The Effect of Audit Committe on Internet Financial Reporting: Study from Financial Industry in Indonesia

Yuli W. Astuti[1], Eka A. Shidarta[1], Kholilah[1] and Sheila F. Putri[1]
[1]*Faculty of Economics, Universitas Negeri Malang, Malang -Indonesia*

Keywords: Learning Strategies, Problem-Based, Pedagogic Competencies

Abstract: The purpose of this study was to determine the effect of the audit committee on the internet financial reporting (IFR). Audit committees are measured by the number of members, educational background, professional background, and number of audit committee meetings. The measurement of financial report quality uses the full disclosure of companies reporting. This study uses data of financial institutions listed on the IDX in 2017. The total population of companies that meet the criteria is 95 companies with the number of observations is 110 companies. Data were analyzed using multiple regression analysis. The results showed that the number of members, educational background, and the number of audit committee meetings did not affect the IFR. It only frequencies of audit committee meeting affect the IFR. The selection of the audit committee is based on the professional background of the audit committee which has an impact on the selection of public accountant firm (KAP).

1 INTRODUCTION

Finacial and Non-financial reporting are needed by stakeholders as information that management is not only concerned with profit (Alhazaimeh, Palaniappan, & Almsafir, 2014). The development of the internet in such a way is an alternative for management to make paperless and internet-based reporting (IFR). In the era of industrial revolution 4.0, information became a very valuable item, a company must address this with complete, comprehensive and easily accessible financial and non-financial reporting using internet.

The importance of IFR is not directly proportional to the high number of studies in this field. Some research on IFR discusses the influence of corporate governance mechanisms on IFR level (Puspitaningrum & Atmini, 2012), the important of both physical and financial infrastructure in the IFR implementation (Ojah & Mokoaleli-mokoteli, 2012), and the perception of prepares and users of IFR (Noor & Ali, 2015). One of the factors that influence IFR is the audit committee as a proxy for good corporate governance (GCG). The audit committee is an independent party that bridges stakeholders' interests in managing the company's management. The supervision process carried out by the audit committee will improve the company's GCG. According to Coase (1937) the company is a nexus of contract from various parties.

GCG will produce quality financial reporting (Laurentiu, Lazar, & Maria, 2014; Puspitaningrum & Atmini, 2012). Therefore, the audit committee is an important factor in implementing GCG (Chrisdianto, 2013; and Agustia, 2013; Puspitaningrum & Atmini, 2012). The function of the audit committee is to analyze accounting policies, assess internal controls, assess external reporting systems, and examine company compliance with applicable regulations (Mutmainnah & Wardhani, 2013). This task is reinforced by the issuance of regulations on guidelines and implementation of the audit committee by the Indonesian Indonesian Financial Services Authority (IFSA). The importance of the audit committee function underlies a full disclosure regarding expertise, number of members, and the number of audit committee meetings to support the company's financial statements.

The different between this research with Puspitaningrum & Atmini (2012) is the completeness measurement of audit committee (educational background, professional literacy, and

Astuti, Y., Shidarta, E., Kholilah, . and Putri, S.
The Effect of Audit Committe on Internet Financial Reporting: Study from Financial Industry in Indonesia.
DOI: 10.5220/0009507912651269
In *Proceedings of the 1st Unimed International Conference on Economics Education and Social Science (UNICEES 2018)*, pages 1265-1269
ISBN: 978-989-758-432-9

numbers of audit committee. Previous research only used the number of meetings and finance experience as a proxy of audit committee.This research is important to do because of the increasing need for IFR in the era of industrial revolution 4.0 and the limiltless research in IFR.

The next section of this article is presented in the following order, literature review, research methodology, discussion, and conclusion. Literature review is basic review for developing hyposthesis. The methodology was written to choose the right analysis tool to answer the research objectives. Discussion is the part that describes the results of statistical tests and the discussion. The article was closed by drawing conclusions and implications of the research.

2 THEORICAL FRAMEWORK

Financial statements are prepared based on the accounting policies chosen by management. The background of the audit committee's knowledge of accounting will increase the understanding on the selection of accounting policies of the audit committee (Mutmainnah & Wardhani, 2013). In addition, the accounting education background is used to analyze financial statements prepared by management for presenting quality financial statements. Nuresa & Hadiprajitno (2013) states that the supervision process carried out by companies will increase if the audit committee has sufficient understanding of financial reporting.

The professional background needed by audit committee members is not just a background in accounting and finance (Puspitaningrum & Atmini, 2012; Wang, 2015). Background in the field of supervision and other business fields is also needed so the oversight mechanism carried out by the audit committee is more comprehensive. The results of research conducted by Wang (2015) show that the professional background of audit committee members influences the quality of financial statements. This findings differ with Puspitaningrum & Atmini (2012). The other research stated there is no relationship between the professional backgruond of audit committees and IFR. Therefore, this study measured the variable of professional background of the audit committee in other business decision making support.

The number of audit committee members is depend on the size and complexity of the company. In Indonesia the number of audit committees is regulated in IFSA Regulation No.55/POJK.04/2015. It regulated the minimum members of audit comittee from independent commissioners and outside parties of public companies. The number of audit committee members influences the quality of financial statements (Mutmainnah and Wardani, 2013). The influence of the number of audit committee members on the quality of financial reports has implications for the need for other companies disclosures. In contrast to Mutmainnah and Wardhani (2013), Nuresa dan Hadiprajitno (2013) states that the number of audit committees does not affect the quality of financial reporting. The more the number of audit committees, the harder the agreement can be made.

The oversight process carried out by the audit committee is discussed regularly at audit committee meetings. There is no minimum meetings number that must be held by the audit committee, but the number of meetings will affect predictability, persistency, and conservatism of financial statements (Mutmainnah and Wardhani; 2013). The intensity of the meetings number will provide early detection of possible fraud committed by management (Nuresa & Hadiprajitno, 2013). In line with the two researchers above, Puspitaningrum & Atmini (2012) stated that the frequency of meetings held by the audit committee would increase the intensity of supervision and control by the audit committee. Further supervision will affect the full disclosure of IFR.

Large companies have better complexity and management information systems than smaller companies. Total Asset is wealth owned by the company so that it can be used as a measure of the company. The more assets company has, the more funds it has to use IFR (Ojah & Mokoaleli-mokoteli, 2012; Puspitaningrum & Atmini, 2012).

3 RESEARCH METHOD

This research was conducted at financial industry listed on the Indonesian stock exchange (IDX). Financial industry need high transparency both financial and non-financial reporting. In addition, Garc (2018) also states that there are differences in earnings quality and accounting conservatism between management in the banking sector. This difference will affect the full disclosure made by the company.

Purposive sampling method used in this research. The criteria of financial industry selected are; 1) the companies are banks, securities, insurance, and other investment companies; 2) End of December 31 fiscal year, 3) completeness of IFR data including aspects of audit committee profiles, and 4) IFR Period 2017. Number of listed financial industries is 110 companies, we eliminate 8 data due to incomplete data financial statements, and 7 data due to incomplete audit committee data, so the data we took was 95 companies.

Variable

The dependent variable of this study is the internet finacial reporting proxied by the internet disclosure index (IDI). This index consists of 50 items to measure the content (40 items) and the presentation (10 items) of companies' website. In more detail, 40 items of website content consist of accounting and financial information (15 items), corporate governance information (9 items), corporate social responsibility (CSR) and Human Resources Information (8 items), contact detail to Investor Relation (IR) and related information (8 items), while 10 items of website presentation consist of material processable formats (3 items) and technological advantages and user support (7 items). Maximum IDI score is 50.

The independent variable used in this study is the accounting education background (EDU) as measured by the sum of the accounting committee members' accounting background, the score given is 0 for educational backgrounds for non accounting fields and 1 for accounting education background, then overall number added up. The professional experience of the audit committee (PROFLIT) is measured by the sum of the overall experience of the audit committee members. The number of audit committee members is measured by the number of audit committee members. The number of meetings is measured by the number of meetings held for one year by the audit committee. This study also uses total assets measured by natural logahritme of total assets (SIZE) as control variabel.

Method of Data Analysis

This research used multiple regression analysis. The research model is formulated in the research equation below:

IDI= EDU + PROFLIT + NUMBAC + MEET + SIZE

IDI is the level of IFR, EDU is educatioan background, PROFLIT is Proffesional Literacy, NUMBAC is number of audit committee, MEET is audit committee meeting frequencies, SIZE is companies total asset. The classic assumptions in this study include normality tested using Kolmogorov-Smirnov Test, multicollinearity tested using Tolerance Value and Variance Inflation Factor, and heteroskedasticity tested using Glejser Test. Autocorrelation test is not needed in this research as the data used are cross sectional data.

4 ANALYSIS

The result of descriptive statistics tests of IFR is illustrated in Table 1.

Table 1. Test of IFR

	N	Min.	Max.	Mean	SD
IFI	95	32	46	39	2.8

The level of voluntary disclosure disclosed by financial industry in the form of IFR is high, approximately 38,5%. It indicated that financial industry has a complete information website about the accounting and financial information, corporate governance information, corporate social responsibility and Human Resources Information, and related information. Some companies undisclosed the contact detail to investor relation information, material processable formats and technological advantages and user support. Table 2 shows the result of descriptive statistics test of independent and control variables.

Table 2: Test of Dependent Variable

Variable	N	Min.	Max.	Mean	Std.Dev
EDU	95	.00	4.00	1.3684	1.07241
PROFLIT	95	2.00	19.00	8.3158	3.13275
NUMBAC	95	3.00	6.00	3.3579	.77068
MEET	95	.00	34.00	8.7789	6.40508
SIZE	95	18.56	34.66	29.6773	2.47985

Approximately 1/3 of total audit committee members have finance and/or accounting educational background. Moreover, most of audit committee members have professional literacy not only in accounting and/or financial background but also other business decission making support. Although the rule requires only one of audit committee members has finance and/or accounting educational background. Based on FSA regulation the minimum numbers of audit committe is 3 and the financial industry submissive the rule. There is a large variation in the audit committee meeting frequencies, from once a year up to 34 times a year. In general, audit committee conducted 8 meetings in the year 2017.

Results of classic assumption test

The result of Kolmogorov-Smirnov Test is 0.619 with significance level of more than 5%, it can be summarized that the data come from normally distributed population. The results of multicollinearity test utilising Tolerance Value and Variance Inflation Factor is EDU (0,982 and 1,018), PROFLIT(0,975 and 1,025), NUMBAC (0,947 and 1,056), and MEET (0,868 and 1,151). Test results demonstrating that there is no indication of multicollinearity. Further, the values of Glejser statistics have significance level of more than 5%, indicating that there is no heteroskedasticity problem.

Results of hypothesis tests

The results of hypothesis tests are exhibited below:

Table 3: Hipotesis tests

Variabel	Coefficient regression	Sig.
Konstanta	22.995	
EDU	.122	.602
PROFLIT	.112	.165
NUMBAC	.571	.086
MEET	.090	.032
SIZE	.397	.000
Adjusted R Square	.257	

Based on Table 3, it can be seen that only audit committee meeting frequencies variable that is statistically significant at the level of 5%. It also can be concluded that audit committee meeting frequencies affect the level of IFR positively based on the possitive coefficient of this variable. Therefore, the proposed hypothesis proxied by size is supported. This study succeeds in finding evidence that audit committee meeting frequencies affect the level of IFR positively. However, this study could not find any evidence that audit committe educational background, professional literacy, and number of audit committee influence the level of IFR.

5 RESULTS

The result could not find evidence that audit committe affect the IFR. This result consistent with Pusitaningrum & Atmini (2012) but inconsistent with Mutmainnah and Wardhana (2013). IFR not only presented the financial information. So, the audit committe basic knowledge affect the financial reporting quality but not to other disclosure. This study could not find any evidence that proffesional literacy affect the IFR. This result consistent with Puspitaningrum & Atmini (2012) but inconsistent with Wang (2015). Wang (2015) stated that professional background increased the quality of financial reporting. Financial reporting just a part of IFR. IFR is more complex and comprehensive than the financial reporting. The professional literacy affect the financial reporting quality (Wang, 2015), but not the other disclosure needed in IFR. This study also could not find any evidence that number of audit committee affect the IFR. The number of audit committee regulated by FSA. The company submissive the rule using the minimum number address by the rule. This evidence consistent with Nuresa & Hadiprajitno (2013) but inconsistenr with Mutmainnah and Wardhani. The more the number of audit committees, the harder the agreement can be made. This study succeed find the evidence about effect of the frequencies of audit committee meeting to the IFR. This result consistent with the prior study (Mutmainnah & Wardhani, 2013; Nuresa & Hadiprajitno, 2013; Puspitaningrum & Atmini, 2012). The frequency of meetings held by the audit committee would increase the intensity of supervision and control by the audit committee, it affect the full disclosure of IFR (Puspitaningrum & Atmini, 2012). The intensity of the meetings number will provide early detection of possible fraud committed by management (Nuresa & Hadiprajitno, 2013), so it will increase the full dislosure of IFR. The size possitevely affect the IFR. It consistent with Puspitanigrum & Atmini (2012) and Ojah et. al (2013). In general this study only found the eviendence of meeting frequencies to the IFR. This can be caused by the selection procedures. In Indonesia (Puspitaningrum, 2013). Furthermore it seems that board of commissioners are established just as a formality, to obey the rules. The members do not have sufficient competencies in accounting or other decision making support. Beside that it is a common phenomenon in Indonesia that government officers or ex-government officers are selected as board of commissioner members as they can help the companies to get an access to the governmental institutions more easily (Puspitangrum & Atmini, 2012).

6 CONCLUSIONS

The results of this study successfully found the effect of the meetings frequencies on IFR, while the other variable did not. However, the adjusted R square result for this study is only 25.7% so there are still many variables outside this study that influence IFR. The next research can examine the effect of other variables such as the managerial and blockhoder ownership on the IFR. Beside that, longer period of testing can be used to to see the development of IFR in financial industry.

REFERENCES

Agustia, Dian. (2013). Pengaruh Faktor Good Corporate Governance, Free Cash Flow, dan Leverage Terhadap Manajemen Laba. Jurnal Akuntansi dan Keuangan, Vol. 15, No. 1, Mei 2013, 27-42

Alhazaimeh, A., Palaniappan, R., & Almsafir, M. (2014). The Impact of Corporate Governance and Ownership Structure on Voluntary Disclosure in Annual Reports among Listed Jordanian Companies. Procedia - Social and Behavioral Sciences, 129, 341–348.

Chrisdianto, Bernadinus. (2013). Peran Komite Audit dalam Good Corporate Governance. Jurnal Akuntansi Aktual, Vol. 2, Nomor 1, Januari 2013

Laurentiu, D., Lazar, A., & Maria, D. (2014). The Role of Internal Audit regarding the Corporate Governance and the Current Crisis. Procedia - Social and Behavioral Sciences, 116, 4819–4823.

Mutmainnah, N., & Wardhani, R. (2013). ANALISIS DAMPAK KUALITAS KOMITE AUDIT TERHADAP. Jurnal Akuntansi Dan Keuangan Indonesia, 10(2), 147–170.

Noor, M., & Ali, A. (2015). Internet Financial Reporting in Malaysia : Preparers ' and Users ' Perceptions. Procedia - Social and Behavioral Sciences, 172, 778–785.

Nuresa, A., & Hadiprajitno, B. (2013). FINANCIAL DISTRESS. DIPONEGORO JOURNAL OF ACCOUNTING, 2, 1–10.

Ojah, K., & Mokoaleli-mokoteli, T. (2012). Internet financial reporting , infrastructures and corporate governance : An international analysis. Journal of Advanced Research, 2(2), 69–83.

Puspitaningrum, D., & Atmini, S. (2012). 2nd Annual International Conference on Accounting and Finance (AF 2012) Corporate governance mechanism and the level of internet financial reporting : Evidence from Indonesian companies. Procedia - Social and Behavioral Sciences, 2(Af), 157–166.

Wang, J. (2015). Audit Committees and Financial Reporting Quality in Singapore Audit Committees and Financial Reporting Quality in Singapore. European Accounting Association 38th Annual Congress, 28-30 April 2015, (April), 28–30.