CHAPTER I

INTRODUCTION

1.1 Research Background

In the digital age, Information Technology (IT) is developing rapidly. Not only does it help people's lives, but the advancement of IT also supports global business. Organizations and the business industry are required to be able to adapt proactively, or risk being left behind. As stated by Parviainen et al. (2022), the world of industry is changing to become a digital one. Companies across sectors are assessing the implications of adopting disruptive technologies such as AI, blockchain, machine learning, and IoT (Khanna & Sharma, 2024). This phenomenon makes IT increasingly important in company operations and a key factor in driving innovation and gaining a competitive edge. Supported by data from IDC 2024, global IT spending reached $25.4 billion in 2023, an increase of 2.9 percent from the previous year (www.idc.com). The increase is driven by the growing dependence of organizations on IT, which certainly encourages a change from the IT function's historically reactive role to a more strategic one in order to maximize value (Coltman et al., 2015). As stated by Alreemy et al. (2016), IT plays a key role in deciding a company's success in providing opportunities to improve effectiveness, save time, and reduce expenses. In addition, IT helps companies in speeding up decision-making (Deloitte, 2020). Thus, Kraugusteeliana et al. (2023) stated that the increasing prominence of IT in driving innovation and fostering company growth is clearly evident.

For the growth of the company, IT utilization may serve to identify the company's capabilities and competitiveness in helping improve business processes and balancing the risks associated with the use of IT (Raudeliuniene et al., 2020). Therefore, the use of IT is carried out collectively or its use is a shared responsibility from the level of operational staff to the upper

management level, since the key to the success of IT implementation comes from the support of the company's management towards IT development. For that reason, each level can be responsible, as this encompasses guidelines, actions, functions, and tasks of the organization's employees which it is referred to as IT governance, a part or determinant of success that provides a competitive advantage for the company (Cervone, 2017).

IT Governance has rapidly increased since the enactment of the unprecedented Sarbanes-Oxley Act (SOX), which was established to enhance accountability, corporate governance, strengthen internal control systems, and promote corporate responsibility to shareholders and organizational stakeholders. The law became most famous in 2002 as a response to several global accounting scandals in large companies, both in the US and Europe, that occurred in the early 2000s, which showed many significant changes happening in companies (Calder, 2005). Companies are beginning to move towards the integration of IT governance (Liang et al., 2011). According to Spanaki & Papazafeiropoulou (2016) the presence of IT governance makes companies feel facilitated in managing information technology risks related to their business, as well as aligning its strategic goals and achieving satisfactory risk levels. Essentially, IT governance focuses on aligning the company's strategy with technology-related strategies in achieving its goals (Cervone, 2017).

The implementation of IT Governance is regulated through the enactment of the Government Regulation of the Republic of Indonesia Number 71 of 2019 concerning the implementation of electronic systems and transactions. In addition, other regulations regarding Information Technology Governance in State-Owned Enterprises are also governed by the Minister of State-Owned Enterprises Regulation No. PER-03/MBU/02/2018, which serves as a guideline for SOE companies. Based on the applicable standards and regulations, companies are required to implement IT governance properly. Thus, each company needs to enhance the competence of its IT personnel and

ensuring the active involvement of the company's management and board of directors since the IT governance is the responsibility of the board of directors and executive management to achieve the desired goals through processes that ensure the company's IT supports and strengthens the company's business strategy (Benaroch & Chernobai, 2017; Coltman et al., 2015; Chong & Duong, 2017; Joshi et al., 2021).

In Indonesia, establishing IT governance plays a crucial role within the field of Information and Communication Technology, particularly in the telecommunications subsector. The rapid growth trend in the telecommunications industry, such as the increase in internet data usage and technology, demands more structured and integrated IT management. Based on data from the Statistics Indonesia (2024), there has been an increase in internet data usage reflecting the high acceptance of technology by the public, which is 87.09 percent in 2023. Telecommunication companies experienced a surge in demand for digital and remote communication services, reaching 66.48 percent during the recovery period from the COVID-19 pandemic in 2022, and 62.10 percent in 2021. This reflects that the telecommunications subsector is facing significant changes in service demand patterns that increasingly rely on digital technology and remote communication. For this reason, IT governance has a potential to play a critical role in enabling telecommunications companies to manage and leverage the rapid advancements in technology since this subsector is characterized by rapid technological advancements and increasingly complex customer demands. According to Shan and Wang (2024) a high-quality information technology with a good IT governance affects audit quality. Additionally, another factor affected by IT governance is the audit fee (Mazza & Azzali, 2018) and according to Haouam (2020b), the integration of information through IT governance facilitates access to more comprehensive, transparent, relevant, and faithfully represented information, thus IT governance also affects the readability of financial reporting footnotes.

First, audit outcomes including audit fees and audit quality are key considerations for organizations as it contains information that will be beneficial for the interest of risk management, stakeholder trust, and operational efficiency. Meanwhile, IT governance provides a better system for collecting all information from business processes integrated into a large database, thereby enabling auditors to enhance their understanding of control risk, inherent risk, and detection risk (Askary et al., 2012). This leads to the improvement of audit quality, as well as the reduction of audit risks and costs (Shan & Wang, 2024; Mazza & Azzali, 2018). Reasonable audit fees (cost-effective audits) and high audit quality help organizations identify and manage risks that could potentially affect the company's financial statements and operations. Companies and their stakeholders desire cost-effective audits, low-cost audits can help companies optimize resource use and reduce expenses (Janvrin et al., 2009). IT governance has a significant impact on companies in reducing audit costs by facilitating faster and accurate data availability, as well as strengthening internal controls through automate processes. Thus, with a good IT governance system, the data required for audits becomes accessible and structured, enables auditors to perform their tasks quickly and efficiently (Zhou, 2023b). In previous findings, significantly, there was a negative link with the elevated quality of information technology, auditors can trust internal controls, including IT controls, thereby necessitating less audit work to conduct substantive testing, which in turn will necessitate reduced audit fees (Mazza & Azzali, 2018). However, Hoffman (2018) found that companies with strong IT capabilities actually face higher audit fees, as the complex IT environment requires additional audit efforts, more costly and skilled technical resources provided by the audit firm. This difference causes an interesting research gap to analyze, especially within the Indonesian context.

Second, audit quality which is also affected by IT governance. According to J. Liu and Xia (2024), audit quality pertains to the probability that an auditor will identify and disclose any significant errors or omissions in the financial statements. The presence of IT governance changes the audit environment and

audit process, requiring auditors to possess specific skills to understand the client's controls and the IT environment. Auditors must be familiar with the technology used by the companies (Hermawan & Nugrahanti, 2024). By implementing a good IT governance system, clients can provide easy and direct access to detailed accounting data. Moreover, the implementation of information systems and data analytics allows for the automatic collection and extraction of data, thereby reducing the time auditors spend gathering evidence and allowing them to focus more on professional judgment, which in turn affects the decisions made by auditors. Thus, it reduces manual errors in financial statements and biases in audit sample selection, which simplifies the evidence assertion process and enhances fraud detection (Supriadi et al., 2019). The relationship between IT governance and audit quality could be seen from research conducted by Shan and Wang (2024) that high-quality information technology with a good IT governance had a positive relationship in affecting audit quality. In addition, J. Liu and Xia (2024) also stated that industrial technology with the implementation of IT governance can significantly improve audit quality.

Moreover, IT governance could also affect the readability of financial reporting footnotes. Companies that implement IT governance can improve efficiency, allowing them to prepare financial statements with more accurate, controlled, and regularly monitored analysis results (Prasad et al., 2012). Thus, IT governance impacts the readability of the footnotes in financial reporting. Abernathy et al. (2019) stated that many details about the company's reporting structure are included in the annual report, but often fails to explain complex information about the company. Previous research has shown that investors do not only use accounting numbers in the annual report, but also use textual information, such as the president's letter, management discussion and analysis (MD&A), and footnotes (Courtis, 1995). Therefore, the availability of footnotes is crucial for summarizing all relevant business information without becoming overbearing. Integrated information from information technology facilitates access to more comprehensive information, thus the readability of

footnotes will have a lower index because this information can be conveyed easily. In previous finding by Haouam (2020b) showed that corporate financial reporting is improved by the application of efficient IT governance, which leads to more transparent, and easily understandable and readable financial reporting footnotes. However, the study by Utama and Anridho (2024) indicated that IT governance does not have a significant influence on the readability of financial reporting footnotes in public companies in Indonesia. The readability of footnotes in financial reporting is more heavily influenced by other factors, such as the business's accounting policies and the intricacy of information disclosure in financial statements.

Unfortunately, the previously conducted research on the influence of IT governance on audit outcomes including audit quality and audit fees and the readability of financial reporting footnotes in the telecommunications subsector are still limited and less-explored. There are few studies on the influence of the audit outcomes including audit fees and audit quality and the readability of financial reporting footnotes, such as studies by J. Liu and Xia (2024), Utama and Anridho (2024), Haouam (2020b), and Mazza and Azzali (2018). However, there is only one study that discuss the IT governance in the Indonesia context conducted by Utama and Anridho (2024). Therefore, the researcher would like to try the difference way through combining variables used by the previous studies, namely the influence of IT governance on audit quality (J. Liu & Xia, 2024), on audit fees (Mazza & Azzali, 2018) and on the readability of financial reporting footnotes (Haouam, 2020b), by focusing on the Indonesia context.

Considering the background that has been developed, researcher is interested to explore further on how far the IT governance affect the audit outcomes and readability over financial reporting footnotes of telecommunication subsector period 2021-2023 through the research entitled the influence of IT governance on audit outcomes and readability over financial reporting footnotes of telecommunication subsector listed in IDX.

1.2 Research Problem

From the background above, several issues emerge that will be explored further. The research problems are:

1. Does IT Governance significantly affect the audit fees on Telecommunication subsector listed in IDX?
2. Does IT Governance significantly affect the audit quality on Telecommunication subsector listed in IDX?
3. Does IT Governance significantly affect the readability of financial reporting footnotes on Telecommunication subsector listed in IDX?

1.3 Research Objectives

In line with the identified problems, this research is conducted with the following objectives:

1. To examine the influence of IT Governance toward the audit fees on Telecommunication subsector listed in IDX
2. To examine the influence of IT Governance toward the audit quality on Telecommunication subsector listed in IDX
3. To examine the influence of IT Governance toward the readability of financial reporting footnotes on Telecommunication subsector listed in IDX

1.4 Research Purpose

This research is expected to yield the following benefits:

1. For the company management, it can be used as a means to gain insight to prepare annual reports with good IT governance that are transparent, credible, and compliant with financial accounting standards, while ensuring readability level to maintain the company's reputation.
2. For the auditors, it could be used as an input in improving the quality of audit services offered.

3. For the investors, it provides insight on factors to take into account while making investment decisions.
4. For the subsequent researchers, it could be used as source data and reference materials for other study of a similar nature on IT governance, audit outcomes and readability of financial reporting footnotes.

1.5 Writing Systematic

The systematics of writing in this thesis consisted of five chapters. The first chapter, namely introduction, explains the background, the identified research problems, the objectives to be achieved, the relevance and potential contributions of the research, along with a summary of the structural framework of the study. Next, the second chapter is review of the literature and includes the explanation of general theories and concepts, a review of previous research, directions regarding developing the hypothesis, and a conceptual framework. It is then continued in third chapter of research methodology, which discusses the type of research design used, the target population along with sampling techniques, methods and sources of data collection, definitions and indicators of the research variables, techniques for analyzing the data, as well as the procedures used for testing the proposed hypotheses.

After completing the first, second, and third chapter, the next steps are the preparation of fourth and fifth chapter. The explanation of the general description of the research object, data related to research variables, and description of research result are explained in fourth chapter. Finally, the fifth chapter concludes the study by providing a summary of the research findings, discussing their implications, outlining the study's limitations, and offering recommendations for future investigations.