

Abstract

The need for quality financial reporting continues to increase along with user benefits. The financial reporting of a company provides financial information that users can use as decision-making material. For financial information can be used as expected by users, it must be structured with specific characteristics.

This dissertation research aims to examine the effect of managerial ability and managerial overconfidence on the financial reporting quality in public companies of Indonesia. It is analyzed by placing the internal control quality as a mediating variable between managerial ability, managerial overconfidence and financial reporting quality variables.

The sample of this dissertation research consisted of 639 manufacturing companies listed on the Indonesia Stock Exchange for the period 2014 – 2019. The analytical tool to test the hypotheses in this study used the Partial Least Square (PLS) statistical test tool with the SmartPLS version 3.2.9 program.

The results of hypotheses testing found that five (5) of the seven (7) proposed hypotheses can be accepted. Managerial overconfidence has a negative and significant effect on the financial reporting quality and internal control quality. Internal Control Quality has a positive and significant impact on financial reporting quality. Managerial ability has a positive and significant impact on financial reporting quality. Internal control quality does mediate the effect of managerial overconfidence on the financial reporting quality. However, the managerial ability variable does not affect internal control quality and internal control quality variable does not mediate the effect of managerial ability on the financial reporting quality variable.

Keywords: Managerial ability, managerial overconfidence, internal control quality, financial reporting quality