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Analysis Characteristic for Internal Control Disclosure: Case Study Company Listed in Indonesian Stock Exchange

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The internal control system is important in the governance of enterprise. An effective internal control system involves the entire personnel of the company, including accounting procedures. The aim of this study is to analyze the relationship between company characteristics, quality of corporate governance and the extent of company disclosure of internal controls over their financial reporting. Given information about the company's internal controls need to be known by all stakeholders. Therefore transparency in the presentation of information is very important. The results of a survey of 140 companies listed on the stock exchanges show that Indonesian companies disclosure was limited to the minimum that needs to be disclosed so that the company's internal control conditions are not presented in detail in the financial statements. This indicates that the awareness of companies to disclose their internal control conditions is still low. Besides, this study tested several characteristics of the company and corporate governance mechanisms which are supposed to influence the internal control disclosure in their financial statements. The result gave strong support to the size of the company, the cost of the audit, the audit committee size and proportion of management ownership.

JEL Codes: M41, M49

1. Introduction

The condition of internal control is important in the governance of enterprise. Internal control is a process that produces policies to be applied by all company personnel as well as by the company's management. The main purpose of internal control is to maintain or to ensure the security of corporate assets and provide adequate assurance of (1) the effectiveness and efficiency of company operations, (2) the reliability of financial reporting, and (3) compliance with laws and regulations.

Thus a good internal control will produce reliable financial statements. The effective internal control system will involve the entire personnel of the company, including those involved in accounting procedures. The certainty of the effectiveness internal control systems will increase the reliability of financial statements thereby reducing the risk of material misstatement or fraud. Guarantee the survival of business operations for all business activities carried out based on the principles that have been set. Therefore, a good system of internal control will reflect good corporate governance.

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Although internal control issues internal company policies, when the company became publicly owned then all stakeholders will require the disclosure of information, especially how to manage a business. Investors rely heavily on information Disclosure Company, especially specific information regarding the design and implementation of internal control (Deumes and Knechel 2008). Thus the disclosure of internal control conditions becomes appropriate means, especially for investors and capital market regulators or the financial markets. Otherwise, the investors do not have a channel other than disclosure of information in financial statements. For regulatory reasons and corporate governance, the disclosure about the company's internal control condition becomes critical and stronger emphasis for public companies (Deumes and Knechel 2008).

Since the case of Enron, Global Crossing, Tyco, Adelphia, and WorldCom in 2002, some guidelines have been established for public companies including the certainty of good corporate governance and disclosure of company's internal control conditions. Companies can make such disclosures voluntarily or mandatory. Basically, the company's internal control condition in the financial statements is critical to the company, the external auditors, and other stakeholders. In particular, the internal control system will help the company in reducing the risk of not achieving organizational goals. It also provides certainty about the reliability of the financial information presented. Thus internal control system will improve the quality of an organization's information and avoid things that are unexpected. As for the external auditor's assessment of conditions internal control are very useful to establish audit procedures so as to avoid giving incorrect audit opinion.

Information about conditions of internal control financial reports obtained through a statement of management responsibility and assessment by management of the effectiveness of internal control over financial reporting. It also reflected attestation report on management's assessment of internal control over financial reporting by public accountants. Rules on disclosure of good governance and internal control issues have been set up in Indonesia, although not in detail in the statutes such as the Sarbanes-Oxley Act of 2002 section 404. A regulation that led to the disclosure of internal control has been set to a decision issued by the Chairman Bapepam-LK No. KEP-431/BL/2012, XK6. However, this regulation only suggests a minimal explanation of the internal control on financial and operational control and compliance with other legislation. In provision for the review of the company related to the effectiveness of internal control systems. The guidance provided is inadequate because it is not regulated in detail about the content and structure of the report needs to be disclosed.

The results of this decision will certainly generate disclosure varies among companies, which disclosure will be made in accordance with conditions and objectives of the company. Results of previous studies show that the company is having problems in internal control quality lower financial statements will thus lead to a market price that will fit their company's internal control is not good. Results of an empirical study previously found that the condition of the disclosure of the conditions of internal control will vary according to company characteristics such as the size of the company, the company's performance, and business complexity (Ge and McVay 2005; Ghosh and Lubberink 2006; Ashbaugh-Skaife et al. 2007; Doyle et al. 2007; Jahmani and Brown III 2010; Martani and Zaelani 2011).

This study differs from previous studies in terms of the material disclosed in accordance with the provisions of Bapepam Number: Kep-431/BL/2012. Previous studies analyzing the disclosure of internal control weaknesses although research on internal control in Indonesia has been studied by Martani and Zaelani (2011), the analysis was done on the scope of local governments with different characteristics to the public company. Besides internal controls assessed is a large number of internal control weaknesses at the local government found in the audit. This study analyzes the level of public companies related response Bapepam decision mentioned above to assess the level of disclosure of internal control of companies, especially companies listed on the Indonesia Stock Exchange. Rate the level of disclosure is also done by looking at the differences between characteristics of different companies such as firm size, performance, complexity and corporate governance mechanisms.

This study was also based on the theory of agency is viewed from the difference of interests between principals with company management. Principal expects good corporate performance management, on the other hand, has its own interests in managing the company. Good corporate governance system would minimize the conflict. Application of corporate governance will make management managing the company in line with the wishes of the owner of a company that expects good corporate performance which leads to increased shareholder value. Positive agency theory (Jensen and Meckling 1976; Williamson 1991; Fama and Jensen 1983) provides a framework for linking corporate governance with the disclosure of information about internal controls. Besides signaling theory is also used to explain the behavior of management in internal control conditions revealed to the public as a way to deliver information about the controls that have been made in carrying out business operations.

Based on the description above, the research question can be formulated as follows:

1) Is there a difference between the extents of disclosure of company characteristics (size, performance, the complexity of business)?
2) Is there a difference between the extents of disclosure of corporate governance quality (institutional share ownership, stock ownership management, the size of the independent board, the size of the audit committee)?

In the next section will be discussed about the theory that will be used to form the hypothesis, namely the literature review section. Thereafter will be described in the methodology used in the study consisting of operationalization and measurement of variables as well as statistical methods to be used. The results of data collection will be described in the form of descriptive statistics and hypothesis testing on the part of the findings and discussion. Finally, will be described research conclusions based on data that have been obtained.

2. Literature Review

2.1 Agency Theory and Signaling

Agency theory arises because of differences in interests between business owners who expect the rising value company's shares by the company management expects compensation of managing company. The interest difference will cost the agency. To overcome these problems, we need a transparent way of working among business managers with the owner the company. Disclosure of broadest reduces the uncertainty in the presentation of information. Thus management will strive to reduce conflict of interest by doing information relevant disclosures.

Signaling theory emerged because of the relationship between the company and external interested parties with the information presented by the company. The management will give a signal to investors convince about the good condition of the company, including financial performance and corporate governance. Thus investors can use information that is presented for purpose of investment; this will reduce information asymmetry between the company and outsiders.

2.2 Company Characteristics and Disclosure of Internal Control

Since the beginning, there has been a debate about the benefits and costs disclosure of internal control in financial reporting companies (Owusu-Ansah and Ganguli 2010). However, based on the principle of asymmetry of information and agency costs between company managers and outside investors, then the disclosure of the company's condition needs to be done with a variety of considerations. Many factors will affect management in choosing how or materials that need to be disclosed in the company are financial reporting. Based on the principle of disclosure tendency will be related to company characteristics, economic conditions, and not less important is corporate governance (Healy and Palepu 2001).

Past studies conducted on disclosure of internal control in financial reporting by companies are generally seen from two different sides, namely the reporting of internal control weaknesses or adequacy (Ge and McVay 2005; Doyle et al. 2007; Ashbaugh-Skaife et al. 2007) and voluntary disclosure about the application of internal control by the company in financial reporting or characteristics (Bronson et al. 2006; Michelon et al. 2015; Deumes and Knechel 2008). This study will focus on the second model that any information that has been disclosed regarding the condition of the company's internal control.

Based on the results of previous studies that weaknesses or problems in the company's internal control disclosure would affect the conditions of internal control in financial reporting. Generally, company's internal control problems associated with the lack commitment of resources to implement accounting controls, such as revenue recognition policy, the lack separation of duties, deficiencies in the reporting period and the period accounting policies as well as the incompatibility of account reconciliation (Ge and McVay 2005). Characteristics of companies that determine the quality of a company's internal controls, such as profitability, size, and complexity of the business enterprise (Doyle et al. 2007).

The tendency is to companies with lower profitability will report internal control issues higher this was due to lack of resources to implement a system of effective internal controls compared with their efforts to improve profitability (Ge and McVay 2005; Ghosh and Lubberink 2006). So instead those companies with good performance will tend to make voluntary disclosures on their internal control conditions in the management report (Bronson et al. 2006). While the size of the company has influence proportional to the internal control issues, where small companies have limited the resources to implement effective internal control is different from large enterprises (Kinney and McDaniel 1989; Deumes 2000). Thus large companies tend to perform voluntary disclosures on internal control conditions while smaller companies tend to have problems in internal control (Ghosh and Lubberink 2006). Likewise, the company's business operations more complex would be likely to have problems in internal control (Ghosh and Lubberink 2006; Doyle et al. 2007; Ashbaugh-Skaife et al. 2007).

Based on the description above, the research hypothesis is formulated as follows:

H1: There is no difference in the level of disclosure of internal controls over financial reporting for company different sizes Profitability.
H2: There is no difference in the level of disclosure of internal controls over financial reporting for company different sizes.
H3: There is no difference in the level of disclosure of internal controls over financial reporting to measure the complexity different companies.

2.3 Corporate Governance and Internal Control

Determine the corporate governance disclosure by the company, because a principle of corporate governance is fairness, transparency, accountability, and responsibility are also related to the disclosure of information. The whole principle applies to the management company in managing their business entities. Application of good governance by management would be closely related to internal control system built companies. Framework built from agency theory also requires the supervision over information disclosure. Past studies show that effective internal controls will enhance good governance practices as well, for example by decreasing the level of corruption (Agyei-Mensah 2016; Mensah et al. 2003). Similarly, the failure to implement an effective internal control will contribute significantly to poor corporate governance (Gombarume 2011). Thus the comprehensive implementation of internal controls and adequate will lead to good corporate governance practice (Dănescu et al. 2011). Internal control can provide assurance in the reliability of financial reporting, efficient and effective operation and in accordance with the rules and regulations (Suyono and Hariyanto 2012). Therefore, if the internal control within the organization goes well, the practice of good governance and the right can be automatically upgraded.

Empirical studies previously examined the relationship between disclosure of internal controls and corporate governance generally associated with mechanisms of governance, such oversight by board of commissioners (Owusu-Ansah and Ganguli 2010; Deumes 2000; Michelon et al. 2015; Deumes and Knechel 2008; Jianfei and Yiran 2011). Results of the study also showed different results due to use variable characteristics of different governance. However, the results of these studies indicate that there is a strong relationship between the supervisory role of information disclosed by the company (Michelon et al. 2015).

Based on the description above, the fourth research hypothesis is formulated as follows:

H4: There is no difference in the level of disclosure of internal controls over financial reporting to measure the quality of different corporate Governance mechanisms.

As has been explained, from previous studies (Ge and McVay 2005: Ghosh and Lubberink 2006; Ashbaugh-Skaife et al. 2007; Doyle et al. 2007; Jahmani and Brown III 2010), they analyzed Disclosure of internal control weakness materials while this research would like to test the extent of disclosure of the application of internal control of the company. Furthermore, the previous research does not specifically examine differences based on firm characteristics and the quality of corporate governance

3. The Methodology

The population of this study is all companies listed on the Indonesia Stock Exchange for the fiscal year 2014. Content analysis has been used to collect data from annual reports of manufacturing companies listed on the Indonesia Stock Exchange. Data analysis is done descriptively and hypothesis. The descriptive statistical test was conducted with SPSS 22. The hypothesis testing will be done by the different test for paired samples.

This research provides new insight into the material of disclosure on internal controls in the financial statements, especially in Indonesia, which in fact has not been set in detail about the content of the material that must be disclosed. The model presented is also an improvement of the previous research results, especially for the variable characteristics of the company represented by the complexity of the organization.

3.1 Variable Operationalization and Measurement

The dependent variable in this study is a Level Disclosure of Internal Controls while the independent variables are characteristics of the Company and Corporate Governance Mechanisms Quality.

3.1.1 Level Disclosure of Internal Control

In accordance with the provisions of Bapepem X.K.6 2102 disclosure items required internal control is at least about **a)** the financial and operational control and compliance with other laws and regulations, and **b)** reviews the effectiveness of internal control systems. Then measuring the level of disclosure of internal controls used in this study was to use a method that is not weighted index (unweighted index) or using dichotomous Score. Calculation of disclosure index is done by giving a value of 1 for the items disclosed, while 0 for items not disclosed per the list of internal control disclosure items. As for the internal control disclosure items that were assessed using the instruments adopted from the research Poel & Vanstraelen (2011). With this method of evaluation of the level of disclosure of internal control will use two proxies are taken from the annual report:

a) The financial and operational control and compliance with other legislation, seen from the statement about;

    1) Description of internal control system
    2) Scope of internal control
    3) Expressions of interest the company's internal control system
    4) The internal audit function within the company's internal control

5) Activities to manage risks
6) The existence of audit committee
7) Code of ethics companies
8) Whistleblower Policy
9) Specific risk, improvement or significant changes in the system of internal controls, improvement or significant changes in the internal control system.

b) Reviews the effectiveness of internal control system

1) Statement of management on the effectiveness of internal controls.
2) The role of board of directors and audit committee within the company's internal control system
3) The role of external auditors in company's internal control system
4) Statement manager assessing the quality of financial reporting
5) There was discussion about the internal controls in a meeting of the board of directors/ commissioners
6) Their assessment of the effectiveness of internal control systems
7) Statement on management responsibilities related to the implementation of internal control
8) Statement of internal control in the financial statements
9) The company's policy which refers to the adoption of standards, guidelines or criteria of internal control internationally as COSO (Committee of Sponsoring Organizations of the Treadway Commission)

For each item that is to be given a value of 1 so that the total maximum score is 18 and the minimum value is 0.

3.1.2 Characteristics of Companies

There are four factors of the characteristics of the company are:

a) The size of the company
Company size is a scale to measure the size of a company. Usually, to measure the size of the company can be seen from the assets or total assets owned by the company. Greater the assets owned by the company, greater the size of the company and smaller assets of the company, the size of the company is small (Yolana and Martani 2005). Measuring the size of the company can be measured as Size = Total Assets.

b) Profitability
Profitability by Wild et al. (2005) is a financial statement analysis used to determine the operating results of the company's profit is a factor changes in securities. Measuring devices that can be used to calculate the profitability of one they are the Return on Assets (ROA) is a financial analysis tool for measuring the extent to which the effectiveness of the company in using assets to generate earnings.

c) Complexity Corporate Operations

The complexity of company is a degree to which the company to expand in terms of increasing the number of subsidiaries in the amount of audit fee. The variable complexity of the company using the amount that company pays for audit fee. (Nazri et al. 2012 in Fitriani 2014).

3.1.3 Quality of Corporate Governance

The quality of corporate governance is measured by the size of the corporate governance mechanism, namely the proportion of institutional ownership, the proportion of management ownership, the proportion of independent directors, audit committee size (Laksana 2015).

4. The Findings and Discussion

4.1 Descriptive Analysis

4.1.1 Level Disclosure of Internal Control Systems

Results of data processing related to the level of disclosure the internal control system are presented in Table 1. Based on the results shown in Table 1 of the look that out of 20 (twenty) item components of internal control disclosures in financial statements there is only one item that is obeyed by all companies that requirement the audit committee and risk management activities by the company. However, these conditions only in companies with a total asset size of less than 1 Trillion (proxy small size) and greater than 5 trillion (Proxy large size) and not on the medium-sized companies (between 1-5 trillion). Similarly, the size of the audit fee is only expressed in small and large companies, but not in the medium-sized companies. Results are different for measures of profitability which all medium and large companies that comply with the rules on the audit committee. As for the risk management activities of the company at the company level only medium in size audit fee.

Based on the results of data processing In Table 1, we can conclude the level of disclosure of internal control system generally still low, particularly for significant changes in the internal control system (ICS), company policy which refers to the adoption of standards, guidelines or criteria ICS internationally such as COSO, There is a discussion of internal control a meeting of the board of directors/commissioners, the role of external auditors in the ICS companies, statements of management about the effectiveness of ICS, ICS role of the commissioners in the company, Whistleblower Policy, Code of ethics of the company, ICS Scope, Objectives ICS company.

These results indicate that the absence of implementation of internal control in accordance with the criteria or international standards like COSO. Also visible is also the condition of internal control is not to be critical of companies that need to be discussed at a meeting the board of commissioners or board directors. Then external auditor has no authority in the application of the company's internal control system so that there is no assessment of the effectiveness of internal controls by the company. Similarly, it appears that the lack of awareness about the company's disclosure of its code of conduct and complaints procedures in the event of a violation within the company (whistleblowing system). Most companies express a paragraph about the internal control system, but only to the extent normative statements and have not touched the coverage and purpose of the internal control system specifically.

4.1.2 Company Characteristics

a. Company size

Company size measured by the size of total assets. Of the 140 sample companies, there are 61 companies (43.6%), which owns total assets of Rp 1 trillion to Rp 5 trillion, 41 (29.3%) of companies with total assets of less than 1 trillion and only 38 companies (27 , 1%), which has assets of more than Rp 5 trillion.

b. Profitability

Profitability is measured by the amount of ROA. Of the 140 sample companies are 56 companies (40%) having a ROA of less than 1%, 46 companies (32.9%) had a ROA greater than 5%, and only 38 companies (27.1%) had between 1% and ROA with 5%.

c. The complexity of the operation

Operational complexity is measured by the amount of the audit fee. Only 103 companies out of a sample of companies a total of 140 companies that provide audit data fee in the annual report which of the number of 43 companies (30.7%) pay the audit fee of less than IDR 100 million, 33 companies (23.6%) pay the audit fee between IDR 100 million to IDR 1 billion and 27 companies (19.3%) pay the audit fee of more than IDR 1 billion.

d. The quality of corporate governance

The quality of corporate governance is measured with good corporate governance mechanism consisting of institutional ownership, management ownership, BOC Independence and Audit Committee Member.

1. *Institutional Ownership*

   Of the 140 companies, 126 companies (90%) had greater institutional ownership than the 33.32% in which 83 companies (59.3%) had institutional ownership is greater than 66.67%.

2. *Ownership Management*

   Unlike the managerial ownership, there were 69 companies (49.3%) who have an ownership of less than 0.01% management, 36 companies (25.7%) which have ownership of the management of more than 1% and only 35 companies (25%) had managerial ownership between a 0.01% - 1%.

3. The Board of Commissioners of the Independent

For the independent board, a sample of 140 companies, there are 93 companies (66.4% have an independent commissioner board 30-40% of the number of commissioners and there were 39 companies (27.9%) having commissioners greater than 44. 4% and only 8 companies (5.7%) who had a commissioner of less than 30%.

4. The Audit Committee Member

A total of 116 sample firms (82.9%) have an audit committee members were 3 people, 16 companies (11.4%) had a member of the audit committee of more than three people and only 8 companies (5.7%) who had an audit committee members less from 3 people.

Table 1: Description Level Disclosure of Internal Control Systems (ICS) – in %

Variable	total Assets			Total	The amount of ROA			Total	The amount of audit fee			Total
	< 1 T	1T - 5 T	> 5 T		< 1%	1% - 5%	> 5 %		< 100 M	100 M - 1,000 M	> 1,000 M	
Description ICS	56.1	62.3	73.7	63.6	55.4	65.8	71.7	63.6	69.8	75.8	74.1	72.8
scope ICS	46.3	54.1	71.1	56.4	50.0	60.5	60.9	56.4	48.8	75.8	70.4	63.1
Interest ICS company	43.9	59.0	65.8	56.4	57.1	52.6	58.7	56.4	53.5	72.7	66.7	63.1
The internal audit function within the company ICS	73.2	82.0	89.5	81.4	83.9	84.2	76.1	81.4	79.1	87.9	88.9	84.5
Activities to manage risks	95.1	95.1	97.4	95.7	94.6	97.4	95.7	95.7	93.0	100.0	96.3	96.1
The audit committee	100.0	98.4	100.0	99.3	98.2	100.0	100.0	99.3	100.0	97.0	100.0	99.0
Code of conduct	39.0	50.8	81.6	55.7	53.6	50.0	63.0	55.7	46.5	63.6	70.4	58.3
Whistleblower Police	26.8	45.9	73.7	47.9	41.1	57.9	47.8	47.9	39.5	57.6	70.4	53.4
specific risk	82.9	80.3	78.9	80.7	73.2	86.8	84.8	80.7	76.7	90.9	96.3	86.4
Significant changes in the ICS	7.3	6.6	10.5	7.9	5.4	13.2	6.5	7.9	9.3	9.1	7.4	8.7
A statement about the effectiveness of ICS	26.8	31.1	44.7	33.6	23.2	44.7	37.0	33.6	32.6	36.4	40.7	35.9
The role of the supervisory board on ICS	35.0	50.8	50.0	46.0	36.4	47.4	56.5	46.0	31.0	54.5	48.1	43.1
The role of the audit committee	75.6	75.4	81.6	77.1	69.6	84.2	80.4	77.1	69.8	78.8	77.8	74.8

on ICS												
The role of the external auditor on ICS	19.5	31.1	18.4	24.3	19.6	34.2	21.7	24.3	14.0	27.3	25.9	21.4
A statement about the quality of financial statements	82.9	83.6	89.5	85.0	85.7	81.6	87.0	85.0	88.4	84.8	81.5	85.4
The supervisory board discussed (elements of) the ICS in at least one meeting	26.8	11.5	39.5	23.6	19.6	23.7	28.3	23.6	18.6	21.2	22.2	20.4
Assessment of effectivity of ICS	53.7	54.1	81.6	61.4	50.0	78.9	60.9	61.4	62.8	66.7	74.1	67.0
Management's responsibilities for ICS	61.0	77.0	81.6	73.6	71.4	65.8	82.6	73.6	81.4	69.7	81.5	77.7
Statement about ICS on financial statements	51.2	55.7	76.3	60.0	57.1	60.5	63.0	60.0	72.1	54.5	63.0	64.1
adoption international standard of ICS such as COSO	0.0	18.0	34.2	17.1	12.5	10.5	28.3	17.1	9.3	18.2	44.4	21.4

Table 2: Description of Company Characteristics

Information		Frequency	Percent
Total Asset	< IDR1,000,000,000,000	41	29,3
	IDR 1,000,000,000,000 - IDR 5,000,000,000,000	61	43,6
	> IDR 5,000,000,000,000	38	27,1
	Total	140	100,0
ROA	< 1.00%	56	40,0
	1.00% - 5.00%	38	27,1
	> 5.00%	46	32,9
	Total	140	100,0
The amount of audit fee	< IDR 100,000,000	43	30,7
	IDR 100,000,000 - IDR 1,000,000,000	33	23,6
	> IDR 1,000,000,000	27	19,3
	Not disclosed	37	26,4
	Total	140	100,0
Institutional ownership	0,00% - 33,32%	14	10,0
	33,33% - 66,66%	43	30,7
	66,67% - 100,00%	83	59,3
	Total	140	100,0
Ownership management	< 0.01%	69	49,3
	0.01% - 1.00%	35	25,0
	> 1.00%	36	25,7
	Total	140	100,0
Independent Commissioner Board	< 30,00%	8	5,7
	30,00% - 44,00%	93	66,4
	> 44,00%	39	27,9
	Total	140	100,0
Audit Committee Members	< 3	8	5,7
	3	116	82,9
	> 3	16	11,4
	Total	140	100,0

4.2 Hypothesis Testing

Before testing the hypothesis will first be tested for classical assumptions on research data. The test results using image data normality and Scatter p plot Plot in SPSS (Appendix) showed normal data and analysis can be used to test the hypothesis. Furthermore, by performing autocorrelation test using Durbin-Watson test. SPSS processing results give a value of 2,094. This value is compared with the value table for a significance level of 5% with a large sample of 140 and the number of independent variables 4 then the value is greater than the upper limit (du) 1.76 and less than 4-1.76 (4-du), it was concluded that there is no autocorrelation, Lastly is testing to see their multicollinearity using VIF and Tolerance. SPSS processing results showed the entire variable has a value of VIF <10 and Tolerance values > 0.1 thus concluded does not happen multicollinearity in the data.

See test results for a classical assumption that the data can be used for further testing. After the classical assumption test results show data can be used for hypothesis testing further analysis using ANOVA test. Results of processing using SPSS as summarized in Table 2., it can be concluded that the variable size of company for total assets, the complexity of the company for audit fees, management ownership and the size of the audit committee differed significantly, while profitability ROA, institutional ownership, and independent board size did not differ significantly. Therefore, the test results provide the conclusion that:

1. Hypothesis 1 stated there was no difference in the level of disclosure of internal controls over financial reporting to measure the profitability of different companies cannot be denied. This result suggests that the level of disclosure of internal controls over financial reporting are same between companies with a profitability measure, especially ROA different.
2. Hypothesis 2 stated there was no difference in the level of disclosure of internal controls over financial reporting for different company sizes rejected. It can be concluded that the level of disclosure of internal controls over financial reporting differs between different companies sizes were seen from the size of total assets. Based on the resulting mean value of the company with a total size of major asset disclosure broader than the total asset size smaller.
3. Hypothesis 3 which states there is no difference in the level of disclosure of internal controls over financial reporting to measure the complexity of different companies rejected. These results support the notion that level of disclosure internal controls over financial reporting will vary between companies with different levels of complexity that is seen from audit costs incurred by the company. Based on resulting mean value can be concluded that companies with a higher complexity broader reveal the condition of internal controls.
4. Hypothesis 4 that states there is no difference in the level of disclosure of internal controls over financial reporting to measure the quality of corporate governance views of management ownership and the size of the audit committee rejected while institutional ownership and independent commissioners size can not be denied. This result suggests that the size of the governance mechanism that can be used to distinguish the level of disclosure of internal controls over financial reporting is the ownership and management of the audit committee, and not dissimilar to the size of institutional ownership as well as the size of the independent directors. By looking at the mean of each variable can be concluded that the proportion of ownership low management will direct the disclosure of

internal control that is wider, as well as the number of audit committee greater would lead to the disclosure of internal control is broader.

Table 3: Results of Testing ANOVA

Variable	THE EXTENT OF INTERNAL CONTROL DISCLOSURE						
Profitability, Size, and Complexity				**Corporate Governance Mechanisms**			
				Institutional ownership	**N**	**Mean**	**sig**
ROA	**N**	**Mean**	**sig**	0,00% - 33,32%	14	11.36	
< 1.00%	55	10.60		33,33% - 66,66%	43	11.65	.946
1.00% - 10.00%	38	12.00	.111	66,67% - 100,00%	82	11.41	
> 10.00%	46	12.11		Total	139	11.48	
Total	139	11.57		**Management Ownership**	**N**	**Mean**	**sig**
				< 0.01%	69	12.29	
				0.01% - 1.00%	34	11.41	.021
Total Aset	**N**	**Mean**	**sig**	> 1.00%	36	10.00	
< 1 Triliun	40	10.05		Total	139	11.48	
1 Triliun - 5 Triliun	61	11.23	.001	**Independent Commissioners**	**N**	**Mean**	**sig**
> 5 Triliun	38	13.39		< 30,00%	8	10.50	
Total	139	11.48		30,00% - 44,00%	92	11.65	.695
				> 44,00%	39	11.28	
				Total	139	11.48	
Audit Fee	**N**	**Mean**	**sig**	**Audit Committee**	**N**	**Mean**	**sig**
< 100JT	42	11.00		< 3	8	10.00	
100JT - 1,000JT	33	12.42	.092	3	115	11.25	.027
> 1,000JT	27	13.00		> 3	16	13.88	
Total	102	11.99		Total	139	11.48	

4.3 Discussion

Descriptive analysis and hypothesis testing show varied information about the practice of internal control disclosures made by the company in their annual financial statements. Most companies (over 80%) have implemented the provisions required by the financial services authority in the event of an audit committee, the disclosure of risk management operational activities, presenting specific risks of company, internal audit function in the internal control systems of companies and their statements enterprise managers about quality assessment report corporate finance. However, the overall disclosure of internal control system, scope, and purpose of the internal control system is still very low. The same thing happened to internal control system supporting equipment such as a code of conduct, whistleblowing system. Descriptive analysis showed yet the implementation of internal control systems based on international standards such as COSO by most companies, likewise, have not seen any discussion about the conditions or the effectiveness of internal control system by the management.

Description of analysis results indicates low awareness of a public company in Indonesia which become the sample of this research in disclosure regarding the condition of the internal control. In general, the company only reported the extent that minimum requirements that are not required for public companies. Given the importance of complete information about the company's internal control conditions for investors, it is necessary to disseminate by the government, in this case, the company's financial services authority presenting the public about the need for internal control conditions.

Results of testing hypotheses regarding internal characteristics and size of corporate governance mechanisms on the quality of the disclosure of internal control conditions are not fully supported empirically. Characteristics that received empirical support is variable sized companies represented by the value of total assets, the complexity of enterprise seen from the cost of the audit, the composition of ownership by management and the audit committee size.

These results provide empirical support for the use of the company's internal characteristic size in assessing the disclosure by the company. The first measure is supported by empirical data collected from this study is the size of the company. Indicates that the available resources in the company are adequate for the implementation of internal control. In line with the results of Doyle et al. 2007) which states that large companies tend to have the processing of accounting information better and they have the adequate resources to ensure the adequacy the separation of duties. Besides the problem also affects the economies scale of large enterprises in the development and implementation of internal control systems. Similarly, the resources owned by large companies able to pay internal auditor.

However, the results Doyle et al. (2007) that profitability of companies and enterprises with a low complexity of effect on the level of disclosure of company's internal control system. The results of this study provide no significant value to profitability, this means that profitability can not explain the difference in the disclosure of the company's internal control system samples. But there is the opposite result to the complexity of business that the more complex the company even more comprehensive level of disclosures made by the company on the condition of internal controls.

Difference results in profitability and complexity of the business can be explained due to the use of a measure that represents two different variables with previous studies. See significant results for complexity is measured by a number of audit fees incurred by the company shows the availability of sufficient resources to pay consulting fees relating to our operations which include the design of internal control systems. High audit fees of course in line with the amount of capital a company thus the size of the company and the cost of the audit can be used as a measure to distinguish the broad disclosure of the company's internal control system.

Furthermore, the condition of the company's internal controls is also determined by either corporate governance. Some indicators measure governance mechanism can be seen from the size of the audit committee, either by ownership or management of the institution and size of the independent commissioner. Results of this study showed significant differences between the company and the number of audit committee larger than 3 (three) people with the same or less than 3 (three). These results support previous studies (Krishnan 2005; Bronson et al. 2006; Zhang et al. 2007) where the quality of the audit committee disclosure effect on the company's internal control system. It shows a high control of the audit committee so that it will direct the company's internal control system more quality, which in turn will present the financial statements are more qualified. These results support the concept that audit committees have an important role as a good corporate governance mechanism for their potential and reputation risks faced by the audit committee when their work is ineffective (Zhang et al. 2007). In addition to the internal quality control system is a result of good governance mechanism of function of the audit committee (Krishnan 2005).

In addition, the results provide strong support for management ownership relationship with the level of disclosure of internal controls, however, the level of disclosure looks better in companies with holdings smaller management. These results support the statement Bronson et al (2006) in which the company's low ownership by management will tend to make the disclosure of internal control conditions thus showing the watchdog role of corporate governance.

5. Conclusion

This study was conducted to explore the extent to which a public company in Indonesia has been practicing the disclosure of their internal controls. The study found a low level of disclosure on internal control by the company. Most companies simply do a minimal disclosure as required by the regulations issued by Indonesian financial services authority. Internal control conditions, scope, and objectives of internal control has not been disclosed with common standards as issued by COSO, in addition to the internal control system seems to not be the main agenda in the discussion board or board of directors. Similarly, additional supporting components such as its code of conduct and whistleblowing system have not been a major concern of the company.

The analysis showed that its characteristics distinguish governance disclosure practices internal control system is the size of the company, cost of the audit committee size and proportion of management ownership. Companies with a total size of assets are high, the cost of large audit and audit committee size larger and the proportion of ownership by smaller management tends disclosure internal control system more broadly. The results of this study contribute to the theoretical research on the disclosure of internal control system taking into account the size of the company, the cost of the audit, the audit committee size and proportion of management ownership. Also expected results of this study provide a practical contribution to financial services authority about the condition of internal control disclosure practices by public companies. This study can be recommended to present the company's internal control system they are more specific.

This study is an exploratory study to get a general overview of the company's internal control disclosure practices. Some of the measuring instruments used need improvement, for example in the items of internal control that may not be relevant to the company's goals. In addition to the size of audit committee where this research does not accommodate the measured quality of independence and audit committee team as has been done by other researchers (Krishnan 2005; Bronson et al. 2006). Similarly, the measures of profitability necessary to develop other sizes eg Return on Equity, Economic Value Added, and so on. For further research should consider these factors in order to obtain a deeper understanding of the concept of disclosure practices in particular about the company's internal control system.

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