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The Role of Audit Committee Supervision on Integrated Reporting Relationship and Firm Value

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Abstract

This study aims to find empirical evidence of the role of the audit committee and audit committee activities in moderating the effect of integrated reporting on firm value. WarpPLS version 7.0 is used as an analytical tool by using a sample of manufacturing companies listed on the Indonesian stock exchange for five years of observation, from 2016 to 2020 in order to obtain 150 observational data. The results of the study indicate that integrated reporting has an influence on firm value. Likewise, the role of the audit committee and the activities of the audit committee as proxied by the number of audit committee meetings moderated the effect of integrated reporting on firm value. The limitation of this research is that the value of R2 is still low at 22%. Therefore, for further research, it is still possible to modify this research by modifying the research variables used, adding other variables such as the supervisory role of independent commissioners, pressure from external stakeholders, and so on, besides that it is also possible to use other analytical tools. The implication of this research is the importance of the supervisory role of the audit committee in the implementation of integrated reporting to increase firm value.

Keywords: audit committee, integrated reporting, firm value

1. Introduction

The market value of the company is formed when there is a sale of shares between buyers and sellers, this is a reflection of the true value of the company's assets. Therefore, an important task that must be carried out by company management is to increase the value of the company. Even though the stock market turmoil due to the Covid-19 pandemic was still continuing in 2021. This had an impact on the performance of the

Jakarta Composite Index (JCI) from January 4, 2021 to April 30, 2021, which recorded a negative performance of -1.79% to the level of 5.996. The deepest decline in the JCI occurred in March 2021 of -4.11% where the Property and Manufacturing sector was the largest contributor to the decline, namely 12.39% and 12.36% (Infovesta, 5 June 2021). This will affect the interest of investors to invest in the sector. One of the most important parts in shaping the value of the company is the disclosure of integrated reporting. Integrated reporting is important because there are other factors that shape the value of the company. The importance of integrated reporting, the board of directors tries to convey the best possible information.

To increase investor interest in investing, the company must influence investors by providing credible information. So far, in Indonesia there is still a separation of information, both financial information and non-financial information. Companies in Indonesia generally publish two reports, namely financial statements presented in the annual report and non-financial reports presented in sustainability reporting. This is less efficient, because in the development of financial reporting, reporting that combines the two has been created, namely integrated reporting (IIRC, 2013).

Integrated reporting according to (IIRC, 2013) is a concise communication tool that covers several aspects, both internal and external aspects of the company to create company value from time to time. The purpose of integrated reporting is to provide an overview of the resources owned by the organization and the relationships that the organization uses as a tool to influence, so it is called the capital of the conceptual framework for integrated reporting (IIRC, 2013). So that integrated reporting has its own charm in the eyes of investors.

Regarding integrated reporting, there are two different views, the first view states that integrated reporting will provide benefits to its stakeholders, while the second view argues that integrated reporting will harm its stakeholders. To date the only country that has required integrated reporting is South Africa. This is evidenced by research (Lee & Yeo, 2016) which examines the intensity of integrated reporting disclosures on firm value using a sample of companies listed on the South African stock exchange, research findings prove that integrated reporting disclosures are positively related to firm value. This is supported by research findings (Barth et al., 2017), (El-Deeb, 2019), (Utomo et al., 2021) which state that firm value is influenced by integrated reporting.

The second view is argued by (Arya et al., 2010) which states that when disclosure discloses ownership of information owned by the company, it will be expensive and of little benefit to the company. Such information is said to be expensive because it is conveyed to competitors, for example such information as business models, opportunities, risks and strategies. In addition, it can directly increase compliance costs, for example in implementing information systems as well as in management oversight efforts. Therefore, in this view it is stated that integrated reporting will be detrimental to the company. This is supported by (Nurkumalasari et al., 2019) which states that integrated reporting has no effect on firm value.

The above explanation is in line with agency theory which explains the relationship between principal and agent. The relationship between principal and agent tends to bring up differences in interests between principal and agent, because in principle humans will try to maximize utility (benefits) for their own interests (Jensen & Meckling, 1976). The position of the agent as the manager of the company is more profitable than the principal, because the agent knows the information on the company and the company's future prospects. Managers as agents are obliged to provide information to the principal according to actual conditions. However, the delivery of information from agents sometimes does not match the actual conditions. This is known as information asymmetry. The asymmetry between agents and principals can be minimized by means of corporate governance mechanisms.

The corporate governance mechanism is a clear set of rules, procedures and relationships between the parties who make decisions and those who exercise control over which decisions are then monitored. The corporate governance mechanism is directed at ensuring and supervising the governance system within an organization. In general, this mechanism can control management behavior. These mechanisms can be classified into two groups, namely internal mechanisms and external mechanisms. In the context of controlling companies using internal processes and structures such as general meetings of shareholders, composition of the board of directors and commissioners, meetings of directors, audit committees and so on are called internal mechanisms. Meanwhile, external mechanisms are ways of influencing the company by using mechanisms from outside the company, for example market control and control outside the company (FCGI, 2005).

The audit committee is one part of the internal mechanism of corporate governance which has a function as a supervisor in the company. The audit committee is an independent individual because it is not involved in the daily tasks of the company's management, and has experience in overseeing effective companies. This is to maintain integrity and objectivity in providing audit committee recommendations, because they will be more fair and independent in solving problems (FCGI, 2005).

Foker (1992) explained that agency costs can be reduced and company disclosures can be qualified with the existence of an audit committee, because the audit committee is an effective tool to oversee the company. Research conducted by Ho and Wong (2001) states that the existence of an audit committee has a significant effect on the extent of voluntary disclosure by the company. Handajani et al (2010) in their research found evidence that the corporate governance mechanism represented by the audit committee had a significant effect on corporate social responsibility disclosure. Thus, if the size of the audit committee is getting bigger, it is expected that the supervision carried out will be better and can increase the disclosure of social information carried out by the company.

In addition to the number of audit committees, the activities of the audit committee that are proxied by audit committee meetings are also an internal corporate governance mechanism. The audit committee meeting is a coordination between its members in order to carry out their duties effectively in terms of financial reporting supervision, internal control, and the implementation of corporate governance. The more frequent meetings are held, the better the coordination of the audit committee will be so that it can carry out supervision of management more effectively so that it can support the increase in the disclosure of social information carried out by the company.

Based on the phenomenon and the limited research findings, research on integrated reporting, corporate value and internal corporate governance mechanisms still needs to be tested. So, the research question is whether integrated reporting has an effect on firm value? and do internal corporate governance mechanisms moderate the relationship between integrated reporting and firm value?

2. Literature Review and Hypotheses Development

Signal theory is used as the theory that underlies this research. The principle of signal theory is how a company gives signals to interested parties. Company information about the disclosure of integrated reporting can be used as a signal by the company to stakeholders. Information is a description, record or description of both past, current and future conditions for the survival of a company. Investors need complete, accurate and timely information as an analytical tool to make investment decisions. The market is expected to react when the announcement is received by the market, even if the announcement contains positive or negative signals. This is evidenced by the increase in stock prices if the information is good news for investors. Conversely, a decrease in stock prices occurs if the information contains bad news.

The roots of signal theory are pragmatic accounting theory. With his explanation that the focus of this theory is on the behavior change of information users as a result of the delivery of information from the company. Disclosure made by the company is one of the signals given by the company, in the hope that there will be changes in stock prices as a result of the disclosures made by the company.

According to (Gray et al., 1995) one of the activities of the company's CSR is to seek the disclosure of the company's environment, because it can be used as a signal to show the quality of the company's management. To replace traditional accounting, high-quality companies will be more inclined to social accounting and environmental accounting. And conversely, companies that are consistent in limiting accounting information to their stakeholders are called low-quality companies. Furthermore (Gray et al., 1995) explains that quality financial reporting is a signal to stakeholders that shows the ability of company management to control the company's social and environmental risks.

Voluntary disclosure is based on signaling theory. Signal theory explains that management always tries to disclose private information which, according to its considerations, is needed by investors as an analytical tool in making investment decisions, especially if the information is good news.

Integrated reporting is one of the private information owned by every company, because integrated reporting is a concise communication tool that covers several aspects, both internal and external aspects of the company to create company value from time to time. So that the disclosure of integrated reporting can affect the value of the company, meaning that the more disclosures of integrated reporting made by the company, the more the company's value will increase. This is consistent with research findings from (Lee & Yeo, 2016), (Barth et al., 2017), (El-Deeb, 2019), (Utomo et al., 2021) which state that firm value is influenced by integrated reporting. So the first hypothesis in this study is:

H1: there is a positive relationship between integrated reporting and firm value.

The audit committee as part of the internal corporate governance mechanism is tasked with assisting the board of commissioners in carrying out effective supervision of management to reduce conflicts of interest and fraud committed by management. Therefore, the role of the audit committee can provide a strong enough influence to pressure management who discloses integrated reporting. Foker, 1992 in Said et al, 2009 explains that the audit committee is an effective tool to carry out a supervisory mechanism, so as to reduce agency costs and improve the quality of company disclosure. Research conducted by Ho and Wong (2001) in Said et al (2009) states that the existence of an audit committee has a significant effect on the extent of voluntary disclosure by the company.

In line with the research of Ho and Wong (2001) in Said et al (2009), Handajani et al (2010) in their research found evidence that the corporate governance mechanism represented by the audit committee had a significant effect on CSR disclosure. Thus, if the size of the audit committee is getting bigger, it is expected that the supervision carried out will be better and can increase the disclosure of social information carried out by the company, thus this is in line with signal theory. The hope of this research is that the greater the number of members of the audit committee, the more effective the supervisory function will be so that it will moderate the positive relationship between integrated reporting and firm value. So the second hypothesis of this research is:

H2: the number of audit committees moderates the relationship between integrated reporting and firm value.

Likewise, the activities of the audit committee are proxied by audit committee meetings. The audit committee meeting is a coordination between its members in order to carry out their duties effectively in terms of supervision of financial statements, internal control, and the implementation of corporate GCG.

This means that the more frequent meetings are held, the better the coordination of the audit committee will be so that it can carry out supervision of management more effectively. Thus, it is expected to support the increase in the disclosure of social and environmental information by the company which is one of the signals given by the company to its stakeholders. This is supported by the results of research (Sun et al., 2010), which states that the number of audit committee meetings has a significant relationship to the relationship between earnings management and corporate environmental disclosure. The hope of this research is that the more often the audit committee holds meetings, the more effective the supervisory function will be so that it will moderate the relationship between integrated reporting and firm value. So, the final hypothesis of this research is:

H3: audit committee meetings moderate the relationship between integrated reporting and firm value.

3. Methods

Companies listed on the Indonesian stock exchange, mainly manufacturing sector companies are the research population. Purposive sampling is a method to determine the sample, with the following criteria: 1) companies belonging to the manufacturing sector and listed on the Indonesian stock exchange from 2016 to 2020, 2) companies that issue integrated reporting in 2016-2020, 3) companies that present complete data as needed in the research. This study uses three types of variables, namely independent variables (integrated reporting), dependent variable (firm value) and moderating variables (audit committee and audit committee activities).

The following is a measurement of each variable, integrated reporting is measured using a disclosure index (Lee & Yeo, 2016), by dividing the number of disclosures submitted by the company divided by the total disclosures determined (8). Firm value is measured using Tobin'Q (Lindenberg & Ross, 1981) with the formula Tobin's Q = (MVS + D)/TA. To measure the number of audit committee members by calculating the number of audit committee members in the annual report. Measurement of the number of audit committee meetings by calculating the number of formal meetings held by the audit committee in a year. MVS is the market value of all outstanding shares, i.e. the company's share price multiplied by the outstanding shares. D is the total debt owned by the company. TA is the total assets owned by the company.

Secondary data is used to support this research. The data is obtained from the information presented in the company's integrated reporting. All data is downloaded via www.idx.co.id. The analytical tool used in this research is WarpPLS version 7.0. The reason for using WarpPLS is because WarpPLS can handle formative measurement models better and has an advantage when the sample size is relatively small (Hair et al., 2017).

4. Results and Discussion

There is still no mandatory integrated reporting in Indonesia, so the data obtained in this study is limited. Based on the results of the selection of research samples, 30 companies issued integrated reports for the manufacturing sector in Indonesia from 2016 to 2020. Thus, 150 observational data were obtained. The results of the research findings can be seen in table 1.

Tab.1 Research result

Model fit	*Score*	*Description*
APC	0.211	P = 0.002
ARS	0.219	P = 0.001

AARS	0.203	P = 0.003
AVIF	1.333	Ideally
AFVIF	1.862	Ideally
GoF	0.468	Large
SPR	1.000	Ideally
RSCR	1.000	Ideally
SSR	1.000	Ideally
NLBCDR	1.000	Accepted
IRDisc → TobinsQ	0.36	P < 0.01* Accepted
Comdit*IRDisc → TobinsQ	-0.17	P = 0.02* Accepted
C-Active*IRDisc → TobinsQ	-0.10	P = 0.10** Accepted

*sig 5%, ** sig10% Source: processed secondary data, 2021.

Based on the data presented in table 1. all data indicate ideally, the GoF value obtained also shows in the large category. The significance value shows a significance level of 5% on the relationship of integrated reporting disclosure to firm value and the moderating role of the audit committee on the relationship of integrated disclosure to firm value. Meanwhile, the moderating role of audit committee activities on the relationship of integrated disclosure to firm value uses a significance level of 10%. The following is a picture of the research findings:

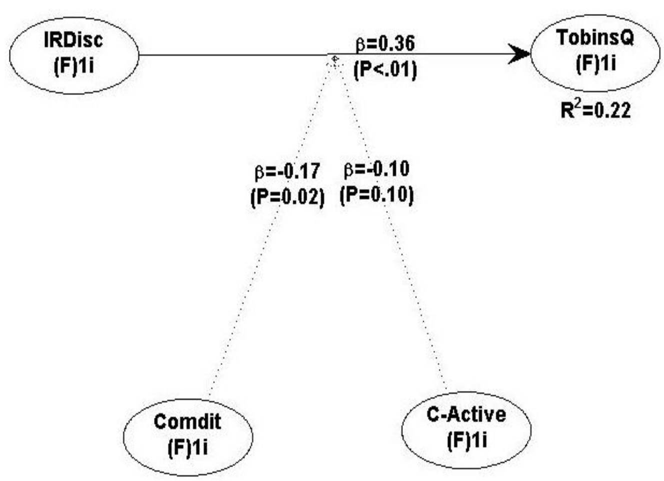

Fig. 1 Research result

Based on Figure one, it shows that integrated reporting positively affects firm value. This means that it is in accordance with the explanation of the first view which states that integrated reporting provides benefits for the company. This means that the more integrated reporting disclosures made by the company, it will increase the value of the company. This is consistent with research findings from (Lee & Yeo, 2016), (Barth et al., 2017), (El-Deeb, 2019), (Utomo et al., 2021) which state that firm value is influenced by integrated reporting. But the findings of this study are not the same as the findings of research from (Arya et al., 2010) which states that integrated reporting will be detrimental to firm value. Likewise with (Nurkumalasari et al., 2019) which states that integrated reporting has no effect on firm value.

The figure also explains the role of the audit committee in moderating the relationship between integrated reporting and firm value. This means that the audit committee is an effective tool to carry out a supervisory mechanism, so as to reduce agency costs and improve the quality of corporate disclosure so that this can moderate the relationship between integrated reporting and firm value. This is in line with Ho and Wong (2001) which state that the existence of an audit committee has a significant effect on the extent of voluntary disclosure by the company. In addition, Handajani et al (2010) also provide evidence that the corporate governance mechanism represented by the audit committee has a significant effect on corporate social responsibility disclosure. However, it can be explained that the number of members of the audit committee is possible because they have different expertise so that each member of the audit committee is more focused on what is their expertise.

The research findings presented in table 1. and figure 1. also show that the activity of the audit committee in this case is measured by the number of meetings held by the audit committee in one period moderating the relationship between integrated reporting and firm value. Activities carried out by the audit committee in terms of meetings to coordinate between members of the audit committee are running effectively. This means that the more often the audit committee holds meetings to coordinate in terms of supervision of financial statements, internal control, and the implementation of corporate governance, the better the audit committee in carrying out supervision of management so that it can support increased disclosure of social information carried out by companies. However, it can be explained that the audit committee meeting was held possible due to urgent circumstances or poor company performance rather than an indication of carrying out supervision of management (Ebrahim, 2007). In addition, it is possible because the meetings conducted by the audit committee are less effective. A good meeting process should provide an opportunity for all parties to express opinions and discuss openly without feeling pressure from other parties. In Indonesia, a good meeting process often does not occur because of the eastern culture of the Indonesian people, namely there is a sense of fear/worry about the impact in the future. Fear/worry about having one or more people dominating the meeting. Therefore, each member of the audit committee is expected to stick to their respective principles for the benefit of the company, rather than having to agree to a decision that is clearly detrimental to the company.

5. Conclusion

The results of the study indicate that integrated reporting has an influence on firm value. Likewise, the role of the audit committee and the activities of the audit committee as proxied by the number of audit committee meetings moderated the effect of integrated reporting on firm value. The limitation of this research is that the value of R2 is still low at 22%. Therefore, for further research, it is still possible to modify this research by modifying the research variables used, adding other variables such as the supervisory role of independent commissioners, pressure from external stakeholders, and so on, besides that it is also possible to use other analytical tools. The implication of this research is the importance of the supervisory role of the audit committee in the implementation of integrated reporting to increase firm value.

Limitations and Further Study

This model cannot be generalized because the research object is limited to manufacturing companies in Indonesia.

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