

The Determinants of Audit Committee Meeting Frequency in Indonesia

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Abstract: The audit committee is a bridge between internal audit and external audit in companies. In addition, the audit committee has substantial role for company performance. One of the audit committee performance measurements is their meeting frequency. Hence, the purpose of this study is to examine the effect of gender and expertise of audit committee on the audit committee meeting frequency. The total sample was 181 companies listed in IDX 2012. The year selection reason is in 2012 corporate governance score for Indonesia is low. Furthermore, the data analysis used logistic regression. The results showed that there was no significant relationship between audit committee expertise and the audit committee meetings frequency. Furthermore, there is no effect between the presence of women and audit committee meetings. This condition due to a low pressure from government related to improvement of gender rule. In conclusion, there is no correlation between audit committee expertise and gender on the audit committee meeting. The finding of this study can be regarded as valuable guideline for government policy. This research limitation is only use non-financial companies as sample. Future research is expected to involved financial and non-financial companies in order better understanding.

Key words: Expertise, gender, audit committee meeting, committee, better understanding, regression

INTRODUCTION

Good corporate governance is usually followed by increased performance of the company. This has been revealed by research Abbott *et al.* (2004a, b) stating that with good management, the performance of an entity will increase. Furthermore, Rezaee (2008) states the company's internal control have an important role to improve corporate performance. The audit committee has duty to review the results of the internal control. In addition, the audit committee will be a bridge between the internal auditor and the external auditor in the company. The inspection process will run smoothly when the audit committee ensures that the external auditor obtain the information needed. As a result, the company will have a good performance. This is consistent with previous research that has been done that the higher the performance of the audit committee the lower level of fraud (fraudulent financial/restatement) in the company (Beasley *et al.*, 2000; Abbott *et al.*, 2004a, 2000). Furthermore, under the rules of Bapepam LK in 2012 states that the audit committee at a company shall hold meetings at least four times a year. Meanwhile, according to KPMG (1999) that the company's audit committee meetings at least 3-4 times a year. Then, if related to gender, the role of the woman is able to provide more benefits in frequency of audit committee meetings. Moreover, one of the factors that may affect the

effectiveness of the audit committee is gender. This is because that the sexes are characteristic of the individual biographical objective. Furthermore, men and women have different behavior in the community. Amanatullah explains that the company has experienced a down economy and has a larger proportion of women in top managers and directors, the company's performance remains good. The theory of gender roles in research Amanatullah stated that in decision-making, women tend to choose a safe position and men prefer to take the risk. According to Thiruvadi (2012) states there is a significant relationship between the number of women in the audit committee with the effectiveness of the audit committee. In addition, Ittonen *et al.* (2010) stated, that the presence of women in the company's audit committee is able to reduce the need for external auditors. In other words, the need for assurance of an external audit is reduced in the presence of women in the structure of the audit committee. If the audit committee has more women, the lower audit fees to be incurred by the company. Furthermore, Thiruvadi and Huang show the presence of women in reducing earnings management audit committee. Moreover, companies that have an effective audit committee then the level of earnings management in the enterprise relative small (Abbott *et al.*, 2004). While Jeffry and Felizia revealed that the more effective audit committee then the company's financial reporting more timely. Hence, it can be concluded that if the audit committee is ineffective, the

submission of the report will be delayed. This result will give adverse implications for the credibility of the company. Even Chandra *et al.* (2016) state that no relationship between audit committee and earning management. However, the audit committee is a key element in bridging the interests of the internal, i.e., companies with an external company (external auditor). Therefore, audit committee is important for the achievement of optimal business performance. Several studies have linked the effectiveness of the audit committee has done a lot but still a few who do research related to gender roles in the performance of the audit committee. Therefore, in this study will examine the effects of gender (women) in the structure of the audit committee on the performance of the company's audit committee in Indonesia and examine whether there is a significant influence on the education of audit committee on the performance of the company's audit committee in Indonesia.

Literature review: Agency theory which has been developed by Loebbeck suggests there is a relationship between the principal to the agent, where the principal has an interest to manage their business by giving credence to the agent (manager). However, the asymmetry of information between the principal to the agent where the agent has more accurate information than the principal but the principal does not know as much information as agent has led to the existence of a conflict of interest. These conflicts typically arise because agents want to earn bonuses and other incentives. In addition, there are several cases related to fraud committed either in the form of tax evasion, income smoothing, misappropriation of assets and others. Therefore, in a company in general form a special committee to handle this kind of problem, this committee called the audit committee. The audit committee was formed in order to bridge the needs of commissioners related company information. The audit committee was established in order to assist in the task of commissioners to monitor the company's performance and tackling the gap between the interests of management with the owner.

Audit committee meeting frequency: One factor determining the effectiveness of the audit committee through a number of meetings of the audit committee. The audit committee who meet regularly felt able to minimize fraud due to the meeting of the audit committee members then they will discuss many things such as the company's financial problems, internal problem, employee abuse and the solutions. Moreover, there are requirements that at least one audit committee meets 4 times a year.

This is in accordance with the Decree of the Chairman of Bapepam No. Kep-643/BL/2012 which states that the audit committee held regular meetings at least once in 3 months. Through regulations that require audit committee meets at least four times a year, the cases of fraud within the company, particularly related issues financial statements can be minimized or decreased. Abbott *et al.* (2000) found evidence that the audit committee which met less than the minimum amount are more likely to restate its earnings. This could be due to the opportunity that arises as a result of lack of supervision dilakkan audit committee met less so things that happen in the company can not appear in the eyes of the audit committee. Furthermore, according to Prihartantiningtyas revealed that the level of audit committee meeting frequency (AC diligence) is influenced by several factors including ownership and independent commissioner, internal parties proportions.

MATERIALS AND METHODS

Hypothesis development: Regulation of Bapepam and Financial Statement number KEP-643/BL/2012 mentions that audit committee should have the ability/expertise in accounting/finance because an audit committee has the duty and a great responsibility in the implementation of the company. Hence, education in accounting/finance is vital in their duties. Skills/capabilities in accounting/finance tends here means the audit committee must have once been studying S1/S2/S3 associated accounting/finance and other related professions education. As disclosed by Xie that the higher the percentage of the number of members with financial expertise on the audit committee, the management of profits by companies has declined. However, the results of the research study and Joseph Ward states that the education level of the chairman of the audit committee has no significant influence on the occurrence of earnings management in firms. Based on that, there are still differences of opinion related to membership of the audit committee. Further research related to women membership in the audit committee is also still rarely studied, so this study will test the hypothesis:

- H_1 : audit committee expertise in finance/accounting has influence on the audit committee meeting frequency

Gender in the audit committee has a significant role. This is consistent with research Kusumastuti *et al.* (2007) which states that women are more careful and cautious in decision-making. Hence, the presence of the woman in the chair of the audit committee is able to give a good impact

Table 1: Measurement of variables

| Variables | Scale | Measurements |
|----------------|---------|---|
| AC meeting (Y) | Dummy | The number of audit committee meetings in 1 year |
| AC gender | Nominal | Percentage of women who sit on the audit committee is divided by the number of audit committee multiplied by 100% |
| AC expertise | Nominal | Amount of audit committee member that has a background of financial or accounting |

committee. The higher of the audit committee effectiveness then the lower of fraud level within the company. It can be concluded if there are women in the chair of the audit committee, the committee in the company will be more careful and efficient, so that the company's performance will be higher as well. In harmony with Carter *et al.* (2003) also revealed the same thing that companies that have two or more women in the board of the company it has a higher value of the company compared to companies that do not have two or more women in corporate board seats. It can be concluded that women have an important role within the company. However, another study says that there is no correlation between the presence of women in corporate boards and corporate performance. Therefore, women do not give any significant effect for the company. Moreover, research Joshi *et al.* (2006) found that the presence of women will only slow down the company. This is because of the striking differences in character between women and men would likely cause many conflicts in the company and ultimately make the company's performance declined. Therefore, this study hypothesized:

- H₂: the presence of women on the chair of the audit committee has influence on the audit committee meeting frequency

Research sample: The population of this research is companies listed on stock exchanges in Indonesia. The research sample includes 181 companies that listed in BEI period of 2012. This study chose the years 2012 because the corporate governance score for Indonesia was low. This study uses a quantitative approach, the data used comes from the company's annual report which was then reviewed and analyzed in detail. The study results were analyzed using logistic regression analysis (Table 1).

RESULTS AND DISCUSSION

Hosmer and Lemeshow test: According to the Table 2. Hosmer and Lemeshow test, showing that the χ^2 -value is 6.078 which is >12.05. Furthermore, the level of significance of 0.415 in which 0.415 is >12.05. Therefore, it can be concluded that the model fit or can be used to test the hypothesis.

Table 2: Hosmer and Lemeshow test

| Step | χ^2 | df | Sig. |
|------|----------|----|-------|
| 1 | 6.078 | 6 | 0.415 |

Table 3: Multicollinearity test

| 95% CI for Exp. (B) | |
|---------------------|-------|
| Lower | Upper |
| 0.992 | 1.017 |
| 0.977 | 1.005 |

Table 4: Logistic regression result

| Step1 ^a | B | SE | Wald | df | Sig. | Exp (B) | 95%CI for Exp (B) | |
|--------------------|--------|-------|-------|----|-------|---------|-------------------|-------|
| | | | | | | | Lower | Upper |
| X ₁ | 0.005 | 0.006 | 0.520 | 1 | 0.471 | 1.005 | 0.992 | 1.017 |
| X ₂ | -0.009 | 0.007 | 1.459 | 1 | 0.227 | 0.991 | 0.977 | 1.005 |
| Constant | -0.161 | 0.403 | 0.159 | 1 | 0.690 | 0.851 | | |

Multicollinearity test: Based on Table 3, multicollinearity test shows that value of CI for AC X₁ and X₂ are skills that AC gender showed <1 and no later than 10 so, that it can be said that there is no relationship between the independent variables and the dependent variable.

Logistic regression result: Based on the available data suggests that CI value for AC X₁ and X₂ are skills that AC gender showed <1:00 and no later than 10:00 so that it can be said that there is no relationship between the independent variables and the dependent variable. Moreover, logistic regression results indicate that the significant value of the variable X₁ (membership of the audit committee) indicates the value of 0.471 which is >0.05 then there is no relationship between the variables with the audit committee membership craft level audit committee (Table 4). Furthermore, the presence of women in a gender audit committee (X₂) indicates the significant value of 0.227 which is >0.05. It concluded that the presence of women in the gender audit committee does not affect audit committee meeting frequency (Table 4).

Audit committee expertise on audit committee meeting frequency: Based on data analysis that has been done shows that there is no influence among the membership of the audit committee of the audit committee performance levels companies proxied by routine audit committee meetings. This is consistent with the results of Ward and Joseph which states that the educational level of the audit committee has no influence on the occurrence of earnings management in firms. However, it is different with the results Sharma *et al.* (2009) who did research on companies in New Zealand stated that there is a relationship between the membership of the audit committee by the number of audit committee

meetings. This difference may be due to the characteristics of the different conditions between the Indonesian companies with companies in New Zealand.

Gender audit committee (X₂) on audit committee meeting

frequency: The result shows that the presence of women in positions of chair of the audit committee does not have any significant influence on audit committee diligence. This is consistent with research by Kusumastuti *et al.* (2007), there was no significant correlation between the presence of women in the company's board and corporate performance. Further, Joshi found that the presence of women will only slow down the company. It is because of differences of character that really stands out between women and men that will cause a lot of conflict in the company and ultimately make the company's performance declined. Therefore, it can be concluded that there was no significant association between the presences of women in the chair of the audit committee to increase the effectiveness of the audit committee. This could be due to the audit committee has had standards and a procedure hence the presence or absence of women in the audit committee will not reduce the performance of the company's audit committee.

CONCLUSION

The results showed that the audit committee expertise in accounting and finance does not give effect to audit committee meeting frequency. Furthermore, the presence of any woman in the audit committee does not have a significant influence on the audit committee meetings frequency. The finding of this study can be regarded as valuable guideline for government policy. This research limitation is only used non-financial companies in the IDX as sample. Future research can be focused between financial and non-financial company in order better understanding.

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