THE EFFECT OF AUDIT COMMITTEE EFFECTIVENESS ON CORPORATE GOVERNANCE: AN EMPIRICAL STUDY ON PUBLICLY LISTED COMPANIES IN INDONESIA

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Abstract— An emerging country like Indonesia need a strong corporate governance in order for publicly listed companies to move forward and for its financial stability. This study explores the effect of audit effectiveness i.e. audit committee expertise, audit committee meetings, and audit committee independence on corporate governance. The population of this study is the awardees of most trusted, trusted, and fairly trusted companies for six consecutive years which the scores were based from Corporate Governance Perception Index (CGPI). The findings showed that the audit committee effectiveness significantly and positively affects corporate governance.

Keywords— Audit committee expertise; Audit committee meetings; Audit committee independence, awardeess; Corporate Governance Perception Index

1. INTRODUCTION

Indonesia's capital market prospect is increasing and at the same time is facing some challenges to be addressed to. Some of the prospects are, growing volume transactions followed by increasing domestic investor participation and strict market supervisory and broker internal control employed, paired with system enhancement to increase efficiency in the operation area, enforcing more robust operation for brokers. To mention some of the challenges, these are, the development of capital market derivatives products, and the development of retail market [1]. With all these prospects and challenges, and effective audit committee is needed and sound corporate governance must be implemented.

The fall of Enron and other giant companies reflects weak corporate governance and ineffective check and balances. The aftermath of Enron collapsed affected the confidence of all stakeholders especially the investors, government, and other regulatory bodies. The effect of this weak governance had prompted many countries to mandate corporate governance reform, this include Indonesia. After the incidents, corporate governance has become a serious issue [2]. Most investors believed that corporate governance is the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders [3]. Business objectives were not achieved and investors were disappointed because of mismanagement. In an effort of Indonesia government to restore

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back the trust of the investors, regulators and other interested parties, the government through the capital market authority in Indonesia known as *Otoritas Jasa Keuangan-OJK* (Financial Services Authority) functions as administering an integrated regulatory and supervisory system to all activities in the financial services sector [4]. The OJK is strictly monitoring the activities of publicly listed companies and rigorous supervision of day-to-day business transactions.

A sound governance is achieved when audit committee function well. Audit committee is considered as one of the factors that affect corporate governance. Audit committees play a crucial role in the financial reporting process of firms and have been the focus of corporate governance regulation in the wake of spectacular accounting scandals [5]. There are several countries like South Africa, United Kingdom (UK), Egypt and United States of America (USA) that had considered the role of audit committee on corporate governance especially if it is mandated. Unlike in Romania that Bucharest Stock Exchange is not aware of the significant role of the audit committee in corporate governance, unlike foreign companies, which understand the significant role of this structure [6].

The purpose of this study is to comprehend how audit committee effectiveness affects corporate governance, and at the same time, it aims to analyze the relation between audit committee effectiveness and corporate governance. The objects of the research are the publicly listed companies in Indonesia Stock Exchange. The uniqueness of this research is that the researcher specifically gathered data from all the listed companies that have received an award for six consecutive years (2011-2016) of being most trusted, trusted, and fairly trusted companies by Indonesia Institute of Corporate Governance (IICG).

2. RUDIMENTARY AND HYPOTHESIS DEVELOPMENT

2.1. AN OVERVIEW OF INDONESIA CORPORATE GOVERNANCE AND AUDIT COMMITTEE

Stakeholders of Enron, Parmalat, Worldcom and other companies suffer because of weak corporate governance. Most of the investors and other stakeholders lost their trust in capital market. The Asia Asset Management Event in 2004 emphasized on the need of Indonesia to improve corporate governance in order to attract foreign investors, and it the Code of Good Corporate Governance for Indonesia was published in January 2007 [7]. Previously, the capital market is controlled by *Badan Pengawasan Pasar Modal (BAPEPAM) – Laporan Keuangan* (Capital Market Supervisory Board- Financial Statements). In December 31, 2012, the function of Capital Market Supervisory Board – Financial Statements was transferred to *Otoritas Jasa Keuangan* (Financial Services Authority) based on rule No.21 year 2011.

The Financial Services Authority (*Otoritas Jasa Keuangan - OJK*) is a State institution established under Law Number 21 Year 2011 which functions to organize an integrated regulatory and supervisory system for all activities within the financial services sector in the banking sector, capital market and non- banks such as Insurance, Pension Funds, Financing Institutions, and other Financial Services Institutions. In the early month of 2014, *Otoritas Jasa Keuangan* and International Finance Corporation (IFC) established Indonesia Corporate Governance Manual, which serves as a learning instrument to benchmark existing standards and practices in Indonesia with internationally recognized best practices. The Chairman of the Board of Commissioner said that “OJK believes that the Indonesia Corporate Governance Manual will benefit to all companies in Indonesia in developing their robust corporate governance practices” [8].

With the establishment of Indonesia Corporate Governance Manual, it served as benchmark for corporate governance practices in Indonesia to be more competitive, increase investor's confidence, reduce cost of capital, and can create a sustainable

performance for every company specially the publicly listed companies. Aside from CG Manual, the Indonesia Institute of Corporate Governance (IICG) evaluates every year publicly listed companies, private companies, and government-owned companies in terms companies implementation of corporate governance. IICG provides scores in which SWA Magazine will publish the companies that are compliant with the criteria provided by IICG.

One of the factors that influence sound governance is audit committee. Audit committee in Indonesia is relatively new as it has only been regulated after the occurrence of the 1997 Asian financial crisis. In 2000, audit committee was initiated voluntarily, and then became mandatory in 2003 and amended in 2004 after the issuance of rules by Capital Market Supervisory Board (*Badan Pengawasan Pasar Modal*). It was stipulated in the rules that audit committee membership must comprise of at least three members, one of whom shall be an independent commissioner and concurrently the chairman of the audit committee, while the others shall be external independent parties. Additionally, at least one of the audit committee shall have accounting and/or finance expertise. The responsibility of the audit committee is to provide independent professional advice to the board of commissioners. In terms of international comparison, audit committee rules in Indonesia, in general, are similar to those in the USA [9].

2.2. CORPORATE GOVERNANCE

Corporate governance makes sure that the company is operating smoothly in accordance to what it purports to be. Corporate governance must be established in every entity in order to achieve business main target that is, profitability and the continuance of the business to operate. [10] said that “beginning with Adam Smith in 1776, expanded upon by Berle and Means (1932), and formalized by Jensen and Meckling (1976), an extensive literature has developed noting both the virtues and defects in the corporate governance process.” Every company desires for good governance. Good corporate governance is about exhibiting ethical behaviour on all business dealings and also take good care of its employees’ welfare by providing good working conditions and good salaries [11]. Good governance is all about behaving ethically in the corporate world.

Corporate governance refers to the way organizations are regulated and governed [11]. Corporate governance can raise many strategic and policy issues which might need the intervention of management [12]. Corporate governance is about the way power is exercised over corporate entities [13]. Corporate governance refers to the framework of rules, practices and processes that board of directors apply to direct and control their firm for ensuring accountability, fairness and transparency in a firm's relationship with all its stakeholders including its shareholders, management, customers, suppliers, financiers, government and the community [14]. Corporate governance is aimed at avoiding massive disasters before they occur. Following the 2002 introduction of the Sarbanes-Oxley Act in the United States, corporate governance has become a serious issue [2]. Corporate governance is the process and structure used to direct and manage the business affairs of the company towards enhancing business prosperity and corporate accountability with the ultimate objective of realizing long-term shareholder value, whilst taking into account the interest of other stakeholders [3].

Corporate governance structure is to organize and manage firms, which concern the relationships among the firm management, its board of directors, its shareholders and other stakeholders. A study conducted by [15] suggests corporate governance structure as “ways of bringing the interests of shareholders and managers into line and helping firms run for the benefit of shareholders, while [16] regards corporate governance structure as a monitoring mechanism to lessen the conflicts of interests among stakeholders by mitigating agency costs via to the separation between ownership and management as well as the majority of outside directors in the management board. Corporate governance is the

set of actions and procedures that ensure a company is soundly managed so all investors receive a return on their investment that is reasonable given the risks involved [10].

Thus, corporate governance is ensuring the interest of stakeholders, including the shareholders and management. It is helping the company to govern in accordance with principles of good corporate governance.

2.3. CORPORATE GOVERNANCE MEASUREMENT

The Indonesia Institute of Corporate Governance (IICG) aims to become an independent and dignified institution that is central to the study of corporate governance development, as well as being a community partner in realizing the creation of sound business behaviors [17]. IICG was established as it originated from the economic crisis in 1998 in which there are a lot of companies who lack to practice the principles of good corporate governance. In order to materialize the aim of IICG, awards are given to the corporate governance compliers, and are evaluated based on the elements of CGPI. There are four (4) elements used by Indonesian Institute of Corporate Governance, these are:

- a. Self-Assessment is an independent assessment by all organs, members, and stakeholders about the quality of Good Corporate Governance (GCG) implementation in the company. At this stage, the company fills out the questionnaire by inviting respondents to give the honest and objective perception in order to provide good feedback and evaluation to the company.
- b. Documentation System is the stage of fulfillment of assessment requirements in the form submission of various documents that have been owned by the company related to the implementation of Good Corporate Governance (GCG).
- c. Paper is a fulfillment of assessment requirements that describes a series of Good Corporate Governance (GCG) implementation processes and programs in the company. The paper created illustrates the direction and focus of the assessment in accordance with established systematic writing guidelines.
- d. Observation is the final stage of assessment as an important part of Good Corporate Perception Index (GCPI) research and ranking process, which is a direct review to the company by the CGPI assessment team to ensure the quality of Good Corporate Governance (GCG) implementation obtained from data and information in all three stages.

The above elements are the criteria used by Indonesia Institute of Corporate Governance (IICG). IICG evaluates all the companies that are governance compliance. In the process of evaluation, there is a corresponding corporate governance score, which is called Corporate Governance Perception Index (CGPI) for each company being evaluated. The corresponding corporate governance perception indexes were ranked based on the category of Most Trusted, Trusted, and Fairly Trusted. The Corporate Governance Perception Index (CGPI) was categorized as follows:

Table I. Corporate Governance Perception Index (CGPI) and Award Category

No.	CGPI Score (%)	Award (Category)
1	85-100	Most Trusted
2	70-84	Trusted
3	65-69	Fairly Trusted

Table I above describes the category of the award given to the Publicly Listed Companies (PLCs). The scores were accumulated based on self- assessment, documentation, paper and observation.

2.4. AUDIT COMMITTEE EFFECTIVENESS

Audit committee is one on the governance mechanisms that monitors the welfare of the company. They function as control to every entity. There are several definitions for audit committee from different authors. According to [18] and [19], “An audit committee is as a delegate body of the board of directors charged with safeguarding and advancing the interests of shareholders. The audit committee has been considered as a very important monitoring mechanism of corporate governance for oversight of the company’s financial reporting process [20]. In fact, the audit committee can improve the quality and accuracy of financial information [21,22], ensuring that the officers responsible for reporting and disclosure are more closely monitored and controlled.

An effective audit committee has qualified members with the authority and resources to protect stakeholder interests by ensuring reliable financial reporting, internal controls, and risk management through diligent oversight efforts [23]. Audit committee structure consist of audit committee expertise, audit committee meetings, and audit committee independence. Audit committee expertise is needed since the experts know how financial statements are being prepared, analyzed and interpreted. Audit committee meetings must be taken into consideration because discussions and decisions are made during the meeting. Meetings signify the diligence of the members to meet and discuss activities to be conducted. Lastly, audit committee members must be independent in order to maintain objectivity and unbiased opinion.

2.5. AUDIT COMMITTEE EXPERTISE

Expertise in financial matters a lot since it helps the audit committee members to visualize the real picture of company’s financial situation. Members of the Audit Committee must be financially literate. An experienced individual who is a financial expert should chair the Audit Committee [8]. The presence of expert member in an audit committee began when scandals happened previous years. Following high profile corporate scandals in recent years, regulatory authorities worldwide, including South African policymakers, have reacted and mandated the inclusion of at least one financial expert in the audit committee: a member of accounting, auditing or finance background and/or experience. Such regulatory reforms have also called for all members of audit committees to be financially literate, with the assumption that the inclusion of financial experts in the audit committee ensures higher quality financial reporting [24, 25]. Academic research shows that presence of financial experts mitigates conflicts between management and external auditors; curbs well internal control weaknesses; results in positive capital market reactions; and enhances financial and non-financial disclosures [18, 26, 27, 28]. Majority of prior studies have documented a significant positive association between financial expertise and the quality of financial reporting [29, 18, 25] and non-financial disclosures [28]. However, [27] found insignificant relationship between financial expertise and non-financial disclosures of UK companies. [30] did not find a significant association between key aspects of the audit committee function such financial expertise and Integrated Reporting (IR) practice. [31] also added that AC expertise is positively associated with the quality firm’s financial disclosure. The need to have at least one financial expert in the audit committee is assumed to be able to improve the effectiveness of the audit committee in carrying out supervisory duties [32]. Based on the above statements, the formulated hypothesis is as follows:

H₁: Audit committee expertise has significant effect on corporate governance.

2.6. AUDIT COMMITTEE MEETINGS

[33] said that “the number of meetings may reflect how proactive the audit committee is in assessing internal control”. Regulators have often expressed a strong preference for an active audit committee that meets frequently during the year [34]). The audit committee should meet frequently and record its conclusions in discharging its duties and responsibilities [35]). [36] documented that the number of audit committee meetings is significantly associated with corporate reporting quality. In Egypt, [37] provide empirical evidence that the number of audit committee meetings contributes to the reduction of management reporting lag.

Audit committee authority and meetings are shown to have a significant positive impact on integrated reporting (IR) practice [30]. The frequency of audit committee meetings signals their desire to fulfill responsibilities [29]. A number of researchers argue that the frequency of audit committee meetings is an indication of committee activeness and by extension effectiveness [29, 23, 38]. For instance, [38] opine that audit committees which meet regularly shall have enough time to carry out their basic roles (e.g. monitoring) effectively. A number of empirical studies have documented a significant positive association between financial reporting quality and audit committee meetings [29, 38, [25]. Studies have also shown that the frequency of audit committee meetings has significant impact on non-financial disclosures [27,28]. However, other studies found no association between audit committee meetings and reporting quality [18, 39]. The meetings are shown to have a significant positive impact on Integrated Reporting practice [30]. The authors indicate that the number of AC meetings held during fiscal year is negatively associated with the quality of corporate disclosure [31].

The audit committee meeting or meeting serves as a medium to carry out the necessary improvements or evaluations, and includes ensuring the quality of the financial statements. Based on the decision of the Chairman of BAPEPAM Number Kep-29 / PM / 2004 Year 2004 in rule Number IX.I.5 stated that the audit committee held a meeting at least equal to the minimum requirement of board of commissioners meeting stipulated in the articles of association of the company. From the above explanation, the audit committee meeting is generally concluded to improve the quality of financial statements through its supervisory function and its suggestion which is especially expected to improve the timeliness of financial reporting. So based on the above statements, the formulated hypothesis is as follows:

H₂: Audit committee meetings have significant effect on corporate governance.

2.7. AUDIT COMMITTEE INDEPENDENCE

The independence of the audit committee function is one of the most important and emphasized aspects of audit committee in both academic research, as well as regulatory requirements [29,40,41,42]. The central thesis based on agency theory is that independent audit committees detect, or at least reduce, fraudulent reporting practices [27,18,40,27] argue that the independence of audit committee enhances the quality and credibility of corporate reporting process, including non-financial disclosures. Also, [31] found out that audit committee (AC) independence is positively associated with Financial Reporting Quality (FRQ). The existence and the independence of audit committee are quite important for increasing the quality of information and providing exact information [43]. [8] elaborated that the member of the Audit Committee shall consist of 2 Independent Commissioner or any other external party. The independence of audit committee signals objectivity and impartiality. There is fairness when audit committee is independent. Thus the next hypothesis are as follows:

H₃: Audit committee independence has significant effect on corporate governance.

H4: Audit committee expertise, audit committee size, and audit committee independence have a significant effect on corporate governance.

3. PROPOSED METHOD

The method used in this study is an explanatory research. An explanatory research method is used in this study since it depicts causal relationship between variables. The object of this research is the publicly listed companies in Indonesia Stock Exchange. There are 199 firm year observations based on the recipient of trusted companies awarded by Indonesian Institute of Corporate Directors (IICD) for corporate governance category from 2011 to 2016. IICD evaluated the companies based on the four categories in scoring corporate governance, these are, self-assessment, document, paper, and observation. Out of 199 firm years, only 36 firm years were chosen based on the following criteria: The samples were drawn from the following criteria:

- a. Listed companies in Indonesia Stock Exchange.
- b. Recipient of award categorized as Most Trusted, Trusted, and Fairly Trusted. The companies are awarded by the Indonesian Institute for Corporate Governance and published in SWA Magazine from 2011 to 2016.
- c. Recipient of award for six (6) consecutive years. The companies received the award categorized as Most Trusted, Trusted, and Fairly Trusted for six (6) year in a row. The awardees had maintained their status as compliers of Good Corporate Governance rules and procedures. The award given was based on Indonesia Institute of Corporate Governance (IICG) scores.

The independent variables are Audit Committee Expertise (X_1), Audit Committee Meetings (X_2), and Audit Committee Independence (X_3). Audit committee expertise is measured by the number of accounting or finance graduate among the members. Audit committee meetings is measured by the number meetings held in a year, while audit committee independence is measured through the number of independent members. These three (3) variables explain or influence the dependent variable. The dependent variable in this research is Corporate Governance (Y) which is measured through Corporate Governance Perception Index (CGPI).

4. RESULTS AND ANALYSIS

4.1. AUDIT COMMITTEE EFFECTIVENESS AND CORPORATE GOVERNANCE

It is known that audit committee was established to support corporate governance of every corporation. The audit committee is a committee established by the Board of Commissioners and serves as the supervisor of the performance of the board of directors in managing the company. Recognizing the importance of audit committee functions within an entity, the establishment of an audit committee is highly recommended for a company. In accordance with the regulations issued by *Badan Pengawas Pasar Modal - BAPEPAM (now handled by Otoritas Jasa Keuangan)*. Proper monitoring and supervision of audit committee on company's operations bring forth an added value to so called good corporate governance. The list of the companies or the object of the research is presented in Appendices A and B. As shown on Table II below, it describes the minimum, maximum, average, and standard deviation of audit committee expertise (ACE), audit committee meeting (ACM), audit committee independence (ACI), and corporate governance perception index (CGPI).

Table II. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ACE	36	1.00	4.00	2.2778	1.11127
ACM	36	12.00	72.00	34.6111	15.47953
ACI	36	1.00	7.00	3.4722	1.25325
CGPI	36	70.73	93.30	85.8967	4.70897
Valid N (list wise)					

Based on Table II above, it shows that the average number of audit committee members that are expert in accounting and finance is two (2) while the maximum number of expert is four (4) and the minimum is one (1). A minimum of one (1) member is in accordance with regulations promulgated by the regulatory bodies, BAPEPAM. The audit committee is required to have at least one financial expertise in the audit committee assumed that the member will help improve the effectiveness of the audit committee in carrying out the supervisory function on the management side. In this study, the audit committee expertise is measured by the proportion of audit committee members who have expertise in the field of finance or accounting from formal education and had previous experience related to the financial aspects. As found by [19], that having at least one member of audit committee who has accounting or financial management experience reduced the likelihood of income-decreasing earning management and on the study made by [26] that audit committee increases financial disclosure. Disclosure is one of the aspects of transparency and transparency is one of the principles of corporate governance. All the listed companies in this study had comply the minimum required number of audit committee member that is expert.

The Table II above also shows the average number of meetings held by the audit committee which is 34.6 times or 35 times a year while the minimum is 12 times and the maximum is 72 times a year. In accordance with the regulations issued by [44], the audit committee is obliged to hold regular meetings at least once in 3 (three) months which means that at least the audit committee must conduct at least four meetings in one year. By conducting regular meetings, the audit committee is expected to improve the quality of supervision on the performance of the board of directors. All the listed companies in this study conducted the meetings more than the required number of meetings.

In addition, the Table II above showed an average of 3.47 or 4 audit committee members that are independent. The minimum number of audit committee members that are independent is 1 while the maximum number is 7. As stipulated in GG manual, audit committee shall consist of 2 Independent Commissioner or any other external party. The average number exceeded the required number based on the regulation but then there is one company whose number of independent audit committee is below the stipulated rules. Lastly, the corporate governance perception index showed an average of 85.89%, with a minimum of 70.73%, and maximum of 93.30%. This indicates that the listed companies in this study had garnered a score under the category of Trusted and Most Trusted.

4.2. COEFFICIENT OF CORRELATION

Based on the statistical analysis, the correlation coefficient of Audit Committee Expertise is 0.287, which means that the relationship between Audit Committee Expertise (ACE) and Corporate Governance is weak and directly related as shown on Table III below.

Table III. AC Expertise Correlations

		ACE	CGPI
ACE	Pearson Correlation	1	.287
	Sig. (2-tailed)		.089
	N	36	36
CGPI	Pearson Correlation	.287	1
	Sig. (2-tailed)	.089	
	N	36	36

The Table III above is an indication that inclusion of expert in accounting and finance in audit committee is related to corporate governance of the company even though it is weak. The correlation coefficient of Audit Committee Meetings (ACM) is $-.282$, which means that the relationship between Audit Committee Meeting (ACM) and Corporate Governance is weak and inversely related as shown in Table IV below.

Table IV. AC Meetings Correlations

		ACE	CGPI
ACM	Pearson Correlation	1	-.282
	Sig. (2-tailed)		.096
	N	36	36
CGPI	Pearson Correlation	-.282	1
	Sig. (2-tailed)	.096	
	N	36	36

The Table IV above is an indication that meeting held by audit committee is related to corporate governance of the company even though it is weak. The correlation coefficient of Audit Committee Independence (ACI) is $.626$, which means that the relationship between Audit Committee Independence (ACI) and Corporate Governance is strong and directly related as shown in Table V below,

Table V. AC Independence Correlations

		ACE	CGPI
ACI	Pearson Correlation	1	.626**
	Sig. (2-tailed)		.000
	N	36	36
CGPI	Pearson Correlation	.626**	1
	Sig. (2-tailed)	.000	
	N	36	36

** . Correlation is significant at the 0.01 level (2-tailed).

The Table V above is an indication an independent audit committee member is strongly related to corporate governance of the company.

4.3. COEFFICIENT OF DETERMINATION

The Tables VI-IX below show the result of R^2 is which 0.083 or 8.3% for Audit Committee Expertise (ACE); .079 or 7.9% for Audit Committee Meeting (ACM); and .392 or 39.20% for Audit Committee Independence (ACI). This indicates that 8.3%, 7.9%, and 39.20% is the contribution of ACE, ACM, and ACI to Corporate Governance respectively, the remaining balance is brought about by other factors not included in this research.

Table VI. Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.287 ^a	.083	.056	4.57627

- a. Predictors: (Constant), AC EXPERTISE
b. Dependent Variable: CGPI

Table VII. Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.282 ^a	.079	.052	4.58421

- a. Predictors: (Constant), AC MEETINGS
b. Dependent Variable: CGPI

Table VIII. Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.626 ^a	.392	.374	3.72607

- a. Predictors: (Constant), AC INDEPENDENCE
b. Dependent Variable: CGPI

For the overall result of coefficient determination, the R^2 is .427 or 42.7% which means that the combined contribution of ACE, ACM, and ACI to CG is 42.70% and the remaining balance of 57.3% is due to other factors that is not included in this study.

Table IX. Model Summaryb

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.653 ^a	.427	.373	3.72834

- a. Predictors: (Constant), AC EXPERTISE, AC MEETINGS, AC INDEPENDENCE
b. Dependent Variable: CGPI

4.4. HYPOTHESIS TESTING ON AUDIT EFFECTIVENESS ON CORPORATE GOVERNANCE

In testing the hypothesis, a significance level of 0.05 ($\alpha=5\%$) is used to reject or to accept hypothesis previously mentioned. H_1 , H_2 , H_3 , and H_4 is accepted if the probability significance < significance level of 0.05, otherwise rejected if the probability significance > significance level of 0.05. Based on the statistical result, audit committee expertise (ACE) significance is 0.211 and audit committee meeting (ACM) significance is 0.464, it indicates that the result is higher than the significant level of 0.05, and therefore H_1 and H_2 is rejected and H_0 is accepted, as expressed that audit committee expertise and audit committee meeting have no significant effect on corporate governance. Rejecting H_1 means that audit committee expertise does not have effect because expertise may not be necessary for corporate governance as found by [27] that there is no significant relationship between financial expertise and non-financial disclosures. In addition, [30] did not find a significant association between key aspects of the audit committee function such financial expertise and Integrated Reporting (IR) practice. As long as the company is governed well by the board, audit committee expertise is not necessary. The same is through with audit committee meeting, too much meeting is not effective for good governance. [31] found that the number of AC meetings held during fiscal year is negatively associated with the quality of corporate disclosure. This means that the audit committee should not devote more of their time to meetings.

The significant result of ACI is 0.000 which means that it is below the 0.05 significant level and therefore H_3 is accepted conveying that audit committee independence has significant effect on corporate governance. Audit committee is effective when the audit

committee consist of independent members. An independent member is objective, not biased, and sees to it that the company is governed well. This finding is supported by [29,19,40], that the central thesis based on agency theory is that independent audit committees detect, or at least reduce, fraudulent reporting practices). Fraudulent practices are present when corporate governance is weak. Table X shows the obtained significance result:

Table X. Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	74.386	3.652		20.371	.000
ACE	.746	.585	.176	1.275	.211
ACM	.037	.049	.120	.741	.464
ACI	2.462	.607	.655	4.056	.000

a. Dependent Variable: CGPI

Based on the Table X above, the multiple regression is as follows:

$$CG = 74.386 + 0.746ACE + 0.037ACM + 2.462ACI$$

The above value of regression conveys the following:

- Corporate governance is constant with a value of 74.386 when it is not influenced by the variables of audit committee expertise, audit committee meetings, and audit committee independence.
- Audit committee expertise, audit committee meetings, and audit committee independence directly affects corporate governance with the value 0.746, 0.037, and 2.462 respectively. This indicates that corporations are governed well when there are financial experts, conduct meetings regularly, and there are independent members in the company.

For the overall result of audit committee effectiveness on corporate governance, as shown in Table XI using the significance result is 0.000 which is lower than 0.05 significance level.

Table XI. ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	331.288	3	110.429	7.944	.000 ^b
Residual	444.816	32	13.901		
Total	776.105	35			

a. Dependent Variable: CGPI

b. Predictors: (Constant), AC EXPERTISE, AC MEETINGS, AC INDEPENDENCE

The result showed that the H_4 is accepted conveying that audit committee expertise, audit committee meeting, and audit committee independence have significant effect on corporate governance if simultaneously tested. The result of the study recognizes how important the role of audit committee on corporate governance. Having one financial expert in the audit committee is assumed to be able to improve the effectiveness of audit committee in carrying out supervisory tasks especially tasks that are related to corporate governance. Meeting or meetings conducted by the audit committee will certainly be very useful as a medium to carry out the various improvements or evaluations the company needs including its company's governance. The effectiveness of audit committee on

corporate governance is supported [5] that audit committees play a crucial role in the financial reporting process of firms and has been the focus of corporate governance regulation in the wake of spectacular accounting scandals.

5. CONCLUSION

A well governed corporation will surely move forward and have the ability to maintain financial stability. The presence of audit committee is one of the factors that support the implementation of corporate governance. Audit committee plays a vital role on corporate governance. It was mandated that audit committee must be established to act as a monitoring tool for the company's operations. Audit committee supports the implementation of corporate governance. Audit committee effectiveness overall result shows a significant and positive effect on corporate governance. With the presence of the combined three indicators of audit committee effectiveness, it thus improves corporate governance of Indonesia publicly listed companies. It was criticized that corporate governance is weak in Indonesia not until 2015 that a stronger regulatory framework plays a critical role in the enhancement of the corporate governance score in 2015 [45]. The effort of OJK had proven that corporate governance is getting better. All the listed companies in this study were compliant of corporate governance conducted by IICG. Based on the research result described, the researcher recommends to do evaluation further the audit committee expert functions and frequency of audit committee meetings. For further research, combine other variables affecting corporate governance, such as audit committee size, increase the number of samples, and conduct the research in other business sector.

APPENDIX

APPENDIX A - Total Population

Awardees Companies (2011-2016) Based on Corporate Governance Perception Index (CGPI) 2010 -2016

No.	Year Awarded	Company Name	Total Score
1	2011	PT Aneka Tambang (Persero) Tbk	86,15
2	2011	PT Bank CIMB Niaga Tbk	91,46
3	2011	PT Bank Mandiri (Persero) Tbk	91,81
4	2011	PT Bank Negara Indonesia (Persero) Tbk	85,35
5	2011	PT Bank Tabungan Negara (Persero) Tbk	85,70
6	2011	PT Garuda Indonesia (Persero) Tbk	85,82
7	2011	PT Krakatau Steel (Persero) Tbk	85,19
8	2011	PT Telekomunikasi Indonesia (Persero) Tbk	89,10
9	2011	PT United Tractors Tbk	87,36
10	2011	PT Adhi Karya (Persero) Tbk	77,28
11	2011	PT Angkasa Pura II (Persero)	77,67
12	2011	PT Astra Otoparts Tbk	78,11
13	2011	PT Asuransi Jasa Indonesia (Persero)	82,77
14	2011	PT Bakrie & Brothers Tbk	75,61
15	2011	PT Bakrie Telecom Tbk	73,97
16	2011	PT Bakrieland Development Tbk	77,36
17	2011	PT Bank DKI	78,17
18	2011	PT BPD Jawa Barat & Banten Tbk	78,19
19	2011	PT Bukit Asam Persero	84,33
20	2011	PT Bumi Resources Tbk	70,83
21	2011	PT Indo Tambangraya Megah Tbk	77,42
22	2011	PT Jamsostek (Persero)	83,40
23	2011	PT Jasa Marga (Persero) Tbk	83,41
24	2011	PT Kawasan Berikat Nusantara (Persero)	74,69
25	2011	PT Kereta Api Indonesia (Persero)	70,18
26	2011	PT Krakatau Bandar Samudera	75,70

27	2011	PT Krakatau Engineering	75,81
28	2011	PT Krakatau Industrial Estate Cilegon	73,28
29	2011	PT Krakatau Tirta Industri	72,28
30	2011	PT Panorama Transpostasi Tbk	70,10
31	2011	PT Pertamina (Persero)	76,93
32	2011	PT Timah (Persero) Tbk	70,73
33	2011	PT. Wilayah Karya (Persero) Tbk	79,90
34	2012	PT Aneka Tambang (Persero) Tbk	86,55
35	2012	PT Bank CIMB Niaga Tbk	89,88
36	2012	PT Bank Mandiri (Persero) Tbk	91,91
37	2012	PT Bank Negara Indonesia (Persero) Tbk	85,75
38	2012	PT Bank OCBC NISP Tbk	85,86
39	2012	PT Bank Syariah Mandiri	85,45
40	2012	PT Bank Tabungan Negara (Persero) Tbk	85,90
41	2012	PT Garuda Indonesia (Persero) Tbk	85,84
42	2012	PT Telekomunikasi Indonesia (Persero) Tbk	89,57
43	2012	PT United Tractors Tbk	87,77
44	2012	PT Adira Dinamika Multi Finance Tbk	78,19
45	2012	PT Astra Honda Motor Tbk	78,08
46	2012	PT Astra Otoparts Tbk	79,09
47	2012	PT Asuransi Jasa Indonesia (Persero)	83,05
48	2012	PT Bakrie & Brothers Tbk	76,23
49	2012	PT Bakrie Telecom Tbk	75,73
50	2012	PT Bakrieland Development Tbk	77,37
51	2012	PT Bank DKI	80,24
52	2012	PT Bank Jateng	78,55
53	2012	PT Bank Mutiara Tbk	78,85
54	2012	PT Bank Nusantara Parahyangan Tbk	79,94
55	2012	PT Bank Rakyat Indonesia (Persero) Tbk	84,16
56	2012	PT BPD Jawa Barat Banten Tbk	77,80
57	2012	PT Bukit Asam (Persero) Tbk	82,55
58	2012	PT Bumi Resources Tbk	72,80
59	2012	PT Indonesia Power	80,53
60	2012	PT Jasa Marga (Persero) Tbk	83,65
61	2012	PT Kawasan Berikat Nusantara (Persero)	73,55
62	2012	PT Kereta Api Indonesia (Persero)	71,23
63	2012	PT Krakatau Engineering	77,87
64	2012	PT Krakatau Industrial Estate Cilegon	75,57
65	2012	PT Krakatau Tirta Industri	72,63
66	2012	PT Petrokimia Gresik	80,04
67	2012	PT Sucofindo (Persero)	79,23
68	2012	PT Timah (Persero) Tbk	75,68
69	2012	PT Berau Coal	65,94
70	2012	PT Metropolitan Land Tbk	66,51
71	2012	PT Panorama Transportasi Tbk	68,90
72	2012	PT Pelabuhan Indonesia II (Persero)	69,92
73	2012	PT Pelabuhan Indonesia III (Persero)	69,72
74	2013	PT Aneka Tambang (Persero) Tbk	88,70
75	2013	PT Bank Cental Asia Tbk	85,29
76	2013	PT Bank CIMB Niaga Tbk	89,75
77	2013	PT Bank Mandiri (Persero) Tbk	91,88
78	2013	PT Bank Negara Indonesia (Persero) Tbk	86,06
79	2013	PT Bank OCBC NISP Tbk	85,95
80	2013	PT Bank Rakyat Indonesia (Persero) Tbk	85,56
81	2013	PT Bank Syariah Mandiri	86,52
82	2013	PT Bank Tabungan Negara (Persero) Tbk	85,43
83	2013	PT Garuda Indonesia (Persero) Tbk	85,93
84	2013	PT Telekomunikasi Indonesia (Persero) Tbk	90,58
85	2013	PT United Tractors Tbk	85,01
86	2013	PT Adi Sarana Armada Tbk	75,10
87	2013	PT Adira Dinamika Multi Finance Tbk	79,24
88	2013	PT Angkasa Pura II (Persero)	78,60

89	2013	PT Astra Otoparts Tbk	80,03
90	2013	PT Asuransi Jasa Indonesia (Persero)	83,84
91	2013	PT Bank DKI	81,32
92	2013	PT Bank Permata Tbk	81,82
93	2013	PT BPD Jateng	79,45
94	2013	PT Federal International Finance	76,55
95	2013	PT Indo Tambangraya Megah Tbk	79,16
96	2013	PT Indonesia Power	82,49
97	2013	PT Jamsostek (Persero)	83,75
98	2013	PT Jasa Marga (Persero) Tbk	84,53
99	2013	PT Kawasan Berikat Nusantara (Persero)	74,61
100	2013	PT Krakatau Daya Listrik	74,54
101	2013	PT Krakatau Engineering	78,58
102	2013	PT Krakatau Industrial Estate Cilegon	77,70
103	2013	PT Krakatau Tirta Industri	74,24
104	2013	PT Panorama Transportasi Tbk	70,12
105	2013	PT Pelabuhan Indonesia III (Persero)	70,71
106	2013	PT Pembangkitan Jawa Bali	82,13
107	2013	PT Pertamina (Persero)	80,16
108	2013	PT Pos Indonesia (Persero)	76,59
109	2013	PT Tambang Batubara Bukit Asam (Persero) Tbk	83,80
110	2013	PT Timah (Persero) Tbk	77,81
111	2013	PT Wijaya Karya (Persero) Tbk	80,36
112	2013	PT Bakrie & Brothers Tbk	69,22
113	2013	PT Bakrie Telecom Tbk	68,96
114	2013	PT Bakrieland Development Tbk	67,39
115	2013	PT Metropolitan Land Tbk	67,55
116	2014	PT Aneka Tambang (Persero) Tbk	88,92
117	2014	PT Asuransi Jasa Indonesia (Persero)	85,04
118	2014	PT Bank Cental Asia Tbk	86,06
119	2014	PT Bank Mandiri (Persero) Tbk	92,36
120	2014	PT Bank Negara Indonesia (Persero) Tbk	87,19
121	2014	PT Bank OCBC NISP Tbk	86,17
122	2014	PT Bank Rakyat Indonesia (Persero) Tbk	86,43
123	2014	PT Bank Syariah Mandiri	86,55
124	2014	PT Garuda Indonesia (Persero) Tbk	85,40
125	2014	PT Jasa Marga (Persero) Tbk	85,16
126	2014	PT Telekomunikasi Indonesia (Persero) Tbk	90,66
127	2014	PT Adi Sarana Armada Tbk	77,03
128	2014	PT Angkasa Pura II (Persero)	80,51
129	2014	PT Bank DKI	81,93
130	2014	PT Bank Papua	79,45
131	2014	PT Bank Permata Tbk	81,71
132	2014	PT Bank Sinar Harapan Bali	76,27
133	2014	PT Bank Tabungan Negara (Persero) Tbk	84,94
134	2014	PT Bukit Asam (Persero) Tbk	84,09
135	2014	PT Indo Tambangraya Megah Tbk	80,13
136	2014	PT Kereta Api Indonesia (Persero)	78,59
137	2014	PT Krakatau Engineering	79,41
138	2014	PT Krakatau Industrial Estate Cilegon	78,67
139	2014	PT Krakatau Tirta Industri	76,26
140	2014	PT Mandiri Tunas Finance	75,62
141	2014	PT Pelabuhan Indonesia III (Persero)	74,28
142	2014	PT Pembangkitan Jawa Bali	83,11
143	2014	PT Pertamina (Persero)	81,22
144	2014	PT Petrokimia Gresik	80,74
145	2014	PT Timah (Persero) Tbk	80,10
146	2014	PT Bakrie Telecom Tbk	66,44
147	2015	PT Aneka Tambang (Persero) Tbk	89,12
148	2015	PT Asuransi Jasa Indonesia (Persero)	85,32
149	2015	PT Bank Cental Asia Tbk	86,59
150	2015	PT Bank Mandiri (Persero) Tbk	92,88

151	2015	PT Bank Negara Indonesia (Persero) Tbk	87,46
152	2015	PT Bank Rakyat Indonesia (Persero) Tbk	86,90
153	2015	PT Bank Syariah Mandiri	85,62
154	2015	PT Bank Tabungan Negara (Persero) Tbk	85,75
155	2015	PT Bukit Asam (Persero) Tbk	85,25
156	2015	PT Jasa Marga (Persero) Tbk	85,47
157	2015	PT Bank OCBC NISP Tbk	86,52
158	2015	PT Bank Mandiri Taspen Pos	78,92
159	2015	PT Kereta Api Indonesia (Persero)	80,35
160	2015	PT Krakatau Engineering	80,25
161	2015	PT Krakatau Industrial Estate Cilegon	79,43
162	2015	PT Krakatau Tirta Industri	77,27
163	2015	PT Mandiri Sekuritas	77,81
164	2015	PT Mandiri Tunas Finance	78,13
165	2015	PT Pelabuhan Indonesia III (Persero)	77,27
166	2015	PT Petrokimia Gresik	81,65
167	2015	PT Timah (Persero) Tbk	81,70
168	2015	PT Wijaya Karya (Persero) Tbk	81,68
169	2015	PT Bakrie & Brothers Tbk	69,75
170	2016	PT Aneka Tambang (Persero) Tbk	88,64
171	2016	PT Asuransi Jasa Indonesia (Persero)	85,80
172	2016	PT Bank Central Asia (Persero) Tbk	87,20
173	2016	PT Bank Mandiri (Persero) Tbk	93,30
174	2016	PT Bank Negara Indonesia (Persero) Tbk	87,74
175	2016	PT Bank OCBC NISP Tbk	86,85
176	2016	PT Bank Rakyat Indonesia (Persero) Tbk	87,74
177	2016	PT Bank Syariah Mandiri	86,33
178	2016	PT Bank Tabungan Negara (Persero)	86,59
179	2016	PT Bukit Asam (Persero) Tbk	85,54
180	2016	PT Jasa Marga (Persero) Tbk	85,81
181	2016	PT Telekomunikasi Indonesia (Persero) Tbk	91,18
182	2016	PT Asuransi Jiwa Inhealth Indonesia (Mandiri Inhealth)	71,99
183	2016	PT Axa Mandiri Financial Services	72,47
184	2016	PT Bakrie & Brothers Tbk	72,68
185	2016	PT Bank DKI	82,08
186	2016	PT Bank Mandiri Taspen Pos	80,77
187	2016	PT Bank Pembangunan Daerah Riau Kepri	73,49
188	2016	PT Bank Pembangunan Daerah Jawa Barat & Banten Tbk	82,13
189	2016	PT Bank Permata Tbk	81,60
190	2016	PT BNI Syariah	83,90
191	2016	PT Indonesia Power	82,94
192	2016	PT Krakatau Tirta Industri	78,44
193	2016	PT Mandiri Axa General Insurance	72,61
194	2016	PT Mandiri Manajemen Investasi	71,93
195	2016	PT Mandiri Sekuritas	78,88
196	2016	PT Mandiri Tunas Finance	78,79
197	2016	PT Pertamina (Persero)	83,90
198	2016	PT Semen Indonesia (Persero) Tbk	83,60
199	2016	PT Timah (Persero) Tbk	82,15

APPENDIX B - Total Sample (Six Consecutive Year)

No.	Year of CGPI	Year Awarded	Name of Company	Total Score
1	2010	2011	PT Aneka Tambang (Persero) Tbk	86,15
2	2011	2012	PT Aneka Tambang (Persero) Tbk	86,55
3	2012	2013	PT Aneka Tambang (Persero) Tbk	88,70
4	2013	2014	PT Aneka Tambang (Persero) Tbk	88,92
5	2014	2015	PT Aneka Tambang (Persero) Tbk	89,12
6	2015	2016	PT Aneka Tambang (Persero) Tbk	88,64
7	2010	2011	PT Asuransi Jasa Indonesia (Persero)	82,77
8	2011	2012	PT Asuransi Jasa Indonesia (Persero)	83,05

9	2012	2013	PT Asuransi Jasa Indonesia (Persero)	83,84
10	2013	2014	PT Asuransi Jasa Indonesia (Persero)	85,04
11	2014	2015	PT Asuransi Jasa Indonesia (Persero)	85,32
12	2015	2016	PT Asuransi Jasa Indonesia (Persero)	85,80
13	2010	2011	PT Bank Mandiri (Persero) Tbk	91,81
14	2011	2012	PT Bank Mandiri (Persero) Tbk	91,91
15	2012	2013	PT Bank Mandiri (Persero) Tbk	91,88
16	2013	2014	PT Bank Mandiri (Persero) Tbk	92,36
17	2014	2015	PT Bank Mandiri (Persero) Tbk	92,88
18	2015	2016	PT Bank Mandiri (Persero) Tbk	93,30
19	2010	2011	PT Bank Negara Indonesia (Persero) Tbk	85,35
20	2011	2012	PT Bank Negara Indonesia (Persero) Tbk	85,75
21	2012	2013	PT Bank Negara Indonesia (Persero) Tbk	86,06
22	2013	2014	PT Bank Negara Indonesia (Persero) Tbk	87,19
23	2014	2015	PT Bank Negara Indonesia (Persero) Tbk	87,46
24	2015	2016	PT Bank Negara Indonesia (Persero) Tbk	87,74
25	2010	2011	PT Bank Tabungan Negara (Persero) Tbk	85,70
26	2011	2012	PT Bank Tabungan Negara (Persero) Tbk	85,90
27	2012	2013	PT Bank Tabungan Negara (Persero) Tbk	85,43
28	2013	2014	PT Bank Tabungan Negara (Persero) Tbk	84,94
29	2014	2015	PT Bank Tabungan Negara (Persero) Tbk	85,75
30	2015	2016	PT Bank Tabungan Negara (Persero)	86,59
31	2010	2011	PT Jasa Marga (Persero) Tbk	83,41
32	2011	2012	PT Jasa Marga (Persero) Tbk	83,65
33	2012	2013	PT Jasa Marga (Persero) Tbk	84,53
34	2013	2014	PT Jasa Marga (Persero) Tbk	85,16
35	2014	2015	PT Jasa Marga (Persero) Tbk	85,47
36	2015	2016	PT Jasa Marga (Persero) Tbk	85,81

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