Date:	Feb 19, 2021
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From:	"Cogent Business and Management" business@cogentoa.com
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Ref: COGENTBUSINESS-2021-0179
217217010
AUDIT REPORT TIMELINESS: AFTER TWO DECADES OF THE AUDIT COMMITTEE EXISTENCE IN INDONESIA

Dear Dr. Efrizal Syofyan,

Your manuscript entitled "AUDIT REPORT TIMELINESS: AFTER TWO DECADES OF THE AUDIT COMMITTEE EXISTENCE IN INDONESIA", which you submitted to Cogent Business & Management, has now been reviewed and the reviews are included at the bottom of this email. There is evident merit to your paper, but the reviewers have advised that it would need substantial work on the literature review, discussion, contribution, or any combination of these to be suitable for publication in Cogent Business & Management.

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Your revision is due by Mar 21, 2021. If you anticipate problems making this date then please contact the Editorial Office.

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Yours sincerely
Collins G. Ntim, PhD
Senior Editor
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Thank you for submitting your paper for consideration. Before I can put the paper under review, I will require a structured manuscript as follows:
1. Please re-structure paper as follows: 1. Introduction, 2. Background, 3. Theoretical literature review, 4. Empirical literature review and hypotheses development, 5. Research design, 6. Empirical results and discussion, and 7. Summary and conclusion. Please let me kindly emphasise that this structure must be followed if you would like your paper to progress in this journal, and if you do not or you are unable to re-structure your paper this way (following this 7 part structure), I will like to be clear, frank, honest and upfront that the paper will be rejected. This is the minimum quality standard of the journal. So please kindly take your time to follow and effect this revision.

2. Introduction: Please clarify your research questions, objectives, background motivation, theoretical and empirical motivation and the lines of contributions to the literature. You can do this by sharply articulating your research questions/objectives, identify the potential theoretical, background and theoretical motivation or gaps, and explain how your study contributes to the literature. You can do this by highlighting the weaknesses of prior studies as well. Currently, your introduction is very dry. Additionally, you need state clearly the contributions of the paper. For example, “Consequently, the current paper seeks to make the following contributions to the existing literature. First,…, Second,…., Third, …, Fourth,… and so on”. The introduction should be about 5 pages long.

3. Background – you need to explain why this is the appropriate context to conduct this study by exploiting regulatory, reform and policy issues and developments within the research context or setting. This should be about two to three pages long.

4. Theoretical framework - Please an overarching theoretical framework that will explain the underlying predictions and hypotheses of interest. In doing so, please explicitly outline how they help link the dependent and independent variables together by drawing on both seminal (old) and recently (newly) published studies. This should be about two to three pages long.

5. Literature review and hypotheses Development – please enhance your hypotheses by: (i) drawing on the theory; (ii) empirical literature; (iii) research setting/contextual insights; and (iv) then setting up your hypotheses. You will do this for each hypothesis. Currently, you have not developed your hypotheses in this way. You will need to so by drawing on both seminal (old) and recently (newly) published studies.

6. Research design – Please identify, classify and explain your variables – dependent, independent and control variables, as well as any others, such as moderating or mediating variables. Please also explain your sample selection clearly (insert a table tabulating the steps - how many was missing, many had data, how many selected and why) and also clarify in a normative way how the variables are operationalised. Similarly, explain your sample in a tabular form, outlining step by step the total population to the selection of the final sample. Label all your equations, figures and tables in a consecutive manner. Make the tables self-contained by clearly identifying dependent, independent and control variables in the tables.

7. Empirical findings – please link your findings more strongly to the: (i) theory, (ii) empirics, (iii) context; and (iv)

highlight their economic, academic/research and policy implications. Closely link up and cite the papers that you have discussed in the background, theory and empirical literature review & and hypotheses development section to the findings you are presenting here.

8. Conclusion – Please outline a summary of findings, contributions, implications, limitations and avenues for future research. Especially, expand the discussions relating to implications, limitations and avenues for future research.

9. Robustness or additional analyses – please demonstrate how your findings are to alternative measures (e.g., different ways of measuring the key dependent and independent variables), estimations (e.g., lagged structure, GMM estimator, Generalised Least Square regressions, Fixed or random effects regressions, two- or three-stage least squares regression, propensity score matching, difference in difference estimation, probit and logit models, Heckman selection models, and instrumental variables estimation, amongst others) and general endogeneities. This is completely missing.

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11. Typos – please there are considerable number of typos, spelling errors and grammatical mistakes throughout the paper that a careful reading will help you to eliminate them. Seek professional proof-reader's help if deemed appropriate. Improve presentation by clearly labelling equations, tables, sections and subsections.

12. Please highlight all these changes in the colour yellow and offer a point by point response of the changes that you have made in the paper to the above comments (the above 11 comments) in your detailed author report of amendments to the editor.

I look forward to receiving your revised manuscript.

Best regards
Collins Ntim (PhD), ACGBE.

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AUDIT REPORT TIMELINESS: AFTER TWO DECADES OF THE AUDIT COMMITTEE EXISTENCE IN INDONESIA

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AUDIT REPORT TIMELINESS: AFTER TWO DECADES OF THE AUDIT COMMITTEE EXISTENCE IN INDONESIA

Abstract

This paper aims to examine the association between audit committee (AC) effectiveness and report quality proxied by the timeliness of reporting in the context of Indonesia. The AC effectiveness is measured by its size, expertise (competence), and meeting frequency. This study analyzed 240 observations from 48 manufacturing companies from 2014 to 2018 in the Indonesian Stock Exchange (IDX) as the sample. Logit regression analysis was used to test the hypotheses developed in this study. The findings do not support that AC size and financial expertise have a significant effect on audit report timelines.

Interestingly, the findings show that meeting frequency has a significant effect on audit report timelines. The results indicate the AC effectiveness depends on the members' communication. The meeting frequency will improve communication effectiveness. The findings suggest that AC meeting is a crucial factor in ensuring its oversight role in companies, leading to timely submission of audited financial statements. The findings provide important contributions to the existing literature corporate governance (CG) especially AC effectiveness in emerging economies. The results imply the regulator to design sound regulations and policies on AC and companies' management to ensure effective oversight from the AC.

Keywords: *audit committee effectiveness, size, expertise, meeting frequency, report quality, corporate governance*

JEL Classification: G 34 M42 M48

Paper Type: *Research article*

1. Introduction

Most Asian economies have carried out initiatives to improve their regulatory frameworks, particularly CG, information quality, and transparency over the last two decades. After all, it is generally agreed that the recent crisis resulted from a loss in investor confidence and a lack of effective CG in many of Asia's financial markets and firms. The establishment of AC on the boards, particularly the effectiveness of the AC, has been one of the priorities on the agenda of regulators to reduce information asymmetry between controlling shareholders and other investors. An effective AC represents a governance mechanism that limits potential agency problems from the separation of corporate ownership and control (Abbott & Parker, 2000; Jensen & Meckling, 1976).

The purposes of this study are to (1) examine the relationship between AC size and financial report timeliness (2) extend prior studies on AC financial expertise by investigating the association between AC accounting financial expertise and financial reporting timeliness, and (3) determine how meeting frequency affect financial report timeliness. This study fills the gap in the literature by examining AC effectiveness in the context of Indonesia. In particular, this study examines the size, expertise, and meetings on audit report timelines. We focused on discussing the financial report timelines as one of the terms to say financial report quality. Delivery timeliness of financial statements to the public is essential to maintaining information's relevance in the financial statements (Sakka & Jarboui, 2016). Due to inadvertent delays in the delivery of financial statements, the financial statements' information will lose the ability to influence user decisions. For investors, the timely delivery of financial statements will reduce uncertainty in investment decision-making and disseminate asymmetric information among investors in the capital market (Jaggi & Tsui, 1999). Timely delivery of financial statements will reduce leaks, rumors, and insider trading in the stock market (Owusu-Ansah, 2000). The timeliness of financial statement submission also provides valuable information for shareholders' decision-making process (Al-Ajmi, 2008).

However, the timeliness of the delivery of financial statements following the prevailing regulations is confronted with obstacles, one of which is that independent public accountants should audit financial statements. The timeliness of the delivery of financial statements depends on the period of completion of the audit process. It is because the financial statements cannot be published before the audit is completed.

Audit report lag has been a variable of interest in many studies due to its use as a proxy for the occurrence of auditor-client management negotiations and audit efficiency and because long audit report lags delay the release of earnings information to the market (Durand, 2019). Several variables, such as those relating to CG and various auditor characteristics, have been little explored and would benefit future research.

We argue that an audit report's timeliness depends on the effectiveness of the AC. AC is one of the critical components of the CG. Sakka & Jarboui (2016) suggest that good structures of CG will improve the quality of report timeliness. We examine three AC characteristics, namely, members' financial expertise, size, and meeting frequency. Previous studies by Bedard *et al.* (2010) and Spira (2003) show that the effectiveness of the AC influenced by the characteristics of the committee. Some of the AC characteristics examined by previous studies include size, members' independence, gender proportion, and meeting frequency (Mohamad Nor, Shafie, & wan hussin, 2010; Sun, Liu, & Lan, 2011).

This study also gives some of the contributions. First, the study contributes to the literature to provide a new perspective about AC effectiveness and provide practical implications concerning AC oversight of financial reporting. Although there is a large body of literature on CG and AC (see DeZoort *et al.*, 2002; Turley and Zaman, 2004), most research predominantly carried out in the context of developing economies such as US and UK. Due to significant variations in AC requirements internationally, the findings of these studies may not apply to other economies which have different contextual environments (Collier & Zaman, 2005; Zaman, Hudaib, & Haniffa, 2011). The previous study argues that AC is related to accounting information quality in various economies (Woidtke & Yeh, 2013). So, In our study, we examine in the context of developing countries in Asia, especially Indonesia. Indonesia has a GDP of USD 740 per capita. Indonesia has unique contextual factors. It follows the French legal tradition and fares realtively poorly in Asia in protecting minority shareholders' interests, Anti-Director rights, Judicial Efficiency, Rule of Law, and Corruption. IDX consists of 645 companies with 100 state-owned enterprises (SOE) and family-owned businesses (FOB). Almost 95 percent of the firms have a controlling shareholder. The Capital Market and Financial Institution Supervisory Agency, BAPEPAM-LK (The role of *Bapepam* and *LK* was replaced by the Financial Services Authority (OJK) starting on October 27, 2011, in Law No. 21 of 2011), and the IDX have taken steps to improve the CG environment in Indonesia. In Indonesia, AC becomes mandatory since mid-2000. After two decades, studies on the relationship between AC and audit report timeless in Indonesia are still limited and showing mixed results (Ika & Mohd Ghazali, 2012). This topic becomes more critical because IDX release (Bapepam and LK) also issued regulations that audited financial statements should be submitted and published no later than the third month after the annual financial report. However, up to 2018, there were ten companies failed to advance and issued their statement timely. Doyle and Magilke (2013) and Schmidt and Wilkins (2013) suggest that improving financial reporting timeliness is the regulator's priority. Including in Indonesia, the Indonesian Financial Services Authority *(Otoritas Jasa Keuangan—OJK)* obligated all companies to submit their report on time. Indeed, the timeliness of important financial information is a crucial aspect of financial decision making. Timeliness may affect decision-makers expected payoffs and influence security prices (Kross & Schroeder, 1984).

Second, this study contributes to the practice in the way that solid regulation about AC is needed. Some of AC in the company in the developing country may be formed just for regulation obedience. There is no significant contribution was found previously. It opens up the discussion on the effects of changing global corporate behaviors on CG mechanisms (Adelopo et al., 2012). Our findings show that the effectiveness of the AC role not only about the number of expertise. The quality of the discussion from the routine number of meeting frequency is crucial. We need to be honest that AC is not just a CG symbol. Still, this structure effectively reduces the agency conflict between management and stakeholders, especially investors. So, regulators need to follow this finding to formulated an excellent policy to make AC members work effectively.

2. Background

In Indonesia, AC becomes mandatory since 2001 by BAPEPAM-LK and Jakarta Security Exchange regulation. The mandatory means that every listed company is required to have an audit committee. An audit committee is a committee responsible to the board of commissioners (BOC) and assists the board in overseeing internal and external audit functions.

In 2004, OJK/Bapepam LK Chairman published Bapepam-LK Regulation No. IX.I.5 on the Establishment and Implementation Guidelines of Audit Committees, which obliged public companies to have audit committees and establish such committees' guidelines. BEI then issued a Decree of PT BEI Board of Directors No. KEP-00001/BEI/01-2-14 on Amendment of Regulation No. I-A on the Listing of Stocks and Equity-Type Securities other than Stocks Issued by Listed Companies emphasizes public companies' obligation to have audit committees in place. Both the BEI Decree and Bapepam LK Regulations stipulated that an audit committee was composed of a minimum of one independent commissioner and 2 (two) other members out of the issuer or the said public company. The regulations also set the number of independent commissioners at a minimum percentage of 30% to serve as independent commissioners.

Bapepam-LK Regulation No. IX.I.5 regulating audit committee independence, tenure, and meetings is also an effort to maintain good CG within Indonesian listed companies. It has become increasingly important for audit committees to take on financial reporting quality responsibility.

Specifically, the duties of AC are: to review company financial information that will be released, to review the effectiveness of company internal control, to review the company compliance to the law and regulation, to review and to report to the commissioners regarding any complaints related to public companies, to keep confidentiality of company's document, data, and information, to review the independence and objectivity of a public accountant, to review the audit adequacy conducted by a public accountant. BAPEPAM_LK also provides the AC guidelines includes the definition of AC independent, the AC authority, and the AC meetings. AC also mandatory to submit an activity report to the BOC frequently.

After two decades, studies on the relationship between AC and audit report timeless in Indonesia are still limited and showing mixed results (Ika & Mohd Ghazali, 2012). This topic becomes more critical because IDX release (Bapepam and LK) also issued regulations that audited financial statements should be submitted and published no later than the third month after the annual financial report. However, up to 2018, there were ten companies failed to advance and issued their statement timely. Doyle and Magilke (2013) and Schmidt and Wilkins (2013) suggest that improving financial reporting timeliness is regulators' priority. Including in Indonesia, the Indonesian Financial Services Authority (Otoritas Jasa Keuangan—OJK) obligated all companies to submit their report on time. Indeed, the timeliness of crucial financial information is an essential aspect of financial decision-making. Timeliness may affect decision-makers expected payoffs and influence security prices (Kross & Schroeder, 1984).

3. Theoretical Framework

This study examine the effect of the Characteristics of AC on Timeliness. Agency theory by Jensen & Meckling (1976) explains that AC has a vital role in reducing agency problems between managers and investors. Three AC characteristics are expected to influence timeliness; AC size, AC expertise, and AC meet frequently. Our framework can be seen in picture 1.

A previous study by (Kalbers & Fogarty, 1993) strengthens that AC is critical to make AC effective. The size of AC member will increas reporting quality (Bédard & Gendron, 2010; Ghosh, Marra, & Moon, 2010; Ismail, Dunstan, & Van-Zijl, 2009; Mohd, Takiah, & Norman, 2009; Pucheta-Martínez & De Fuentes, 2007). The number means the skill and knowledge that AC has, and it will help solve the quality problem.

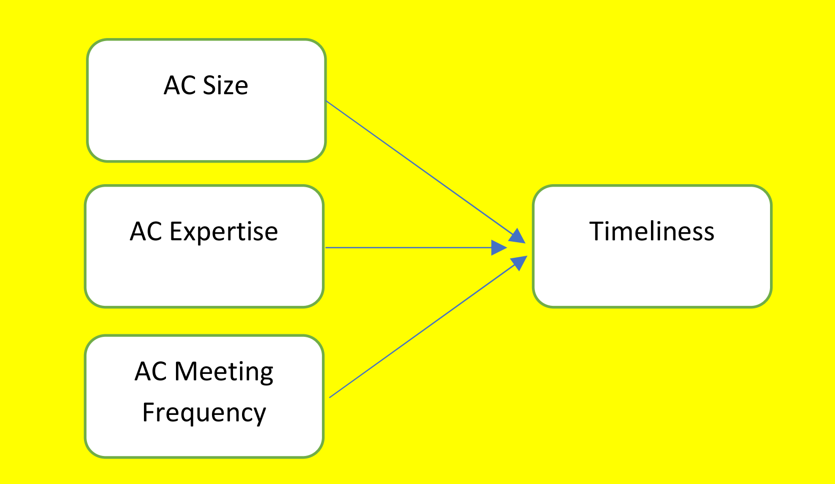

Figure 1. Framework

Besides the number, the AC expertise is more important. AC with financial or accounting expertise is more likely to detect any financial misstatements (Persons, 2009). The appropriate knowledge and skill that AC have will lead to timely financial reporting (Abernathy et al., 2014; Al-Ebel, Baatwah, & Al-Musali, 2020). AC-specific skills and experience will improve AC capacity to understand companies' technical issues (Dezoort, 1998).

The other most important is AC member frequently meeting (Beasley, 1996; McMullen & Raghunanthan, 1996). Every member in AC must make their contribution to the team. Every problem should detect and resolve soonly. Chandrasegaram, Rahimansa, Rahman, Abdullah, & Mat (2013) and Haji-Abdullah & Wan-Hussin (2015) report that frequency meeting is crucial to achieving good financial reporting quality.

4. Empirical Literature Review and hypothesis Development

4.1. Audit Committee and Timeliness

In general, the agency theory proposed by Fama and Jensen (1983) and Jensen and Meckling (1976) have been used to explain the relationship between AC and report timeliness. The agent sometimes acts against the Principal's interests. It will create agency problems. The Principal needs information that is available at the correct time before such information loses its capacity to influence a decision. The late report increases the agency problem. Information timeliness influences lower abnormal returns (Givoly & Palmon, 1982; Kross & Schroeder, 1984), and the level of uncertainty (Ashton, Willingham, & Elliott, 1987). So, AC plays the role of protection to reduce this conflict. The AC has oversight responsibility for financial reporting, internal control, and external auditing activity (Turley & Zaman, 2004).

Because of that responsibility, AC plays a significant role in report timeliness. Effective oversight by AC will ensure the quality of financial reporting indicated by its timely publication. Their purpose is to ascertain the information carried by the financial statements available at the correct time for users. Some previous studies such as (Abbott, Parker, & Peters, 2004; Afify, 2009; Pucheta-Martínez & De Fuentes, 2007) confirm that AC effectiveness affects timeliness.

Audit lag is the number of days between the end date of the financial statement and the audit report issuance date (Ryu & Roh, 2007), whereas, based on (Lee & Jahng, 2008), audit report lag is a time period between the end of the company's fiscal year and the audit report date. A possibility of delay of the issued opinion because the auditor tended to do tests and the management might do a long negotiation when the business uncertainty was discovered. The auditor delays issuing an opinion with the hope that the management can solve the problem so that they can avoid the going concern audit opinion.

4.2. The Characteristics of Audit Committee and Their Relationship with Timeliness

We examine three AC characteristics, AC size, expertise, and meeting frequency. We think that such traits are closely related to Indonesia's condition. According to the Indonesian stock exchange regulator (BAPEPAM, 2004), AC should comprise at least three members and have at least one member with accounting or financial expertise. Also, they should have an equal meeting frequency as the minimum Board of Committee meetings as a requirement in the company's article of association.

Kalbers & Fogarty (1993) suggest that the AC's total members are critical to AC effectiveness. Different members can view financial reporting from various aspects. It also enables the committee to simultaneously handle several financial reporting issues, thereby leading to timely external audit completion. Pucheta-Martínez & De Fuentes (2007) find that the AC size affected Spanish firms' financial reporting quality. That finding is also supported by Mohd, Takiah, & Norman (2009) in a sample of Malaysian firms.

Previous studies reported that the AC size has a substantial impact on its decisions, and AC with fewer directors has better coordination as a part of CG. Bédard and Gendron (2010) conducted a meta-analysis to highlight the role that AC size plays on the committee's effectiveness and found that most studies supported the primary function of the AC's size on effective monitoring.

Some studies have found an association between the size of the AC and earning management actions. Ghosh *et al.* (2010) found that discretionary accruals are significant in firms with small ACs, suggesting that an AC with many members possessed sufficient skills and knowledge and is more effective in financial reporting monitoring. Ismail *et al.* (2009) argued that the proportion of AC members is associated with the level of earning quality. Besides, Mansor *et al.* (2013) identified the association between CG and earnings management in Malaysia's family-oriented and non-family businesses. Contrarily, Salleh and Haat (2014) concluded that there is no significant association between the AC size and earning quality. Additionally, Haji-Abdullah and Wan-Hussin (2015) documented an insignificant association between AC and natural earning management size. Based on the above discussion, there is a lack of studies that examine the relationship between AC independence and earning quality.

The notion is that with many AC directors, more diverse skills and knowledge can be utilized by the committee to improve its monitoring role, thus decreasing the likelihood of experiencing. It is consistent with the agency theory, which states that large boards could include more independent members, which leads to better control of management and an increase in the quality of financial reporting. This study expects that AC with a bigger size can contribute more towards financial report quality. Thus, the following hypotheses tested:

Our first hypothesis state that:
H1: The number of audits committee members will have positive effects on audit report timeliness.

Individual members' expertise is essential in performance. For example, the number of AC members with financial expertise would improve CG (DeFond, Hann, & Hu, 2005). Companies that have financial expertise tend to low faced financial problems (McMullen & Raghunanthan, 1996). AC with expertise should be more effective to be monitoring the companies. Persons (2009) suggest that AC with financial or accounting expertise are more likely to detect any financial misstatements or improper business transactions. It will lead to timeliness.

Previous literature suggests that AC with accounting or financial expertise leads to financial reporting efficiency and timely financial reporting (Abernathy et al., 2014; Al-Ebel, Baatwah, & Al-Musali, 2020). Dezoort (1998) argues that specific accounting experience will improve AC capacity to understand companies' technical issues. Then, it reduces the amount of time to discuss and evaluate the misstatement or unusual transaction with the auditor or management. Bull & Sharp (1989) and Lipman (2004) suggest that AC that has knowledge of accounting concepts and an auditing process will enhance their understanding of the financial reporting process, recognize problems, ask probing questions of management and auditor make leadership contributions to AC members. (Dezoort, 1998) states that AC effectiveness may depend on the number of public accounting expertise that joined in AC team.

The financial expert of AC members is a vital characteristic. All the AC members should pertain proper knowledge of accounts and finance to effectively control the financial reporting process to improve financial reporting quality. Badolato *et al.* (2014) examine the effect of interactions between an AC member with financial expertise and earning management status. A financial expert serving on the AC with apparent authority supported by sufficient regulations may constrain the firm's managers' earnings manipulative actions. Krishnan *et al.* (2011) examine whether an AC with legal expert members enhanced financial reporting quality.

Hassan and Ibrahim (2014) found that AC's financial literacy is effective in limiting real earning management actions. However, Sun *et al.* (2014) found an ineffective role of AC members' financial experts in constraining real earning management. Garcia-Sánchez *et al.* (2017) explore whether financial experts on an AC improved earning quality and found an effective role for the financial experts on an AC in enhancing earning quality.

These studies propose that financial experts have a good understanding of how financial reports are manipulated. Therefore, they may be able to enhance the financial reporting quality. Consistent with agency theory, it is suggested that financially knowledgeable AC members who possess financial and accounting qualifications are more likely to emphasize the financial reporting quality. Previous studies indicate that financially experienced members improve the effectiveness of the AC. Based on the signaling theory, the above discussion suggests that AC members with an expert in finance and accounting are an excellent way of sending a signal about the board's credibility. Hence, the following hypothesis is proposed:

H2: The number of audit committee members with accounting or financial expertise will positively affect audit report timeliness.

Last, the number of committee member meetings also crucial for financial reporting timeliness. Raghunandan, Read, & Rama (2001) highlighted that an AC that meets more frequently is more likely to be well-informed, diligent, and knowledgeable about the current accounting and auditing issues to carry out their duties. It leads to AC effectiveness. Previous studies by Dalton, Daily, Johnson, & Ellstrand (1999) found a positive relationship between size and monitoring function of the board that results in higher performance.

Prior studies like Abbott & Parker, 2000; Karamanou & Vafeas (2005) confirm that the meeting frequency leads to committee diligence. It is important because every one of the committee members may need some discussion with others. The frequency of committee meetings allows the AC more time to oversee the financial reporting process. A study by Abbott et al. (2004) suggests that the AC's meeting frequency will have a negative impact on the probability of restatement. Another study by Mohamad Nor et al. (2010) also confirms that frequent AC meetings increase the likelihood of timely production of an audit report.

The frequency of meetings is an essential AC attribute (Beasley, 1996; McMullen & Raghunanthan, 1996). Bedard and Johnstone (2004) argued that two main features measure the activity level of the committee meetings: (i) the responsibilities it has to perform and (ii) the number of meetings. Prior studies reported the significance of meeting frequency. Among them, Xie *et al.* (2003) in the US, Sierra García *et al.* (2012) in Spain, and Sáenz González and García-Meca (2014) in Latin America reported that frequency of AC meetings is associated with lower earning management. On the other hand, Katmon and Farooque (2017) found AC meetings are related to high discretionary accrual. However, studies by Davidson *et al.* (2005) and Baxter and Cotter (2009) in Australia, and Soliman and Ragab (2014) in Egypt reported that there is no significant relationship among AC meetings and earning quality. Also, Shawtari *et al.* (2015), Rahman and Ali (2006), Abdullah *et al.* (2014), and Mohamad *et al.* (2012) investigated the relationship among the frequency of AC meetings and earning quality.

In the same line, Chandrasegaram *et al.* (2013) provided evidence that there is a weak relationship among the frequency of AC meetings and earnings manipulation as measured by discretionary accrual. Haji-Abdullah and Wan-Hussin (2015) found an insignificant association between the number of AC meetings and real earning management. Based on the above discussion, it can be observed that only a few researchers have examined the association between AC meetings and earning quality.

AC with more meetings will consume additional time to take on effectively overseeing the process of the financial reporting of the business. The frequency of meetings signals the efficiency of the oversight committee's role and the credibility of the information provided. The AC meeting's frequency indicates that the committee intends to remain cautious and informed. This shows that outside users perceive less risk to invest in companies that organize more AC meetings and may require fewer practices of earning quality in corporate reporting.

Our last hypothesis state that:
H3: The number of audits committee member meeting frequency will have positive effects on audit report timeliness.

5. Research Design

5.1. Population and Sample

This study's population comprised all of the manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2018. We used the purposive sampling technique to select the sample. The criteria are as follows:

1. Manufacturing company that listed in IDX from 2014 to 2018.
2. We can get the date of financial reporting submitted.
3. Company has complete data, especially for the research purpose.
4. The currency is in IDR.

Table 1 Sample selecting procedure

No	**Description**	**Number of Companies**
1	Population	167
2	Less: date of financial reporting submitted	(37)
3.	Less incomplete data	(52)
4.	Non-IDR	(30)
Total Sample		48
Total sample from 2014 to 2018		**240**

Initial population number is 167 manufacturing company. 37 companies can not contain the date of financial reporting submitted. 52 companies have incomplete information about our variables in their financial report. Also, 30 companies did not have an Indonesian currency report. So, our final samples are 48 companies or 240 firms from 2014 to 2018.

5.2. Variables

The independent variable of this study is to report timeliness. This study's main independent variables are AC size, members' financial expertise, and meeting frequency. We also used the control variables, namely, audit fee, audit firm size, and internal auditor. The measurement of the variables can be seen in table 2.

Table 2 The definition and measurement of the variables

No.	**Variables**	**Definition**	**Measurement**
Dependent Variabel			
1.	Timeliness	having information available to decision-makers in time to be capable of influencing their decisions.	Measure with dummy, where 0 for the company who report lately and 1 for the on time.
Independent Variables			
1.	Audit Committee Size	How much the person who occupied the AC position.	The number of the audit committee in the company.
2.	Audit Committee Expertise	an individual who has education and experience in accounting or auditing (e.g., auditor, CFO, controller or accounting officer)	The percentage of the audit committed that have accounting or financial background, like educational background or previous position background.
3.	Audit Committee Frequency Meeting	The frequency of the AC meet to discuss their job	The number of meeting frequency in one years.
Control Variables			

1.	Audit fee	How expensive the audit fee was charges by the audit firms.	The mean of audit fee in observation years
2.	Audit firm size	The size of the accounting firm in amount of assets, the number of employee and the number of clients.	1 for big-4 and 0 for non big-4.
3.	Internal auditor	The number of auditor internal in the firm.	The number of internal auditor in the samples

Meanwhile, we follow the AC size (ACSIZE) was the total number of AC members (Ismail et al., 2009; Salihi & Jibril, 2015; Xie et al., 2003). Following prior literature by Al-Rassas and Kamardin (2015) and Sun *et al.* (2014) AC financial expert (ACFE) is defined as the ratio of the AC financial and accounting acquaintance to the total number of AC members. However, the AC meetings (ACMEET) calculated by the frequency of AC meetings per annum (Saleh et al., 2007; Xie et al., 2003). We also include three control variable, they are audit fee, audit firm size, and internal auditor. That variabeles found by previous research as the factor that affect timeliness.

5.3. Model Specification

The study models timeliness as a function of audit committee characteristics and control variables. For our set research objective to be reached, the following regression is going to be estimated:

$$TMLNS = f\ (SIZE, FINA, FREQ, FEE, AFS, IA) \quad (1)$$

Explicitly, we stated the model:

$$TMLNS_{i,t} = \beta_0 - \beta_1 SIZE - \beta_2 FINA - \beta_3 FREQ - \beta_4 FEE - \beta_5 AFS - \beta_6 IA + \varepsilon \quad (2)$$

Where:

TMLNS = Timeliness
β0 = Constants
SIZE = Audit committee size
FINA = Audit committee financial expertise
FREQ = Audit committee meeting frequency
FEE = Audit fee
AFS = Audit Firm Size
IA = Internal Auditors
e = *Error term*

6. Empirical Results and Discussion

The samples of this study are 240 manufacturing company listed in IDX. But, after the statistical analysis, there are 15 sample outliers (have extreme value), then, finally the samples of this study are 225. Table 3 show the descriptive statistics of the sample.

Table 3 Descriptive statistics

	N	Mean	Std. Deviation
TMLNS	225	0.9867	0.11495
SIZE	225	3.0489	0.30224
FINA	225	0.7780	2.16739
FREQ	225	6.5911	4.15029
AFS	225	0.4889	0.50099
IA	225	23.0978	117.00366
Valid N (listwise)	225		

The data of the study encompass the independent auditor reports and the companies' financial statements. The study's data sources were from the manufacturing companies' annual financial statements listed on the Indonesian Stock Exchange (ISE/BEI) during 2014–2018.

The descriptive statistics in Table 3 indicated that the Audit Firm's time to complete the Audit Report from the end date of the financial statements was, on average, 98.67 days, with a deviation standard of 11.49. To assess the feasibility of the regression model, a goodness of fit test was conducted. From the goodness of fit test, it was discovered that the X2 was 3.608 with a significance level of 0.824. The significance level, which was more than 0.05, indicated no difference between the logistic regression model's prediction and the value of the observation result. This test concluded that the model was feasible and acceptable.

Besides that, an overall model fit test was also conducted to assess whether the model hypothesized fitted the data. The overall model fit test was conducted by comparing the value of −2 initial Log-Likelihood (Block number1⁄40) with the value of −2 last Log-Likelihood (Block number 1⁄4 1). Block Number 0 indicated that the value of Log-Likelihood was 31,865, whereas in Block Number 1, the value of -2 Log-Likelihood showed the value of 27.346. The value reduction of 4.519 with the significance at the level of 0.05 showed that the model hypothesized fitted the data. Based on this test, the regression could be applied.

Table 4 Overall Model Fit

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	71,727	1,947
	2	40,375	2,967
	3	33,039	3,732
	4	31,918	4,172
	5	31,865	4,296
	6	31,865	4,304
	7	31,865	4,304

Iteration		-2 Log likelihood	Coefficients				
			Constant	Size	Freq	AFS	IA
Step 1	1	71,360	1,860	,055	-,016	,000	,000
	2	39,282	2,759	,146	-,048	,000	,000
	3	30,762	3,519	,249	-,106	,001	,001
	4	28,577	4,422	,238	-,176	,010	,003
	5	27,868	4,511	,384	-,234	,040	,010
	6	27,469	3,293	,876	-,278	,127	,023
	7	27,355	2,011	1,242	-,293	,548	,031
	8	27,346	1,508	1,372	-,296	,746	,034
	9	27,346	1,472	1,383	-,296	,752	,034
	10	27,346	1,471	1,383	-,296	,752	,034

The determinant coefficient. The determinant coefficient showed the value of R2 of 0.151. It means the independent variables could affect the dependent variable for 2.0 percent, whereas the remaining percentage for 71.8 percent affected other factors outside the variables being studied.

Table 4 shows the Regression results. Our first hypothesis states that AC size affects timeliness. We can see in table 4 that the AC size is positively related to timeliness (B=1.383). But this is not statistically significant (p_value=0.642). So, the H1 is not supported. It means that the number of AC does not play a significant role in financial report timeliness.

Our second hypothesis states that AC that has an accounting or financial background has influenced the timeliness. Table 4 shows the regression result, the financial expertise positively related to timeliness (B=0.752). This is not statistically significant (p_value=0.804). Our H2 also not supported. The results suggest that the company that has much financial expertise committee does not affect timeliness performance.

Table 5 Results

Source	B	S.E.	Sig.
Size	1.383	2.971	0.642
FINA	0.752	3.034	0.804
FREQ	0.296	0.146	0.043
AFS	0.853	1.319	0.518
IA	0.034	0.040	0.393
Constant	1.471	9.174	0.873

The last hypothesis suggests that the meeting frequency of the member will affect the timelines. The results show that the positive effect of the meeting frequency on timeliness (B=-0.296). The statistical results show significant effects (p-value=0.043). It means that the number of the meeting will affect the report's probability be on time.

According to the table, not one of our control variables is found relationship with timeliness. Audit firm size have positive impact on timeliness (B=0.853) but not significant (p_value=0.518). The internal auditor variable also positively impacts timeliness (B=0.034) but not significant (p_value=0.393).

Our findings confirm previous research by Al-Rassas and Kamardin (2016), Haji-Abdullah and Wan-Hussin (2015), and Saleh *et al.* (2007) who showed an insignificant relationship of audit committee size with earning quality (measured by different proxies). Abbott et al. (2004) and Pucheta-Martínez & De Fuentes (2007) suggest that the accounting committee's size is important, but the number of independent committee members is more important. The AC has the responsibility to make sure that the financial report doesn't mislead the user (Principal). Klein (1998) and Wolnizer (1995) suggest that an AC play the role of safeguarding and advancing the interests of shareholders. This responsibility will effective if the AC members didn’t have any interest in the management.

Our study also confirms that AC financial expertise didn’t have a significant effect on timeliness. These results differ with the previous study like (Abernathy et al., 2014; Al-Ebel et al., 2020; Dezoort, 1998). The AC members are equipped with accounting and financial knowledge, and their accounting skills makes it very difficult for financial statements to be manipulated. This is because the monitoring power of the AC is strong. It is in line with Al-Rassas and Kamardin (2016) study in Malaysia and concluded that there is no significant association among AC financial expert and earning management. Also consistent with Sun *et al.* (2014) that find an insignificant relationship between audit committee financial expertise and real earning management in the US.

Othman, Ishak, Arif, & Aris (2014) said that studies about financial expertise always show inconsistent results. Abbott, Parker, Peters, & Raghunandan (2003) suggest that AC expertise may manifest itself in the form of greater external audit scope to address and detect material misstatements adequately. And as a consequence, it may need a long time to complete the audit. The number of experts also affects the decision processes requiring much time to discuss the auditor's findings. We argue that the answer to this problem is good communication.

In the last hypothesis, we state that meeting frequency plays a role in timeliness. The results confirm our expectations. Our finding is necessary to explain why the number of audits committee and the financial expertise do not have a significant effect. Abbott et al. (2004) found that AC diligence that measured by the activity level is important to effectiveness. Increase the activity can be done by increase the meeting frequency. In the meeting, the AC member also improves communication quality.

Research results support the findings of past researches conducted by Al-Rassas and Kamardin (2015) and Habbash *et al.* (2013) that AC meetings and earning management are positively associated (measured by discretionary accrual) in the capital markets of Malaysia and the UK, respectively. This unexpected result could be due to meetings' ineffectiveness, as it led to routines that make members become uncritical and consequently perform only a ceremonial function (Habbash et al., 2013).

7. Summary Conclusion

We examine the relationship between AC characteristics and audit report timeliness. We examine three independent variables; AC size, AC expertise and AC meeting frequency. The results of this study show that size and financial expertise have no impact on audit report timeliness. But, The meeting frequency found significan effect on timeliness. This result is interesting in some ways. Our results contra with previous study by Abernathy et al. (2014) and Al-Ebel, Baatwah, & Al-Musali (2020) that found the number of the AC and the number of committee members that has financial expertise is important for AC effectiveness. But, our results about the committee member's meeting frequency may explain this issue. We found that the frequency of meeting influences the audit report timeliness. So, active communication may have a significant role in AC effectiveness, especially in audit report timeliness. Although the company has a huge number of committee members and most of them have a good financial background, it would not be effective if they didn't have time to discuss and build good communication. This finding gives a contribution to new knowledge about the relationship between AC characteristics and audit report timeliness. Also, companies and regulators can use this finding as input to make better regulations and decisions. The present study contributes to the literature on AC with size, expertise, and meeting frequency. The study results indicated that AC meeting frequency influences report timeliness, whereas the variables of AC size and expertise do not affect the reporting timeliness.

Some of the limitations and recommendations for the future can drive from this study. Other aspects of the CG mechanism and AC effectiveness such as a board of directors, dual board, gender proportion had not been addressed in this present study. As such, future research may incorporate and examine these other aspects to gain a comprehensive insight into CG in Indonesia in particular and emerging economies in general.

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Public interest statement

For the last two decades, regulators around the world have focused on CG reform since the Asian financial crisis and big corporate scandals such as the Enron and WorldCom. Especially, regulators have focused on the role of ACs in improving public confidence in accounting information. This study examines the association between AC effectiveness and report quality proxied by the timeliness of reporting in the context of Indonesia. Unlike prior studies on AC have predominantly carried out in the context of developed economies. This study provides insights on the progress of governance reform carried out by Indonesian regulators, such as initiatives that were introduced by the capital market regulators to strengthen CG and improve financial information quality.

Photo

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Writing – overall evaluation
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Reviewer 1: Abstract : What about the novelty found in this manuscript? Because the abstract is not clear about its novelty.
Materials and Methods : Can you include the most recent data for 2020? Please include the most recent data.

Title, Abstract and Introduction – overall evaluation
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Compliance with Ethical Standards – overall evaluation
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Reviewer 2: Not applicable

Comments to the author
Reviewer 2: This is an interesting article which proposes a different perspective regarding quality and effectiveness of the audit committee in the context of Indonesia.
I suggest to revise the title to highlight critical factors which affect timeliness of audit report rather period of the AC existence.
In addition, in the introduction section, the authors state that "Indonesia has a GDP of USD 740 per capita" without cited source and year.
In the methodology section, the authors should explain how did they collect the data and what was the source of data.
The authors should be consistent with format of tables. Table 1 and 2 are different with Table 3 and 4.
Please follow instruction of the journal.
In the discussion section, since this article examines problem in Indonesia context, I expect deeper explanation to contextualise the idea why meeting frequency matters compare to two other factors.
And please elaborate this finding in international perspective.
In the reference section, the authors should consistent to write "et al." for more than two authors. Strongly suggest to use reference application to solve this problem.

THE CHARACTERISTICS OF THE AUDIT COMMITTEE AFFECTING TIMELINESS OF THE AUDIT REPORT IN INDONESIA

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Public interest statement

In recent years, regulators worldwide have been focusing on the Corporate Governance (CG) reforms, especially on the role of the Audit Committee (AC) in improving public confidence in accounting information. This concern is increasing due to the Asian financial crisis and big corporate scandals for the last two decades, such as Enron and WorldCom. This paper examines the association between the AC effectiveness and reporting quality proxied by the reporting timeliness in the Indonesian context. Unlike prior studies on the AC which have been predominantly carried out in developed countries, this study provides insights on the progress of governance reforms carried out by Indonesian regulators, such as the initiatives introduced by the capital market regulators to strengthen CG and improve financial information quality.

THE CHARACTERISTICS OF THE AUDIT COMMITTE AFFECTING TIMELINESS OF THE AUDIT REPORT IN INDONESIA

Abstract
This paper aims to examine the positive relationship between the audit committee (AC) and the reporting quality proxied by the reporting timeliness in the Indonesian context. The AC effectiveness is measured by the committee size, number of its expertise or competence, and its meeting frequency. This study employs 240 observations from 48 manufacturing companies from 2014 to 2019 in the Indonesian Stock Exchange (IDX) as samples. A logit regression analysis is used to test the hypotheses in this study. The findings reveal that the AC size and financial expertise are not significantly associated with the audit report timeliness, whereas the meeting frequency has a significant effect on it.
The results indicate that the AC effectiveness depends on the occurrence of communication between members. The more frequent the AC meets, the more effective their communication will be. This study findings also suggest that the number of the AC meetings is crucial in ensuring its oversight roles in companies, leading to timely submission of audited financial statements. The findings provide significant contributions to the existing literature on corporate governance (CG), especially the AC effectiveness in emerging economies. This study fills research gaps on the AC effectiveness and provides practical implications concerning the AC oversight of financial reporting. Despite results made by studies on the AC in developed economies such as the US and UK, conditions and factors affecting the AC effectiveness in developing countries such as Indonesia may differ. Hence, the findings of these studies may not apply to other contextual environments.

Keywords: *audit committee effectiveness, size, expertise, meeting frequency, report quality, corporate governance*

JEL Classification: G 34 M42 M48

Paper Type: *Research article*

1. Introduction

Numerous investigations agreed that the Asian crisis resulted from a loss of investors' confidence and a lack of effective coorporate governance (CG) in many Asia's financial markets and firms. Therefore, most Asian economies have carried out the initiatives to improve their regulatory frameworks, particularly on CG, information quality, and transparency over the last two decades. Establishment of an effective Audit Commiittee (AC) on boards has been one of the priorities set in regulators' agenda to reduce information asymmetry between controlling shareholders and other investors. An effective AC represents a governance mechanism that limits potential agency problems from corporate ownership and control separation (Abbott & Parker, 2000; Jensen & Meckling, 1976).

The purposes of this study are (1) to examine the relationship between the AC size and financial report timeliness, (2) to extend prior studies on the AC financial expertise by investigating the association between the AC accounting financial expertise and financial reporting timeliness, and (3) to determine how meeting frequency affect financial report timeliness. This study examines the size, expertise, and meetings on audit report timelines, and fills the gap in the research literature by examining the AC effectiveness in an Indonesian context. We focus on discussing the financial report timelines as one of the terms to define the financial report quality. The timeliness of delivering of financial statements to the public is essential to maintain information's relevance in the financial statements (Sakka & Jarboui, 2016). The delay in the delivery of financial statements will fail to influence user decisions. For investors, the timely financial statements will reduce uncertainty in investment decision making and disseminate asymmetric information among investors in the capital markets (Jaggi & Tsui, 1999). Timely delivery of financial statements will reduce leaks, rumors, and insider trading in the stock markets (Owusu-Ansah, 2000). The timeliness of financial statement submission will also provide valuable information for shareholders' decision-making process (Al-Ajmi, 2008).

However, presenting financial statements within a reasonable time as required by prevailing regulations is sometimes challenging due to several factors. One of which is the financial statements should go through the process of auditing before it is published. The slowness of the independent public accountants to complete auditing process will make the financial statements are delivered overdue. Audit report lag has been a variable of interest in many studies, not only due to its usefulness to serve as a proxy for the occurrence of auditor-client management negotiations and audit efficiency, but also its tendency to postpone the release of earnings information to the market (Durand, 2019). The AC, as one of the critical components of the CG can anticipate such overdue, as Sakka & Jarboui (2016) suggest that good structures of CG will improve the quality of report timeliness. We examine three AC characteristics, namely, members' financial expertise, size, and meeting frequency. Previous studies by Bedard *et al.* (2010) and Spira (2003) show that the effectiveness of the AC influenced by the characteristics of the committee. Some of the AC characteristics examined by previous studies include size, members' independence, gender proportion, and meeting frequency (Mohamad Nor, Shafie, & wan hussin, 2010; Sun, Liu, & Lan, 2011).

This study gives some contributions. First, the study provides literarture of a new perspective about the AC effectiveness and provide practical implications concerning the AC oversight of financial reporting. Although there are many literatures on CG and the AC (see DeZoort *et al.*, 2002; Turley and Zaman, 2004), most research are predominantly carried out in the context of developed economies such as US and UK and this study findings may not apply to other economies which have different contextual environments (Collier & Zaman, 2005; Zaman, Hudaib, & Haniffa, 2011). This is supported by one of previous studies stating that the AC is related to accounting information quality in various economies (Woidtke & Yeh, 2013). This study will focus on the AC performance in the context of developing countries in Asia, especially Indonesia.

Second, this study contributes to the practice in the way that solid regulation about the AC is needed. The establishment of the AC in some companies in developing countries is sometimes only to respect the regulation set, but they do not fully adhere to it in the actual situation. It opens up discussions on the effects of changing global corporate behaviors on CG mechanisms (Adelopo, Jallow, & Scott, 2012). Our findings show that the effectiveness of the AC role not only about the number of expertise. The quality of the discussion and the frequency of routine meetings are crucial. The AC in a company is not just a CG symbol, but this structure effectively reduces the agency conflict between management and stakeholders, especially investors. Therefore, regulators can find this finding effective to formulate an excellent policy to make the AC members work well.

2. Background

In 2001, The Capital Markets and Financial Institutions Supervisory Board (Bapepam-LK), BAPEPAM-LK, and Jakarta Stock Exchange issued a regulation that every listed company must have an audit committee (AC). An audit committee is responsible to the board of commissioners (BOC) and assists the board in overseeing internal and external audit functions. In 2004, OJK/Bapepam LK Chairman published Bapepam-LK Regulation No. IX.I.5 on the Establishment and Implementation Guidelines of Audit Committees, which obliged public companies to have audit committees and establish such committees' guidelines. IDX then issued a Decree No. KEP-00001/BEI/01-2-14 on Amendment of Regulation No. I-A on the Listing of Stocks and Equity-Type Securities other than Stocks Issued by Listed Companies. This decree emphasizes public companies' obligation to have audit committees in place. Both the IDX Decree and Bapepam LK regulations arranged that an audit committee was composed of a minimum of one independent commissioner and 2 (two) other members out of the issuer or the said public company. The regulations also require that the AC consists of a minimum of 30% independent commissioners.

Bapepam-LK regulation No. IX.I.5 regulating audit committee independence, tenure, and meetings is also an effort to maintain good CG within Indonesian listed companies. It has become increasingly important for audit committees to take on financial reporting quality responsibility.

Specifically, the duties of an AC are: to review company financial information that will be released, to review the effectiveness of company internal control, to review the company compliance to the law and regulation, to review and to report to the commissioners regarding any complaints related to listed companies, to keep confidentiality of company's document, data, and information, to review the independence and objectivity of a public accountant, and to review the audit adequacy conducted by a public accountant. BAPEPAM_LK also provides the AC guidelines includes the definition of the AC independence, the AC authority, and the AC meetings. It is also mandatory for the AC to submit an activity report to the BOC frequently.

For two decades, studies on the relationship between the AC and audit report timeless in Indonesia have been limited and showed mixed results (Ika & Mohd Ghazali, 2012). Recently, the Indonesian Stock Exchange (IDX) consists of 645 companies, of which 100 companies are state-owned enterprises (SOE) and family-owned businesses (FOB), and almost 95 percent of the firms have a controlling shareholder. The Capital

Market and Financial Institution Supervisory Agency and the IDX have been struggling to improve the CG environment in Indonesia by requiring the establishment of the AC as a mandatory regulation since mid-2000. Another regulation is that the audited financial statements should be submitted and published no later than the third month after the annual financial report. Doyle and Magilke (2013) and Schmidt and Wilkins (2013) suggest that improving financial reporting timeliness is the regulator's priority. However, these regulations resulted in ten companies failing to advance and issued their statement timely in 2018. The timeliness of important financial information is a crucial aspect of financial decision making. Timeliness may affect decision-makers expected payoffs and influence security prices (Kross & Schroeder, 1984).

3. Theoretical Framework

This study examines the effect of the characteristics of the AC on timeliness. Agency theory by Jensen & Meckling (1976) explains that AC has a vital role in reducing agency problems between managers and investors. Three AC characteristics are expected to influence timeliness; AC size, AC expertise, and AC meet frequently. Our framework can be seen in picture 1.

A previous study by (Kalbers & Fogarty, 1993) strengthens that the size is critical to make an AC effective. The more members an AC has, the more skill and knowledge they have to solve any problem. The size of AC members will increase the reporting quality (Bédard & Gendron, 2010; Ghosh, Marra, & Moon, 2010; Ismail, Dunstan, & Van-Zijl, 2009; Mohd, Takiah, & Norman, 2009; Pucheta-Martínez & De Fuentes, 2007).

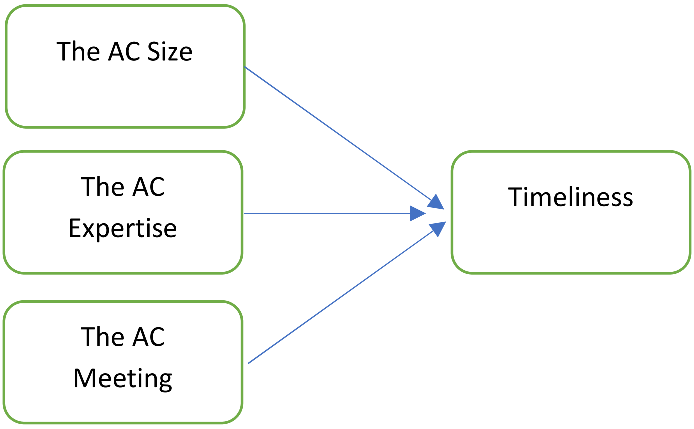

Figure 1. Framework

Besides the number, the AC expertise is also important. The AC members with financial or accounting expertise is more likely to detect any financial misstatements (Persons, 2009). The appropriate knowledge and skill that AC members have will lead to timely financial reporting (Abernathy et al., 2014; Al-Ebel, Baatwah, & Al-Musali, 2020). AC members' specific skills and experience will improve AC capacity to understand companies' technical issues (Dezoort, 1998).

The last point that is essential for the AC is its members' regular meetings (Beasley, 1996; McMullen & Raghunanthan, 1996). Every member in AC must make their contribution to the team by detecting and resolving any problem soon. Chandrasegaram, Rahimansa, Rahman, Abdullah, & Mat (2013) and Haji-Abdullah & Wan-Hussin (2015) report that frequency meeting is crucial to achieve good financial reporting quality.

4. Empirical Literature Review and hypothesis Development

4.1. Audit Committee and Timeliness

In general, the agency theory proposed by Fama and Jensen (1983) and Jensen and Meckling (1976) have been used to explain the relationship between the AC and report timeliness. The agent sometimes acts against the Principal's interests that will create agency problems. The Principal needs information available at the correct time before such information loses its capacity to influence a decision. The late report will increase the agency problems. Information timeliness influences lower abnormal returns (Givoly & Palmon, 1982; Kross &

Schroeder, 1984), and the level of uncertainty (Ashton, Willingham, & Elliott, 1987). So, the AC plays the role of protection to reduce this conflict. The AC has oversight responsibility for financial reporting, internal control, and external auditing activity (Turley & Zaman, 2004). Accurate oversight by the AC will ensure the quality of financial reporting indicated by its timely publication. Their purpose is to ascertain the information carried by the financial statements available at the correct time for users. Some previous studies such as (Abbott, Parker, & Peters, 2004; Afify, 2009; Pucheta-Martínez & De Fuentes, 2007) confirm that the AC effectiveness affects timeliness.

Audit lag is the number of days between the end date of the financial statement and the audit report issuance date (Ryu & Roh, 2007), whereas, based on (Lee & Jahng, 2008), audit report lag is a time period between the end of the company's fiscal year and the audit report date. A possibility of delay of the issued opinion is because there are times when the auditor test the validity of management's assertions, some problems are found and the management need to clarify those problems. The auditor delays issuing an opinion hoping that the management can solve the problems in assertions report.

4.2. The Characteristics of Audit Committee and Their Relationship with Timeliness

We examine three AC characteristics, AC size, expertise, and meeting frequency since we think that such traits are closely related to Indonesia's condition. According to the Indonesian stock exchange regulator (BAPEPAM, 2004), the AC should comprise at least three members and have at least one member with accounting or financial expertise. Also, they should have an equal meeting frequency as the minimum Board of Committee meetings as a requirement in the company's article of association.

Kalbers & Fogarty (1993) suggest that the AC's total members are critical to AC effectiveness. Different members can view financial reporting from various aspects. It also enables the committee to simultaneously handle several financial reporting issues, thereby leading to timely external audit completion. Pucheta-Martínez & De Fuentes (2007) find that the AC size affected Spanish firms' financial reporting quality. That finding is also supported by Mohd, Takiah, & Norman (2009) in a sample of Malaysian firms.

Previous studies reported that the AC size has a substantial impact on its decisions, and the AC with fewer directors has better coordination. Bédard and Gendron (2010) conducted a meta-analysis to highlight the role that AC size plays on the committee's effectiveness and found that most studies supported the primary function of the AC's size on effective monitoring.

Some studies have found an association between the size of the AC and earning management actions. Ghosh *et al.* (2010) found that discretionary accruals are significant in firms with small ACs, suggesting that an AC with many members possessing sufficient skills and knowledge is more effective in financial reporting monitoring. Ismail *et al.* (2009) argued that the proportion of AC members is associated with the level of earning quality. Besides, Mansor *et al.* (2013) identified the association between CG and earnings management in Malaysia's family-oriented and non-family businesses. In contrast, Salleh and Haat (2014) concluded that there is no significant association between the AC size and earning quality. In addition, Haji-Abdullah and Wan-Hussin (2015) documented an insignificant association between AC and natural earning management size. Based on the above discussion, the relationship between AC independence and earning quality has not been examined broadly.

The notion is that with many AC directors, more diverse skills and knowledge can be utilized by the committee to improve its monitoring role. It is consistent with the agency theory, which states that large boards could include more independent members, which leads to better control of management and an increase in the quality of financial reporting. This study expects that AC with a bigger size can contribute more towards financial report quality. Thus, the following hypotheses tested:

Our first hypothesis is stated as followed:
H1: The number of audits committee members will have positive effects on audit report timeliness.

Individual members' expertise is essential in their performance in the AC and the number of AC members with financial expertise would improve CG (DeFond, Hann, & Hu, 2005). Companies that have financial expertise tend to low faced financial problems (McMullen & Raghunanthan, 1996). The AC with expertise will be more effective to monitor the companies. Persons (2009) suggest that the AC with financial or accounting expertise can detect any financial misstatements or improper business transactions. This achievement will lead to timeliness of financial statements.

Previous literature suggests that the AC with accounting or financial expertise leads to financial reporting (Abernathy, Beyer, Masli, & Stefaniak, 2014; Al-Ebel, Baatwah, & Al-Musali, 2020). Dezoort (1998) argues that specific accounting experience will improve the AC capacity to understand companies' technical issues. Then, it reduces the amount of time to discuss and evaluate the misstatement or unusual transaction with the auditor or management. Bull & Sharp (1989) and Lipman (2004) suggest that the AC that has knowledge of accounting concepts and an auditing process will enhance their understanding of the financial reporting process, recognize problems, ask probing questions of management and auditor make leadership contributions to the AC members. (Dezoort, 1998) states that the AC effectiveness may depend on the number of public accounting expertise that joined in the AC team.

The financial expertise belonged by AC members is a vital characteristic. All the AC members should pertain proper knowledge of accounts and finance to effectively control the financial reporting process to improve financial reporting quality. Badolato *et al.* (2014) examine the effect of interactions between an AC member with financial expertise and earning management status. A financial expert serving on the AC with apparent authority supported by sufficient regulations may constrain the firm's managers' earnings manipulative actions. Krishnan *et al.* (2011) examine whether an AC with legal expert members enhanced financial reporting quality. Hassan and Ibrahim (2014) found that AC's financial literacy is effective in limiting real earning management actions. However, Sun *et al.* (2014) found an ineffective role of AC members' financial experts in constraining real earning management. Garcia-Sánchez *et al.* (2017) explore whether financial experts on an AC improved earning quality and found an effective role for the financial experts on an AC in enhancing earning quality.

These studies propose that financial experts have a good understanding of how financial reports are manipulated. Therefore, they may be able to enhance the financial reporting quality. To support agency theory, it is suggested that AC members who possess financial and accounting qualifications are more likely to improve the financial reporting quality. Previous studies indicate that financially experienced members improve the effectiveness of the AC. Based on the signaling theory, the above discussion suggests that AC members who are skillful in finance and accounting are an excellent way of sending a signal about the board's credibility. Hence, the second hypothesis is proposed as followed:

H2: The number of audit committee members with accounting or financial expertise will positively affect audit report timeliness.

Last, the number of meetings between committee members are also crucial for financial reporting timeliness. Raghunandan, Read, & Rama (2001) highlighted that an AC that have meetings frequently is more likely to be well-informed, diligent, and knowledgeable about the current accounting and auditing issues, and it will lead to the AC effectiveness. Previous studies by Dalton, Daily, Johnson, & Ellstrand (1999) found a positive relationship between size and monitoring function of the board that results in a higher performance.

Prior studies like Abbott & Parker, 2000; Karamanou & Vafeas (2005) confirm that the meetings frequency leads to committee diligence. It is important because every committee member may need some discussion each other. The frequency of committee meetings allows the AC to oversee the financial reporting process regularly. Also, study by Abbott et al. (2004) suggests that the AC's meeting frequency will have a negative impact on the probability of restatement. Another study by Mohamad Nor et al. (2010) also confirms that frequent AC meetings increase the likelihood of timely production of an audit report.

The frequency of meetings is an essential AC attribute (Beasley, 1996; McMullen & Raghunanthan, 1996). Bedard and Johnstone (2004) argued that two main features measuring the activity level of the committee meetings: (i) the responsibilities it has to perform and (ii) the number of meetings. Prior studies reported the significance of meeting frequency. Among them, Xie *et al.* (2003) in the US, Sierra García *et al.* (2012) in Spain, and Sáenz González and García-Meca (2014) in Latin America reported that frequency of AC meetings is associated with lower earning management. On the other hand, Katmon and Farooque (2017) found AC meetings are related to high discretionary accrual. However, studies by Davidson *et al.* (2005) and Baxter and Cotter (2009) in Australia, and Soliman and Ragab (2014) in Egypt reported that there is no significant relationship among AC meetings and earning quality. Also, Shawtari *et al.* (2015), Rahman and Ali (2006), Abdullah *et al.* (2014), and Mohamad *et al.* (2012) investigated the positive relationship among the frequency of AC meetings and earning quality.

In the same line, Chandrasegaram *et al.* (2013) provided evidence that there is a weak relationship among the frequency of the AC meetings and earnings manipulation as measured by discretionary accrual. Haji-Abdullah and Wan-Hussin (2015) found an insignificant association between the number of the AC meetings and real earning management. Based on the discussion above, it can be observed that only a few researchers have examined the association between AC meetings and earning quality.

The AC with more frequent meetings will have more time to oversee the process of the financial reporting of the business. The frequency of meetings signals the efficiency of the oversight committee's role and the credibility of the information provided. The AC meeting's frequency indicates that the committee intends to remain cautious and informed. This shows that outside users perceive less risk to invest in companies that organize more AC meetings and may require fewer practices of earning quality in corporate reporting.

Hence, our last hypothesis is:
H3: The number of audits committee member meeting frequency will have positive effects on audit report timeliness.

5. Research Design

5.1. Population and Sample

This study's population comprised all of the manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2019. All of our variables measurements were obtained from the companies annual report. We downloaded the annual report of our sample from the IDX database at https://www.idx.co.id/. We used the purposive sampling technique to select the sample. The criteria are as follows:

1. Manufacturing companies that are listed in IDX from 2014 to 2019.
2. The companies with financial reporting data available in IDX website.
3. The companies which have complete data, especially for the research purpose.
4. The financial statement's currency is IDR.

Table 1 Sample selecting procedure

No	**Description**	**Number of Companies**
1	Population	167
2	Less: late of financial reporting submitted	(37)
3.	Less incomplete data	(52)
4.	Non-IDR	(30)
Total Sample		48
Total sample from 2014 to 2019		**288**

Initial population number is 167 manufacturing companies. 37 companies do not contain the date of financial reporting submitted. 52 companies have incomplete information about our variables in their financial report. Also, 30 companies do not have reports in Indonesian currency. So, our final samples are 48 companies or 288 firms from 2014 to 2019.

5.2. Variables

The independent variable of this study is to report timeliness. This study's main independent variables are AC size, members' financial expertise, and meetings frequency. We also used control variables, namely, audit fee, audit firm size, and internal auditor. The measurement of the variables can be seen in table 2.

Table 2 The definition and measurement of the variables

No.	**Variables**	**Definition**	**Measurement**

Dependent Variabel			
1.	Timeliness	having information available to decision-makers in time to be capable of influencing their decisions.	Measure with dummy, where 0 late report and 1 report on time.
Independent Variables			
1.	Audit Committee Size	How many persons who occupied the AC position.	The number of the audit committee in the company.
2.	Audit Committee Expertise	an individual who has education and experience in accounting or auditing (e.g., auditor, CFO, controller or accounting officer)	The percentage of the audit committe that have accounting or financial background, like educational background or previous position background.
3.	Audit Committee Frequency Meeting	The frequency of the AC meet to discuss their job	The number of AC meetings in one year.
Control Variables			
1.	Audit fee	How expensive the audit fee was charged by the audit firms.	The mean of audit fee in observation years
2.	Audit firm size	The size of the accounting firm in amount of assets, the number of employee and the number of clients.	1 for big-4 and 0 for non big-4.
3.	Internal auditor	The number of internal auditors in the firm.	The number of internal auditor as the samples

Meanwhile, the AC size (ACSIZE) is the total number of AC members (Ismail et al., 2009; Salihi & Jibril, 2015; Xie et al., 2003). Following prior literature by Al-Rassas and Kamardin (2015) and Sun *et al.* (2014), the AC financial expert (ACFE) is defined as the ratio of the AC financial and accounting acquaintance to the total number of AC members. Meanwhile, the AC meetings (ACMEET) calculated by the frequency of AC meetings per annum (Saleh, Iskandar, & Rahmat, 2007; Xie et al., 2003). We also include three control variables, which are audit fee, audit firm size, and internal auditor. Those variabeles found by previous research are the factors that affect timeliness.

5.3. Model Specification

The study model sets timeliness as a function of audit committee characteristics and control variables. To achieve the research objective, the following regression is going to be estimated as follow:

$$TMLNS = f\ (SIZE, FINA, FREQ, FEE, AFS, IA) \qquad (1)$$

Explicitly, we stated the model:

$$TMLNS_{i,t} = \beta_0 - \beta_1 SIZE - \beta_2 FINA - \beta_3 FREQ - \beta_4 FEE - \beta_5 AFS - \beta_6 IA + \varepsilon \qquad (2)$$

Where:

TMLNS = Timeliness
β0 = Constants
SIZE = Audit committee size
FINA = Audit committee financial expertise
FREQ = Audit committee meeting frequency
FEE = Audit fee
AFS = Audit Firm Size

IA = Internal Auditors
e = *Error term*

6. Empirical Results and Discussion

The data of this study encompass independent auditor reports and the companies' financial statements. The sources of the data were annual financial statements of manufacturing companies that were listed in the Indonesian Stock Exchange (IDX). The samples of this study were 288 observation data from 2014-2019 from 48 manufacturing companies listed in IDX. Table 3 shows the descriptive statistics of the sample.

Table 3 Descriptive statistics

	N	Mean	Std. Deviation
TMLNS	288	0,9618	0,1920
SIZE	288	3,0556	0,3965
FINA	288	0,6185	0,2043
FREQ	288	7,7361	6,7214
AFS	288	0,4792	0,5004
IA	288	23,2847	119,8831
Valid N (listwise)	225		

The descriptive statistics in Table 3 indicated that the Audit Firm's time to complete the Audit Report from the end date of the financial statements was, on average, 96.18 days, with a deviation standard 19.20. To assess the feasibility of the regression model, a goodness of fit test was conducted. From the goodness of fit test, it was discovered that the X^2 was 11,298 with a significance level of 0.126. The significance level, which was more than 0.05, indicated no difference between the logistic regression model's prediction and the value of the observation result. This test concluded that the model was feasible and acceptable.

Besides that, an overall model fit test was also conducted to assess whether the model hypothesized fitted the data. The overall model fit test was conducted by comparing the value of −2 initial Log-Likelihood (Block number1⁄40) with the value of −2 last Log-Likelihood (Block number 1⁄4 1). Block Number 0 indicated that the value of Log-Likelihood was 93.406, whereas in Block Number 1, the value of -2 Log-Likelihood showed the value of 82.661. The value reduction of 10.745 with the significance at the level of 0.05 showed that the model hypothesized fitted the data. Based on this test, the regression could be applied.

Table 4 Overall Model Fit

Iteration		-2 Log likelihood	Coefficients Constant
Step 0	1	124,973	1,847
	2	97,154	2,680
	3	93,547	3,113
	4	93,406	3,220
	5	93,406	3,226
	6	93,406	3,226

Iteration		-2 Log likelihood	Coefficients					
			Constant	ACS	MF	Ex	AF	IA
Step 1	1	123,971	1,787	-,023	,014	,002	,053	,000
	2	94,218	2,527	-,066	,042	-,026	,134	,000
	3	87,520	2,812	-,124	,108	-,211	,206	,000
	4	84,437	2,420	-,047	,230	-,687	,136	-,001
	5	83,004	1,138	,312	,370	-1,157	-,008	-,002
	6	82,701	-1,184	1,052	,453	-1,411	-,096	-,002
	7	82,666	-3,645	1,869	,470	-1,470	-,119	-,002

8	82,661	-5,236	2,399	,472	-1,480	-,125	-,002
9	82,661	-5,497	2,486	,473	-1,484	-,127	-,002
10	82,661	-5,501	2,487	,473	-1,484	-,127	-,002
11	82,661	-5,501	2,487	,473	-1,484	-,127	-,002

The determinant coefficient showed the value of R^2 of 0.132. It means that the independent variables could affect the dependent variable for 13.2 percent, whereas the remaining percentage for 86.8 percent affected other factors outside the variables being studied.

Table 4 shows the Regression results. Our first hypothesis states that AC size affects timeliness. We can see in table 4 that the AC size is positively related to timeliness (B=2.487). But this is not statistically significant (p_value=0.790). So, the H1 is not supported. It means that the number of AC does not play a significant role in financial report timeliness.

Our second hypothesis states that AC that has an accounting or financial background influence the timeliness. Table 4 shows the regression result, the financial expertise positively related to timeliness (B=-1.484). This is onot statistically significant (p_value=0.391). Thus, our H2 also not supported. The results suggest that the company that has much financial expertise committee does not affect timeliness performance.

Table 5 Results

Source	B	S.E.	Sig.
Size	2.487	9.350	0.790
FINA	-1.484	1.731	0.391
FREQ	0.473	0.218	0.030
AFS	-0.127	0.730	0.862
IA	-0.002	0.008	0.771
Constant	-5.501	28.099	0.845

The last hypothesis suggests that the meeting frequency of the member will affect the timelines. The results show that the positive effect of the meeting frequency on timeliness (B=0.473). The statistical results show significant effects (p-value=0.030). It means that the number of the meeting will affect the report's probability be on time.

According to the table, none of our control variables found relationship with timeliness. Audit firm size has positive impact on timeliness (B=-0.127) but not significant (p_value=0.862). The internal auditor variable also positively impacts timeliness (B=-0.002) but not significant (p_value=0.771).

Our findings confirm previous research by Al-Rassas and Kamardin (2016), Haji-Abdullah and Wan-Hussin (2015), and Saleh *et al.* (2007) that show an insignificant relationship of audit committee size with earning quality (measured by different proxies). Abbott et al. (2004) and Pucheta-Martínez & De Fuentes (2007) suggest that the accounting committee's size is important, but the number of independent committee members is more important. The AC has the responsibility to make sure that the financial report doesn't mislead the user (Principal). Klein (1998) and Wolnizer (1995) suggest that an AC play the role of safeguarding and advancing the interests of shareholders. This responsibility will be effective if the AC members do not have any interest in the management.

Our study also confirms that AC financial expertise do not have a significant effect on timeliness. These results differ with the previous study like (Abernathy et al., 2014; Al-Ebel et al., 2020; Dezoort, 1998). The AC members are equipped with accounting and financial knowledge, and their accounting skills make it very difficult for financial statements to be manipulated. This is because the monitoring power of the AC is strong enough. It is in line with Al-Rassas and Kamardin (2016) study in Malaysia and concluded that there is no significant association among the AC financial expert and earning management. Also, it is consistent with Sun *et al.* (2014) that find an insignificant relationship between audit committee financial expertise and real earning management in the US.

Othman, Ishak, Arif, & Aris (2014) say that studies about financial expertise always show inconsistent results. Abbott, Parker, Peters, & Raghunandan (2003) suggest that the AC expertise may manifest itself in the form of greater external audit scope to address and detect material misstatements adequately. And as a consequence, it may need a long time to complete the audit. The number of experts also affects the decision since its process will require much time for them to discuss the auditor's findings. This issue can be solved by having frequent and good communication.

In the last hypothesis, we state that meeting frequency plays a role in timeliness. The results confirm our expectations. Our finding is necessary to explain why the number of audits committee and the financial expertise do not have a significant effect. Abbott et al. (2004) found that the AC meetings frequency that measured by the activity level is important to effectiveness. Maximizing the activity can be done by increasing the meetings frequency. In the meeting, the AC members can improve their communication quality.

Research results support the findings of past researches conducted by Al-Rassas and Kamardin (2015) and Habbash *et al.* (2013) that AC meetings and earning management are positively associated (measured by discretionary accrual) in the capital markets of Malaysia and the UK, respectively. This unexpected result could be due to meetings' ineffectiveness, as it led to routines that make members become uncritical and consequently perform only a ceremonial function (Habbash et al., 2013).

Insights related to the significant influence of the AC meetings on oversight effectiveness can be drawn from the context of Indonesian society as collectivist and high context culture that prefer indirect way of communication (Kapoor, Hughes, Baldwin, & Blue, 2003; Leung & Bond, 1984). We argue that frequent interactions in the form of AC meetings can improve the effectiveness of communication between the AC and other parties in the organization. Indeed, literature has shown that collectivists have a strong desire for maintaining harmonious interactions with group member, put emphasis on the impact of their behaviors on their group members and tend to prioritize the attainment of group interests (Leung & Bond, 1984). In contrast, individualists, such as those mostly in developed countries, are more focused on the association of their behaviors to their own needs, interests, and goals (Leung & Bond, 1984). Moreover, as a high-context culture, individuals in Indonesia focus on indirect forms of communication in order to maintain harmony; as such, the emphasis is placed on the nonverbal communication in contrast to verbal communication (Kapoor et al., 2003). The message conceals the meaning within the context of the communication and the relationship between the individuals involved. On the other hand, individuals in low-context cultures focus on communication in ways that are consistent with their feelings, the message tend to has literal meaning (Kapoor et al., 2003).

For the general AC research, our findings indicate indirect supports for Gendron & Bédard (2006) findings, which is related to communication, that AC skills in asking questions is a key factor in carrying out an effective oversight role. Managers and auditors perceive good AC performance by the existence of difficult and challenging questions during meetings (Gendron & Bédard, 2006). A number of researchers explain that this dominant research overemphasis on examining what audit AC "should do" by particularly examining best practices and tend to overlook the examining what the actual practice of AC (Brennan & Kirwan, 2015; Gendron & Bédard, 2006; Turley & Zaman, 2004).

The number of AC meeting used in this study provides some signal regarding the substantive process carried out by AC in organization (Gendron & Bédard, 2006). Researchers have indicated the usefulness of conducting process-orientated studies since AC has extensive behavioral impacts on the organization and AC interactions with other parties such as management, internal auditors, and external auditors and other processes may explain the AC effectiveness (Brennan & Kirwan, 2015; Gendron & Bédard, 2006; Turley & Zaman, 2004).

7. Summary Conclusion

We examine the relationship between the AC characteristics and audit report timeliness. There are three variables that we measure; AC size, AC expertise, and AC meeting frequency. The results of this study show that size and financial expertise have no impact on audit report timeliness. However, the meeting frequency has a significant effect on timeliness. Our results contradict the previous study by Abernathy et al. (2014) and Al-Ebel, Baatwah, & Al-Musali (2020) which find that the number of the AC and the number of committee members that have financial expertise is essential for AC effectiveness. However, our results about the committee member's meeting frequency may explain this issue. We find that the repetition of meetings will influence the audit report timeliness. So, intensifying the communication may have a significant role in AC effectiveness, especially in audit report timeliness. Although the company has a considerable number of committee members and most of them have a good financial background, it would not be effective if they do not have regular time to discuss and build exemplary communication. This finding gives a contribution to new knowledge about the relationship between AC characteristics and audit report timeliness. Also, companies and regulators can use this finding as input to make better regulations and decisions. The present study contributes to the literature on AC with size, expertise, and meeting frequency. The study results indicate that AC meeting frequency influences report timeliness, whereas the variables of AC size and expertise do not affect the reporting timeliness.

We can drive some of the limitations and recommendations for the future from this study. Other aspects of the CG mechanism and AC effectiveness such as a board of directors, dual board, gender proportion had not been addressed in this present study yet. Future research may incorporate and examine these other aspects to provide a comprehensive insight into CG in Indonesia in particular and emerging economies in general.

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