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Corporate Governance and Audit Report Lags at Manufacturing Companies in the Industrial Sector of Consumption Goods

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Abstract
The purpose of this study was to determine the effect Independent Board of Commissioners, Competence of Audit Committee members on audit report lag. This study used secondary data derived from the financial statements listed in Indonesian Stock Exchange in 2013-2015. The sample of manufacturing companies in the industrial sector of consumption goods was selected as a research sample related to the complexity of presentation of financial statement information. Based on the method of purposive sampling method and was obtained 72 observations. Analysis of data is carried out using multiple regression method with the aid of SPSS Version 21 computer program. The results of this study indicate that independent board of commisioners no significant effect on audit report lags, competence of Audit Committee members significant effect on auditor report lags.
Keywords: Audit Report Lags, Corporate Governance, Board of Independence, Competence of Audit Committee members

Introduction

Timeliness in the delivery of financial statements is needed by the company, because several parties are concerned with the information in the company's financial statements. Timeliness is one of the characteristics in the preparation of financial statements (IAI, 2009). To produce timely financial reports, the company should pay attention to the audit process conducted by the public accounting firm. Under the rules of the Financial Services Authority No 2 /POJK.04/2015, an audit of the financial statements should be submitted within 4 months. In fact, the problem is that the audit of financial statements is often submitted beyond the specified time limit. The cause of this problem is the lack of competent human resources and the complexity of audit work. In this sense, the management should consider the relative merits of timely financial reporting and the reliability of the audit report's contents.

The length of presentation time of the financial statements until the date of issuance of audited financial statements is called the audit report lags (Habib & Bhuiyan, 2011). The longer the audit report lags, the longer the auditor completes the audit work that may impact on the length of delivery of financial statements of the audit results (Wardhani *et al*, 2013). The Company information related to the rate of profit earned is not directly known by the public, if the company does not immediately publish the audited financial statements. The longer duration of audit report lags will affect the stakeholders in making decisions related to their relationship with the company.

To minimize the delay in the delivery of financial statements related to the audit report lag, it is necessary to have a corporate governance mechanism within a company. *Corporate governance* is a system of control and management of the company, which the purpose is to protect the rights of shareholders and other interested parties (Swami *et al*, 2013). The implementation of good corporate governance principles in the management of the company reflects that the company has been well managed and transparent (Efendi, 2016). The mechanism of corporate governance in this study refers to the Independent Board of Commissioners and the competence of audit committee members. The use of these 2 proxies in measuring Corporate Governance is based on the argument that those proxies can represent other proxies in measuring corporate governance. The existence of an independent commissioner may compel the management of the company to convey actual information related to the condition of the company. Knowledge of audit committee members in accounting/finance is very important in a company because it is the control over the preparation of financial statements submitted by the management of the company.

Supervision by an independent board of commissioners is needed by the company to prevent any conflict of interest between the agent and the principal. Agents, as the party who run the company, feel that they have more information than the principal. This condition can be exploited by agents to hide the information they have. Agent and principal conflicts can lead to information asymmetry between the agents and principals. Supervision of an independent board of commissioners may minimize the information hiding and fraud by management, so that the extent and timing of audit work may be reduced (Swami *et al,* 2013). The Independent Board of Commissioners has no interest in the management of the company so that the entry of an independent board of commissioners to the company can protect the interests of all shareholders (Duchin, 2010).

The task of the audit committee is to ensure the conformity of the financial statements with applicable accounting standards (OJK No.55/POJK.04/2015). To carry out their duties properly, it is necessary to have the competencies that must be owned by members of the audit committee. Regulations from the Financial Services Authority (FSA) require that one member of the audit committee should have background in accounting/financial. Based on the competencies of audit committee members, the presence of an audit committee within the company will contribute to the quality of the financial statements (Kirk in Naimi, 2010), so that the Independent Audit Committee is expected to reduce the Audit Lag within the company. It is contradicted with the study of Lailah (2016) that the Audit Committee has no influence on the audit report lags, for this is related to the competence of the audit committee which is not enough to provide a significant role in financial reporting.

Given the importance of Audit Report Lag on the timeliness of financial reporting information and corporate financial performance, it is very important to examine how the company can reduce the audit report lags. The manufacturing companies in the industrial sector of consumption goods were selected as the sample of this study, arguing that the sample has the complexity in presenting financial statement information. For that reason, the researchers are interested in taking samples of the manufacturing companies in the industrial sector of consumption goods listed in Indonesia Stock Exchange, 2013-2015.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency Theory

Agency theory is a theory that states the relationship between agent and principal where one party has more information than the other party (Jensen & Meckling, 1979). The theory assumes that the agent has more information about the company's condition because the agent performs the company's performance in relation to the authority and responsibility provided by the principal, while the principal does not have sufficient information about the condition of the company. The imbalance of information of the principal and the agent will lead to asymmetry of information. The information had by the agent can be used to perform fraudulent actions to another party, the principal. Such condition may be exploited by the agent to manipulate the financial statements, which the purpose is to improve the welfare. Problems between agent and principal can be overcome if both parties share the same view, in relation to their initial employment contract. Change in behavior of the agent (manager) is needed to adjust its actions to the desire of the shareholders (principal) (Swami et al, 2013).

Audit Report Lags

Audit report lag is the length of completing audit work measured from the closing date of the fiscal year or the end of the fiscal year until the date of issuance of the audit financial statements (Soetodjo, 2006 in Putri, 2014). The longer the audit report lags, the longer the auditor completes the audit work that may impact on the length of issuance of audited financial statements by FSA.

Audit Report Lag is included in the qualitative characteristics that must be met in the preparation of financial statements. If the financial statements are not delivered in time, then the financial statements are no longer relevant in the decision-making process. The financial statements are considered irrelevant when the financial statements lose their capacity to influence the decisions made (Kieso, 2008).

Board of Commissioners

The Board of Commissioners is responsible and authorized to oversee the policies and actions of the Board of Directors, and provide advice to the Board of Directors (KNGCG, 2011). To avoid any misuse of the authority of the Board of Directors, the existence of the Board of Commissioners is required. The rule of the Financial Services Authority states that the number of independent board of directors is at least 30% of the total members of the board of commissioners (OJK, 2014).

The role of the board of commissioners in the company is very important and decisive for the successful implementation of GCG (Efendi, 2016). The existence of independent commissioners, as representatives of minority shareholders and as representatives of investors, certainly requires a high commitment to perform the role. The existence of independent commissioners is not just a complement. The regulator (IDX) should conduct periodic evaluations and supervision to ensure that the implementation of independent directors and commissioners in a public company complies with applicable regulations. The weak supervision of independent parties and the overwhelming legislative powers have been the causes of the collapse of the world's companies and the causes of the crisis in Indonesia, so that it is imperative to introduce the independent commissioners who are expected to be the movers of GCG (Efendi, 2016).

Competence of Audit Committee Members

Audit Committee is a committee is established and accountable to the Board of Commissioners to assist the Board of Commissioners in monitoring and ensuring the effectiveness of internal controls and the performance of the duties of internal auditors and independent/external auditors (OJK, 2014). The establishment of audit committee is to improve the effectiveness in implementing the Good Corporate Governance (GCG). The members of audit committee are required to be independent and at least one person has expertise in accounting or finance. Based on corporate governance guidelines, an audit committee member must have a balance of skills and experience with a broad business background (OJK, 2014). The main task of the audit committee is to conduct the inspection and supervision of the financial reporting process and internal control (KNGCG, 2002).

Effect of Independent Board of Commissioners on the Audit Report Lags

The regulation of Financial Service Authority, 2015, states that one of the members of the board of commissioners is the independent commissioner who serves as supervisor and adviser to the Board of Directors. The existence of independent commissioner could protect the interests of minority shareholders and other stakeholders and maintain the principle of equality/fairness (Efendi 2016). The independent commissioner should be able to detect any irregularities committed by the company management. In case of irregularities, the independent commissioner must take preventive action to overcome them.

Supervision of independent board of commissioners may help reducing the information hiding and fraud committed by management so that the area and time of audit work can be reduced (Swami *et al,* 2013). The active, broadminded, and independent board is needed to ensure the standard of the best corporate governance (Barton and Wong, 2006).

In this sense, the first hypothesis in this study can be formulated as follows:

H1: Independent Board of Commissioners has an influence on the Audit Report Lags

Effect of Competence of Audit Committee Member on Audit Report Lags

The membership of audit committee is at least consists of 1 independent person who has the expertise in finance and accounting (PBI No 8/14/PBI/2006). In the accountability principle of audit committee, the audit committee members must have the capability, competence and experience in the field of audit and business processes of the company to work professionally (Effendi, 2016). Audit committee has a significant role to implement the good corporate governance as the right hand assistant of the board of commissioners to keep the company on track. The effective audit committee is one of the aspects of the assessment in the implementation of corporate governance.

The audit committee member who has the expertise in accounting and finance should be able to prevent and detect the material misstatement, which may shorten the Audit Report Lags (Wardhani *et al*, 2013).

In this sense, the second hypothesis in this study can be formulated as follows:

H2: the competence of Audit Committee Member has an influence on Audit Report Lags

RESEARCH METHOD

Population, Sample, and Sampling Technique

The population in this study is the manufacturing companies at the industrial subsector of consumption goods listed on Indonesia Stock Exchange (IDX) with the observation period of 2013-2015, which is published in IDX 2013-2015. The sampling technique is purposive sampling where the sampling of the company is based on the following criteria:

1. The issuers are the manufacturing companies at the industrial subsector of consumption goods listed on Indonesia Stock Exchange (IDX) that publish the annual financial statements for the period December 31, 2013-2015.
2. The data on research variables to be researched are completely available in the company's financial statements.
3. The issuers enclosed annual reports and audited financial statements by independent auditors.
4. Issuers should have profit in their financial statements
5. Issuer uses rupiah currency units in the company's financial statements

Variables and Measurements

The variables in this study are:

1. Dependent Variable in this study is Audit Report Lags. Audit report lag is the length of completing audit work measured from the closing date of the fiscal year or the end of the fiscal year until the date of issuance of the audit financial statements (Soetodjo, 2006). Audit report lags are calculated from the number of days since the closing date of financial statements until the date of issuance of the audit reports.
2. Independent Variables in this study are:
    a. Independent Board of Commissioners
    An Independent Board of Commissioners, according to the regulation of Financial Services Authority No 2/PJOK.04/2015, is the member of commissioners from outside the issuer or public company and meets the requirements as the independent commissioner.

The composition of independent commissioners is measured by the ratio of the number of independent commissioners and the total number of board of commissioners (Sun and Liu, 2013). Independent commissioner is symbolized as BDIND in the equation.

b. Competence of Audit Committee Member
The competence of audit committee member is the expertise owned by the member of audit committee. The competence of audit committee member is measured by the proportion of audit committee members who are competent in accounting and finance compared to the number of audit committee members.

Tests of Classical Assumption

Before testing the hypotheses, the obtained data in this research will be tested to meet the basic assumption, namely: (1) test of normality using the Kolmogorov-Smirnov test, (2) multicollinearity, (3) autocorrelation, (4) heteroscedasticity using Park test.

Method of Data Analysis

The multiple regression analysis is used to test the effect of Independent Board of Commissioners, Competence of Audit Committee members on Audit Report Lags. SPSS 21 is used to help the data analysis with the research model as follow:

ARL = $\alpha + \beta 1$ BDIND + $\beta 2$ KAKA + *e*

Informastion:

ARL = *Audit Report Lags*
BDIND = *Independent Board of Commisioners*
KAKA = *Competence of Audit Committee members*
e = Error

DATA ANALYSIS AND DISCUSSION

Data Collection Results

Purposive Sampling method, obtained 24 manufacturing companies sector of consumption goods that meet the criteria determined so that it can be used as a sample in this study. In this study using 3 years for observation period from 2013 - 2015, for the observation data of manufacturing companies sector of consumption obtained as much as 24 x 3 years = 72 observation data

Descriptive Statistics Test

Descriptive statistical test aims to provide an overview or description of a data viewed from the sample size, minimum value, maximum value, mean value (mean) and standard deviation of each variable. The following are described statistics of research data:

Table 1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
DKI	72	.20	.80	.4097	.12172
KAKA	72	.33	1.00	.6968	.19942
ARL	72	48	106	76.53	11.888
Valid N (listwise)	72				

1. Normality Test

Normality test aims to test whether in the regression model, the dependent variable and independent variables are normally distributed or distributed abnormally. A good regression model is the normal or near-normal distribution of data. To test the normality of the data, this research is using *non-parametric* statistical tests *Kolmogorov-Smirnov.* From the test results of normality with *a non-parametric* statistical tests *Kolmogorov Smirnov* showed that significant value is still below 0.05. This means that the distributed residual data is not normal. Data that is not normally distributed can be transformed to become normal (Ghozali, 2013). In this study, researchers have tried to perform the transformation of data but the results after the transformation of data is still not normally distributed.

Table 2 Uji Normalitas
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		72
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	11.46354903
Most Extreme Differences	Absolute	.098
	Positive	.073
	Negative	-.098
Test Statistic		.098
Asymp. Sig. (2-tailed)		.081[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Based on the K-S table above shows that the value of Kolmogorov-Smirnov of 0,098 and significant at 0,081 is above 0.05. So it can not reject H0 saying that the residual is normally distributed or in other words the residual is normally distributed.

2. Uji Multikolonieritas

In a good regression model there should be no correlation between independent variables, if there is correlation there will be multicollinearity. A regression model was declared free of multikolinearitas is if the value is above the tolerance value of 0.10 or *variance inflation factors* (VIF) under 10 (Ghozali, 2013) The result of tolerance test in the table below shows that there is no independent variable having tolerance value less than 0.10. Results of testing the variance inflation factor (VIF) also showed similar results that no one independent variable which has VIF over 10. The limits of the VIF is 10 and the *tolerance value* is 0.1. If VIF greater than 10 and the value of *tolerance* is less than 0.1, there will be multikolinearitas and regression models.

Table 3 Uji Multikolonieritas
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	87.821	7.298		12.033	.000		
	DKI	-.643	11.431	-.007	-.056	.955	.984	1.017
	KAKA	-15.831	6.977	-.266	-2.269	.026	.984	1.017

a. Dependent Variable: ARL

3. Autocorrelation Test

Autocorrelation test aims to test whether in a linear regression model there is a correlation between the confounding error in period t with the intruder error in period t -1 (previous). If there is correlation, then there is called an autocorrelation problem (Ghozali, 2013). To determine the presence of autocorrelation can see the value of *Durbin Watson* test.

Table 4 Uji Autokorelasi
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.265[a]	.470	.443	11.629	1.801

a. Predictors: (Constant), KAKA, DKI
b. Dependent Variable: ARL

The results of autocorrelation testing on both regression models meet the criteria, DW value of 1,801, where this value will be compared with the value of the table by using a significant level of 5% of the sample number 72 and the number of independent variables 2 (k = 2). Known Dlower = 1,748; Dupper = 1.789. Since the value of DW is 1,801 is greater than the upper limit (du) 1,789 and less than 2 - 1,789 (2 - du), it can be concluded that there is no positive or negative autocorrelation and it can be concluded that there is no autocorrelation.

4. Heterokedastisity Test

The heterocedasticity test aims to test whether in the regression model there is a variance inequality of the residual one observation to the other. If the variance of the residual one observation to another observation remains, then it is called homoscedasticity and if different it is called heterokedastisitas (Ghozali, 2013). To detect the presence of heteroskedastisitas in a regression model can be seen by using Park test between the prediction value of the dependent variable with the independent variable

Table 4 Uji Heteroskedastisitas (Dengan Uji *Park)*

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.705	1.453		3.927	.000
	DKI	-3.266	2.275	-.171	-1.435	.156
	KAKA	-.939	1.389	-.081	-.676	.501

a. Dependent Variable: LNU2i

If the independent variable is statistically significant affect the dependent variable, then there is indication of heteroscedasticity. The result of the above output shows that the probability of significance is above the 5% confidence level. So it can be concluded that the regression model does not contain any heteroscedasticity.

5. Uji Kelayakan Model

a. Koefisien Determinasi (KD)

The coefficient of determination is used to measure how far the ability of the model in explaining the variation of independent variables to the dependent variable. The coefficient of determination is between zero and one. This study uses the value adj R2 being able to overcome the bias against the number of independent variables included in the regression model. The small value of Adj R2 means that the ability of the independent variables to explain the dependent variables is very limited (Ghozali, 2013).

Table 5 Koefisien Determinasi (KD)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.265[a]	.470	.443	11.629

a. Predictors: (Constant), KAKA, DKI

b. Dependent Variable: ARL

Table 5 above shows that the coefficient of determination shows the *adjusted* R^2 value of 0.443. This means that the variable *lags Audit Report* of 44,3% can be explained by the variable Independent Board of Commissioners, Competence of Audit Committee Member, whereas 55,7 % variable *lags Audit Report* is explained by other variables

b. UJI F (Fit Model)

F test aims to show whether all the independent variables intended in the model have an influence or ability to predict the dependent variable. The bigger and significant F-count than the F-table the better (fit) a model to predict the dependent variable.

Tabel 6 Uji F (Fit Model)

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	703.625	2	351.812	2.602	.041[b]
	Residual	9330.320	69	135.222		
	Total	10033.944	71			

a. Dependent Variable: ARL

b. Predictors: (Constant), KAKA, DKI

Based on the above table shows that the F test obtained F-count value of 2,602 with probability 0,041. Because the probability value is smaller than the significance value α (0.05). This means that the model in this study is fit (fit model) and can be used to predict the Audit Report Lags variable.

c. Uji T

The t test basically shows how far the influence of one explanatory variable / independence describes the variation of the dependent variable. Which is tested by comparing t arithmetic with t table.

Tabel 7 Uji T
Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	87.821	7.298		12.033	.000
	DKI	-.643	11.431	-.007	-.056	.955
	KAKA	-15.831	6.977	-.266	-2.269	.026

a. Dependent Variable: ARL

Discussion of Results

1. Effect of Independent Board of Commissioners on Audit Report Lags

Based on the data analysis, it is found that the Independent Board of Commissioners has no influence on the audit report lags, with the level of significance of 0.955 that is bigger than 0.05. The t-stat is -0.56 and t-table is 1.96, where the t-stat < t-table.

It can be said that the **hypothesis 1 is rejected**. The independent Board of Commissioners has no influence on audit report lags. The proportion of independent board of commissioners will result in the specific problem in terms of coordination by the member of board of commissioners. The complicated coordination among the members of board of commissioners will result in the ineffectiveness of supervision in the company.

The result of this study is not consistent with the research by Swami *et al*, (2013) that the supervision from the independent board of commissioners will help reducing the information hiding and fraud conducted by the management so that the extent and timing of audit work may be reduced. The standard of the corporate governance will be well reached with the active, broadminded, and independent board of commissioners (Barton and Wong, 2006). The bigger the proportion of independent board of commissioners, the shorter the audit lags in the company (Handayani, 2016).

2. Effect of Competence of Audit Committee Members on Audit Report Lags

Based on the data analysis, it is found that the Competence of Audit Committee Members has an influence on audit report lags with the level of significant of 0.26 that is smaller than 0.05. The t-stat is -2.269 and t-table is 1.96, where the t-stat > t-table.

It can be said that the **hypothesis 2 is accepted**. The Competence of Audit Committee Members has an influence on audit report lags. The knowledge of Audit Committee Members in finance is needed to prevent the material misstatement in the financial statements. The regulation of Financial Services Authority requires that one member of the audit committee should have an accounting/financial background. If there is supervision from the audit committee whose members have competence in the field of accounting/finance then the company's financial statements will be presented in accordance with generally acceptable accounting principles so that the area of audit work will be reduced.

The result of this study is not consistent with the research by Wardhani *et al* (2013) that the audit committee members who have the expertise in accounting and finance are more likely to prevent and detect material misstatements, which may shorten the Audit Report Lags. This finding is contrary to the research conducted by Lailah (2016) that the audit committee has no influence on audit report lags, for this is related to the competence of the audit committee which is not enough to provide a significant role in financial reporting.

CONCLUSION AND RECOMMENDATION

A. Conclusion

Based on the results of research and discussion in this study, it can be concluded that:

1. The Independent Board of Commissioners has no influence on audit report lags. The proportion of independent board of commissioners will result in the specific problem in terms of coordination by the member of board of commissioners. The complicated coordination among the members of board of commissioners will result in the ineffectiveness of supervision in the company.
2. The competence of Audit Committee Members has an influence on audit report lags. The knowledge of Audit Committee Members in finance is needed to prevent the material misstatement in the financial statements. The regulation of FSA requires that one member of the audit committee should have an accounting/financial background.

B. Recommendation

1. For further research, it is advisable to use all companies listed in Indonesia Stock Exchange (IDX) so that the results of the research will be more generalized.
2. In the further research, it is better to use the effectiveness variables of the board of commissioners and effectiveness of audit committee developed by IICD to measure the variable of corporate governance by

using scoring related to the criteria disclosed in the financial statements.

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