E-ISSN : 2549-5992, P-ISSN : 2088-0944
Available online at:
https://ejournal.itbwigalumajang.ac.id/index.php/wiga

Audit Committee Characteristics, Profitability, and Audit Report Lag

Devi Novitasari Putri Wibowo[1], Rahmawati[2]

Department of Accounting, Faculty of Economics and Business, Sebelas Maret University, Indonesia[1,2]

Email: devinputri08@gmail.com

ARTICLE INFO

Received:
30 May 2022
Revised:
15 June 2022
Accepted:
27 June 2022

ABSTRACT

Lag in the audit report is the delay in the completion of the independent auditor's report by the auditor who audits the client's financial statements. Financial statements need to be presented in a timely manner in order to be able to use them as a basis for decision making and to keep them current. This study examines the effect of the relationship between the characteristics of an audit committee and profitability on the delay of an audit report. The sample used is manufacturing companies listed on the Indonesian Stock Exchange in 2018-2020. Based on the purposive sampling criteria, hypotheses were tested on 302 companies using panel data regression analysis techniques. The results of the study indicate that there is a negative effect of audit committee gender and profitability on audit report lag.

Keywords: Audit Report Lag, Audit Committee, Profitability, Manufacturing Company

Cite this as: Wibowo, D. N. P., & Rahmawati, R. (2022). Audit Committee Characteristics, Profitability, and Audit Report Lag. *Wiga : Jurnal Penelitian Ilmu Ekonomi*, *12*(2), 93–100. https://doi.org/10.30741/wiga.v12i2.807

INTRODUCTION

For public companies, one of the important aspects to support operational activities is financial reports. In line with the rapid development of issuers, the demand for audits of financial statements as a source of investor information is also increasing (Togasima & Christiawan, 2014). For this reason, the audited report is the main source of information that investors can trust because the audited report contains an auditor's opinion that shows the credibility of the company's financial statements (Bhuiyan & D'Costa, 2020). Financial statements must be relevant to have the ability to influence user decisions and to maintain the relevance of informations, financial statements must be published on time because they can affect their value (Abdillah et al., 2019). This is important for investors because it can minimize uncertainty to invest (Ashton et al., 1989) and the imbalance of information circulating among investors in the capital market (Jaggi & Tsui, 1999). The length of time for the company to issue financial reports is by the completion time of the audit process because the financial statements can only be issued after the entire series of audit processes have been completed.

According to Dyer & McHugh (1975), company management often encounters problems when releasing its financial statements on time because of the need for an audit process that takes quite a lot of time. One of the causes of the length of the audit process is influenced by agency problems between management and auditors (Bamber & Schoderbek, 1993). Agency theory discusses the relationship between principal with agent which is limited by a contract (Jensen & Meckling, 1976). Management wants to maintain a good image by hiding the poor performance of their company, while auditors try to work as best and as much as possible under their professional code of ethics. This phenomenon stimulates the government to issue regulations so that an audit committee exists in every publicly traded company, which is in charge of maintaining the company's transparency practices along with the board of commissioners.

Compliance theory triggers individuals and organizations to comply with applicable regulations. In this case, the company seeks to publish its financial statements before the deadline ends because it has become an obligation for the company and will be profitable for external parties (Dewi & Pamudji, 2013; Noviyanto, Rizal & Soemartono, 2020). In Indonesia, the demand for compliance by public companies to publish annual reports is stated in the UU 8/1995 and POJK 29/2016. The regulation explains that entities are required to publish their reports before the end of April. This rule updates the previous rule which only provided a deadline of up to 3 months after the end of the fiscal year. This time extension was carried out by the regulator to minimize delays in the issuance of financial statements. However, until now there are still many incidents of public companies being late in releasing their audit reports. As evidenced by data released from the official website BEI (www.idx.com), in 2018 there were 10 companies late in publishing their financial reports, in 2019 there were 26 companies, and in 2020 there were 40 companies.

Dyer & McHugh (1975) suggested audit reports lag as the distance between the closing year of the book and the audit opinion signed by an independent auditor. While Bacti et al. (2018) argue that audit report lag refers to the time difference from the closing date of the year until the auditor completes his task. The length of time for the completion of the auditor's work affects the timeliness of the financial statements to be issued so it also affects the level of decision asymmetry (Dewi & Pamudji, 2013). Delaying audit reports is an important aspect to keep information relevant for its users (Rahmawati & Suryono, 2015). For that to remain relevant, financial statements must be released before the deadline so that they can still be used as a basis for users to make decisions.

The audit committee is a committee that functions to review and examine the performance of the directors of a company (Purwati, 2006). The audit committee is formed and dissolved by the Company's Board of Directors. Some of the responsibilities of this committee include: supervising that financial reporting has been fairly presented under applicable standards, supervising the implementation of internal control in the company, verifying that internal and external audits are carried out under regulations, supervising the implementation of audit findings, evaluating accounting policies, and reviewing financial reports, including auditors' opinions, quarterly reports, annual reports, and company managers' reports (Mutmainnah & Wardhani, 2013).

Characteristics of the audit committee in this study are proxied by expertise, meeting, and gender. The first variable is the audit committee expertise (ACE) is the proportion of audit committee members who have an accounting or finance educational background. BAPEPAM Regulation IX.I.5 requires that the membership of the audit committee is that at least one of its members must have an accounting or financial education background. A competent audit committee, both accounting and finance, is expected to assist the auditor in analyzing material errors that deviate from accounting standards (DeZoort & Salterio, 2001). The competence of the audit committee's expertise is very important so that the mediation process between the independent auditor and management runs smoothly (Hashim & Rahman, 2011). The research of Isnania et al. (2018), Rianti & Sari (2014), Wandrianto et al. (2021), and Wijaya & Rahardja (2012) found that the relationship between audit committee expertise and audit report lag was negative. On the other hand, research by Baatwah & Ahmad (2017) found that audit committee expertise was positively related to audit report lag.

The second characteristic is the audit committee meeting (ACM). Meetings are mandatory activities carried out by the audit committee to discuss the release of financial statements together with the auditors. The audit committee when carrying out its functions and roles is required to meet at least three or four times within a year (Wijaya & Rahardja, 2012). With the increasing frequency of meetings, it is expected that the performance of the audit committee will be more effective. Abdillah et al. (2019), Kusumah & Manurung (2017), and Wandrianto et al. (2021) found that the relationship between audit committee meetings and audit report lag was negative. On the other hand, Fakri & Taqwa (2019), Pemayun & Astika (2021), and Rianti & Sari (2014) failed to prove the influence of the relationship between the two.

The third characteristic is the audit committee gender (ACG). Gender is one of the factors that can have an impact on a person's work attitude. Gender role theory suggests that men usually process information in a limited way, in contrast to women who are more detailed in processing information to make decisions. In addition, women are also better, thorough, and tidy when completing their work (Meyers & Levy, 1986). Thus, it is hoped that female audit committee members can speed up the audit process by helping public accountants to verify financial statements. For this reason, the increasing number of female members is expected to speed up the audit process and ease the auditor's task of verifying. Research by Rianti & Sari (2014), Sari & Supadmi (2014), and Vuko & Culat (2014) succeeded in obtaining evidence of a relationship between audit committee gender and audit report lag. In contrast to the research of Aljaaidi et al. (2015) and Wandrianto et al. (2021) who did not get evidence that the two variables had a relationship.

The next variables is profitability (PROF) is one indicator of management's success in managing company assets which can be viewed from the profits generated over a certain period (Lianto & Kusuma, 2010). A company measures its ability to earn a profit based on the level of sales, assets, and shares capital. Tiono & Jogi (2013) suggest that one of the factors that cause the length of time the issuance of financial statements is because companies must report their performance during a certain period as an indicator of good news (profit) or bad news (loss). For this reason, companies with high levels of profitability tend to be faster in completing the audit process so that the audit report lag value becomes shorter. This is because the company wants to immediately convey the good news to parties who need financial information. Research by Dura (2018), Khoufi & Khoufi (2018), and Rahmawati & Suryono (2015) finds evidence that profitability and audit report lag are significantly negatively related. On the other hand, Azhari & Nuryatno (2019) found that profitability and audit report lag were significantly positively related.

In this research, the writers also used company size (SIZE), KAP size (UKAP), audit opinion (AO), and the Covid-19 pandemic (C19) as control variables. The addition of these control variables was done so that the research results were not biased. The purpose of this research is to obtain empirical evidence of the effect of audit committee characteristics and profitability on audit report lag. This research is a replication of Fakri & Taqwa's (2019). This study examines the relationship between size, independence, expertise, and frequency of audit committee meetings on audit report lag with a sample of mining sector companies listed in BEI (2015-2017). The result is that only the size of the audit committee has a negative effect on audit report lag, while others do not succeed in influencing audit report lag.

This research differs from Fakri & Taqwa's (2019) research in several aspects. First, the researcher added two independent audit committee variables gender and profitability. Second, the measurement of the audit committee meeting variable for this study did not use a score (dummy) but the amount of time the audit committee held meetings. Third, the object of this research is not only limited to companies in the mining sector but more broadly using all companies in the manufacturing sector on the IDX. Researchers make manufacturing companies objects because the operational activities carried out by manufacturing companies are higher in complexity than companies in other sectors. Another reason, manufacturing companies are also divided into several types of the industry so that the results can be generalized. While the reason for choosing the research period is because the 2018-2020 period is the latest period than previous years and can provide an up-to-date accurate picture.

Apart from the inconsistencies in the results of previous studies, other factors support this research. This factor is because in Indonesia there are still many issues that public companies are late in issuing audit reports even though OJK has extended the deadline for issuance from 90 days to 120 days. From this background, researchers are interested in testing the relationship between audit committee characteristics and profitability on the audit report lag.

METHOD

This research is included in quantitative research that uses secondary data as a data source. The data is collected and analyzed through audited reports of companies listed on the Indonesia Stock Exchange from 2018-to 2020. The data that the researcher will use is taken through the IDX's official website (www.idx.co.id). As an additional reference, the researcher also took secondary data through several journal articles, books, and also social networking pages related to this research.

The population of this study is all manufacturing companies listed on the Indonesia Stock Exchange from 2018-to 2020. The purposive sampling method is the choice of researchers to determine which samples are included according to certain criteria (Sugiyono, 2016). The criteria for selecting the sample in this study are as follows:

Table 1. Sample Selection Criteria

No.	Information	Amount
1.	Manufacturing companies listed on the IDX for the period 2018-2020	197
2.	Companies that were delisted during the 2018-2020 period	(3)
3.	Companies that do not present their financial statements consecutively in 2018-2020	(33)
4.	Companies whose currency unit is not Rupiah (Rp)	(30)
5.	Companies that do not present the required information completely	(9)
Number of companies that meet the criteria		122
Number of samples in 3 years (3 x 122 companies)		366
Outliers		(64)
Number of selected samples		302

Operational Definition and Variable Measurement

Dependent Variable

The dependent variable in this study is the audit report lag, which is the time difference between the closing date of the book and the date of completion of the auditor's work (Bacti et al., 2018). This variable is calculated by finding the difference between the date of the financial statements and the date of the published audit report.

Independent Variables

Audit Committee Expertise

The audit committee is required at least one of its members to have expertise in finance and/or accounting because it can increase the effectiveness of their performance to detect errors. This variable is measured by the proportion of competent audit committee members with the number of audit committee members (Fakri & Taqwa, 2019).

$$ACE=\frac{\text{Total of Competent Members}}{\text{Audit Committee Members}} \times 100\%$$

Audit Committee Meeting

BAPEPAM issues work guidelines for audit committees that contain mandatory rules regarding audit committee meetings that must be held at least three or four times a year. This variable is measured by the number of times the audit committee meets in one year.

Audit Committee Gender
Gender is one of the factors that can affect a person's work attitude. Gender role theory suggests that men tend to process information in a limited way, while women process more detailed information to make decisions. The gender variable of the audit committee is measured by the proportion of the number of female members to the total number of members.

$$ACG=\frac{\text{Total of Female Members}}{\text{Audit Committee Members}} \text{ x } 100\%$$

Profitability
Profitability is an indicator of the company's success in managing its assets seen from the profits generated by the company during a certain period (Lianto & Kusuma, 2010). For this study, profitability is calculated using the Return on Assets (ROA) variable as measured by net income after tax divided by total assets (Wirakusuma & Cindrawati, 2011).

$$\text{Return on Assets (ROA)}=\frac{\text{Earning After Tax}}{\text{Total Assets}}$$

Control Variables
The firm size variable is measured using Ln total assets. The variable size of KAP is measured by a dummy variable (0 = KAP non-big four, 1 = KAP big four. An audit opinion is a standard statement and auditor's conclusion from the audit process carried out (Arens et al., 2008). The auditor’s opinion is measured using dummy variable (0 = others unqualified opinion, 1 = unqualified opinion). The Covid-19 pandemic can cause both accountants and auditors to be unable to issue financial reports promptly. The Covid-19 pandemic variable in this study is measured using a dummy variable (0 = before the pandemic, 1 = during the pandemic).

Regression Model
Hypothesis testing was carried out by analyzing panel data using the Eviews 10 software. In this study, the regression model was formulated with the following equation:
$ARL = \beta_0 + \beta_1 ACE + \beta_2 ACM + \beta_3 ACG + \beta_4 SIZE + B_5 PROF + B_6 UKAP + \beta_7 AO + \beta_8 C19 + \varepsilon$
Based on the above model equation, ARL is the audit report lag, the independent variable ACE is the audit committee expertise, the ACM variable is audit committee meetings, ACG is the audit committee gender, and PROF is profitability. The control variables in this study are company size (SIZE), KAP size (UKAP), audit opinion (AO), and the Covid-19 pandemic (C19).

RESULTS AND DISCUSSION

The results of the analysis using a logistic regression model consisting of the minimum value, maximum value, mean (average value), and the standard deviation of each independent variable can be seen in the Table 4.

Table 4. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Y	18	0	1	,61	,502
The Fed Rate	18	,05	1,59	,3256	,57598
WTI Price	18	20,31	68,83	46,5661	13,53560
Valid N (listwise)	18				

Source: processed data

The results of the descriptive analysis show that the Fed Rate, which is the benchmark interest rate for the American central bank, has a minimum value of 0.05% on May 4 and June 2, 2020. This value is the lowest value for the Fed's interest rate since January 2016 which the magnitude is always above 0.36%. The highest value of The Fed Rate in the sample was 1.59% which occurred on February 3 and March 2, 2020. Based on the results of the descriptive analysis, the average value of the Fed's interest rate for all samples was 0.3256%.

In order to find out whether the logistic regression model has met the requirements to interpret the Y value or not, a Goodness Of Fit (model feasibility test) must be carried out. In this study, the Model Feasibility Test (Test F) will be used to determine whether there is an influence between the related variables, or in other words the model used is Fit or not.

Based on the output of Table 5, it is known that the significance value for the effect of X1 and X2 simultaneously on Y is 0.650 > 0.05 and the calculated F value is 0.443 < F table 3.63, thus it can be concluded that H0 is accepted and stated that there is no effect of the variable X simultaneously to the Y variable.

Table 5. Test F

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	,238	2	,119	,443	,650[b]
Residual	4,039	15	,269		
Total	4,278	17			

Source: processed data

Hypothesis testing in this study uses the T statistical test to prove whether the independent variables included in the model have an individual influence on the dependent variable.

Table 6. T Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,320	1,572		,204	,841
The Fed Rate	-,101	,109	-,239	-,922	,371
WTI Price	,021	,394	,014	,054	,958

Source: processed data

The results of the output calculation using the T statistical test in table 6 show that for the Fed Interest Rate (X1), the Sig value is obtained. of 0.371 > 0.05 and the value of t count -0.922 < t table 2.13145. For the effect of the variable World Oil Price (WTI), the results of hypothesis testing obtained the value of Sig. of 0.958 > 0.05 and the value of t count 0.054 < t table 2.13145.

The Fed's Interest Rate (X1) against the Composite Stock Price Index (JCI) (Y)

The results of the output calculation using the T statistical test conclude that H0 is accepted and it is stated that the Fed Interest Rate individually has no effect on the increase and decrease in the Composite Stock Price Index (JCI). The results of this study support the results of research conducted by Wicaksono and Yasa (2017), Syarif and Asandimitra (2015), and Prahesti and Paramita (2020) which state that the Fed's interest rate has no effect on the volatility of the Jakarta Composite Index (JCI). However, these results contradict the results of research conducted by Akua Miyanti and Wiagustini (2018), Kamaruddin and Saskara (2019), and Ranto (2019), namely the Fed Rate has a significant influence on the increase and decrease in the Composite Stock Price Index (JCI).

World Oil Price (X2) against the Composite Stock Price Index (JCI) (Y)

For the effect of the variable World Oil Price (WTI), on the results of hypothesis testing it is concluded that H0 is accepted and it is stated that the World Oil Price (WTI) individually has no effect on the increase and decrease in the Composite Stock Price Index (JCI). The results of this study support the results of research conducted by Sari (2019), Sutanto, Murhadi, and Ernawati (2013), and Dewi (2020) said that world oil prices did not have a significant effect on the volatility of the Composite Stock Price Index (JCI). At the same time, the test results contradict the conclusions of research conducted by Adam et al. (2015), Akua Miyanti and Wiagustini (2018), Darmawan et al. (2020), and Ranto (2019) who said that world oil prices had a significant effect on the Composite Stock Price Index (JCI).

The results of the study imply that the World Oil Price (WTI) and the Fed's Interest Rate partially have no effect on the JCI. Each of these independent variables is also not a good indicator for estimating the movement of the JCI during the Covid-19 pandemic, and it is better for investors not to use it as the basis for making investment decisions in the stock market.

CONCLUSION

Based on the results of the previous analysis and discussion using the Fed Interest Rate and World Oil Prices (WTI), several conclusions were obtained which are described as follows:

1. The first hypothesis which states that the Fed Rate has a significant effect on fluctuations in the Composite Stock Price Index (JCI) during the Covid-19 Pandemic is not accepted.
2. The second hypothesis which states that crude oil prices have a significant effect on fluctuations in the Composite Stock Price Index (JCI) during the Covid-19 Pandemic is not accepted.

Based on the results of the analysis, discussion, and conclusions above, there are several suggestions that need to be considered. First, in future research, it is necessary to add independent variables from various variables in macroeconomics, such as national income, inflation, unemployment, and economic growth. . Then the second, for the sake of future research, the use of a larger number of samples is felt to be better in order to produce more detailed research conclusions.
In the current study, it is also felt that it has many shortcomings and limitations, one of which is the number of samples used in this study, which only amounted to 18 samples.

REFERENCE

Almfraji, M. A., & Almsafir, M. K. (2014). Foreign Direct Investment and Economic Growth Literature Review from 1994 to 2012. *Procedia - Social and Behavioral Sciences*, *129*, 206-13. http://dx.doi.org/10.1016/j.sbspro.2014.03.668

Budi, S., Murhadi, W. R., & Ernawati, E. (2013). Analisis Pengaruh Ekonomi Makro, Indeks Dow Jones, Dan Indeks Nikkei 225 Terhadap Indeks Harga Saham Gabungan (IHSG) Di BEI Periode 2007-2011. *Jurnal Ilmiah Mahasiswa Universitas Surabaya*, *2*(1), 1-9.

Darmawan, I., Siregar, H., Hakim, D. B., & Manurung, A. H. (2020). The Effect of Crude Oil Price Shocks on Indonesia Stock Market Performance. *Jurnal Organisasi Dan Manajemen*, *16*(1), 11-23. https://doi.org/10.33830/jom.v16i1.785.2020

Dewi, I. P. (2020). Pengaruh Inflasi, Kurs, Dan Harga Minyak Dunia Terhadap Indeks Harga Saham Gabungan Di Bursa Efek Indonesia. *Jurnal Ilmu Manajemen*, *17*(1), 10-19.

Kamaruddin, R. I., & Saskara, I. A. N. (2019). The Influence of World Stock Index, Bi Rate and Fed Rate Through Ihsg on Exchange Rates in Indonesia for the Period of 2006-2015. *Russian Journal of Agricultural and Socio-Economic Sciences*, *93*(9), 216-26. https://doi.org/10.18551/rjoas.2019-09.23

Kowanda, D., Binastuti. S., Pasaribu. R. B. F., & Ellim. M. (2014). Pengaruh Bursa Saham Global, Asean Dan Harga Komoditas Terhadap Ihsg, Dan Nilai Tukar EUR/USD. *Jurnal Akuntansi & Manajemen (JAM)*, *25*(2), 79-88.

Li, X., & Liu. X. (2005). Foreign Direct Investment and Economic Growth: An Increasingly Endogenous Relationship. *World Development*, *33*(3), 393-407.

Miyanti, G. A. D. A., & Wiagustini, L. P. (2018). Pengaruh Suku Bunga the Fed, Harga Minyak Dan Inflasi Terhadap Indeks Harga Saham Gabungan (IHSG) Di Bursa Efek Indonesia. *E-Jurnal Ekonomi dan Bisnis Universitas Udayana*, *I7*(5), 1261-1288.

Noviyanto, E. S., Rizal, N. & Soemartono. (2020). Pengaruh Profitabilitas, Likuiditas dan Ukuran Perusahaan terhadap Kebijakan Deviden (pada Perusahaan Manufaktur Sektor Makanan dan Minuman di BEI Periode 2016-2018. *Counting: Journal of Accounting*, *2*(4), 280-288.

Pasrun, A., Rianse, U., Cahyono, E. & Rahim, M. (2015). International Journal of Energy Economics and Policy Modeling of the Dynamics Relationship between World Crude Oil Prices and the Stock Market in Indonesia. *International Journal of Energy Economics and Policy*, *5*(2), 550-57.

Prahesti, S. D., & Paramita, R. S. (2020). Pengaruh Indeks SSEC, N225, STI, dan Faktor Makroekonomi terhadap IHSG. *Jurnal Ilmu Manajemen*, *8*(3), 878-893. https://doi.org/10.26740/jim.v8n3.p878-893.

Ranto, S. R. (2019). Pengaruh Jangka Pendek Dan Jangka Panjang Variabel Makro Ekonomi Terhadap IHSG Di Bursa Efek Indonesia Dengan Pendekatan Error Correction Model (ECM), *Jurnal Derivat: Jurnal Matematika dan Pendidikan Matematika*, *6*(1), 12-24. https://doi.org/10.31316/j.derivat.v6i1.332

Santoso, A. B. (2018). *Tutorial Dan Solusi Pengolahan Data Regresi*. Surabaya: CV Garuda Mas Sejahtera.

Sari, K. (2019). *Ruang Lingkup Ekonomi Makro*. ed. Agung Feryanto. Klaten: Cempaka Putih.

Sartika, U (2017). Pengaruh Inflasi, Tingkat Suku Bunga, Kurs, Harga Minyak Dunia Dan Harga Emas Dunia Terhadap Ihsg Dan Jii Di Bursa Efek Indonesia. *Balance : Jurnal Akuntansi Dan Bisnis*, *2*(2): 285-94.

Silvapulle, P., Smyth, R., Zhang, X., & Fenech, J. P. (2017). Nonparametric Panel Data Model For Crude Oil And Stock Market Prices In Net Oil Importing Countries. *Energy Economics*, *67*, 255-267.

Syarif, M. M., & Asandimitra, N. (2015). "Pengaruh Indikator Makro Ekonomi Dan Faktor Global Terhadap Indeks Harga Saham Gabungan (IHSG). *Kompetensi (Competence: Journal of Management Studies)*, *9*(2), 142-156.

Tambunan, L. (2020). Ekonomi Pandemi: Harga Minyak Dunia Anjlok, Harga BBM Dalam Negeri Belum Tentu Bisa Turun. *BBC News Indonesia*. https://www.bbc.com/indonesia/indonesia-52379031 (July 23, 2021).

Undang-Undang Republik Indonesia. (1995). Covering Globalization *Undang-Undang Republik Indonesia Nomor 8 Tahun 1995 Tentang Pasar Modal*.

Wicaksono, I. S., & Yasa, G. W. (2017). Pengaruh Fed Rate, Indeks Dow Jones, Nikkei 225, Hang Seng Terhadap Indeks Harga Saham Gabungan. *E-Jurnal Akuntansi*, *18*(1), 358-385.

Widiasworo, E. (2019). *Menyusun Penelitian Kuantitatif Untuk Skripsi Dan Tesis*. ed. Ilalang. Bantul: Araska.