Analysis of The Influence of The Audit Committee Characteristics on The Disclosure of The Sustainability Report (Empirical Study of Companies Listed on The IDX In 2015-2018)

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Analysis of the influence of the audit committee characteristics on the disclosure of the sustainability report (Empirical study of companies listed on the IDX in 2015-2018)

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Abstract
The purpose of this study is to investigate how factors such as the size, independence, and financial expertise of the audit committee, as well as the number of audit committee meetings, affect the sustainability report, which is evaluated using the ESG Score. The sample for this study consisted of non-financial sector companies that were listed on the Indonesia Stock Exchange between the years 2015 and 2018.In this study, the purposive sampling method was used as the method of sampling.184 samples were taken from a sample of 46 businesses over three years of observations. The study's multiple regression analysis revealed that the size of the audit committee and the number of audit committee meetings have a significant impact on sustainability report disclosure. The disclosure of sustainability reports is not significantly affected by the audit committee's independence or financial expertise.

Keywords: corporate social responsibility disclosure, corporate governance, earnings management, agency theory

Introduction

The business activity environment encourages companies to have business activities that can last for a long time, even for the long term. In carrying out business activities, managers must choose to focus on allocating limited company resources at this time or focus on planning long-term business activities (Waddock & Graves, 1997) [15]. Effective planning in corporate governance is an important key to the success of long-term business activities. Data records that companies with poor governance were the main contributors to the financial crisis in companies in Asia in 1997 and 2008 (Buallay & Al-Ajmi, 2019) [4].

Woidtke & Yeh (2013) [16] stated that the failure of many companies in the financial crisis in 1997 and 2018 prompted many companies in the world to improve their corporate governance systems, one of which is by emphasizing transparency in disclosing financial statements and disclosing non-financial reports. Transparency is an important aspect to help stakeholders such as investors in monitoring and evaluating the company so that it is better than before. (Buallay & Al-Ajmi, 2019) [4] stated that transparency is one of the important aspects of corporate governance, transparency also allows stakeholders to monitor company performance and ensure management is managed effectively and responsibly.

Basically, voluntary report disclosures issued by companies are often intervened by management as a means of achieving personal goals. Other components are needed that can assist in monitoring and increasing the level of disclosure of the reporting. The audit committee is a part of an independent party that can be trusted to carry out the oversight function. The Audit Committee as an important part of the company is expected to be able to monitor financial and non-financial reporting practices and minimize the possibility of information asymmetry between stakeholders and management (Appuhami & Tashakor, 2017) [2]. Although oftentimes the audit committee is seen as only focusing on overseeing financial reports, in fact this role has expanded due to pressure and expectations from many parties in response to the publication of reports that focus on social responsibility.

Theoretical Framework And Hypothesis Development

Jensen and Meckling (1976) [7] describe agency relations as supervisory costs for agents incurred by the principal. In the concept of agency theory, management must be responsible and focus on the interests of shareholders as the principal, but in carrying out these activities it is possible that management also focuses on achieving its own interests to maximize utility. Limited supervision can encourage management to commit acts of abuse of authority or embezzlement of resources that can be detrimental to the interests of the company in the long term. This conflict of interests is called the Agency Problem. In order to realize good corporate governance practices, companies must apply the principles of corporate governance namely transparency, accountability, fairness, responsibility and independence. Agency theory predicts that audit committees can be one way of solving agency problems

The presence of the audit committee is expected to increase the level of CSR disclosure. As an important part of the company, the audit committee is expected to be able to strictly monitor financial and non-financial reporting practices and minimize the possibility of information asymmetry between management and stakeholders (Karamanou & Vafeas, 2005) [8]. The characteristics of the audit committee are described as independence, size, number of meetings and financial expertise. According to agency theory, with an audit committee, supervision will occur more strictly to management and help minimize actions that may harm shareholders (Hassan, 2013) [6].

The Effect of Audit Committee Independence on the Sustainability Report

Corporate governance that is categorized as good can be assessed from the presence of independent members either in the board of commissioners or in the ranks of a committee. Fama & Jensen (1983) [5] stated that based on agency theory, the oversight function carried out by the audit committee would be effective if carried out by independent members. This is because independent members have no affiliation personally or with management so that the audit committee can tend to work objectively and without intervention from other parties (Bédard & Gendron, 2010) [3]. The supervisory function carried out by independent members is considered to be able to minimize opportunities for management to commit acts of fraud (Allegrini & Greco, 2013) [1]. Therefore it is very important for the audit committee to ensure and transparency of the reporting process carried out and reduce differences in the information submitted (Li *et al*., 2012)

Several studies state that the independence of the audit committee has a positive influence on disclosures made by companies. Buallay & Al-Ajmi (2019) [4] found a significant positive relationship between audit committee independence and sustainability report disclosure. These results are in line with previous research by Neifar & Jarboui (2018) which found a positive and significant influence between audit committee independence and risk report disclosure in Islamic banks in Central Asia. Based on the explanation above, the following hypothesis is obtained:

H1: The independence of the audit committee has a positive effect on the disclosure of the sustainability report

The Effect of Audit Committee Size on Sustainability Report Disclosure

Allegrini & Greco (2013) [1] stated that in the resource dependence theory, a larger audit committee size will have an impact on the number of human resources in carrying out responsibilities effectively. Bédard & Gendron (2010) [3] concluded that the more members, the more diversity of experiences, skills, expertise and points of view so that monitoring becomes more effective. the size of the audit committee will have an impact on solving problems that may occur, especially in the process of disclosing financial and non-financial reporting (Li *et al*., 2012) [9].

Several studies state that audit committee size has a positive influence on sustainability disclosures made by companies. Buallay & Al-Ajmi (2019) [4] found a significant positive relationship between audit committee size and sustainability report disclosure. These results are also in line with research conducted by (Li *et al*., 2012) [9] which found a significant positive effect between audit committee size and disclosure of intellectual capital.

Based on the explanation above, the following hypothesis is obtained:

H2: The size of the audit committee has a positive effect on the disclosure of the sustainability report

The Effect of the Number of Audit Committee Meetings on the Disclosure of the Sustainability Report

Karamanou & Vafeas (2005) [8] states that in carrying out an effective oversight function, the audit committee must hold meetings to discuss various conditions currently faced by the company. Agency theory explains that the more the number of meetings held by the audit committee together with the board of commissioners, the more opportunity for management and owners to analyze the company's strategic plan and minimize information asymmetry (Xie *et al*., 2003) [14] OJK recommends that public companies hold audit committees at least 3-4 times per year. Audit committee meetings are held to make it easier to find errors that occur and to make it easier to ensure the CSR disclosure process.

Several studies state that the number of audit committee meetings has a positive effect on disclosures made by companies. Buallay & Al-Ajmi (2019) [4] found a significant positive relationship between the number of audit committee meetings and disclosure of sustainability reports. These results are also in line with research conducted by Li *et al*. (2012) [9] who found a significant positive effect between audit committee size and disclosure of intellectual capital in 100 public companies in England. Based on the above explanation, the following hypothesis is obtained:

H3: The number of audit committee meetings has a positive effect on the disclosure of the sustainability report

The Influence of the Audit Committee's Financial Expertise on the Disclosure of the Sustainability Report

Sultana (2015) [13] states agency theory states that an audit committee with members who have a lot of financial expertise will increase the ability to carry out tasks, the function of overseeing financial reporting, non-financial and internal control systems. Lack of financial expertise in the committee will make the audit committee dependent on external auditors (Buallay & Al-Ajmi, 2019) [4]. Financial expertise also assists the oversight function in providing and asking difficult questions of management. financial expertise on the audit committee will reduce the agency problems associated with the flow of information (Bédard & Gendron, 2010) [3].

Several studies state that the audit committee's financial expertise has a positive influence on disclosures made by companies. Mangena & Pike (2005) [10] found a significant positive effect between audit committee financial expertise and disclosure of interim financial reports. Mangena & Tauringana (2007) [11] also managed to find a significant positive effect between the audit committee's financial expertise and voluntary disclosures made by the company. Based on the above explanation, the following hypothesis is obtained:

H4: The financial expertise of the audit committee has a positive effect on the disclosure of the sustainability report

Method

Variables

The dependent or dependent variable is a variable that is influenced by the independent (free) variable. The dependent variable in this study is the sustainability report by looking at the ESG value on the Bloomberg scale (0-100).

The independent variables in this study consist of the characteristics of the audit committee which are explained into independence, size, number of meetings and financial expertise. Audit committee independence is measured by adding up the independent audit committee members in the annual report. Audit committee size is measured by adding up the audit committee members in the annual report. The number of audit committee meetings is measured by adding up the number of meetings in the annual report.

The audit committee's financial expertise is measured by adding up the audit committee members who have a financial education background in the annual report.

Control variables consist of company size and company age. Company size can be measured using the natural log of Total Assets. The age of the company is measured by observing the year of registration on the company's financial statements.

Sampling

The population in this study are non-financial companies listed on the Indonesia Stock Exchange in 2015-2018. Samples were taken using a purposive sampling method, namely sampling based on criteria determined by the researcher. The criteria used in sampling are:

1. Companies listed on the Indonesia Stock Exchange in 2015-2018.
2. The company has an ESG value during 2015-2018.
3. The company is not included in the financial sector.

Method

This study uses multiple linear regression to test the hypotheses that have been formulated. The model developed in this study is as follows:

$$ESGit = \alpha + \beta 1ACINDit + \beta 2ACSZit + \beta 3ACMit + \beta 4ACFEit + \beta 5AGit\ \beta 6SZit\ \varepsilon$$

ESGit = Environmental Social Disclosure as disclosure of sustainability reports
α = Constant
β1-β6 = Regression coefficient
ACINDit = Audit Committee Independence
ACSZit = Audit Committee Size ACMit = Number of Audit Committee Meetings
ACFEit = Audit committee Financial Expertise
AGit = Company Age
SZit = Size
ε = Error

Results and Discussion

The population used in this study are all non-financial companies that have ESG values and are listed on the Indonesia Stock Exchange in 2015-2018. The number of companies that were sampled in this study were 151 companies.

Table 1: Sampling

Explanation	Number
Companies listed on the Exchange	599
Indonesian securities in 2015-2018 in the non-financial sector	(101)
Companies that do not have ESG values during the 2015-2018 period	46
Total Research Sample	184–33
Number of sampling	151

Variables Description

Table 2: Descriptive Statistic Analysis

Variable	Average	Max	Min	Standard Deviation
Environmental Social Disclosure (ESG)	30,8199	53,51	11,98	10,22140
Audit Committee Independence (ACIND)	3,05	5	2	0,401
Audit Committee Size (ACSZ)	3,30	6	3	0,605
Number of Audit Committee Meetings (ACM)	11,40	61	3	10,575
Audit Committee Financial Expertise (ACFE)	1,85	4	1	0,807
Company Age (AG)	36,5870	67,00	5	13,58169
Company Size (SZ)	31,0113	33,47	28,79	0,93742

Table 2 shows the results of the descriptive analysis of the variables in this study. There were 151 samples that were analyzed to produce minimum values, maximum values, average, and standard deviation of each variable.

The ESG (Economic Social Governance) variable is the dependent variable of this study. The ESG value is measured by adding up the average values of the Economic Score, Social Score and Governance Score components. The ESG value shows a mean (average) of 30.81. The standard deviation value of 10.2214 which is smaller than the average value indicates that the ESG value of one company with another company has a small range of variation and it can be concluded that the average ESG value can represent the overall ESG in the sample companies. The lowest score of 11.98 was obtained in 2015 by PT. Bumi Serpong Damai Tbk. The highest ESG value was 53.31, which was obtained in 2015 by PT, Indocement Tunggal Prakarsa Tbk. in 2015.

The ACIND variable is the independent variable of the number of audit committee independence. In the results of descriptive statistics, the average value (mean) of the number of ACIND variables is 3 people. The standard deviation of the total independence of the audit committee is 0.401. The lowest number is 2 people, this number can be found at PT Bumi Resources Tbk. 2016. The highest number is 5 people, this number can be found at PT XL Axiata Tbk in 2015

The ACSZ variable is an independent variable on the number of audit committees. In the results of descriptive statistics, the average value (mean) of this number is 3.30 people. The standard deviation of the total audit committee independence is 0.605. The smallest number is 3 people, this number can be found in 2016 by PT Indah Kiat Pulp and Paper Tbk. While the largest number is 6 people, this number can be found in 2015 by PT Telekomunikasi Indonesia (Persero)

The ACM variable is the independent variable of the number of audit committee meetings. In the results of descriptive statistics, the average value (mean) of this number is 11.40. The standard deviation of the number of audit committee meetings is 10.575. The minimum number of audit committee meetings is 3 meetings, this number can be found at PT Sri Rejeki isman Tbk. In 2016. The maximum number of audit committee meetings was 61 meetings, the number can be found at PT Timah Tbk in 2015.

The ACFE variable is an independent variable on the amount of financial expertise of members of the audit committee. In the results of descriptive statistics, the average value (mean) of this number is 1.85. The standard deviation of the total financial expertise of the audit committee is 0.807. The largest number is 4 people, this number can be found at PT Perusahaan Gas Negara Tbk in 2018. The smallest number is 1 person, this number can be found in 2016 by PT Kiat Pulp and Paper Tbk.

The AG variable is the control variable for the total age of the company. In the results of descriptive statistics, the average value (mean) of the age of this company is 36.5870. The standard deviation of the age of the company is 13.58169. The highest company age value is 67 years, this value can be found at PT Bakrie and Brother Tbk in 2018. The lowest company age value is 5 years, this value can be found in 2015 by PT Indofood CBP Sukses Makmur Tbk.

The SZ variable is the control variable in this study. the variable SZ represents the size of the company which is calculated using the natural logarithm (LOG) of the total assets owned by the company in one year during the 2015-2018 period. The results of descriptive statistics, the average value (mean) of this number is 30.0113. The minimum value of company size in this study is 28.79 or Rp. 3,190,388,786,667 The lowest total assets are shown in PT Hexaindo Adiperkasa Tbk. Company size has the highest value which shows the number 33.47 or Rp. 344,711,000,000,000. This highest total asset can be seen in pt Astra International Tbk. In 2018.

The standard deviation of the company size variable is 13.58169.

Table 3: Regression Result

2		Coefficient	T	Significant
1	(Constant)	-24,686	-3.480	.001
	ACIND	-1,211	-0.970	.334
	ACSZ	4,287	3.729	.000
	ACM	.113	2,448	.016
	ACFE	.143	0.196	.845
	AG	.248	6.048	.000
	SZ	2,359	3.748	.000

The first hypothesis of this study is that audit committee independence has a positive effect on sustainability report disclosure. The test results show a coefficient value of -1.211 and a significance level of 0.334 which is above 0.05. It can be interpreted that the greater the number of independent audit committee members has no effect on the disclosure of the sustainability report. So, the first hypothesis (H1) is rejected.

The second hypothesis of this study is that audit committee size has a positive effect on sustainability report disclosure. The test results show a coefficient value of 4.287 and a significance level of 0.000 which fulfills the requirements for a significant probability value <0.05. It can be interpreted that the larger the size of the audit committee will affect the better the disclosure of sustainability reports. So, the second hypothesis (H2) is accepted.

The third hypothesis of this study is the number of audit committee meetings has a positive effect on disclosure of sustainability reports. The test results show a coefficient value of 0.113 and a significance level of 0.016 which fulfills the requirements for a significant probability value <0.05. It can be interpreted that the greater the number of audit committee meetings will affect the better the disclosure of sustainability reports. Thus, the third hypothesis (H3) is accepted.

The fourth hypothesis of this study is that the audit committee's financial expertise has a positive effect on disclosure of sustainability reports. The test results show a coefficient value of 0.143 and a significance level of 0.845 which is above 0.05. It can be interpreted that the greater the number of committee members with financial expertise has no effect on the disclosure of the sustainability report. So, the fourth hypothesis (H4) is rejected.

Conclusion

The purpose of this research is to analyze the influence of audit committee characteristics on disclosure of sustainability reports in non-financial companies listed on the Indonesia Stock Exchange in 2015-2018. The sample used in this study was 151 obtained through purposive sampling method. The entire sample was tested using multiple linear analysis.

Based on the research that has been done, this study shows that the size of the audit committee and the number of audit committee meetings have a positive effect on sustainability disclosure. Meanwhile, the independence of the audit committee and the financial expertise of the audit committee have no effect on the disclosure of the sustainability report.

This research has several limitations. First, the number of research objects46 companies due to the limited number of companies that disclose sustainability reports. This does not describe all existing non-financial sector companies. Second, due to the small amount of data, there are some data that have extreme values, so data disposal is required to meet the classical assumptions. Based on the conclusions and limitations that have been described, then some suggestions that can be given to further research, namely, further researchers can expand the research object is not limited to one country but in a wider scope such as in Southeast Asia so as to minimize the possibility of extreme variable values. Second, it is hoped that the government will be more assertive in imposing sanctions on companies that publish sustainability reports so that the number of samples can better reflect the population as a whole

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