PalArch's Journal of Archaeology of Egypt / Egyptology

# EVIDENCE FROM MANUFACTURE COMPANIES LISTED ON INDONESIA STOCK EXCHANGE: DOES GENDER AND FINANCIAL EXPERTS OF CHIEF EXECUTIVE OFFICER (CEO) AND AUDIT COMMITTEE RELATED TO AUDIT DELAY?

*Linda Widyana Anggraini*[1], *Iswajuni*[2]

[1,2]Accounting Department, Faculty of Economics and Business, Universitas Airlangga

Jl. Airlangga No.4, Airlangga, Gubeng, Surabaya, East Java, Indonesia.

*****Correspondence Author: email : [2]iswajuni@feb.unair.ac.id

**Linda Widyana Anggraini, Iswajuni. Evidence From Manufacture Companies Listed On Indonesia Stock Exchange: Does Gender And Financial Experts Of Chief Executive Officer (Ceo) And Audit Committee Related To Audit Delay?-- Palarch's Journal Of Archaeology Of Egypt/Egyptology 17(3), 2108-2114. ISSN 1567-214x**

**Keywords: Audit Delay, Chief Executive Officer (Ceo), Audit Committee, Gender, Financial Expertise.**

## ABSTRACT

### Background

Financial report of manufacture companies listed on the Indonesia Stock Exchange experiences audit delay constraints in financial reporting schemes. Even though manufacturing companies are the drivers of economic growth.

### Objective

This study aimed to study the gender influence of the Chief Executive Officer (CEO), the financial expertise of the Chief Executive Officer (CEO), the gender audit committee and the financial expertise of the audit committee on audit delay.

### Methods

This quantitative study was conducted on 319 manufacturing companies listed on the Indonesia Stock Exchange in 2013-2015 with criteria, not in the following year delisting and having complete financial statements as of December 31. Secondary data obtained through the Indonesia Stock Exchange website were analyzed by multiple linear regression tests.

### Results

Gender Chief Executive Officer (CEO), gender audit committee, and financial expertise of the audit committee are significant to audit delay ($p < 0.05$) while CEO financial expertise was not significant ($p>0.05$). The three factors negatively affect audit delay with the Determination Coefficient of 12.2%.

**Conclusion**
This study found that Gender Chief Executive Officer (CEO), gender audit committee, and financial expertise of the audit committee affect audit delay on a small scale. Policies related to gender and financial expertise are needed to prevent audit delay.

## INTRODUCTION

Manufacturing companies are assets of Indonesia's economic growth to support Gross Domestic Product (GDP).[1] This situation requires manufacturing companies in quality management companies, including money management. Manufacturing companies have financial statement audit obligations through external audits but the audit delay rate is still high.[2] Companies are required to follow established standards, there are understood, relevant, reliability, and can be compared.[3] This standard causes the length of the audit process of financial reports. The company will be careful in submitting financial reports so that it has an impact on capital market decision making and earnings quality.[4]

The factors that influence audit delay are indeed varied in each study. Based on previous research it was found that the factors that determine audit delay are the individual characteristics of the Chief Executive Officer (CEO) and the audit committee, related to gender and financial experts. Differences in individual characteristics, especially gender, influence the way a person makes decisions with their strengths and weaknesses.[5] Another thing shows that the CEO and audit committee can be categorized as financial experts therefore they are judged to determine the quality of financial statements.[6]

Women tend to have good internal control and are more sensitive to investor pressure and the capital market so they can reduce the level of audit delays.[5] Companies with female CEOs are associated with higher audit costs.[7] CEOs with financial experts negatively affected the audit delay.[6] The CEO's financial skills help convince the external auditor in the annual audit negotiation process so that the audit process will be shorter.[7] The women's gender audit committee can make the audit committee more diligent to do committee meetings therefore the quality of the report is better.[8] Financial experts will certainly be very helpful for the audit committee to communicate with external auditors.[9]

Manufacturing companies have complex processes in financial reporting schemes because processing raw materials into finished goods. The findings of this study will mediate the delay of audits to enable the emergence of policies related to gender and financial experts. This study aims to examine the gender influence of CEO, the CEO financial experts, gender audit committee and audit committee financial experts that affect audit delay.

## METHOD

This research is quantitative research on audited financial report data and annual reports of manufacturing companies listed on the Indonesia Stock

Exchange in 2013-2015. The number of manufacturing companies listed on the Indonesia Stock Exchange in that time period was 139, 142 and 145 companies with a total of 426 companies. Audit delay in this study is the time span between the closing date of the financial statement book (as of December 31) and the date of the audit report signed by an independent auditor. 319 companies meet the criteria, covering a manufacturing company that has criteria as a manufacturing company listed on the Indonesia Stock Exchange in that time period, a manufacturing company that was not written off from the IDX in the following years and having complete financial statements as of December 31. Company size as a control variable. Data were analyzed using the Statistical Program for Social Sciences (SPSS) version 20 with multiple linear regression analysis techniques. Hypothesis testing use F test and T test with significance (α) 5%. How far this determinants influence audit delay is studied by the coefficient of determination (R2).

## RESULTS

The average audit delay for manufacturing companies listed on the Indonesia Stock Exchange is 80.77 days. Audit delay length has minimum range of 50 days (pharmaceutical and plastic products manufacture company) in 2013 and maximum range of 130 days ( animal feed company) in 2015. Table 1 presents the audit delay, company size, gender of audit committee and financial experts of the audit committee.

**Table 1.** Audit delay, company size, gender , audit committee and financial experts of the audit committee

| Variable | Minimum | Maximum | Average | Standar Deviation |
|---|---|---|---|---|
| Audit Delay | 50 | 130 | 80,77 | 9,675 |
| Gender of Commite audit | 0,00 | 1,00 | 0,1733 | 0,2425 |
| Financial Experts Commite audit | 0,25 | 1,00 | 0,7879 | 0,21500 |
| Firm size | 24,53 | 32,20 | 28,2065 | 1,52645 |

Almost all the gender of CEOs were male (93.4%). There are companies that all audit committee members are male and there are also companies with all members are female. 49.8% had CEOs with financial experts while the remaining 50.2% had CEOs from non-financial experts. All members of the company's audit committee are financial experts. Table 2 presents the CEO's gender and financial experts.

**Table 2.** Gender and Financial Experts of CEO

| Variable | Category | Count | Percentage (%) |
|---|---|---|---|
| Gender | Man | 298 | 93,4 |
| | Woman | 21 | 6,6 |
| Financial Experts | Financial Experts | 160 | 50,2 |
| | Not Financial Experts | 159 | 48,9 |

Test results before the regression technique showed data were normally distributed, had no symptoms of multicollinearity, no heteroscedasticity and no autocorrelation. The multiple linear regression equation with the following formula:

DELAY = 112,882 - 4,991 GCEO + 1,541 FECEO - 5,087 GKA - 14,438 FEKA - 0.719 SIZE + e

Based on multiple linear regression formulas, several explanations can be drawn. If all the independent variables are 0 (zero), the magnitude of the audit delay will be reduced by 112,882 seen from the value of $\beta 0$. If the company has a CEO with a female gender, then the company's audit delay will be shorter ($\beta 1$ = -4,991). If the company has a CEO who does not have financial experts, then the company's audit delay will be longer ($\beta 2$ = 1.541). If the gender audit committee increases by one point, the audit delay will decrease ($\beta 3$ = 5.087). If the audit committee's financial experts increases by one point, the audit delay will decrease ($\beta 4$ = 14,438). If the size of the company has increased by one point, the audit delay will decrease ($\beta 5$=0.719).

The results of the t test show that the CEO Gender influence on Audit Delay has a negative effect on the audit delay of -2.4428 with p-value of 0.016. The CEO of Financial Experts does not have an effect on Audit Delay of 1.492 with a significance value of 0.137. The gender audit committee gives a negative effect on the audit delay of -2,329 with p-value of 0.021. The financial experts of the audit committee gives a negative effect on the audit delay of -6,013 with p-value of 0,000. The coefficient of determination is 0.122, which means that the influence of the gender of CEO and audit committee, and financial experts of the audit committee together causes a change in the audit delay of 12.2%.

## DISCUSSION

Based on the results of the hypothesis test, it can be seen that the gender of CEO and audit committee negatively affected audit delay. Female CEOs influence audit delay because a woman has a risk-averse nature or tends to avoid risk and a woman is not overconfident in decision making when compared to men. A risk-averse CEO has a great possibility of building good internal controls and that can make the audit process shorter so that it can reduce the level of audit delay. Female CEOs are also more sensitive to the pressures gained from investors and the capital market for reliable and timely reporting. In addition, the social pressure received by women is higher, so women will tend to try harder to get the best results in order to maintain a reputation. Therefore, female CEOs will try to avoid very long audit delays because very long audit delays will reduce the timeliness of audited financial statements and can also signal that there are internal control problems and other financial reporting problems.[10]

Companies with audit committees that have female members will have more intensity of monitoring compared to men because they want to minimize the risk of delays in the publication of audited financial statements.[5] Female audit committees can make the audit committee more diligent as indicated by the increasing frequency of audit committee meetings. The higher level of intensity of monitoring and frequency meetings can improve the quality of financial statements.[8] Accuracy and neatness in carrying out tasks will greatly help improve the performance of the audit committee in reviewing the company's financial statements so as to minimize the possibility of misstatements and improve the quality of financial statements. The quality of good financial statements will greatly help speed up the audit settlement process by an independent auditor so that the company can immediately publish audited financial statements.

The role of women in quality report management is indisputable despite gender issues in company management related to gender equality. This equality needs to be overcome by a more radical understanding of gender equality among positive groups towards change, the professionalization of gender equality work; a shift from organizational projects to working with individuals, as well as a shift from organizational projects to influencing organizations from other public arenas.[11] (Anna Wahl, 2007).The framework that occurs sometimes takes into account social, organizational, group and individual variables to understand the impact of gender in top management positions.[12] Top management is often associated with differences in men and women. Gender differences in aspirations towards top management do not decrease over time.[13]

CEO characteristics affect on-time audit reports but only a few characteristics of the CEO are considered. In addition to the gender mentioned in this study, the CEO's tenure and CEO with financial expertise are reported to be associated with timely audit reports.[6] This finding confirms the role of female monitoring and financial experts, noting the positive effects of them on accounting conservatism and income quality in financial institutions, such as banks.[14] Other research turned out to have different results. The study failed to find a relationship between the presence of women in the audit committee and the disclosure of financial insightful information. However, this disclosure of the information is related to the presence of female audit committee members with financial expertise, especially accounting expertise.[15]

Financial expertise of the CEO does not affect audit delay. Companies that have the CEO of a financial expert have no effect on audit delay. That is because the work of a CEO is very complex and requires expertise that is more than just financial expertise. A CEO also requires managerial expertise to manage people who have a direct role in making financial reports and the process of auditing company financial statements. This makes the CEO's financial expertise less effective in suppressing the audit delay rate. The results of this study are contrary to the results of previous studies which concluded that CEOs with financial expertise significantly influence audit delay.[16,17] The CEO with financial expertise can discipline other executives, such as the Chief Financial Officer (CFO) and the controller not to commit fraud or misreport. This ability is related to the client's preparation time and short audit test time because the client no longer needs to hide fraud or correct errors, and the risk audit will be small because the internal control system is good. Financial expertise helps the CEO to easily convince or be convinced by external auditors in the annual audit negotiation process so that the audit process will be even shorter.[7] The audit committee plays a larger mediating role and is able to use mediation techniques to a greater extent when members of the committee have higher financial and industry expertise compared to committee members with lower expertise.[18,19]

Different aspects were found from the relationship between the financial expertise of the audit committee to audit delay. Financial expertise has a negative effect on audit delay. This is because financial expertise in the audit committee can increase the capacity of audit committee members to understand the technical problems faced by the company. Increased technical capabilities of audit committee members can reduce the amount of time required by the audit committee to discuss, understand, and evaluate accounting policies with management and auditors so that the audit process will be shorter. Securities and Exchange Commission (SEC) requires auditors to communicate with audit committees regarding accounting policies and practices used by clients.[9] The Audit Committee's Formation and Work Guidelines regulations state that at least one audit committee member who has expertise in accounting or finance is required.[3] Competence (financial expertise) possessed by committee members can make the functions and roles of the audit committee more effective and facilitate the audit process of independent auditors so that audit reports can be completed more quickly. The results of this study supported the results of research which concluded that the level of financial expertise in the audit committee has a negative influence on audit delay.[9]

## CONCLUSION

This study proves that the gender of CEO and audit committee and financial experts of audit committee affect audit delay, while the financial experts of CEO does not affect audit delay. This factor affects the delay of audits on a small scale. Policies related to gender and financial experts are needed to prevent audit delays such as women's involvement and financial experts. Recommendations for further research are the longer research periods and diverse samples to explore reveal audit delays in other companies

## REFERENCES

Kementerian Perindustrian. Kontribusi Industri Manufaktur Indonesia Peringkat Keempat Dunia. 2017.

Bursa Efek Indonesia. Laporan Keuangan 2013-2015. 2016.

Ikatan Akuntansi Indonesia (IAI). Pernyataan Standar Akuntansi Keuangan (PSAK ). Jakarta: Salemba Empat; 2015.

Sharad Asthana. Abnormal audit delays,earnings quality and firm value in the USA. J Financ Report Account. 2014;12(1).

Harjoto, M. A., Laksmana, I., & Lee R. The impact of demographic characteristics of CEOs and directors on audit fees and audit delay. Manag Audit J. 2015;30(8/9):963–97.

Saeed Rabea Baatwah, Zalailah Salleh NA. CEO characteristics and audit report timeliness: do CEO tenure and financial expertise matter?". Manag Audit J. 2015;30(8/9):998–1022.

Fuxiu Jiang, Bing Zhu JH. Financial Management CEO's financial experience and earnings management. J Multinatl Financ Manag. 2013;23(3):134–45.

Thiruvadi S. Gender differences and audit committee diligence. 27(6), 366-379. Gend Manag An Int J. 2012;27(6):366–79.

Abernathy, J. L., Beyer, B., Masli, A., & Stefaniak C. The association between characteristics of audit committee accounting experts, audit committee chairs, and financial reporting timeliness. Adv Account. 2014;30(2):283–29.

Amanatullah, E. T., Shropshire, C., James, E. H., & Lee PM. Risky business… for whom? Gender, self-vs. other-orientation and risk in managerial decision-making. SSRN eLibrary. 2010;

Anna Wahl PH. Changes in working with gender equality in management in Sweden. Equal Oppor Int. 2007;26(5):435–48.

Heike Mensi-Klarbach. Gender in top management research: Towards a comprehensive research framework. Manag Res Rev. 2014;37(6):538–52.

Gary N. Powell DAB. Gender, gender identity, and aspirations to top management". Women Manag Rev. 2003;18(1/2):88–96.

Isabel-Maria García-Sánchez, Jennifer Martínez-Ferrero EG-M. Gender diversity, financial expertise and its effects on accounting quality. Manag Decis. 2017;55(2):347–82.

Francisco Bravo MDA-R. The disclosure of financial forward-looking information: Does the financial expertise of female directors make a difference? Gend Manag An Int J. 2019;

Baatwah, S. R., Salleh, Z., & Ahmad N. CEO characteristics and audit report timeliness: Do CEO tenure and financial expertise matter? Manag Audit Journal,. 2015;30(8/9):998–1022.

Kumar T. Achieving sustainable development through environment accounting from the global perspective: Evidence from Bangladesh. Asian J Account Res. 2012;

Zalailah Salleh JS. The impact of expertise on the mediating role of the audit committee. Manag Audit J. 2012;27(4):378–402.

Yuliarini S, Ismail KNIBK, Bararoh T. Concept of Remuneration and Management Behavior Evaluation in Indonesia. Asian J Account Res. 2017;