangible assets, firms with multiple business segments and large firms.

CONCLUSION

Social audits have a very broad scope related to internal and external social problems of the company. External problems of the company include the environment, employees, pollution, and politics. The approach and measurement and reporting of social audits have not had standard standards, but companies are given the freedom to sort out relevant social problems and voluntarily report them. Disclosure of social problems to stakeholders and the wider community. This means that so far the market has indirectly become the determinant of whether a company needs to disclose its social problems or not. Companies conducting social audits are highly dependent on the needs and demands of their users or market mechanisms. Companies that conduct social audits have more complete information in operations so that it will have an impact on the company's performance.

REFERENCES

- 1) Acar, M. (2023). Who affects whom? Impact of the national culture of international audit firms and their affiliates on the financial reporting quality of audit clients. *Borsa Istanbul Review*, 23(1), 113–135. <https://doi.org/10.1016/j.bir.2022.09.011>
- 2) Achua, J. K., & Alabar, T. T. (2014). Imperatives of Marketing Internal Auditing in Nigerian Universities. *Procedia - Social and Behavioral Sciences*, 164(August), 32–40. <https://doi.org/10.1016/j.sbspro.2014.11.047>
- 3) Adomako, S., Abdelgawad, S. G., Ahsan, M., Amankwah-Amoah, J., & Azaaviele Liedong, T. (2023). Nonmarket strategy in emerging markets: The link between SMEs' corporate political activity, corporate social responsibility, and firm competitiveness. *Journal of Business Research*, 160(August 2021), 113767. <https://doi.org/10.1016/j.jbusres.2023.113767>
- 4) Alqudah, H., Lutfi, A., abualoush, S. habis, Al Qudah, M. Z., Alshira'h, A. F., Almaiah, M. A., Alrawad, M., & tork, M. (2023). The impact of empowering internal auditors on the quality of electronic internal audits: A case of Jordanian listed services companies. *International Journal of Information Management Data Insights*, 3(2). <https://doi.org/10.1016/j.jjime.2023.100183>
- 5) Alsmady, A. A. (2022). Quality of financial reporting, external audit, earnings power and companies performance: The case of Gulf Corporate Council Countries. *Research in Globalization*, 5(August), 100093. <https://doi.org/10.1016/j.resglo.2022.100093>
- 6) Ali, R., Meraj, M., & Mubarik, M. S. (2023). In the pursuit of financial innovation-Led financial inclusion: A proposed construct for financial trust. *Borsa Istanbul Review*, 23(6), 1399–1413. <https://doi.org/10.1016/j.bir.2023.09.002>
- 7) Arena, M. (2013). Internal Audit in Italian Universities: An Empirical Study. *Procedia - Social and Behavioral Sciences*, 93, 2000–2005. <https://doi.org/10.1016/j.sbspro.2013.10.155>
- 8) An, Y., Jin, H., Liu, Q., & Zheng, K. (2022). Media attention and agency costs: Evidence from listed companies in China. *Journal of International Money and Finance*, 124, 102609. <https://doi.org/10.1016/j.jimonfin.2022.102609>
- 9) Angelia, D., & Suryaningsih, R. (2015). The Effect of Environmental Performance And Corporate Social Responsibility Disclosure Towards Financial Performance (Case Study to Manufacture, Infrastructure, And Service Companies That Listed At Indonesia Stock Exchange). *Procedia - Social and Behavioral Sciences*, 211(September), 348–355. <https://doi.org/10.1016/j.sbspro.2015.11.045>
- 10) Anonymous, 2001, Modul: Pengukuran index Pengungkapan Informasi Keuangan Pada Perusahaan – Perusahaan Publik di Indonesia. Makalah disajikan pada Pelatihan Penetapan Angka Index Pengungkapan, Kerjasama SIAGA, PPA Universitas Brawijaya Malang dan IAI Konda Malang.
- 11) Anonymous, 2000, Mengubah Kapitalis Menjadi Sosial, Media Akuntansi, No.7. Maret, pp 46- 49.
- 12) Anonymoun, 2001, Pengungkapan Sosial dalam Laporan Tahunan, Media Akuntansi. No.17.
- 13) April-Mei, pp 59-65.

Social Audit Efforts to Improve Company Performance in Indonesia

- 14) Attig, N., Cleary, S. W., El Ghouli, S., & Guedhami, O. (2014). Corporate Legitimacy and Investment-Cash Flow Sensitivity. *Journal of Business Ethics*, 121(2), 297–314. <https://doi.org/10.1007/s10551-013-1693-3>
- 15) Basu, S., 1997, The Conservatism Principle and the Asymmetric Timeliness of Earnings. *Journal of Accounting and Economics* 24: 3-37
- 16) Belkaoui, Ahmed, 2000, *Teori Akuntansi*, Edisi 4, Buku 1, Salemba Empat, Jakarta.
- 17) Bilal, Komal, B., Ezeani, E., Usman, M., Kwabi, F., & Ye, C. (2023). Do the educational profile, gender, and professional experience of audit committee financial experts improve financial reporting quality? *Journal of International Accounting, Auditing and Taxation*, 53(September), 100580. <https://doi.org/10.1016/j.intaccudtax.2023.100580>
- 18) Brooks, L.J, 1977, *An Attitude Survey Approach to The Social Audit: The Southam Press Experience*.
- 19) Caratas, M. A., & Spatariu, E. C. (2014). Contemporary Approaches in Internal Audit. *Procedia Economics and Finance*, 15(14), 530–537. [https://doi.org/10.1016/s2212-5671\(14\)00503-6](https://doi.org/10.1016/s2212-5671(14)00503-6)
- 20) Dembo, A. M., & Rasaratnam, S. (2014). Corporate governance and disclosure in Nigeria : An empirical study. *Procedia - Social and Behavioral Sciences*, 164(August), 161–171. <https://doi.org/10.1016/j.sbspro.2014.11.064>
- 21) Dzikowski Ramona, 1977, *Intellectual Capital: What You Always Wanted to Know but were Afraid to Ask*.
- 22) DeFond, M 1992. The Assosiation between changes in client firm agency costs and auditor switching. *Auditing: A journal of practice and theory* 11: 16-31
- 23) Das, M., Ostrowski, A. K., Ben-David, S., Roeder, G. J., Kimura, K., D’Ignazio, C., Breazeal, C., & Verma, A. (2023). Auditing design justice: The impact of social movements on design pedagogy at a technology institution. *Design Studies*, 86, 101183. <https://doi.org/10.1016/j.destud.2023.101183>
- 24) Du, S., Xu, X., & Yu, K. (2020). Does corporate social responsibility affect auditor-client contracting? Evidence from auditor selection and audit fees. *Advances in Accounting*, 51, 100499. <https://doi.org/10.1016/j.adiac.2020.100499>
- 25) Eldon S, Hendriksen, 1998, *Teori Akuntansi*, Penerbit Ak Group Yogyakarta, Yogyakarta
- 26) Ezzi, F., & Jarboui, A. (2016). Does innovation strategy affect financial, social and environmental performance? *Journal of Economics, Finance and Administrative Science*, 21(40), 14–24. <https://doi.org/10.1016/j.jefas.2016.03.001>
- 27) Farah, N., Islam, M. S., Tadesse, A., & McCumber, W. (2024). Impact of audit committee social capital on the adoption of COSO 2013. *Advances in Accounting*, 64(June 2022), 100685. <https://doi.org/10.1016/j.adiac.2023.100685>
- 28) Fox, J. A. (2015). Social Accountability: What Does the Evidence Really Say? *World Development*, 72, 346–361. <https://doi.org/10.1016/j.worlddev.2015.03.011>
- 29) Gálvez-Sánchez, F. J., Molina-Prados, A., Molina-Moreno, V., & Moral-Cuadra, S. (2024). Exploring the three-dimensional effect of corporate social responsibility on brand equity, corporate reputation, and willingness to pay. A study of the fashion industry. *Journal of Retailing and Consumer Services*, 79(March). <https://doi.org/10.1016/j.jretconser.2024.103836>
- 30) Goel, S. (2012). Financial Reporting—the Old Age Tussle between Legality and Quality in Context of Earnings Management. *Procedia Economics and Finance*, 3(12), 576–581. [https://doi.org/10.1016/s2212-5671\(12\)00198-0](https://doi.org/10.1016/s2212-5671(12)00198-0)
- 31) Hastuti, Theresia Dwi, 2003, *Hubungan Antara Profesionalisme Auditor Dengan Pertimbangan Tingkat Materialitas Dalam Proses Pengauditan Laporan Keuangan*, SNA VI, Surabaya.
- 32) Hanskamp-Sebregts, M., Robben, P. B., Wollersheim, H., & Zegers, M. (2020). Transparency about internal audit results to reduce the supervisory burden: A qualitative study on the preconditions of sharing audit results. *Health Policy*, 124(2), 216–223. <https://doi.org/10.1016/j.healthpol.2019.11.013>
- 33) Hsu, Y. L., & Yang, Y. C. (2022). Corporate governance and financial reporting quality during the COVID-19 pandemic. *Finance Research Letters*, 47(PB), 102778. <https://doi.org/10.1016/j.frl.2022.102778>
- 34) Iqbal, A., Ali, F., Umar, M., Ullah, I., & Jebran, K. (2022). Product market competition and financial analysts’ forecast quality: The mediating role of financial reporting quality. *Borsa Istanbul Review*, 22(2), 248–256. <https://doi.org/10.1016/j.bir.2021.05.00>
- 35) Jamil, M. M., Abidin, N. H. Z., & Alwi, N. M. (2022). The governance structure on the role of internal auditors in environmental auditing practices: Cases of Malaysian local organisations. *Environmental Challenges*, 9(October), 100632. <https://doi.org/10.1016/j.envc.2022.100632>
- 36) *Ikatan Akuntan Indonesia-Kompartemen Akuntan Publik*, 2001, *Standar Profesional Akuntan Publik*, Salemba Empat, Jakarta.
- 37) Jin, J. Y., Kanagaretnam, K., Liu, Y., & Liu, N. (2019). Banks’ Loan Growth, Loan Quality, and Social Capital. *Journal of Behavioral and Experimental Finance*, 21, 83–102. <https://doi.org/10.1016/j.jbef.2018.11.004>
- 38) Kareem AL Ani, M. (2021). Corporate social responsibility disclosure and financial reporting quality: Evidence from Gulf Cooperation Council countries. *Borsa Istanbul Review*, 21, S25–S37. <https://doi.org/10.1016/j.bir.2021.01.006>
- 39) Khalil, U. F. (2022). Auditor choice and its impact on financial reporting quality: A case of banking industry of Pakistan. *Asia Pacific Management Review*, 27(4), 292–302. <https://doi.org/10.1016/j.apmr.2021.12.001>

Social Audit Efforts to Improve Company Performance in Indonesia

- 40) Kumalahadi, 2000. Perspektif Pragmatik, Lingkungan dan Sosial Dalam Laporan Keuangan: Peningkatan Kegunaan dan Pertanggungjawaban, *Jurnal Akuntansi & Auditing Indonesia*, Vol. 4 No.1, FE-UII, Yogyakarta.
- 41) Larrick, B. M., Dwyer, J. T., Erdman, J. W., D'aloisio, R. F., & Jones, W. (2022). An Updated Framework for Industry Funding of Food and Nutrition Research: Managing Financial Conflicts and Scientific Integrity. *Journal of Nutrition*, 152(8), 1812–1818. <https://doi.org/10.1093/jn/nxac106>
- 42) Lee, K. W., & Yeo, G. H. H. (2016). The Association between Integrated Reporting and Firm Valuation. *Review of Quantitative Finance and Accounting*, 47(4), 1221–1250. <https://doi.org/10.1007/s11156-015-0536-y>
- 43) Lee, W. J., & Choi, S. U. (2021). Internal and external corporate social responsibility activities and firm value: Evidence from the shared growth in the supply chain. *Borsa Istanbul Review*, 21, S57–S69. <https://doi.org/10.1016/j.bir.2021.02.007>
- 44) Liu, S., Bernardi, C., & Stark, A. W. (2024). The value relevance of US firms' mandated financial risk disclosures attributable to the impact of climate change. *Journal of Sustainable Finance and Accounting*, 1(April), 100002. <https://doi.org/10.1016/j.josfa.2024.100002>
- 45) Lutfi, Andy Prayogo Ika, 2001; Analisis Pengaruh Praktek Pengungkapan Sosial Terhadap Perubahan Harga Saham Pada Perusahaan Yang Terdaftar Di BEJ. FE-UB. Malang.
- 46) Loebbecke, Arens, 1994. *Auditing-An Intergrated Approach*, Sixth Ed., Prentice Hall, Englewood Cliff, New Jersey.
- 47) Loebbecke, Arens, 1996. *Auditing-Pendekatan Terpadu*, Adaptasi Amir Abadi Jusuf Buku satu, Ed. Revisi-Edisi Indonesia, Salemba Empat, Jakarta.
- 48) Lys, T., Naughton, J. P., & Wang, C. (2015). Signaling through corporate accountability reporting. *Journal of Accounting and Economics*, 60(1), 56–72. <https://doi.org/10.1016/j.jacceco.2015.03.001>
- 49) McGuire, J., Dow, S., & Argheyd, K. (2003). CEO Incentives and Corporate Social Performance. *Journal of Business Ethics*, 45(4), 341–359.
- 50) Medawar Charles, 1976. *Audit Sosial : Suatu Tinjauan Politis*. <https://doi.org/10.1023/A:1024119604363>.
- 51) Musa, H., Musová, Z., & Debnárová, L. (2015). Responsibility in The Corporate Governance Framework and Financial Decision Making Process. *Procedia Economics and Finance*, 23 (October 2014), 1023–1029, [https://doi.org/10.1016/s2212-5671\(15\)00371-8](https://doi.org/10.1016/s2212-5671(15)00371-8).
- 52) Mi, B., Zhang, L., Han, L., & Shen, Y. (2024). Bank market power and financial reporting quality. *Journal of Corporate Finance*, 84, 102530. <https://doi.org/10.1016/j.jcorpfin.2023.102530>.
- 53) Mkadmi, J. E., & Ben Ali, W. (2024). How does tax avoidance affect corporate social responsibility and financial ratio in emerging economies? *Journal of Economic Criminology*, 5(May), 100070. <https://doi.org/10.1016/j.jeconc.2024.100070>
- 54) Monteiro, A. P., Vale, J., Leite, E., & Lis, M. (2024). Linking quality of accounting information system and financial reporting to non-financial performance: The role women managers. *International Journal of Accounting Information Systems*, 54(March 2023), 100692. <https://doi.org/10.1016/j.accinf.2024.100692>.
- 55) Munteanu, V., & Zaharia, D. L. (2014). Current Trends in Internal Audit. *Procedia - Social and Behavioral Sciences*, 116, 2239–2242. <https://doi.org/10.1016/j.sbspro.2014.01.551>
- 56) Nguyen, V. H., Choi, B., & Agbola, F. W. (2020). Corporate social responsibility and debt maturity: Australian evidence. *In Pacific Basin Finance Journal (Vol. 62)*. <https://doi.org/10.1016/j.pacfin.2020.101374>
- 57) Palmrose, Z., 1984, The demand for differentiated audit services in an agency cost setting: an empirical examination. *Fifth auditing research symposium, Illinois*.
- 58) Palu Frishkoff, 1984. An Empirical Investigation of the Concept of Materiality in Accounting. *The Accounting Review*.
- 59) Peng, C. W., & Yang, M. L. (2014). The Effect of Corporate Social Performance on Financial Performance: The Moderating Effect of Ownership Concentration. *Journal of Business Ethics*, 123(1), 171–182. <https://doi.org/10.1007/s10551-013-1809-9>.
- 60) Pereira da Silva, P. (2024). The impact of non-financial disclosure on labor investment: International evidence. *Borsa Istanbul Review*, 24(1), 218–234. <https://doi.org/10.1016/j.bir.2023.12.004>
- 61) Purwati, Indah. 2001. Analisis Pengaruh Luas Pengungkapan Sosial dalam Laporan Tahunan Terhadap Reaksi Investor. FE-UB Malang.
- 62) Rasmianti, 2002, Hubungan Pengungkapan Sosial Pada Laporan Tahunan Perusahaan dengan Volume Penjualan Saham (Studi Kasus Pada Perusahaan High Profile di BEJ). FE- Unmer. Malang
- 63) Silva, T., Marques, R. P., & Azevedo, G. (2023). The Impact of ERP Systems in Internal Auditing: The Portuguese Case. *Procedia Computer Science*, 219, 963–970. <https://doi.org/10.1016/j.procs.2023.01.373>
- 64) Suwaldiman, 2000. Pentingnya Pertimbangan Tanggung Jawab Sosial Perusahaan dalam Penetapan Tujuan Pelaporan Keuangan dan Conceptual Framework Pelaporan Keuangan Indonesia, *Jurnal Akuntansi & Auditing Indonesia*, Vol. 4 No.1, FE-UII, Yogyakarta.
- 65) Skarlicki, D., Lo, K., Rogo, R., Avolio, B. J., & DeHaas, C. A. (2023). The role of CEO accounts and perceived integrity in analysts' forecasts. *Organizational Behavior and Human Decision Processes*, 176(April), 104250.

<https://doi.org/10.1016/j.obhdp.2023.104250>

- 66) Oldrieve, I., Balchin, K., Rajan, S., Baskaran, V., Chowdry, M., & Smallwood, N. (2024). Comprehensive audit of an entire year of Point of Care Ultrasound Scans in an Internal Medicine Department. *Future Healthcare Journal*, 11, 100087. <https://doi.org/10.1016/j.fhj.2024.100087>.
- 67) Ortiz-Martínez, E., Marín-Hernández, S., & Santos-Jaén, J. M. (2023). Sustainability, corporate social responsibility, non-financial reporting and company performance: Relationships and mediating effects in Spanish small and medium sized enterprises. In *Sustainable Production and Consumption* (Vol. 35, pp. 349–364). Elsevier B.V. <https://doi.org/10.1016/j.spc.2022.11.015>
- 68) Özer, G., Aktaş, N., & Çam, İ. (2024). Corporate environmental, social, and governance activities and financial reporting quality: An international investigation. *Borsa Istanbul Review*, 24(3), 549–560. <https://doi.org/10.1016/j.bir.2024.03.001>
- 69) Palea, V. (2013). IAS/IFRS and financial reporting quality: Lessons from the European experience. *China Journal of Accounting Research*, 6(4), 247–263. <https://doi.org/10.1016/j.cjar.2013.08.003>

- 70) Petraşcu, D., & Tieanu, A. (2014). The Role of Internal Audit in Fraud Prevention and Detection. *Procedia Economics and Finance*, 16(May), 489–497. [https://doi.org/10.1016/s2212-5671\(14\)00829-6](https://doi.org/10.1016/s2212-5671(14)00829-6)
- 71) Udayasankar, K. (2008). Corporate Social Responsibility and Firm Size. *Journal of Business Ethics*, 83(2), 167–175. <https://doi.org/10.1007/s10551-007-9609-8>
- 72) Utomo, Muhammad Muslim, 2000; *Praktek Pengungkapan Sosial Pada Laporan Tahunan Perusahaan di Indonesia (Studi Perbandingan Antara Perusahaan-Perusahaan High profile dan Low Profile)*. Makalah disajikan pada SNA III.
- 73) Vuong, T. K., & Bui, H. M. (2023). The role of corporate social responsibility activities in employees' perception of brand reputation and brand equity. *Case Studies in Chemical and Environmental Engineering*, 7(November 2022), 100313. <https://doi.org/10.1016/j.csee.2023.100313>
- 74) Wang, Y., & Li, M. (2011). The role of internal audit in engineering project risk management. *Procedia Engineering*, 24, 689–694. <https://doi.org/10.1016/j.proeng.2011.11.2719>
- 75) Wu, L., Lam, J. F. I., & Liu, Y. (2024). Can Semi-Mandatory Non-Financial Disclosure Requirements Drive Firms to Improve ESG Performance - Evidence from Chinese Listed Companies. *Heliyon*, e34235. <https://doi.org/10.1016/j.heliyon.2024.e34235>
- 76) Yongming, Z., & Yini, S. (2017). The impact of coupling interaction of internal control and CSR on corporate performance — Based on the perspective of stakeholder. *Procedia Engineering*, 174, 449–455. <https://doi.org/10.1016/j.proeng.2017.01.165>
- 77) Yusliza, M. Y., Norazmi, N. A., Jabbour, C. J. C., Fernando, Y., Fawehinmi, O., & Seles, B. M. R. P. (2019). Top Management Commitment, Corporate Social Responsibility and Green Human Resource Management: A Malaysia study. *Benchmarking*, 26(6), 2051–2078. <https://doi.org/10.1108/BIJ-09-2018-0283>
- 78) Zhang, H., & Zhao, J. (2023). Stock market liberalization and financial reporting quality. *China Journal of Accounting Research*, 16(4), 100328.