

THE INFLUENCE OF AUDIT COMMITTEE CHARACTERISTICS ON COMPANY PERFORMANCE IN SHARIA GENERAL BANKING

Intan Nia Maulida¹, Srihadi Winarningsih²

^{1,2}Universitas Singaperbangsa Karawang, Karawang, Indonesia

Email: intanniamaulida@gmail.com

ABSTRACT

The research is focused on how characteristics of audit committee affect the company performance. The audit committee characteristics as independent variable is measured by audit committee size, independence of audit committee, and audit committee meeting frequency, as the dependent variable, the company performance is measured by return on assets ratio (ROA). To analyze the data this research is using descriptive statistic analysis, the method to test the hypothesis is using multiple linear regression. By several category that applied using purposive sampling, the research is using eleven sharia general banks in Indonesia. The study results shown that the audit committee size and audit committee meetings frequency affected company performance. Then the independence of audit committee has no influence to company performance. Simultaneously, audit committee characteristics are statistically affected the company performance. Based on this research the company is expected to pay more attention to aspects - aspects that can support return on assets, company management should improve the performance of the audit committee in maximizing the rate of return on assets. This means this study can draw an implication that the greater size of the audit committee can improve the performance of the audit committee in an effective oversight function in maintaining company performance.

Keywords: audit committee characteristics, return on assets, sharia general banking

Article Informations

Article history: submitted: 30 Juli 2020; revised: 10 Desember 2020; accepted: 21 Desember 2020

JEL Classification: M42

How to cited: Maulida, I. N. dan Winarningsih, S. (2020). The Influence of Audit Committee Characteristics on Company Performance in Sharia General Banking. *JIAFE (Jurnal Ilmiah Akuntansi Fakultas Ekonomi)*, 6(2), 175-184. <https://doi.org/10.34204/jiafe.v6i2.2613>

Copyright©2020. JIAFE (Jurnal Akuntansi Ilmiah Fakultas Ekonomi) Universitas Pakuan

INTRODUCTION

The rapid development of Islamic banks in Indonesia has occurred since government showed full support for Islamic banking, where previously the Government did not have the commitment and policy to develop Islamic banking or implement a dual banking system. But in 1998 the government later changed Law Number. 14 of 1967 regarding Banking Principals amended by Law Number 10 of 1998, starting from the development of office networks, the development of assets, the development of Third Party Funds, the development of major productive assets, the composition of uses and sources of funds, and

the development of Financing to Deposit Ratio (FDR). This development and several other indicators have also experienced ups and downs along the way to date.

Sharia era has attracted the interest of world economists, even many developed countries in Europe and America have part of their business units switched to the sharia model. Given the strength of the Islamic system lies in the fundamental concept, namely prioritizing consumer rights and benefits rather than company profits. Of course in the digital and modern era, consumers have developed to be smarter in their attitude, especially when they are

economically. They will look for things that are more profitable for him, see which side fits the economic situation and welfare (Sagantha, 2020).

Viewed from the aspect of the rate of return on assets, since 2014, Islamic commercial banks in Indonesia as a whole have shown an increase in changes for the better (Sharia Banking Statistics, 2020).

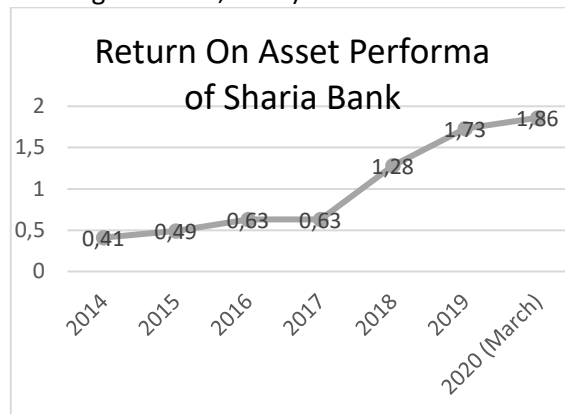


Figure 1. Islamic Bank Return On Asset Performance

Source: Sharia Banking Statistics, 2020.

The chart above is showing the development of sharia banking in Indonesia from 2014 to March 2020 based on Return on Assets ratio rate. Based on the profit aspect, OJK data (2019) shows that the profit of Islamic commercial banks in 2016 was 3,442 billion, in 2017 it was 4,032 billion, in 2018 it was 5,757 billion, and as of September 2019 the profit of Islamic commercial banks was 7,833 billion. This data explains that Islamic or Sharia commercial banks are promising because the trend in profits is increasing, although in terms of numbers it does not mean anything at the macro scale. In addition, in terms of profit and loss the OJK (2019) recorded 952 million in 2016, while in 2017 it was 990 million, in 2018 it was 2,806 billion and in 2019 it was 2,962 billion. The earning assets side as of December 2016 was 3.50%, 2017 was 3.57%, and 2018. The data shows a fluctuating number.

OJK (2019) also reports the contribution of Islamic commercial banks in terms of

financing or in terms of conventional banks known as credit extension, where total financing in 2016 reached 177,482 billion with an NPF level of 7,834, while in 2017 total financing was 189,789 billion and NPF amounted to 9,030, and total financing in 2018 was 202,298 and the NPF level was 6,597. The development of a company is inseparable from the outcome of the corporates's performance itself to support the company's performance. The board of commissioners in conducting supervision of management must also comply with several rules, one of which is the regulation made by Bank Indonesia and laid down in act of Bank Indonesia policy number 8/4/PBI/2006 article 12, namely that the board of commissioners is required to possess an Audit Committee, Remuneration Nomination Committee, and Risk Monitoring Committee (Bank Indonesia Regulation, 2006).

The existence of the Audit Committee in Indonesia began in 2001 for publicly listed companies in Indonesia through a Circular Letter of Bapepam (Capital Market Supervisory Agency) Number: SE-03/PM/2000 which calls for the need for an Audit Committee to be owned by every Issuer and a Letter of the Directors of the JSE (Stock Exchange Jakarta now Indonesia Stock Exchange) No: Kep. 339/BEJ/07-2001 regarding the obligations of listed companies to have an Audit Committee and the number of members of the committee itself. In 2003, the existence of the Audit Committee for BUMN was contained in the Decree of the Minister of BUMN Number: Kep-117/M-MBU/2002.

The existence of an Audit Committee is a global phenomenon that does not only occur in Indonesia. One Korean company, Samsung, established an Audit Committee in 2000. The Audit Committee within the Samsung company is a committee under the Board of Directors that oversees and supports management in order to maximize firm value through checks and balances. The Audit

Committee consists of three directors (directors), more than two thirds of whom must come from independent directors. This present study will be focus on the influence of audit committee characteristics on company performance using measurement by Return On Assets ratio (ROA). Several studies have been carried out, one of which is Zraiq, et al. (2018) show the size of the audit committee has a significant effect on Earning Per Share (EPS), but the size of the audit committee has no significant effect on EPS.

The research is purposed to know how audit committee characteristics affected the company accomplishment in sharia general banking in Indonesia 2014 – 2019 that will be tested in both simultaneously and partially way. This research will focus more on the audit committee and its effect on sharia general banking since the others do the research on different object, because the audit committee in corporate governance plays an important role by providing critical oversight in the financial reporting process and the company's financial audit process. Audit committee – as arranged on Bapepam – LK regulation – has several characteristics that must be comply by the members and the board of commissioners. Size of audit committee, number of audit committee meetings, and the independence of audit committee's members, these characteristics may affect the company performance directly.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

As stated by the National Committee on Governance (KNKG) that in order to build an effective audit committee, the necessary as much at least three people from the total number of audit committee members as a whole. To simplify the research, the size of audit committee is divided to two categories. Middle or medium category if the size of audit committee is equal to three or less than three members. High category, when the audit

committee member contain more than three people, to see which amount of audit committee size could affect the company performance.

The size of the audit committee member could affect the firm performance because based on the law they have specific job to help company efficiency. This is reinforced by the results of research Zraiq (2018), which states that the audit committee size is positive and significant associated with EPS. Also in Ashari and Krismiaji research in 2020 study showed that the size of the audit committee has a positive effect on company performance (Ashari, 2020).

H₁: The size of the audit committee middle category affected the company performance.

H₂: The size of the audit committee high category affected the company performance.

Bapepam has required in Kep 643/Bl/2012 'On the Establishment and Implementation Guidance of the audit committees hold regular meetings at least once in three months or equal to 4 times a year. Audit Committee meetings can only be held if attended by more than 51% the number of members'. The higher frequency of AC meetings is positively associated with the firm's performance was also confirmed by the regression (Zábojníková, 2016). Audit committee meeting frequency was positively related to company performance (Kyereboah-Coleman, 2007).

H₃: The audit committee meeting frequency affected the company performance.

One of the audit committee of the characteristics that can build up the independence of the oversight function. Independent audit committee members are members of the independent party that has no direct relationship to the company. Increasing number of independent audit committee members are expected to result in the quality of financial statements will be

better. The existence of beneficial audit committee to certify the transparency, disclosure of financial statements, fairness to all interested parties (stakeholders), and the disclosure of all the information the company has been carried out by the management.

An independent audit committee members will ensure better financial reporting and quality. An independent audit committee would be more effectively served without being affected the interests of any party. An independent member can be regarded as a good watchdog because it is considered more objective and critical of the policies made by management. Sari (2018) and Ashari (2020) found that the audit committee independence had a positive effect on company performance.

H₄: The audit committee independence affected the company performance.

In a study conducted Ashari (2020) showed that the results showed characteristics: independence of audit committee, the audit committee size, and the number of audit committee meetings affect positively to company performance.

H₅: The size of the audit committee, audit committee meeting frequency, and audit committee independence simultaneously affected the company performance.

RESEARCH METHOD

This is a descriptive quantitative research. The population in this study is the sharia general banking in Indonesia. The sampling here is confined to specific types of people who can lay out the fit information, either because they are the only ones who have it, or they conform to some criteria set by the researcher. This type of sampling is called purposive sampling design. The criterias are: (1) sharia General Banking Companies in Indonesia period 2014-2019; (2) the annual report released no later than July 1st, 2020; (3) the companies are not loss for as long as 2014 – 2019; (4) having and provide the data

that is being studied. This research got eleven companies as sample to be tested.

This study is using more than one independent variables, and one dependent variable. To describe the data this research is using statistic descriptive analysis, and using classic assumption tests to know the worthiness of the data to continue the test to hypothesis test. Then to test the hypothesis this research used multiple linear regression analysis method.

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e \quad (1)$$

Which is Y is indicator of dependent variable; a is constant; b_1, b_2, b_3, b_4 are indicator of coefficient regression; and X_1, X_2, X_3, X_4 are indicator of independent variable (size of the audit committee middle category, size of the audit committee high category, audit committee meeting frequency, and audit committee independence).

The variables they are had measured for audit committee size measured how many the member of an audit committee in a company. The audit committee member is regulated by KNKG, that each audit committee must consist at least three members. The size is divided by two categories, middle and high. The size will be on middle category if the member consist less than three or equal to three. Then the size will be on high category, when the member is consist more than three member.

Audit Committee meeting frequency, Variable number of audit committee meetings numeral measured, by the frequency of audit committee meetings or meetings in the current year. Audit committee independence, the independence of the audit committee is measured in percentage by dividing the number of audit committee that is recognized as an independent party of the overall number of audit committee members.

$$ACIND = \frac{\text{Independent AC member}}{\text{The number of all AC member}} \quad (2)$$

Return on Assets, is one of the profitability ratio to measure the effective how management manage the assets.

$$ROA = \frac{\text{Earning After Tax}}{\text{Total Asset}} \times 100\% \quad (3)$$

RESULT AND DISCUSSION

Descriptive Statistics

Table 1 shows the research on 66 data samples from the Sharia General Banking in Indonesia 2014–2019.

Table 1. Variable Descriptive Statistical Analysis

	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
ACZ	66	2	7	3,920	1,194
ACMF	66	3	37	12,700	7,413
ACIND	66	0,300	1	0,899	0,152
ROA (%)	66	0,020	13,600	2,109	2,967
Valid N (list wise)	66				

The ACZ has 3,920 as mean value and it is higher than the standard deviation value about 1,19, it indicated the data as a good result and not cause biased. The minimum value here reflected the audit committee member least is 2, and the maximum value for Audit Committee member is seven. For ACMF (Audit Committee Meeting Frequency) it has 7,413 as standard deviation values, it reflects quite a good data because the value is lower than 12,700 as the mean value. The mean value of the audit committee independence has 0,899 as it value, its higher than 0,157 as the standard deviation value. This can be indicated as a good data result because it has a small fluctuation there, this is because the standard deviation is a reflection of a very high deviation, which causes normal data and does not cause bias. In addition, the minimum value on ACIND is 0,300 and the maximum is 1,000.

Multiple Linear Regression Analysis

Here is the result of multiple linier regression analysis.

Table 2. Result of Multiple Linear Regression Analysis Coefficients^a

	Model	Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	-0,037	0,083
	ACZ_middle	0,062	0,056
	ACZ_high	0,127	0,057
	ACMF	-0,003	0,001
	ACIND	0,115	0,063

From the results of the table above, the multiple linear regression analysis equation obtained is:

$$Y = -0,037 + 0,062X1_{Middle} + 0,127X1_{High} - 0,003X2 + 0,115X3 \quad (4)$$

Partially Test (t Test)

The significant (sig.) value on the X1 audit committee of the medium category is 0,270. The sig value is greater than the probability value of 0,050, or the value of 0,270 > 0,050, then H1 is rejected, and it means the audit committee in middle category has no influence in company performance. Variable X1 has a t_{count} of 1,113 with $t_{table} = 1,998$. So $t_{count} < t_{table}$ can be concluded that the audit

committee size variable of the medium category has no contribution to Y or return on assets. This result is consistent with the finding of Al – Matari et al (2012) and Jordan Zraiq (2018).

Table 3. Result of t Test Coefficients^a

	Model	t	Sig.
1	(Constant)	-0,447	0,656
	ACZ_middle	1,113	0,270
	ACZ_high	2,216	0,030
	ACMF	-2,231	0,029
	ACIND	1,830	0,072

Seen in the coefficients model 1 column there is a significance value of 0,030. The significance value is smaller than the probability value of 0,050, or the value of $0,030 < 0,050$, then H_2 is accepted. Variable X_1 (from the high category) has a t_{count} of 2,216 with a $t_{table} = 1,998$. So $t_{count} > t_{table}$ can be concluded that the H_2 is supported. This suggests that the AC size affect the firms' performances and it is supported the finding of Bauer et al. (2019) who found out also significant positive relationship between audit committee size and firm accomplishment measured by Tobin's Q of the US companies evidence Bauer et al. (2019) as well as finding of Reddy et al. (2010) who come across this relationship in New Zealand and Zájbojníková (2016) who found that audit committee members had a positive effect on company performance.

The existence of the audit committee is very important in order to improve company performance, especially from the aspect of control. Currently, the existence of an effective Audit Committee is one aspect of the implementation of Good Corporate Governance. Although the size of the audit committee of this high category affects the performance of the corporation, it does not

mean that the company must arrange as many members of the audit committee as possible, this must be adjusted to the needs of the company itself. Board composition notwithstanding, suggests that large boards can be less effective than small boards. The idea is that when boards become too big, agency problems (such as director free-riding) increase within the board and the board becomes more symbolic and less a part of the management process (Hermalin, 2003).

The significance value is 0,029 for the audit committee meeting frequency (ACMF) variable. The significance value is smaller than the probability value of 0,050, or the value of $0,029 < 0,050$, then H_3 is accepted. Variable X_2 (ACMF) has a t_{count} of -2,231 with $t_{table} = 1,998$. So $t_{count} > t_{table}$ lead to the conclusion that the X_2 variable, namely audit committee meeting frequency has a negative contribution to Y or Return On Assets (ROA). A negative t value indicates that the audit committee meeting frequency variable has the opposite relationship to Return on Assets. This is parallel with the findings of research carried out by Sihombing and Laksito who found that audit committee meeting frequency negatively affected management profit (Sihombing, 2017). This was also found in research conducted by Hsu et al. (2010) in public non-life insurance corporations in Thailand.

Audit committee independence has a significant value of 0,720. The sig value is greater than the probability value of 0,050, or the value of $0,720 > 0,050$, then H_4 is rejected and H_0 is accepted. This variable has t_{count} which is 1,830 with $t_{table} = 1,998$. So $t_{count} < t_{table}$ can be concluded that the audit committee independence variable has no contribution to Y or return on assets. So this indicated than the H_4 is rejected. In other words, in this study the independence of the audit committee has no influence on return on assets. This outcome seems to question previous surveys on the audit committee independence, which emphasize that increasing the independence of the audit

committees, can result in better corporate performance (Koutoupis, 2019). This is in line with research conducted by Adiati et al. (2017), which found that the independence of the audit committee did not affect the performance of banking companies in Indonesia. The same results were also found in Syafiqurrahman et al. (2014) research which also found that the independence of the audit committee did not have an influence on company performance as measured by return on assets.

Simultaneously Test (t Test)

Here is the statistic result of F test to show simultaneously influence of independent to dependent variable.

Table 4. Result of F Test ANOVA^a

Model	Sum of Squares	df	Mean Square	F
Regression	0,077	4	0,019	3,337
Residual	0,352	61	0,006	0,016 ^b
Total	0,429	65		

From the table, the F_{count} value of 3,337 is obtained with the probability value (significance) = 0,016. $F_{value} (3,337) > F_{table} (2,76)$, and the significance value is smaller than the probability value 0,05 or the value $0,016 < 0,05$; then H_5 is accepted, meaning that simultaneously the audit committee size, audit committee meeting frequency, and audit committee independence have a significant effect on return on assets. Theoretically, the audit committees existence along with their characteristics should have positive effects on the firm's performance, especially for financial performance. This because financial statements have to be reviewed by an audit committee before they are disclosed to the public (Ashari, 2020). This result is in line with

research conducted by Yuliani (2018), where in the research it was found that the characteristics of the audit committee together simultaneously influenced the financial performance of pharmaceutical companies listed on the Indonesia Stock Exchange in 2012-2016.

CONCLUSION

The size of the audit committee has a significant effect on company performance. The results of the regression calculations for the medium audit committee are not significant, while the results of the regression calculations for the high audit committee variables are influential and significant. The number of audit committee meetings in this study has a negative effect on return on assets, this means that if the number of meetings increases, the amount of return on assets will decrease. The result suggests that the effectiveness of an audit committee decreases with overloaded agendas and activities on compliance, lowering a firm's efficiency, and it might have an impact on the company's financial performance. The independence of the audit committee does not affect the return on assets, the structure of the independent audit committee composition does not affect the performance of the banking company. Company performance as measured by ROA or return on assets cannot be controlled by how the audit committee structure. An audit committee consisting of independent or non-independent individuals does not determine the performance of a banking company. Audit Committee Size, Audit Committee Meeting Frequency and Audit Committee Independence are simultaneously influence the company performance on return on assets measurement in a very small way, only affected as much as 18%.

Based on this research the company is expected to pay more attention to aspects - aspects that can support return on assets,

company management should improve the performance of the audit committee in maximizing the rate of return on assets. although it cannot be controlled by the independence of an audit committee member. This means by the test of ths study can draw an implication that the greater size of the audit committee can improve the performance of the audit committee in an effective oversight function in maintaining company performance. This study found that the number of audit committee members has a positive effect on return on assets, so companies should be wiser in forming an audit committee. But this study did not find a positive effect on the number of audit committee meetings, management needs to pay attention to these factors and more reconsider the decision to hold a meeting, so as to create work efficiency of the audit committee. Independent or not independent should the audit committee member be selected and selected, although it cannot be controlled by the independence of an audit committee member.

REFERENCES

- Adiati, Y. and Adiwibowo, A. S. (2017). Pengaruh Karakteristik Komite Audit Terhadap Kinerja Perusahaan Perbankan di Bursa Efek Indonesia Tahun 2013-2015. *Diponegoro Journal Of Accounting*, 6(4), 1-15.
- Al - Matari, Y., et al. (2012). Board of Directors, Audit Committee Characteristics and The Performance of Saudi Arabia Listed Companies. *International Review of Management and Marketing*, 2(4).
- Ashari, S. and Krismiaji. (2020). Audit Committee and Financial Performance Characteristics: Indonesian Evidence. *EQUITY*, 22(2), 139-152.
- Bauer, R., et al. (2009). Real Estate, Corporate Governance And Performance: The Reit Effect. *Financial Management*, 38(1), 1-29.
- Ghozali, I. (2016). *Aplikasi Analisis Multilavariete Dengan Program IBM SPSS 23 Edisi 8*. Semarang: Badan Penerbit Universitas Diponegoro.
- Hermalin, B. E. and Weisbach, M. S. (2003). Directors as an Endogenously Determined Institution: A Survey of the Economic Literature. *Economic Policy Review*, 9(1), 7-26.
- Hsu, W.-Y. and Petchsakulwong, P. (2010). The Impact of Corporate Governance on the Efficiency Performance of the Thai Non-Life Insurance Industry. *The Geneva Papers*, 35(1), 28-49.
- Koutoupis, A. G. and Bekiaris, M. (2019). Audit Committees Impact on Company Performance The Greek & Italian Experience. *International Journal of Auditing and Accounting Studies*, 1(1), 1-12.
- Kyereboah-Coleman, A. (2007). Corporate governance and firm performance in Africa: A dynamic panel data analysis. *Studies in Economics and Econometrics*, 32, 1-24.
- Reddy, K., et al. (2010). Efficacy Of Principle-Based Corporate Governance Practices And Firm Financial Performance: An Empirical Investigation. *International Journal of Managerial Finance*, 6(3), 190-219.
- Sagantha, F. (2020). Meninjau Kinerja Bank Syariah Di Indonesia. *Scientific Journal Of Reflection: Economic, Accounting, Management And Business*, 3(1), 31-40.
- Sari, B. R. (2018). *Pengaruh Karakteristik Komite Audit Terhadap Praktik Manajemen Laba*. Skripsi. Universitas Islam Indonesia Yogyakarta.
- Sihombing, M. A. and Laksito, H. (2017). Pengaruh Karakteristik Komite Audit Dan Kualitas Auditor Eksternal Terhadap Manajemen Laba. *Diponegoro Journal of Accounting*, 6(4), 1-10.
- Sujarweni, V. W. (2016). *Kupas Tuntas Penelitian Akuntansi Dengan SPSS*. Yogyakarta: Pustaka Baru Press.

- Sunyoto, D. (2013). *Analisis Data Ekonomi dengan menggunakan SPSS*. Jakarta: Indeks.
- Syafiqurrahman, et. al. (2014). Analisis Pengaruh Corporate Governance dan Pengaruh Keputusan Pendanaan Terhadap Kinerja Perusahaan Perbankan di Indonesia. *Jurnal Akuntansi*, 18(1), 21-44.
- Yuliani, N. R. (2018). *Pengaruh Komisaris Independen, Komite Audit, dan Rasio Leverage Terhadap Kinerja Keuangan Pada Perusahaan Farmasi yang Terdaftar di BEI tahun 2012 - 2016*. Skripsi. Universitas Negeri Yogyakarta.
- Zábojníková, G. (2016). *The Audit Committee Characteristics and Firm Performance: Evidence from the UK*. Dissertation: Repositório Aberto da Universidade do Porto.
- Zraiq, M. A., and Fadzil, F. (2018). The Impact of Audit Committee Characteristics on Firm Performance: Evidence from Jordan. *Scholar Journal of Applied Sciences and Research*, 9(1), 39-42.

