

Audit Committee Characteristics and Voluntary Financial Disclosure

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ABSTRACT

This study aims to determine which Audit Committee's characteristics effect voluntary financial disclosure in Indonesia. The testing is done through Audit Committees proxy, which consists of: size of Audit Committees, education background of Audit Committees members, independency of Audit Committees members, time commitment of Audit Committees members, number of Audit Committees meetings, and tenure of Audit Committees members. The sample of this study was 100 companies listed in Kompas 100 index in the Indonesian Stock Exchange within the years of 2009 and 2012. KOMPAS100 Index is a stock price index created by Indonesia Stock Exchange (IDX) in cooperation with the KOMPAS daily newspaper, one of Indonesian larges newspaper. The index consists of 100 stocks chosen based on some criteria mainly for they highest transaction value, frequency, and market capitalization in the regular market for the last 12 months. This result shows that the size of Audit Committees, the independence of Audit Committees members, and the average of tenure have significant impacts on voluntary financial disclosure. This result indicates that the level of voluntary financial disclosure depends on the size of Audit Committees, the independence of Audit Committees members, and the average tenure of Audit Committees members. While the education background of Audit Committees members, time commitment of Audit Committees members, number of Audit Committees meetings are insignificant.

Keywords: disclosure level, voluntary financial disclosure, audit committee, size, education background, independency, time commitment, meetings frequency, and tenure.

1. INTRODUCTION

This study aims to determine which Audit Committees characteristics that efect voluntary financial disclosure in Indonesia. The Audit Committees characteristics consists of; size, education background, independency, time commitment, meetings frequency, and tenure. While the voluntary financial disclosure is measured by an index compiled to determine the level of disclosure in the annual report published by the company.

The low transparency of financial data reporting such as the Enron case in the United States has caused tremendous loss. In Indonesia, the mark-up of PT. Kimia Farma's financial report was overstated by inflating the annual net income by the amount of Rp 32.668 billion. While the annual net income was only Rp 99.594 billion, the income stated was Rp 132 billion. This also has an adverse impact, because the non-transparent financial information has been

used as the basis of transactions by investors (Tjager *et al.*, 2003). The cases of Kimia Farma in Indonesia show the importance of the transparency principle, especially financial disclosure, as well as the need for qualified individuals who deserve to be trusted to oversee a company's financial information. It is safe to say that financial information is determined by the people who produce it, including individuals who oversee the production process of such financial information that is the individual member of Audit Committees (Scott, 2016).

Previous research linking Audit Committees and company disclosure among others is found by Reeb and Zhao (2009), a research on 615 industrial sector companies in the United States, which found that human capital (education and experience) of individuals in Audit Committees has a positive effect on disclosure. While the research conducted by Felo and Solieri (2009) on the influence of expertise and independency on company disclosure in the United States, concluded that the increase in the expert and the number of independent members of Audit Committees has a positive effect with company disclosure. Likewise, the study by McDaniel *et al.* (2002) who examined the differences in individuals with accounting/finance expertise in evaluating financial reporting, the conclusion is; the research proved that there is a significant difference between financial reporting evaluation produced by individuals who have the expertise on accounting/finance with those who do not have an expertise in the field of accounting/finance. Based on these studies it appears that the appreciation the background, expertise, and qualifications of individual members of Audit Committees is required to encourage an increase in coverage of disclosure in an effort to increase transparency and reduce the information gap between management and shareholders that may result in agency conflict.

Previous studies that examined the role of Audit Committees on disclosure are still relatively scant. One study that linked the role of Audit Committees on disclosure in Indonesia was conducted by Arifin (2001) on 153 annual reports of companies listed on Indonesian Stock Exchange (IDX) in 1999. In his research, Arifin (2001) used the attendance rate of Audit Committees members in Audit Committees meetings as a proxy for Audit Committees. The research concluded that Audit Committees does not have a significant effect on voluntary financial disclosure presented by the company. While the research conducted by Mujiono (2004), which proxied by the percentage of independent directors on the Audit Committees membership, found no significant effect of the percentage of independent directors on the Audit Committees membership on voluntary financial disclosure in company's annual reports of 72 IDX listed companies in 2002. Linda *et al.* (2011) who linked the size of Audit Committees with voluntary disclosure in financial sector companies in Indonesia, lead to the conclusion that there is a significant positive relationship between the size of Audit Committees and voluntary disclosure. This caused an inconclusive result.

Based on this understanding, this study attempted to fill the research gap by using six proxies at once to examine the role of Audit Committees on voluntary financial disclosure, including identifying a new proxy that represents of Audit Committees, which is tenure. Average tenure of Audit Committees members is used in this study because of Audit Committees members are considered to have a higher ability to provide critical oversight if he/she has a better understanding of a company's characteristics (Jia *et al.*, 2009).

This research is expected to contribute conceptually on literature development about the role of Audit Committees on voluntary financial disclosure practices by go public company in Indonesia. While practically, this research is expected to become a basis for regulators and companies, to formulate individual's qualification to be considered in selecting Audit Committees members. So that the purpose of establishing an Audit Committees is to ensure information transparency, submitted by the management to the public, can be achieved.

2. AGENCY THEORY

Jensen and Meckling (1976) defined agency relationship as a contract made between a principal who used agent services in running business activities and work for the interests of a principal, including the delegation a decision-making authority from principal to an agent. The existence of a contract between principal and agent with the delegation authority raises the possibility that the agent takes business decisions that benefit him (opportunistic behavior).

An investor needs information about the company's financial condition and performance to make an investment decision. The relationship between management and investor, which basically need each other, will be constrained by information problems and agency problems. This might result in the problem that the role of financial report becomes important because of differences in the information understood by management and investor, which can lead to an investors' inability to determine a good investment option. (Healy and Palepu, 2001). Thus, Audit Committees is formed to solve this agency problem. Audit Committees is formed by commissioners to perform the function verification/monitoring the management.

3. AUDIT COMMITTEE

Audit Committees, according to Tjager *et al.* (2003) is a committee formed by a board of commissioners and is accountable to the board of commissioners. The main duty and responsibility of Audit Committees is to ensure that the principles of corporate governance, especially transparency and disclosure, are applied consistently and adequately by the executive. The opinion Tjager *et al.* (2003) showed the central role of Audit Committees, and therefore individuals elected as Audit Committees members need to meet a number of criteria.

The formation Audit Committees in the corporate governance framework aims to perform the function supervision on financial reporting, prepared and disclosed by company's management. In 2000, Bapepam (badan pengawas pasar modal-capital market supervisory agency) published Bapepam Circular Letter No. 03 of 2000 on establishment of Audit Committees, followed by the issuance of IDX directors decree No. 339 of 2001 by IDX chairman about the rules of securities listing in IDX, concerning with independent commissioner, audit Committees, company secretary, openness, and financial reporting standards by sector. Then in 2003 Bapepam published the decree of Bapepam chairman No.: Kep-411PM/2003, which regulates the establishment of Audit Committees and guidance on how Audit Committees performs its duties, which was subsequently revised by the issuance of the decree of Bapepam No.: Kep-24/PM/2004 and supplement no. IX.I.5 in 24 September 2004 on establishment of Audit Committees and guidance on how Audit Committees performs its duties. Both of these rules then became a reference for the establishment of Audit Committees on public companies in Indonesia.

Berge and Ridder (1999) formulated four tasks to be performed by Audit Committees, among other (1) overseeing the financial statements and financial reporting, (2) overseeing the reporting system and management information system, (3) testing the financial controlling system (internal control and external control) and risk management, (4) overseeing the independency of external and internal controls, as well as selecting external auditors. Based on the Audit Committees task formulation from Berge and Ridder (1999) it is seen as the central role of Audit Committees to be a supervisor of the financial system and corporate reporting, thus the transparency of information disclosed by the management is largely determined by the success of Audit Committees in performing its duties.

Kalbers and Fogarty (1993) stated that there are three factors that influence the success of Audit Committees in performing its duties, namely 1) formal and written authority, 2) management cooperation, and 3) quality/competency of Audit Committees members (Abbott *et al.*, 2004). Referring to the opinion Kalbers and Fogarty (1993) above, it appears that qualification individuals selected as Audit Committees members plays an important role in the

success of Audit Committees in performing its duty in supervising the information disclosed by the management. Therefore then, as stated by Abbott *et al.* (2000), it is necessary to formulate specific qualification individuals who can be selected as Audit Committees members.

4. VOLUNTARY FINANCIAL DISCLOSURE

According to Scott (2016), voluntary financial disclosure is a type of financial information presented to the public, which is presented voluntarily in a financial report, without any obligation to convey it. Bruslerie and Gabteni (2011) stated that voluntary financial disclosure is additional financial information revealed by a company, which exceeds the mandated disclosure obligations. Or in other words, this information is not mandatory to be disclosed, but still disclosed by a company. Based on this definition can be interpreted that voluntary financial disclosure is financial information published voluntarily by a company and if it is expanding the disclosure of mandatory financial information.

The importance of voluntary financial disclosure is in an effective means in communicating with concerned parties, because it can provide an overview of a company's prospects, enhance governance structure, and expand the protection investors (Tian and Chen, 2009). In line with the opinion Tian and Chen above voluntary financial disclosure plays a role in reducing the information gaps (asymmetric information) among a company with investors and other parties outside the company (Botosan, 1997). The opinion Botosan (1997) and Tian-Chen (2009) above shows the important role of voluntary financial disclosure, making a deep study of its practice and voluntary financial disclosure is important to be conducted. As for the quality of decision-making influenced by the corporate disclosure provided through annual reports (Jaya, Septiarini, and Arafat, 2016).

The study of Meek *et al.* (1995) specifically describes the techniques they used in determining voluntary financial disclosure items, the items of information disclosed by a company voluntarily. Meek *et al.* (1995) started by identifying 128 items of potential voluntary financial disclosure from various annual reports of companies as well as identifying all regulations about what information must be reported/mandatory disclosed, including SEC (Securities and Exchange Commission) rules, public standard, private standard, AICPA (American Institute of Certified Public Accountant) booklet, and exchange regulations of other countries (where the sample company was originally registered), so that it can produce applicable disclosure items. All the potential voluntary financial disclosure items that have been identified are then compared with mandatory disclosure items and then re-identified. However, the identification disclosure items (items of information disclosed by company) made by Meek *et al.* (1995) does not consider the needs of investors and market analysts. Therefore, this study combines the disclosure items compiled by Meek *et al.* (1995) with the disclosure items compiled by Botosan (1997).

In Botosan's (1997) research, the disclosure items are divided into five groups, which are identified based on the information needs of investors and analysts in order to take their investment decisions. Botosan (1997) then divided voluntary financial disclosure into five groups: background information, ten-or-five year summary or historical results, key non-financial statistics, projected information, and management discussion and analysis.

This research combines the research conducted by Meek *et al.* (1995) and Botosan (1997) as a guide in developing a voluntary financial disclosure items in financial sectors that are relevant as a measure of voluntary financial disclosure, after being adjusted with disclosure obligation items, the items of information that must be disclosed by companies, for public companies in Indonesia, which are regulated by Bapepam. This method is performed to ensure that the disclosure items prepared are in accordance with the context of companies in Indonesia.

5. DISCLOSURE AND AUDIT COMMITTEE

This research focused on the financial side of voluntary financial disclosure because the role of Audit Committees is based on the Decree of Bapepam no. IX.I.5 number 3 letter c number 1), which states that the duties of Audit Committees are reviewing the financial information, which will be issued by the company, such as financial statements, projections, and other financial information. It is expected that the selection the financial side of a voluntary financial disclosure may lead to a clear and unbiased conclusion regarding the role of Audit Committees.

Vicknair (1993) stated that the composition Audit Committees can affect the financial reporting process. Several studies have proved the significant positive effect of Audit Committees on the level of disclosure (Beasley, 1996; Felo *et al.*, 2003; Felo *et al.*, 2009; Linda, 2011) however, the results of these studies are contrary to the Hoitash's *et al.* (2009) research. The contradiction these research results encourages the researchers to use size as a proxy for Audit Committees and examine its effect on the voluntary financial disclosure. The size is expected to show a positive effect on voluntary financial disclosure because the size of Audit Committees is designed by the board of commissioners to ensure the effectiveness in supervision (Kalbers-Fogarty, 1993).

According to Felo (2003) it is important for Audit Committees to identify potential misleading on transaction records or financial statements, and to contribute in supervising the accounting information preparation process. This means that the members of Audit Committees must have the ability to recognize the potency of misleading, and this ability is only possessed by individuals who have expertise and experience in accounting or finance. Therefore, Bapepam (2004) requires that at least one member of Audit Committees should have an education background in accounting or finance, and the other members should be able to read and understand financial statements.

Other studies that show the positive and significant effect of the Audit Committees members' expertise on disclosure are Abbott (2000), Agrawal-Chadha (2005), Krishnan-Visvanathan (2007), Krishnan-Lee (2009), Felo *et al.* (2009), and Reeb-Zhao (2009). These numerous studies, which show the positive and significant effect of the Audit Committees members' expertise on disclosure, stressed that Audit Committees need individuals who are qualified in accounting and financial expertise, in order to perform its role effectively. Therefore, in this study the educational background in accounting/finance is used as a proxy for Audit Committees to test its effect on voluntary financial disclosure of companies in Indonesia.

The other factor that defines the role of Audit Committees is the independency of individuals who are selected as Audit Committees members. Blue Ribbon Committee (BRC) (1999), an association who was appointed to formulate regulations about Audit Committees, in their recommendation even stated that Audit Committees should only consist of commissioners who have no relationship with the company where Audit Committees was formed that may damage their independence. The independency of Audit Committees in research was conducted by Beasley (1996), who found a significant negative relationship between the percentages of independent commissioners on Audit Committees with fraud in financial statements. This opinion is supported by research conducted by Xie *et al.* (2003) and Felo *et al.* (2003) that did not succeed in proving the existence of a relationship between the independency of Audit Committees members with disclosure. However Felo *et al.* (2009) showed significant effect of independency of Audit Committees members on disclosure. The differences in the results of previous studies encourage the researchers to examine the role of the independence of Audit Committees members and test it against voluntary financial disclosure of companies in Indonesia.

The number of meetings held by Audit Committees is one proxy for the role of Audit Committees used in this study. BRC (1999) recommended that Audit Committees meetings should be held at least once every four months and discuss the financial statements with the external auditors. Different with the recommendation from BRC, Bapepam (2004) regulates that Audit Committees should hold a meeting with the same frequency with the provision a minimum frequency of commissioners meeting stated in the articles of association. This means, Bapepam does not regulate, how many times Audit Committees should hold the meetings. Goodwin (2003) and Vafeas *et al.* (2005) stated that the growing number of independent members of Audit Committees, the frequency of meetings between Audit Committees and company's internal audit become more frequent. This means the number of Audit Committees meetings can be used as a monitoring mechanism for the Audit Committees in supervising financial reporting system conducted by company's management.

These various opinions encourage the researchers to examine the role of Audit Committees, which manifested through the number of Audit Committees meetings, both with internal and external auditors, and relate it to voluntary financial disclosure revealed by companies. The number of Audit Committees meetings is expected to show significant positive effect on voluntary financial disclosure, so it can be interpreted that through these meetings of Audit Committees can perform its role in supervising the voluntary financial disclosure more effectively.

Audit Committees is a committee, which is formed to help commissioners to supervise financial systems and reporting executed by the management, has an important role that should be run by individuals who are committed. Audit Committees members' commitments are expected to show a significant positive effect on voluntary financial disclosure (Core *et al.* (1999). Therefore, it can be concluded that Audit Committees effectiveness decreases when its members hold their concurrent position in several companies.

6. HYPOTHESIS DEVELOPMENT

A. The Size of Audit Committees

The recommendation from BRC (1999) about Audit Committees stated that, (1) audit Committees must consist of at least three people, (2) audit Committees chair must come from independent director (commissioners), (3) all of these three Audit Committees members understand financial management and at least one of the Audit Committees members is an expert in accounting or financial management. These recommendations from BRC were later adopted by the New York Stock Exchange (NYSE) and NASDAQ in December 1999, and in Indonesia, Bapepam (1999) and Jakarta Stock Exchange (2000) also issued a similar rule.

Research conducted by Felo (2003) stated that it is important to enhance the ability of Audit Committees to recognize the potential for misleading on transaction recording or financial statements. The enhancement of theirs ability in recognizing the potential for misleading on transaction recording or financial statements will contribute to the high quality of accounting reporting. Therefore it is expected that the increasing numbers of Audit Committees members will further increase the voluntary financial disclosure level. Based on description above, the hypothesis can be formulated as follows:

H₁: The size of Audit Committees has a positive effect on a company's voluntary financial disclosure level

B. Education Background in Accounting/Finance of Audit Committees Members

Audit Committees is a committee that supports the board of commissioners' role, which requires certain qualifications. With these qualifications, audit Committees is expected to give maximum oversight to the practice of a company's financial disclosure.

Bapepam requires that at least one member of Audit Committees should have an education background in accounting or finance, and the other members should be able to read and understand financial statements. This regulation is supported by the research conducted by Agrawal and Chadha (2005), who concluded that the probability of financial statement restatement will be lower if the members of a company's board of commissioners and of Audit Committees consisted of individuals with financial expertise. This opinion is in accordance with the research conducted by Krishnan and Visvanathan (2007), who reported that the increase in of Audit Committees members who have financial expertise will strengthen a company's disclosure level.

Krishnan and Lee (2009) stated that accounting or financial background is important for the member of Audit Committees in performing its duties, because only with a better understanding in finance, audit Committees can specifically recognize the fraud that occurred and help the task of commissioners maximally. These various opinions further strengthen the presumption that the Audit Committees role, which is very important, require qualification such as accounting and finance expertise, so that they can perform their roles effectively.

Therefore, it is expected that more and more members of Audit Committees who have an education background in accounting and finance are expected to increase a company's financial disclosure level. Based on this description, this research hypothesis is formulated as follows:

H₂: Education background in accounting/finance of Audit Committees members has a positive effect on a company's voluntary financial disclosure level.

C. The Independency of Audit Committees members

The independent of Audit Committees members are expected to run and be responsible to a neutral supervisory function to company's commissioners. BRC (1999) in its recommendation even stated that Audit Committees should only consist of commissioners who have no relationship with the company where Audit Committees was formed that may damage their independence. Beasley-Salterio (2001) linked the role of more independent and skilled of Audit Committees with a stronger board of commissioners. This means, an independent and strong board of commissioners establish an independent and strong of Audit Committees.

However, research conducted by Beasley (1996) found a significant negative relationship between the percentage of independent commissioners who become of Audit Committees members with fraud in financial statements. Xie *et al.* (2003) also stated that the independence of Audit Committees is also negatively related to discretionary accrual. Meanwhile the research conducted by Felo (2003) did not succeed in proving the existence of a relationship between the independence of Audit Committees members and disclosure quality.

The researchers in this study expected that an increase of independent members of Audit Committees will have a positive effect on the company's voluntary financial disclosure level. Thus the hypothesis can be formulated as follows:

H₃: The proportion independent members of Audit Committees has a positive effect on the company's voluntary financial disclosure level

D. The Number of Audit Committees Meetings

BRC (1999) recommended that Audit Committees meetings are held at least once every four months to discuss the financial statements with the external auditors. Different with the recommendation from BRC, Bapepam/OJK (2004), which regulates that Audit Committees hold meetings should take place on the same frequency as the provision a minimum frequency of commissioners meetings, as stated in the articles of association. This recommendation means

that Bapepam does not regulate how many times per accounting period Audit Committees should hold meetings.

Scarborough *et al.* (1998) stated that Audit Committees with no representatives from the company as its members do more meetings with the internal auditors than Audit Committees with members from within the company. In line with the findings of Scarborough, the result of Goodwin's (2003) research states with an increasing number of independent members in the Audit Committees, the frequency of meetings between Audit Committees and company's internal audit becomes more frequent. Vafeas' (2005) research found that when Audit Committees hold more meetings and are more independent, the possibility for a company's managers to perform earnings management will decrease. This means the number of Audit Committees meetings can be used as a monitoring mechanism for the Audit Committees in supervising financial reporting system, conducted by the company's management.

Menon and Williams (1994) argued that with an inactive Audit Committees, it is not possible to monitor the management effectively. Beasley *et al.* (2000) found that a company's Audit Committees that makes mistakes in financial reporting holds less frequent meetings than Audit Committees who do not make mistakes in their financial reporting. Therefore, it can be concluded that the meeting of Audit Committees is expected to increase control function and increase the transparency of financial information produced by the company, which means if Audit Committees conducted more meetings, the company's voluntary financial disclosure would improve. Based on above description, the research hypothesis can be formulated as follows:

H₄: The number of meetings conducted by Audit Committees has a positive effect on a company's voluntary financial disclosure level

E. Time Commitment of Audit Committees Members

Audit Committees is a committee formed to help commissioners to supervise the financial system and the reporting executed by management, it should be run by individuals who are committed, according to Core *et al.* (1999). The expectation is that the experience gained while working at another company can increase the effectiveness of Audit Committees will result in the reversed condition when they have more than three positions at the same time. Therefore, in this research, if members of Audit Committees concurrently have two other important positions within and outside the company then they are categorized as not committed, so it should be assumed that their ability to perform the function overseeing the management and disclosure produced by the company is lower. In the context of this study, the time commitment of Audit Committees members is determined by the number of positions held concurrently with his/her position as Audit Committees members. Thus, the higher the time commitment of Audit Committees members on their job, which is shown with only one other job they have beside their job as Audit Committees member, will improve company's voluntary financial disclosure level. Based on above description, this research hypothesis can be formulated as follows:

H₅: The time commitment of Audit Committees members has a positive effect on the company's voluntary financial disclosure level

F. Tenure of Audit Committees members

Krisnan (2005) stated that the auditor tenure can affect quality, independence, and financial reporting in the company where he/she works. This can be interpreted as that the quality of financial reporting and the role of Audit Committees may also be affected by tenure. Because of Audit Committees has the duty to oversee financial systems and reporting performed by the management, audit Committees members have to understand a company's

characteristics without reducing their integrity. Therefore, Bapepam (Now OJK-Indonesian Financial Services Authority) in the Decision chairman No.: Kep-24/PM/2004 supplement No. IX.I, precisely in number 3 letter g, regulates that the tenure of Audit Committees members should not be longer than the tenure of board of commissioners as regulated in the articles of association and can be re-elected only for one (1) next period. This means of Audit Committees members can only serve for a maximum of two periods. The Bapepam Regulation shows an effort to maintain the integrity of Audit Committees members. Nevertheless, considering the duties and responsibilities of Audit Committees are those as a supervisor of financial information presented by the management, so that a deep understanding of the company becomes important. Based on the description this research hypothesis is formulated as follows: H₆: The tenure of Audit Committees members has a positive effect on the company's voluntary financial disclosure level

Research Methods

Sampling process is preceded by defining the sample frame. Sample frame is a complete list of members of the population (Sekaran and Bougie, 2013). The sampling method used in this study is the purposive sampling, a sampling technique with particular consideration. Considerations of sample selection are based on companies that consistently managed to the Kompas 100 index list during 2009-2012. KOMPAS100 Index is a stock price index created by Indonesia Stock Exchange (IDX) in cooperation with the KOMPAS daily newspaper, one of Indonesian largest newspaper. The index consists of 100 stocks chosen based on some criteria mainly for they highest transaction value, frequency, and market capitalization in the regular market for the last 12 months.

7. RESULTS AND DISCUSSION

After classical assumption test using Kolmogorov-Smirnov, DW test, and VIF, it can be seen that the data used in this study are normally distributed and valid. This was followed by a multiple regression analysis, which is used as a tool to find answers to the formulation the question, about the effect of Audit Committees on the level of voluntary financial disclosure on companies in Indonesia. The method used in this regression analysis is a backward method. Backward method, according to Ghazali (2016), is a method for data processing by entering all independent variables (predictors) to the analysis and reduces it one by one in order to test and verify which variables that have effect.

In accordance with the objectives of this study, that is to test the effect of Audit Committees on the level of voluntary financial disclosure on companies in Indonesia, audit Committees is proxied through the size of Audit Committees (SIZE), education background in accounting/finance of Audit Committees members (EDU), the independence of Audit Committees members (INDP), the number of Audit Committees meetings (MEET), time commitment of Audit Committees members (KOMT), and tenure (TENURE) and tested their effects on the level of voluntary financial disclosure.

The result of multiple linear regression analysis in Table 1 shows that the value of the adjusted R square is 0.106. The adjusted R square value is 0.106, which shows a variation voluntary financial disclosure that can be explained by the variation the independent variables, which are the size of Audit Committees (SIZE), education background in accounting/finance of Audit Committees members (EDU), the independence of Audit Committees members (INDP), the number of Audit Committees meetings (MEET), and time commitment of Audit Committees members (KOMIT), and tenure (TENURE), which is 10.6%, while 89.4% is affected by other factors.

Table 1
The Result

Variabel	Predicted Sign	Koefisien	ρ -value
Constants		+ 0.225	-
SIZE	+	+0.029	0.011 **
EDU	+	+ 0.066	0.478
INDP	+	+ 0.090	0.061 *
MEET	+	+ 0.130	0.177
KOMT	+	- 0.033	0.712
TENURE	+	+ 0.019	0.004 ***
Adj. R ²		0,106	
F-Statistic		5.569	0,001
N		275	

*, **, *** significant in 10%, 5%, dan 1% respectively.

Regression Model:

$$\text{DISC} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{EDU} + \beta_3 \text{INDP} + \beta_4 \text{MEET} + \beta_5 \text{KOMT} + \beta_6 \text{TENURE} + \varepsilon$$

Variables:

DISC	Level of voluntary financial disclosure
SIZE	Total number of Audit Committees members
EDU	The proportion Audit Committees members skilled in accounting/finance to total of Audit Committees members
INDP	The proportion independent of Audit Committees members to total of Audit Committees members
MEET	The absolute value of the number of Audit Committees meetings within one year
KOMT	The proportion Audit Committees members who concurrently hold ≤ 3 positions to total of Audit Committees members
TENURE	The average tenure elapsed as Audit Committees members

From regression results presented on Table 1, the size of Audit Committees has a positive significant effect on the company's voluntary financial disclosure level in Indonesia. This research result supports the research conducted by Beasley (1996), Felo *et al.* (2003; 2009), and Linda (2011) who found that the size of Audit Committees has a significant positive effect on voluntary financial disclosure. The result of the research, which shows a positive coefficient, means that a higher number of Audit Committees members will have an effect on the increasing level of a company's voluntary financial disclosure.

Thus, this research result indicates that the size of Audit Committees is a relevant factor within Audit Committees that effect voluntary financial disclosure. The role of Audit Committees in supervising financial processes and reporting through a company's voluntary financial disclosure proved to be determined by the size of its of Audit Committees, the result of this research supports the statement of Felo (2003) that Audit Committees needs to have more members to recognize the potential of misleading in financial reporting.

Table 1 also shows that the expertise of Audit Committees does not have a significant effect on company's voluntary financial disclosure in Indonesia. This result is contrary to the result of the study conducted by Bedard (2008), Agrawal-Cadha (2005), Krishnan-Visvanathah (2007), Krishnan-Lee (2009), Mc Daniel (2009), Reeb-Zhao (2009), and Felo-Solieri (2009), who found that the expertise of Audit Committees has a positive significant effect on the company's voluntary financial disclosure.

The result that shows insignificant positive direction means that with an increase in the number of Audit Committees members who are experts in the field of accounting/finance is in

line with the increase of voluntary financial disclosure, however, this study has not succeed in proving that the variable education is a relevant proxy for Audit Committees to increase voluntary financial disclosure. The result of this study, which shows an insignificant result, is supported by research conducted by Khomsiyah *et al.* (2005) in Indonesia, and Lin *et al.* (2006) in China, who also found that the variable education background in accounting/finance of Audit Committees members proved not significant.

Next is the result of the effect of Audit Committees independence, which is measured through the proportion independent of Audit Committees members, on the company's voluntary financial disclosure level in Indonesia..The research hypothesis is accepted, because the independence of Audit Committees was proved to have a significant positive effect on the company's voluntary financial disclosure level in Indonesia. This result is in line with the research conducted by Person (2009), who found that the independence of Audit Committees has a significant effect on the voluntary financial disclosure level. However, this result contradicts the research conducted by Felo (2003) and Mujiono (2004), who did not find a significant effect of the independence of Audit Committees on voluntary financial disclosure.

This research categorizes Audit Committees members as independent if they come from outside a company and if their biography it is stated, shown on company's annual report, that they have not been working for the company where Audit Committees was formed or for its affiliations. This result shows a significant positive effect on voluntary financial disclosure, and it can be interpreted that the measurement of independent members of Audit Committees, which is developed by the researchers, can be used to prove the effect of the independence of Audit Committees members on voluntary financial disclosure. Thus, the research result showed a significant positive direction, which means that the independence of Audit Committees is a factor that can increase voluntary financial disclosure.

Table 1 then shows the effect of the number of Audit Committees meetings on the company's voluntary financial disclosure in Indonesia. The table shows that the frequency of Audit Committees meetings does not have a significant effect on the company's voluntary financial disclosure in Indonesia, or in other words the research hypothesis is rejected. This result is contrary to the research conducted by Beasley *et al.* (2000) and Vafeas (2005).

The high average of meetings held by Audit Committees of companies selected as sample, i.e. 12 meetings per year, shows the high activity of Audit Committees in performing its duties. This number of meetings is expected to take effect on the company's voluntary financial disclosure level. However, the result of regression test shows no significant effect of the number of Audit Committees meetings on voluntary financial disclosure, which indicates that the activities conducted by Audit Committees are not effective activities in performing its duties to supervise the company's financial reporting process. This result is supported by research conducted by Arifin (2001) and Felo (2003), who also found that the number of Audit Committees meetings is not significant. Thus, the result of research which shows an insignificant positive direction means that the number of Audit Committees meetings is not a relevant factor to measure the role of Audit Committees on voluntary financial disclosure level.

This research also test the effect of time commitment of Audit Committees on company's voluntary financial disclosure level in Indonesia. From the regression results presented on Table 1, it can be seen that the time commitment of Audit Committees members shows a contrary direction to the allegations of the researchers and showed no significant effect, or in other words, the research hypothesis is rejected. This result is contrary to research conducted by Core (1999) and Bryan *et al.* (2004).

Audit Committees members are considered committed if they hold a maximum of three positions outside Audit Committees. The research result, which is contrary to the research hypothesis and shows no significant effect, is supported by research conducted by Pamudji-Trihartati (2010), and proved that the time commitment of Audit Committees members is not

an important factor for the individual members of Audit Committees in enhancing the company's voluntary financial disclosure.

Table 1 also shows the effect of the tenure of Audit Committees members on the company's voluntary financial disclosure level in Indonesia. From the results, it can be seen that tenure of Audit Committees members significantly effect on voluntary financial disclosure level. This means that the tenure of Audit Committees members has a significant effect on voluntary financial disclosure, or in other words, the research hypothesis is accepted.

This result is contrary with the result of research conducted by Jia *et al.* (2009), who did not succeed in proving the role of tenure on the effectiveness of the supervisory board in China, it however supports Krishnan's (2005) opinion that reporting quality is determined by the tenure of Audit Committees, so that Audit Committees members are considered more capable of providing critical oversight when they better understand the characteristics of the company where Audit Committees was formed. This research result indicates that tenure is a relevant factor in increasing the company's voluntary financial disclosure.

8. CONCLUSION AND LIMITATIONS

A. Research Conclusions

In accordance with the purpose of the study to examine the effect of Audit Committees on voluntary financial disclosure in Indonesia, the proxy of Audit Committees consists of; size, education background, independence, commitment, meetings, and tenure, the conclusions of this study are as follows:

1. Education background in accounting/finance of Audit Committees members, the frequency of meetings, and time commitment of Audit Committees members are not proven to significantly affect voluntary financial disclosure. This means the three proxies are proxies that are not relevant to explain the effect within Audit Committees on voluntary financial disclosure.
2. The size of Audit Committees, the independence of Audit Committees members, and tenure proved to significantly affect the voluntary financial disclosure in Indonesia. These results mean that the size of Audit Committees, the independence of Audit Committees members, and tenure of Audit Committees members are relevant proxies to describe the influence of Audit Committees on voluntary financial disclosure.

B. Limitations and Suggestions

This study has a number of limitations that are expected to be improved in similar studies in the future, i.e.:

1. Because there are many companies that do not include biographical data and Audit Committees activity, there is only a small sample that can be used in this research. In the future companies are expected to increase the availability of such information so that the role of Audit Committees could be improved.
2. The limitation this study is that the researchers assumed that the disclosure quality of voluntary financial disclosure is reflected in the level of disclosure. Besides, this study assumes that the motive of the management to not reveal voluntary financial disclosure is that they were not willing and not because of the unavailability of the information.

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2.9 - Audit Committee Characteristics

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Audit Committee Characteristics and Voluntary Financial Disclosure

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ABSTRACT

This study aims to determine which Audit Committee's characteristics effect voluntary financial disclosure in Indonesia. The testing is done through Audit Committees proxy, which consists of: size of Audit Committees, education background of Audit Committees members, independency of Audit Committees members, time commitment of Audit Committees members, number of Audit Committees meetings, and tenure of Audit Committees members. The sample of this study was 100 companies listed in Kompas 100 index in the Indonesian Stock Exchange within the years of 2009 and 2012. KOMPAS100 Index is a stock price index created by Indonesia Stock Exchange (IDX) in cooperation with the KOMPAS daily newspaper, one of Indonesian larges newspaper. The index consists of 100 stocks chosen based on some criteria mainly for they highest transaction value, frequency, and market capitalization in the regular market for the last 12 months. This result shows that the size of Audit Committees, the independence of Audit Committees members, and the average of tenure have significant impacts on voluntary financial disclosure. This result indicates that the level of voluntary financial disclosure depends on the size of Audit Committees, the independence of Audit Committees members, and the average tenure of Audit Committees members. While the education background of Audit Committees members, time commitment of Audit Committees members, number of Audit Committees meetings are insignificant.

Keywords: disclosure level, voluntary financial disclosure, audit committee, size, education background, independency, time commitment, meetings frequency, and tenure.

1. INTRODUCTION

This study aims to determine which Audit Committees characteristics that efect voluntary financial disclosure in Indonesia. The Audit Committees characteristics consists of; size, education background, independency, time commitment, meetings frequency, and tenure. While the voluntary financial disclosure is measured by an index compiled to determine the level of disclosure in the annual report published by the company.

The low transparency of financial data reporting such as the Enron case in the United States has caused tremendous loss. In Indonesia, the mark-up of PT. Kimia Farma's financial report was overstated by inflating the annual net income by the amount of Rp 32.668 billion. While the annual net income was only Rp 99.594 billion, the income stated was Rp 132 billion. This also has an adverse impact, because the non-transparent financial information has been

used as the basis of transactions by investors (Tjager *et al.*, 2003). The cases of Kimia Farma in Indonesia show the importance of the transparency principle, especially financial disclosure, as well as the need for qualified individuals who deserve to be trusted to oversee a company's financial information. It is safe to say that financial information is determined by the people who produce it, including individuals who oversee the production process of such financial information that is the individual member of Audit Committees (Scott, 2016).

Previous research linking Audit Committees and company disclosure among others is found by Reeb and Zhao (2009), a research on 615 industrial sector companies in the United States, which found that human capital (education and experience) of individuals in Audit Committees has a positive effect on disclosure. While the research conducted by Felo and Solieri (2009) on the influence of expertise and independency on company disclosure in the United States, concluded that the increase in the expert and the number of independent members of Audit Committees has a positive effect with company disclosure. Likewise, the study by McDaniel *et al.* (2002) who examined the differences in individuals with accounting/finance expertise in evaluating financial reporting, the conclusion is; the research proved that there is a significant difference between financial reporting evaluation produced by individuals who have the expertise on accounting/finance with those who do not have an expertise in the field of accounting/finance. Based on these studies it appears that the appreciation the background, expertise, and qualifications of individual members of Audit Committees is required to encourage an increase in coverage of disclosure in an effort to increase transparency and reduce the information gap between management and shareholders that may result in agency conflict.

Previous studies that examined the role of Audit Committees on disclosure are still relatively scant. One study that linked the role of Audit Committees on disclosure in Indonesia was conducted by Arifin (2001) on 153 annual reports of companies listed on Indonesian Stock Exchange (IDX) in 1999. In his research, Arifin (2001) used the attendance rate of Audit Committees members in Audit Committees meetings as a proxy for Audit Committees. The research concluded that Audit Committees does not have a significant effect on voluntary financial disclosure presented by the company. While the research conducted by Mujiono (2004), which proxied by the percentage of independent directors on the Audit Committees membership, found no significant effect of the percentage of independent directors on the Audit Committees membership on voluntary financial disclosure in company's annual reports of 72 IDX listed companies in 2002. Linda *et al.* (2011) who linked the size of Audit Committees with voluntary disclosure in financial sector companies in Indonesia, lead to the conclusion that there is a significant positive relationship between the size of Audit Committees and voluntary disclosure. This caused an inconclusive result.

Based on this understanding, this study attempted to fill the research gap by using six proxies at once to examine the role of Audit Committees on voluntary financial disclosure, including identifying a new proxy that represents of Audit Committees, which is tenure. Average tenure of Audit Committees members is used in this study because of Audit Committees members are considered to have a higher ability to provide critical oversight if he/she has a better understanding of a company's characteristics (Jia *et al.*, 2009).

This research is expected to contribute conceptually on literature development about the role of Audit Committees on voluntary financial disclosure practices by go public company in Indonesia. While practically, this research is expected to become a basis for regulators and companies, to formulate individual's qualification to be considered in selecting Audit Committees members. So that the purpose of establishing an Audit Committees is to ensure information transparency, submitted by the management to the public, can be achieved.

2. AGENCY THEORY

Jensen and Meckling (1976) defined agency relationship as a contract made between a principal who used agent services in running business activities and work for the interests of a principal, including the delegation a decision-making authority from principal to an agent. The existence of a contract between principal and agent with the delegation authority raises the possibility that the agent takes business decisions that benefit him (opportunistic behavior).

An investor needs information about the company's financial condition and performance to make an investment decision. The relationship between management and investor, which basically need each other, will be constrained by information problems and agency problems. This might result in the problem that the role of financial report becomes important because of differences in the information understood by management and investor, which can lead to an investors' inability to determine a good investment option. (Healy and Palepu, 2001) . Thus, Audit Committees is formed to solve this agency problem. Audit Committees is formed by commissioners to perform the function verification/monitoring the management.

3. AUDIT COMMITTEE

Audit Committees, according to Tjager *et al.* (2003) is a committee formed by a board of commissioners and is accountable to the board of commissioners. The main duty and responsibility of Audit Committees is to ensure that the principles of corporate governance, especially transparency and disclosure, are applied consistently and adequately by the executive. The opinion Tjager *et al.* (2003) showed the central role of Audit Committees, and therefore individuals elected as Audit Committees members need to meet a number of criteria.

The formation Audit Committees in the corporate governance framework aims to perform the function supervision on financial reporting, prepared and disclosed by company's management. In 2000, Bapepam (badan pengawas pasar modal-capital market supervisory agency) published Bapepam Circular Letter No. 03 of 2000 on establishment of Audit Committees, followed by the issuance of IDX directors decree No. 339 of 2001 by IDX chairman about the rules of securities listing in IDX, concerning with independent commissioner, audit Committees, company secretary, openness, and financial reporting standards by sector. Then in 2003 Bapepam published the decree of Bapepam chairman No.: Kep-411PM/2003, which regulates the establishment of Audit Committees and guidance on how Audit Committees performs its duties, which was subsequently revised by the issuance of the decree of Bapepam No.: Kep-24/PM/2004 and supplement no. IX.1.5 in 24 September 2004 on establishment of Audit Committees and guidance on how Audit Committees performs its duties. Both of these rules then became a reference for the establishment of Audit Committees on public companies in Indonesia.

Berge and Ridder (1999) formulated four tasks to be performed by Audit Committees, among other (1) overseeing the financial statements and financial reporting, (2) overseeing the reporting system and management information system, (3) testing the financial controlling system (internal control and external control) and risk management, (4) overseeing the independency of external and internal controls, as well as selecting external auditors. Based on the Audit Committees task formulation from Berge and Ridder (1999) it is seen as the central role of Audit Committees to be a supervisor of the financial system and corporate reporting, thus the transparency of information disclosed by the management is largely determined by the success of Audit Committees in performing its duties.

Kalbers and Fogarty (1993) stated that there are three factors that influence the success of Audit Committees in performing its duties, namely 1) formal and written authority, 2) management cooperation, and 3) quality/competency of Audit Committees members (Abbott *et al.*, 2004). Referring to the opinion Kalbers and Fogarty (1993) above, it appears that qualification individuals selected as Audit Committees members plays an important role in the

success of Audit Committees in performing its duty in supervising the information disclosed by the management. Therefore then, as stated by Abbott *et al.* (2000), it is necessary to formulate specific qualification individuals who can be selected as Audit Committees members.

4. VOLUNTARY FINANCIAL DISCLOSURE

According to Scott (2016), voluntary financial disclosure is a type of financial information presented to the public, which is presented voluntarily in a financial report, without any obligation to convey it. Bruslerie and Gabteni (2011) stated that voluntary financial disclosure is additional financial information revealed by a company, which exceeds the mandated disclosure obligations. Or in other words, this information is not mandatory to be disclosed, but still disclosed by a company. Based on this definition can be interpreted that voluntary financial disclosure is financial information published voluntarily by a company and if it is expanding the disclosure of mandatory financial information.

The importance of voluntary financial disclosure is in an effective means in communicating with concerned parties, because it can provide an overview of a company's prospects, enhance governance structure, and expand the protection investors (Tian and Chen, 2009). In line with the opinion Tian and Chen above voluntary financial disclosure plays a role in reducing the information gaps (asymmetric information) among a company with investors and other parties outside the company (Botosan, 1997). The opinion Botosan (1997) and Tian-Chen (2009) above shows the important role of voluntary financial disclosure, making a deep study of its practice and voluntary financial disclosure is important to be conducted. As for the quality of decision-making influenced by the corporate disclosure provided through annual reports (Jaya, Septiarini, and Arafat, 2016).

The study of Meek *et al.* (1995) specifically describes the techniques they used in determining voluntary financial disclosure items, the items of information disclosed by a company voluntarily. Meek *et al.* (1995) started by identifying 128 items of potential voluntary financial disclosure from various annual reports of companies as well as identifying all regulations about what information must be reported/mandatory disclosed, including SEC (Securities and Exchange Commission) rules, public standard, private standard, AICPA (American Institute of Certified Public Accountant) booklet, and exchange regulations of other countries (where the sample company was originally registered), so that it can produce applicable disclosure items. All the potential voluntary financial disclosure items that have been identified are then compared with mandatory disclosure items and then re-identified. However, the identification disclosure items (items of information disclosed by company) made by Meek *et al.* (1995) does not consider the needs of investors and market analysts. Therefore, this study combines the disclosure items compiled by Meek *et al.* (1995) with the disclosure items compiled by Botosan (1997).

In Botosan's (1997) research, the disclosure items are divided into five groups, which are identified based on the information needs of investors and analysts in order to take their investment decisions. Botosan (1997) then divided voluntary financial disclosure into five groups: background information, ten-or- five year summary or historical results, key non-financial statistics, projected information, and management discussion and analysis.

This research combines the research conducted by Meek *et al.* (1995) and Botosan (1997) as a guide in developing a voluntary financial disclosure items in financial sectors that are relevant as a measure of voluntary financial disclosure, after being adjusted with disclosure obligation items, the items of information that must be disclosed by companies, for public companies in Indonesia, which are regulated by Bapepam. This method is performed to ensure that the disclosure items prepared are in accordance with the context of companies in Indonesia.

5. DISCLOSURE AND AUDIT COMMITTEE

This research focused on the financial side of voluntary financial disclosure because the role of Audit Committees is based on the Decree of Bapepam no. IX.I.5 number 3 letter c number 1), which states that the duties of Audit Committees are reviewing the financial information, which will be issued by the company, such as financial statements, projections, and other financial information. It is expected that the selection the financial side of a voluntary financial disclosure may lead to a clear and unbiased conclusion regarding the role of Audit Committees.

Vicknair (1993) stated that the composition Audit Committees can affect the financial reporting process. Several studies have proved the significant positive effect of Audit Committees on the level of disclosure (Beasley, 1996; Felo *et al.*, 2003; Felo *et al.*, 2009; Linda, 2011) however, the results of these studies are contrary to the Hoitash's *et al.* (2009) research. The contradiction these research results encourages the researchers to use size as a proxy for Audit Committees and examine its effect on the voluntary financial disclosure. The size is expected to show a positive effect on voluntary financial disclosure because the size of Audit Committees is designed by the board of commissioners to ensure the effectiveness in supervision (Kalbers-Fogarty, 1993).

According to Felo (2003) it is important for Audit Committees to identify potential misleading on transaction records or financial statements, and to contribute in supervising the accounting information preparation process. This means that the members of Audit Committees must have the ability to recognize the potency of misleading, and this ability is only possessed by individuals who have expertise and experience in accounting or finance. Therefore, Bapepam (2004) requires that at least one member of Audit Committees should have an education background in accounting or finance, and the other members should be able to read and understand financial statements.

Other studies that show the positive and significant effect of the Audit Committees members' expertise on disclosure are Abbott (2000), Agrawal-Chadha (2005), Krishnan-Visvanathan (2007), Krishnan-Lee (2009), Felo *et al.* (2009), and Reeb-Zhao (2009). These numerous studies, which show the positive and significant effect of the Audit Committees members' expertise on disclosure, stressed that Audit Committees need individuals who are qualified in accounting and financial expertise, in order to perform its role effectively. Therefore, in this study the educational background in accounting/finance is used as a proxy for Audit Committees to test its effect on voluntary financial disclosure of companies in Indonesia.

The other factor that defines the role of Audit Committees is the independency of individuals who are selected as Audit Committees members. Blue Ribbon Committee (BRC) (1999), an association who was appointed to formulate regulations about Audit Committees, in their recommendation even stated that Audit Committees should only consist of commissioners who have no relationship with the company where Audit Committees was formed that may damage their independence. The independency of Audit Committees in research was conducted by Beasley (1996), who found a significant negative relationship between the percentages of independent commissioners on Audit Committees with fraud in financial statements. This opinion is supported by research conducted by Xie *et al.* (2003) and Felo *et al.* (2003) that did not succeed in proving the existence of a relationship between the independency of Audit Committees members with disclosure. However Felo *et al.* (2009) showed significant effect of independency of Audit Committees members on disclosure. The differences in the results of previous studies encourage the researchers to examine the role of the independence of Audit Committees members and test it against voluntary financial disclosure of companies in Indonesia.

The number of meetings held by Audit Committees is one proxy for the role of Audit Committees used in this study. BRC (1999) recommended that Audit Committees meetings should be held at least once every four months and discuss the financial statements with the external auditors. Different with the recommendation from BRC, Bapepam (2004) regulates that Audit Committees should hold a meeting with the same frequency with the provision a minimum frequency of commissioners meeting stated in the articles of association. This means, Bapepam does not regulate, how many times Audit Committees should hold the meetings. Goodwin (2003) and Vafeas *et al.* (2005) stated that the growing number of independent members of Audit Committees, the frequency of meetings between Audit Committees and company's internal audit become more frequent. This means the number of Audit Committees meetings can be used as a monitoring mechanism for the Audit Committees in supervising financial reporting system conducted by company's management.

These various opinions encourage the researchers to examine the role of Audit Committees, which manifested through the number of Audit Committees meetings, both with internal and external auditors, and relate it to voluntary financial disclosure revealed by companies. The number of Audit Committees meetings is expected to show significant positive effect on voluntary financial disclosure, so it can be interpreted that through these meetings of Audit Committees can perform its role in supervising the voluntary financial disclosure more effectively.

Audit Committees is a committee, which is formed to help commissioners to supervise financial systems and reporting executed by the management, has an important role that should be run by individuals who are committed. Audit Committees members' commitments are expected to show a significant positive effect on voluntary financial disclosure (Core *et al.* (1999). Therefore, it can be concluded that Audit Committees effectiveness decreases when its members hold their concurrent position in several companies.

6. HYPOTHESIS DEVELOPMENT

A. The Size of Audit Committees

The recommendation from BRC (1999) about Audit Committees stated that, (1) audit Committees must consist of at least three people, (2) audit Committees chair must come from independent director (commissioners), (3) all of these three Audit Committees members understand financial management and at least one of the Audit Committees members is an expert in accounting or financial management. These recommendations from BRC were later adopted by the New York Stock Exchange (NYSE) and NASDAQ in December 1999, and in Indonesia, Bapepam (1999) and Jakarta Stock Exchange (2000) also issued a similar rule.

Research conducted by Felo (2003) stated that it is important to enhance the ability of Audit Committees to recognize the potential for misleading on transaction recording or financial statements. The enhancement of their ability in recognizing the potential for misleading on transaction recording or financial statements will contribute to the high quality of accounting reporting. Therefore it is expected that the increasing numbers of Audit Committees members will further increase the voluntary financial disclosure level. Based on description above, the hypothesis can be formulated as follows:

H₁: The size of Audit Committees has a positive effect on a company's voluntary financial disclosure level

B. Education Background in Accounting/Finance of Audit Committees Members

Audit Committees is a committee that supports the board of commissioners' role, which requires certain qualifications. With these qualifications, audit Committees is expected to give maximum oversight to the practice of a company's financial disclosure.

Bapepam requires that at least one member of Audit Committees should have an education background in accounting or finance, and the other members should be able to read and understand financial statements. This regulation is supported by the research conducted by Agrawal and Chadha (2005), who concluded that the probability of financial statement restatement will be lower if the members of a company's board of commissioners and of Audit Committees consisted of individuals with financial expertise. This opinion is in accordance with the research conducted by Krishnan and Visvanathan (2007), who reported that the increase in of Audit Committees members who have financial expertise will strengthen a company's disclosure level.

Krishnan and Lee (2009) stated that accounting or financial background is important for the member of Audit Committees in performing its duties, because only with a better understanding in finance, audit Committees can specifically recognize the fraud that occurred and help the task of commissioners maximally. These various opinions further strengthen the presumption that the Audit Committees role, which is very important, require qualification such as accounting and finance expertise, so that they can perform their roles effectively.

Therefore, it is expected that more and more members of Audit Committees who have an education background in accounting and finance are expected to increase a company's financial disclosure level. Based on this description, this research hypothesis is formulated as follows:

H₂: Education background in accounting/finance of Audit Committees members has a positive effect on a company's voluntary financial disclosure level.

C. The Independency of Audit Committees members

The independent of Audit Committees members are expected to run and be responsible to a neutral supervisory function to company's commissioners. BRC (1999) in its recommendation even stated that Audit Committees should only consist of commissioners who have no relationship with the company where Audit Committees was formed that may damage their independence. Beasley-Salterio (2001) linked the role of more independent and skilled of Audit Committees with a stronger board of commissioners. This means, an independent and strong board of commissioners establish an independent and strong of Audit Committees.

However, research conducted by Beasley (1996) found a significant negative relationship between the percentage of independent commissioners who become of Audit Committees members with fraud in financial statements. Xie *et al.* (2003) also stated that the independence of Audit Committees is also negatively related to discretionary accrual. Meanwhile the research conducted by Felo (2003) did not succeed in proving the existence of a relationship between the independence of Audit Committees members and disclosure quality.

The researchers in this study expected that an increase of independent members of Audit Committees will have a positive effect on the company's voluntary financial disclosure level. Thus the hypothesis can be formulated as follows:

H₃: The proportion independent members of Audit Committees has a positive effect on the company's voluntary financial disclosure level

D. The Number of Audit Committees Meetings

BRC (1999) recommended that Audit Committees meetings are held at least once every four months to discuss the financial statements with the external auditors. Different with the recommendation from BRC, Bapepam/OJK (2004), which regulates that Audit Committees hold meetings should take place on the same frequency as the provision a minimum frequency of commissioners meetings, as stated in the articles of association. This recommendation means

that Bapepam does not regulate how many times per accounting period Audit Committees should hold meetings.

Scarborough *et al.* (1998) stated that Audit Committees with no representatives from the company as its members do more meetings with the internal auditors than Audit Committees with members from within the company. In line with the findings of Scarborough, the result of Goodwin's (2003) research states with an increasing number of independent members in the Audit Committees, the frequency of meetings between Audit Committees and company's internal audit becomes more frequent. Vafeas' (2005) research found that when Audit Committees hold more meetings and are more independent, the possibility for a company's managers to perform earnings management will decrease. This means the number of Audit Committees meetings can be used as a monitoring mechanism for the Audit Committees in supervising financial reporting system, conducted by the company's management.

Menon and Williams (1994) argued that with an inactive Audit Committees, it is not possible to monitor the management effectively. Beasley *et al.* (2000) found that a company's Audit Committees that makes mistakes in financial reporting holds less frequent meetings than Audit Committees who do not make mistakes in their financial reporting. Therefore, it can be concluded that the meeting of Audit Committees is expected to increase control function and increase the transparency of financial information produced by the company, which means if Audit Committees conducted more meetings, the company's voluntary financial disclosure would improve. Based on above description, the research hypothesis can be formulated as follows:

H4: The number of meetings conducted by Audit Committees has a positive effect on a company's voluntary financial disclosure level

E. Time Commitment of Audit Committees Members

Audit Committees is a committee formed to help commissioners to supervise the financial system and the reporting executed by management, it should be run by individuals who are committed, according to Core *et al.* (1999). The expectation is that the experience gained while working at another company can increase the effectiveness of Audit Committees will result in the reversed condition when they have more than three positions at the same time. Therefore, in this research, if members of Audit Committees concurrently have two other important positions within and outside the company then they are categorized as not committed, so it should be assumed that their ability to perform the function overseeing the management and disclosure produced by the company is lower. In the context of this study, the time commitment of Audit Committees members is determined by the number of positions held concurrently with his/her position as Audit Committees members. Thus, the higher the time commitment of Audit Committees members on their job, which is shown with only one other job they have beside their job as Audit Committees member, will improve company's voluntary financial disclosure level. Based on above description, this research hypothesis can be formulated as follows:

H5: The time commitment of Audit Committees members has a positive effect on the company's voluntary financial disclosure level

F. Tenure of Audit Committees members

Krisnan (2005) stated that the auditor tenure can affect quality, independence, and financial reporting in the company where he/she works. This can be interpreted as that the quality of financial reporting and the role of Audit Committees may also be affected by tenure. Because of Audit Committees has the duty to oversee financial systems and reporting performed by the management, audit Committees members have to understand a company's

characteristics without reducing their integrity. Therefore, Bapepam (Now OJK-Indonesian Financial Services Authority) in the Decision chairman No.: Kep- 24/PM/2004 supplement No. IX.I, precisely in number 3 letter g, regulates that the tenure of Audit Committees members should not be longer than the tenure of board of commissioners as regulated in the articles of association and can be re-elected only for one (1) next period. This means of Audit Committees members can only serve for a maximum of two periods. The Bapepam Regulation shows an effort to maintain the integrity of Audit Committees members. Nevertheless, considering the duties and responsibilities of Audit Committees are those as a supervisor of financial information presented by the management, so that a deep understanding of the company becomes important. Based on the description this research hypothesis is formulated as follows: H₆: The tenure of Audit Committees members has a positive effect on the company's voluntary financial disclosure level

Research Methods

Sampling process is preceded by defining the sample frame. Sample frame is a complete list of members of the population (Sekaran and Bougie, 2013). The sampling method used in this study is the purposive sampling, a sampling technique with particular consideration. Considerations of sample selection are based on companies that consistently managed to the Kompas 100 index list during 2009- 2012. KOMPAS100 Index is a stock price index created by Indonesia Stock Exchange (IDX) in cooperation with the KOMPAS daily newspaper, one of Indonesian largest newspaper. The index consists of 100 stocks chosen based on some criteria mainly for they highest transaction value, frequency, and market capitalization in the regular market for the last 12 months.

7. RESULTS AND DISCUSSION

After classical assumption test using Kolmogorov-Smirnov, DW test, and VIF, it can be seen that the data used in this study are normally distributed and valid. This was followed by a multiple regression analysis, which is used as a tool to find answers to the formulation the question, about the effect of Audit Committees on the level of voluntary financial disclosure on companies in Indonesia. The method used in this regression analysis is a backward method. Backward method, according to Ghazali (2016), is a method for data processing by entering all independent variables (predictors) to the analysis and reduces it one by one in order to test and verify which variables that have effect.

In accordance with the objectives of this study, that is to test the effect of Audit Committees on the level of voluntary financial disclosure on companies in Indonesia, audit Committees is proxied through the size of Audit Committees (SIZE), education background in accounting/finance of Audit Committees members (EDU), the independence of Audit Committees members (INDP), the number of Audit Committees meetings (MEET), time commitment of Audit Committees members (KOMT), and tenure (TENURE) and tested their effects on the level of voluntary financial disclosure.

The result of multiple linear regression analysis in Table 1 shows that the value of the adjusted R square is 0.106. The adjusted R square value is 0.106, which shows a variation voluntary financial disclosure that can be explained by the variation the independent variables, which are the size of Audit Committees (SIZE), education background in accounting/finance of Audit Committees members (EDU), the independence of Audit Committees members (INDP), the number of Audit Committees meetings (MEET), and time commitment of Audit Committees members (KOMIT), and tenure (TENURE), which is 10.6%, while 89.4% is affected by other factors.

Table 1
The Result

Variabel	Predicted Sign	Koefisien	ρ -value
Constants		+ 0.225	-
SIZE	+	+0.029	0.011 **
EDU	+	+ 0.066	0.478
INDP	+	+ 0.090	0.061 *
MEET	+	+ 0.130	0.177
KOMT	+	- 0.033	0.712
TENURE	+	+ 0.019	0.004 ***
Adj. R^2		0,106	
F-Statistic		5.569	0,001
N		275	

*, **, *** significant in 10%, 5%, dan 1% respectively.

Regression Model:

$$\text{DISC} = \beta_0 + \beta_1 \text{SIZE} + \beta_2 \text{EDU} + \beta_3 \text{INDP} + \beta_4 \text{MEET} + \beta_5 \text{KOMT} + \beta_6 \text{TENURE} + \varepsilon$$

Variables:

DISC	Level of voluntary financial disclosure
SIZE	Total number of Audit Committees members
EDU	The proportion Audit Committees members skilled in accounting/finance to total of Audit Committees members
INDP	The proportion independent of Audit Committees members to total of Audit Committees members
MEET	The absolute value of the number of Audit Committees meetings within one year
KOMT	The proportion Audit Committees members who concurrently hold ≤ 3 positions to total of Audit Committees members
TENURE	The average tenure elapsed as Audit Committees members

From regression results presented on Table 1, the size of Audit Committees has a positive significant effect on the company's voluntary financial disclosure level in Indonesia. This research result supports the research conducted by Beasley (1996), Felo *et al.* (2003; 2009), and Linda (2011) who found that the size of Audit Committees has a significant positive effect on voluntary financial disclosure. The result of the research, which shows a positive coefficient, means that a higher number of Audit Committees members will have an effect on the increasing level of a company's voluntary financial disclosure.

Thus, this research result indicates that the size of Audit Committees is a relevant factor within Audit Committees that effect voluntary financial disclosure. The role of Audit Committees in supervising financial processes and reporting through a company's voluntary financial disclosure proved to be determined by the size of its of Audit Committees, the result of this research supports the statement of Felo (2003) that Audit Committees needs to have more members to recognize the potential of misleading in financial reporting.

Table 1 also shows that the expertise of Audit Committees does not have a significant effect on company's voluntary financial disclosure in Indonesia. This result is contrary to the result of the study conducted by Bedard (2008), Agrawal-Cadha (2005), Krishnan-Visvanathah (2007), Krishnan-Lee (2009), Mc Daniel (2009), Reeb-Zhao (2009), and Felo-Solieri (2009), who found that the expertise of Audit Committees has a positive significant effect on the company's voluntary financial disclosure.

The result that shows insignificant positive direction means that with an increase in the number of Audit Committees members who are experts in the field of accounting/finance is in

line with the increase of voluntary financial disclosure, however, this study has not succeed in proving that the variable education is a relevant proxy for Audit Committees to increase voluntary financial disclosure. The result of this study, which shows an insignificant result, is supported by research conducted by Khomsiyah *et al.* (2005) in Indonesia, and Lin *et al.* (2006) in China, who also found that the variable education background in accounting/finance of Audit Committees members proved not significant.

Next is the result of the effect of Audit Committees independence, which is measured through the proportion independent of Audit Committees members, on the company's voluntary financial disclosure level in Indonesia..The research hypothesis is accepted, because the independence of Audit Committees was proved to have a significant positive effect on the company's voluntary financial disclosure level in Indonesia. This result is in line with the research conducted by Person (2009), who found that the independence of Audit Committees has a significant effect on the voluntary financial disclosure level. However, this result contradicts the research conducted by Felo (2003) and Mujiono (2004), who did not find a significant effect of the independence of Audit Committees on voluntary financial disclosure.

This research categorizes Audit Committees members as independent if they come from outside a company and if their biography it is stated, shown on company's annual report, that they have not been working for the company where Audit Committees was formed or for its affiliations. This result shows a significant positive effect on voluntary financial disclosure, and it can be interpreted that the measurement of independent members of Audit Committees, which is developed by the researchers, can be used to prove the effect of the independence of Audit Committees members on voluntary financial disclosure. Thus, the research result showed a significant positive direction, which means that the independence of Audit Committees is a factor that can increase voluntary financial disclosure.

Table 1 then shows the effect of the number of Audit Committees meetings on the company's voluntary financial disclosure in Indonesia. The table shows that the frequency of Audit Committees meetings does not have a significant effect on the company's voluntary financial disclosure in Indonesia, or in other words the research hypothesis is rejected. This result is contrary to the research conducted by Beasley *et al.* (2000) and Vafeas (2005).

The high average of meetings held by Audit Committees of companies selected as sample, i.e. 12 meetings per year, shows the high activity of Audit Committees in performing its duties. This number of meetings is expected to take effect on the company's voluntary financial disclosure level. However, the result of regression test shows no significant effect of the number of Audit Committees meetings on voluntary financial disclosure, which indicates that the activities conducted by Audit Committees are not effective activities in performing its duties to supervise the company's financial reporting process. This result is supported by research conducted by Arifin (2001) and Felo (2003), who also found that the number of Audit Committees meetings is not significant. Thus, the result of research which shows an insignificant positive direction means that the number of Audit Committees meetings is not a relevant factor to measure the role of Audit Committees on voluntary financial disclosure level.

This research also test the effect of time commitment of Audit Committees on company's voluntary financial disclosure level in Indonesia. From the regression results presented on Table 1, it can be seen that the time commitment of Audit Committees members shows a contrary direction to the allegations of the researchers and showed no significant effect, or in other words, the research hypothesis is rejected. This result is contrary to research conducted by Core (1999) and Bryan *et al.* (2004).

Audit Committees members are considered committed if they hold a maximum of three positions outside Audit Committees. The research result, which is contrary to the research hypothesis and shows no significant effect, is supported by research conducted by Pamudji-Trihartati (2010), and proved that the time commitment of Audit Committees members is not

an important factor for the individual members of Audit Committees in enhancing the company's voluntary financial disclosure.

Table 1 also shows the effect of the tenure of Audit Committees members on the company's voluntary financial disclosure level in Indonesia. From the results, it can be seen that tenure of Audit Committees members significantly effect on voluntary financial disclosure level. This means that the tenure of Audit Committees members has a significant effect on voluntary financial disclosure, or in other words, the research hypothesis is accepted.

This result is contrary with the result of research conducted by Jia *et al.* (2009), who did not succeed in proving the role of tenure on the effectiveness of the supervisory board in China, it however supports Krishnan's (2005) opinion that reporting quality is determined by the tenure of Audit Committees, so that Audit Committees members are considered more capable of providing critical oversight when they better understand the characteristics of the company where Audit Committees was formed. This research result indicates that tenure is a relevant factor in increasing the company's voluntary financial disclosure.

8. CONCLUSION AND

LIMITATIONS A. Research Conclusions

In accordance with the purpose of the study to examine the effect of Audit Committees on voluntary financial disclosure in Indonesia, the proxy of Audit Committees consists of; size, education background, independence, commitment, meetings, and tenure, the conclusions of this study are as follows:

1. Education background in accounting/finance of Audit Committees members, the frequency of meetings, and time commitment of Audit Committees members are not proven to significantly affect voluntary financial disclosure. This means the three proxies are proxies that are not relevant to explain the effect within Audit Committees on voluntary financial disclosure.
2. The size of Audit Committees, the independence of Audit Committees members, and tenure proved to significantly affect the voluntary financial disclosure in Indonesia. These results mean that the size of Audit Committees, the independence of Audit Committees members, and tenure of Audit Committees members are relevant proxies to describe the influence of Audit Committees on voluntary financial disclosure.

B. Limitations and Suggestions

This study has a number of limitations that are expected to be improved in similar studies in the future, i.e.:

1. Because there are many companies that do not include biographical data and Audit Committees activity, there is only a small sample that can be used in this research. In the future companies are expected to increase the availability of such information so that the role of Audit Committees could be improved.
2. The limitation this study is that the researchers assumed that the disclosure quality of voluntary financial disclosure is reflected in the level of disclosure. Besides, this study assumes that the motive of the management to not reveal voluntary financial disclosure is that they were not willing and not because of the unavailability of the information.

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2.9 - Audit Committee Characteristics

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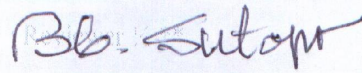
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