

The Effects of Voluntary Disclosure, Audit Tenure and Audit or Specialization on Information Asymmetry with Audit Committee as A Moderating Variable in Banking Companies Registered in Indonesia Stock Exchange

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ABSTRACT

This research entitled the effects of voluntary disclosure, audit tenure and auditor specialization on information asymmetry with audit committee as a moderating variable in banking companies registered in Indonesia Stock Exchange. The aim of this study was to obtain the empirical evidence about the effects of voluntary disclosure, audittenure and auditor specialization on information asymmetry with audit committee as a moderating variable. The data collection applied a census method conducted in banking companies registered in Indonesia Stock Exchange (ISE) in 2010-2016. The sample was 28 banking companies. This study used a panel data due to the combination of time series data with cross section. The results showed that voluntary disclosure and audit tenure had a negative effect on information asymmetry, whereas auditor specialization had a positive effect on information asymmetry and audit committee was able to moderate the effect between voluntary disclosure and auditor specialization on information asymmetry by strengthening its influence while the audit committee was moderated by weakening its influence.

Keywords: Voluntary Disclosure, Audit Tenure, Auditor Specialization, Audit Committee, Information Asymmetry

INTRODUCTION

Research Background

A good company will separate the functions and tasks between the owner (principal) and the management (agent). This will lead to consequences of periodic task management responsibilities generally through the media of financial statements by managers. The resulting financial statements will be used by internal or external parties for sources of decision-making.

The consequences arising from the separation of assignments with the preparation of financial statements as

accountability between management and the owner is the emergence of an imbalance of information. Information imbalance or known as information asymmetry occurs because agents tend to have more information about the company than the principal. The asymmetry of this information leads to a variety of opportunistic actions of managers who only benefit his own party (Ujiyanto&Pramuka, 2007).

In preparing the financial statements management is required to perform mandatory disclosure (mandatory) and

voluntary disclosure (voluntary). Voluntary disclosure is part of the nonfinancial disclosures that are expected to assist investors in determining their business strategy.

Voluntary disclosure information is expected to explain the risks that may be minimized as well as possible returns to be obtained from investors. This disclosure will provide more information about the company to a market that reflects the value of the company (Nugrahani&Nugroho, 2010).

In addition to voluntary disclosure, the information asymmetry may be reduced also with audit tenure. Tenure is the period of engagement between the Public Accounting Firm (PAF) and the client related audit services previously agreed upon. Long relationship between PAF and client can lead to loss of auditor's independence. The loss of an auditor's independence due to the excessive attachment between auditor and client as a result of long audit engagement period has had an impact on the occurrence of cases of financial manipulation. Therefore, some parties encourage the proposed enactment of PAF rotation as a form of anticipation of the case.

The industry specialization strategy by this auditor can increase specific knowledge in certain industries more comprehensively so as to minimize the occurrence of information asymmetry. The auditor's specialization describes the auditor's expertise and audit experience in a particular industry field. Specialist auditors are believed to be able to detect errors better, improve efficiency and improve judgment about fairness of financial statements (Putri, 2014). In conducting audits and supervision of management performance, the auditor may face complex problems that have an influence on the financial statements, which is why auditor specialization is required that better understand the client industry to maintain audit quality so that information asymmetry can be reduced.

The audit committee's duties relate to the quality of the financial statements, since the audit committee's main role is to assist the Board of Commissioners in monitoring the financial statements by management. Companies that have audit committees must be able to provide reliable and accurate information and are directed towards reducing the opportunistic actions of managers.

A symmetric phenomenon information that occurred one of them is the case of Toshiba Corporation profit bubble. In May 2015, Toshiba surprised the whole world when it declared that his company was investigating an internal accounting scandal and had to revise its earnings for the past three years. The Toshiba Corporation case is one of the cases of information asymmetry which is included in moral hazard because the activities performed by the management are not entirely known to investors (shareholders and creditors), so managers can take action beyond the knowledge of shareholders who violate the contract and actually ethically or the norm may not be feasible.

Based on the description of the factors causing information asymmetry aforementioned above, this study aimed to examine and analyze the effects of voluntary disclosure, audit tenure and auditor specialization on information asymmetry with the audit committee as a moderating variable at banking companies registered in Indonesia Stock Exchange. From the purpose of this study then submitted six alternative hypothesis were:

1. Voluntary disclosure had a negative effect on information asymmetry.
2. Audit tenure had a positive effect on information asymmetry.
3. Auditor specialization positively affected the information asymmetry.
4. The audit committee was able to moderate the influence of voluntary disclosure with information asymmetry.
5. The audit committee was able to moderate the influence of audit tenure with information asymmetry.

6. The audit committee was able to moderate the influence between specialist auditors with information asymmetry.

LITERATURE REVIEW

Information Asymmetry

Information asymmetry is a situation in which managers have access to information on the prospect of a company that is not owned by an outsider. Jensen and Meckling (1976) added that if both groups (agents and principals) are people who seek to maximize their utility, then there is a strong reason to believe that the agent will not always act the best for the principal's interests.

The explanation of the concept of information asymmetry is inseparable from agency theory. Agency theory provides an explanation of the relationship of the agency is the relationship between the owner (principal) with the management (agent). The main purpose of agency theory is to answer the agency problem that occurs because the parties working together have a different purpose. The core of the agency relationship is that in the relationship with the agency there is a separation between the ownership (principal party) that is the shareholders with management (the agent) is the manager who manages the company. The same purpose and the same attitude toward risk between the principal and the agent will make the agent present the financial statements with the actual situation.

The signal theory is based on the assumption that the information received by each party is not the same. In other words, signal theory is concerned with the information asymmetry that occurs in a company. The relevant signaling theory is used as a reference in this study because the signals from the information in circulation may affect the actions taken by the investor. In addition, Morris (1987) stated that the problem of asymmetric information in the market can be reduced by giving more information signals to other parties. Given

the signals has given to users of financial statements, especially positive signals about what has been done by company management to realize the wishes of the owners of the company can also show that the company is better than the other companies.

Voluntary Disclosure

Voluntary disclosure is a disclosure that can be freely done company according to company interests that are considered relevant and supportive in economic decision making which will be conducted by annual information users (annual report) (Adhi, 2012). Annual information in the financial statements is a signal for investors in providing prospects or views of the company concerned. This causes the information presented by management to be reliable, complete, and timely, enabling investors to make the right investment decisions. Voluntary disclosure is measured by sharing the results of the company's voluntary disclosure index with the expected voluntary disclosure index.

Audit Tenure

Audit tenure is the period of engagement or contract between PAF and the same auditee in providing audit services as agreed by both parties. Audit engagement period is measured in the number of years. Regulation of the Minister of Finance of the Republic of Indonesia Number 17/PMK.01/2008 concerning "Public Accountant Services" Article 3 states that the provision of general audit services to the financial statements of an entity shall be executed by the CAP for a maximum of 6 (six) consecutive fiscal years, and by a public accountant for a maximum of 3 (three) consecutive yearbooks. The public accountant and the accounting firm may receive re-assignment of general audits to clients after one year of book does not provide general audit services to the client's financial statements.

Auditor Specialization

The auditor profession serves as an independent third party in providing certainty of opinion on the integrity of the

accounting figures presented in the company's financial statements. When auditors handle firms within the same industry, the auditor's knowledge and understanding grows and is much better about the company's internal controls, business risks, and audit risks. Auditors with specific industry specialties have specific knowledge so as to quickly understand the characteristics of a company more comprehensively (Owhoso, 2002). Thus, the auditor of industry specialization in a particular industry makes the auditor has adequate capability and knowledge compared to a non-specialized auditor (Setiawan&Fitriany, 2011).

Audit Committee

BAPEPAM-LK in Circular Letter 03/PM/2000 states that every public issuer must have an audit committee. The audit committee is required to have at least three members and at least one of them has the ability and knowledge in the field of accounting or finance. The audit committee arose as a result of the supervisory and accountability role of the company's board of commissioners in general is not adequate. The audit committee is formed by the Board of Commissioners to conduct the necessary inspection or research on the implementation of the functions of the board of directors in carrying out the management of the company and performs important tasks related to the financial reporting system. The audit committee members are required to have adequate expertise. The audit committee has the authority and facilities to access corporate data.

RESEARCH METHODS

Types and Data Sources

This study was a quantitative research because it referred to the calculation of data in the form of numbers. The secondary data was used in this main study. The source of data was the official website of the Indonesia Stock Exchange namely *www.idx.co.id* where the data taken was the financial statements and annual reports of banking companies registered in

Indonesia Stock Exchange period 2010-2016.

Sample Research

The population in this study was a banking company registered in Indonesia Stock Exchange for the period of 2010-2016. Banking company is one of the sectors of companies that contribute greatly to the economic development in Indonesia so it is necessary to minimize the occurrence of information asymmetry within the company that can trigger the occurrence of earnings management practices. The sample selection of this research was conducted by using saturated sampling method. Furthermore, the number of samples was as many as 28 banking companies registered in Indonesia Stock Exchange.

Data analysis method

The data analysis method was a regression analysis of panel data which belongs to the pooled data where E-views Program Software was applied. The model of panel data regression equation used to test the hypothesis was:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon_1$$

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 [X_1.Z] + \beta_5 [X_2.Z] + \beta_6 [X_3.Z] + e$$

Description:

Y	=	Information Asymmetry
X ₁	=	Voluntary Disclosure
X ₂	=	Audit Tenure
X ₃	=	Auditor Specialization
Z	=	Audit Committee
β ₁ , β ₂ , β ₃	=	Coefficient Value
β ₄ , β ₅ , β ₆	=	Moderate Effect
Coefficient		
[X.Z]	=	Variable Interactions
e	=	Coefficient Error

RESULTS AND DISCUSSION

Results

Determination of Model Estimation between Common Effect Model (CEM) and Fixed Effect Model (FEM) by Chow Test

Determining whether a better model of estimation of the Common Effects Model (CEM) or Fixed Effect Model (FEM) is used in forming a regression model, can be

tested by using the Chow test. Based on the results of the Chow test, it was known that the probability value was 0.0000. Because the probability value in the cross-section Chi-square is <0.05 then the estimation model used under the provisions is the fixed effect model (FEM).

Determination of Model Estimation between Fixed Effect Model (FEM) and Random Effect Model (REM) by Hausman Test

Determining whether a better model of FEM or Random Effect Model (REM) is used in forming regression models, can be tested by using Hausman test. Based on the result of Hausman test, it was known that the probability value was 0.2515. Since the probability value in the cross-section Chi-square is ≥ 0.05 then the estimation model used under the rule is the random effect model (REM).

Normality test

Normality tests are performed to determine whether in a regression model, independent variables and dependent variables or both are normally distributed or not. Normality test for residual in this research can be employed by using Jarque-Bera (J-B) test that the probability value from J-B statistic was 0.163178. Because the probability value (p) was $0.163178 > 0.05$ it could be concluded that the assumption of normality was met.

Multicollinearity Test

The symptoms of multicollinearity can be seen from the correlation values between variables contained in the correlation matrix. Ghazali (2013) stated if the inter-independent variables had a quite high correlation that is above 0.8 then this is an indication of the multicollinearity.

Multicollinearity test can be concluded that there are no symptoms of multicollinearity between independent variables. This is because the value of correlation between independent variables is not more than 0.8.

Heteroscedasticity Test

The detection of the presence or absence of heteroscedasticity can be done by the Breusch-Pagan test (Ghozali, 2013). The result of Breusch-Pagan test in this study was the result of heteroscedasticity test could be seen through $\text{ProbObs}^*R\text{-Squared } 0.3206 > 0.05$ which means there were no heteroscedasticity obtained.

Autocorrelation Test

The assumption of residual independence (non-autocorrelation) can be tested by Durbin-Watson. The statistical value of the Durbin-Watson test that is smaller than 1 or greater than 3 indicates an autocorrelation. The value of the Durbin-Watson statistic was 1.23345. Durbin-Watson statistic values were between 1 and 3, *i.e.* $1 < 1.23345 < 3$, then non-autocorrelation assumptions were met. In other words, there were no symptoms of high autocorrelation in residuals.

Hypothetical testing

Simultaneous Effect Significance Test (F Test)

F test aims to examine the effect of free variables simultaneously or simultaneously to the dependent variable. Based on Table 5.8, the value of Prob was known. (F-statistics), *i.e.* $0.0000 < 0.05$, it could be concluded that all independent variables, *i.e.* voluntary disclosure, audit tenure, and auditor specialization simultaneously had a significant effect on information asymmetry variables.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Voluntary Disclosure	-0.499284	0.458369	-1.089262	0.2774
Audit Tenure	-0.115826	0.021106	-5.487891	0.0000
Auditor Specializaion	0.318162	0.126385	2.517397	0.0126
C	0.664651	0.302360	2.198213	0.0291
R-squared	0.174024	Mean dependent var		0.095119
Adjusted R-squared	0.161118	S.D. dependent var		0.490904
S.E. of regression	0.449621	Sum squared resid		38.81456
F-statistic	13.48405	Durbin-Watson stat		1.385102
Prob(F-statistic)	0.000000			

Partial Effect Significance Test (t test)

Based on the table aforementioned above, we obtained the panel data of regression equation as follows.

$$Y = 0.66 - 0.49X_1 - 0.11X_2 + 0.31X_3$$

Interaction Test (Moderating Regression Analysis)

Based on the results of interaction tests that were employed through E-views Program has obtained the moderating results as follows:

$$Y = -2,02X_1 + 0,05X_2 - 0,93X_3 + 0,31X_1Z - 0,03X_2Z + 0,36X_3Z$$

DISCUSSION

Voluntary Disclosure Negatively Affected Information Asymmetry

The value of regression coefficients showed the negative numbers interpreting that voluntary disclosure negatively affected the information asymmetry, where the wider voluntary disclosure made by firms, the less information asymmetry that occurs in the firm. In this study the sample of banking companies registered in Indonesia Stock Exchanges in 2010-2016 implied that banking companies for 7 years in a row publish voluntary disclosures are quite good.

Based on the Signaling Theory described in the previous chapter that the voluntary provision of information in the company's annual report can provide a positive signal that the company provides more detailed information not available in the financial statements. For example, attaching a company's financial ratios for 7 years in a row on an annual report can make it easier for stakeholders to take a look at the trend line of the financial capability of the company, or by projecting the next year to show stakeholders about the focus of operations and the likelihood of profits earned by the company in the coming period. Such information can be a positive signal for stakeholders whether the company has been running in accordance with the expectations of stakeholders or not that will affect the decision-making for

stakeholders itself. In addition, the possibility of the occurrence of such information asymmetry can be minimized.

The results of this study were consistent with the previous research conducted by Adhi (2012) who found that voluntary disclosure negatively affected the information asymmetry. The underlying reason is that the company will make a broader voluntary disclosure in order to suppress the possibility of information asymmetry. Conflicts of interest may be suppressed by the transparency of the information submitted in the annual report. Larger voluntary disclosure may limit the space for those who wish to take advantage of opportunities to fulfill their own interests.

Audit Tenure Hada Negative Effect on Information Asymmetry

Regression Coefficient Value which showed the negative number stated that the shorter the audit tenure the higher the asymmetry effect information would generate. This may happen for several reasons. Within the audit engagement range with clients, the first thing an auditor should do is understand the client's business environment, because the auditor has not known the client's information and reputation in the past. According to Eisenhardt (1989), agency theory is based on several assumptions. The assumption is divided into three assumptions about human nature, organizational assumptions and information assumptions. Based on the nature of the human assumption, it is explained that each individual is solely motivated by his own interests, causing a conflict of interest between principal and agent. Based on the theory agency which states that humans do not like the risk, then the management will make the replacement of auditors to increase the trust of the principal.

The results of this study were consistent with the research undertaken by Wakum and Wisadha (2014) who found out that audit tenure negatively affected the information asymmetry and showed that the shorter the audit tenure the higher the

information asymmetry would be by the firm. While this study was not in line with another research conducted by Almutairi (2009) stated that the longer the audit engagement the information asymmetry level will be higher because the auditor will have a decrease in the level of independence due to the proximity of the auditor with the client.

Auditor Specialization Positively Affected Information Asymmetry

Regression Coefficient Value which showed positive number stated that the more the level of industry auditor specialization the level of information asymmetry will be better also in other words information asymmetry can be minimized as possible. This is probably indicated by several factors where the auditor often audits firms in the same industry the auditor's ability and expertise is better because of the same scope of examination.

Based on the Signaling Theory that has been presented in the previous chapter the given signal is in the form of information about what has been done by management to realize the desire of the owner. Signalling theory explains why companies have an incentive to provide financial statement information to external parties. Encouragement of the company to provide information that there is information asymmetry between the principal and the agent because the agent knows more about the company and prospects to come than the principal. With more auditor specialization within the same industry allow the auditors to have better knowledge and understanding of the company's internal controls, business risk, and audit risks in the industry. Specialization of auditors in a particular industry makes the auditor has sufficient ability and knowledge compared to a non-specialized auditor. Companies audited by specialist auditors have better levels of asymmetric information than non-specialist auditing firms.

The Audit Committee Able to Moderate the Influence of Voluntary Disclosure on Information Asymmetry

A positive value of regression coefficients interprets that the audit committee is able to moderate by strengthening the influence of voluntary disclosure on information asymmetry. A probability value greater than 0.05 indicates that the audit committee reinforces the influence of voluntary disclosure with information asymmetry but is not significant.

Audit Committee is one of the items in the implementation of good corporate governance, with the supervision conducted by audit committee members enables the company to perform adequate voluntary disclosure in order to become one of the transparency assessment conducted by the company so that there are no matters covered by the management and able to minimize the occurrence of information asymmetry between the principal and agent in accordance with the theory agency that has been described in the previous chapter. The ability of the audit committee to moderate voluntary disclosure with information asymmetry can occur because the audit committee is able to monitor the performance of the disclosure-based management in order to achieve the three business objectives of survival, growth and profit. The results of this study were inconsistent with the research conducted by Mujiyono (2010) who obtained the results of the study that the independent audit committee had a negative but insignificant effect on the area of voluntary disclosure.

The Audit Committee Able to Moderate the Influence of Audit Tenure on Information Asymmetry

Negative Regression Coefficients Value interpreted that the audit committees are able to moderate by weakening the influence of audit tenure on information asymmetry. A probability value greater than 0.05 indicates that the audit committee weakens the influence of audit tenure with information asymmetry but is not

significant. The existence of the audit committee as a moderating variable proved to weaken the impact of audit on information asymmetry. The existence of an audit committee within a banking company has been shown to reduce the effect of information asymmetry that arises when an audit tenure is limited through government regulation. The existence of the audit committee can be said to ensure the effectiveness of its roles and functions related to the process of monitoring financial reporting. The effectiveness of the existence of the audit committee can be enhanced, especially if the audit committee is from people with both financial and accounting backgrounds and through the attendance of independent audit committees. Thus, such a step will improve the reliability of financial statement information so as to reduce the risk of investor information.

This study was consistent with the study of Wakum (2014) which stated that audit committees are able to moderate the relationship between audit tenure and information asymmetry. The existence of an audit committee proved to weaken the negative influence of audit tenure on information asymmetry.

Audit Committee Able to Moderate the Influence between Auditor Specialization on Information Asymmetry

A positive value of regression coefficients interprets that the audit committee is able to moderate by strengthening the influence of the specialist auditor on information asymmetry. A probability value smaller than 0.05 indicates that the audit committee reinforces the influence between the specialist auditor and the information asymmetry significantly.

This study showed the result that audit committees was able to moderate the influence of specialist auditors on information asymmetry. This is because the audit committee can help specialist auditors to further reduce the imbalance of information that occurs in the company. Audit committee is considered able to perform its role in accordance with the

purpose of established audit committee within the company that is to assist the performance of the Board of Commissioners in monitoring each report conducted by management. The existence of the audit committee will generate good communication with the auditor and communicate the audit issues and find a way out so as to encourage higher quality audit results (Putri&Wiratmaja, 2015).

This study was consistent with research conducted by Putri and Wiratmaja (2015). Meanwhile this research was not in accordance with the results of study conducted by Setiawanand Fitriany (2011) which stated that the audit committee does not play a role to strengthen the positive influence of specialist auditors on audit quality. In the study it was stated that if the auditor was specialist then the audit committee had no effect to improve audit quality.

CONCLUSION

Based on the results of data analysis and the discussion of test results that had been conducted, then the conclusions could be taken as follows:

1. Voluntary disclosure negatively affected the information asymmetry in which the wider the voluntary disclosure undertaken by the firm, the smaller the information asymmetry that occurs in the company.
2. Audit tenure negatively affected the information asymmetry where the shorter the audit tenure the higher the asymmetric effect the information generated.
3. Auditor specialization positively affected the information asymmetry whereas the better the level of industry specialization owned by the auditor the level of information asymmetry would be better.
4. The audit committee was able to moderate the influence of voluntary disclosure on information asymmetry by strengthening the influence of voluntary disclosure with information asymmetry.

5. The audit committee was able to moderate the influence of audit tenure on information asymmetry by weakening the influence between audit tenure and information asymmetry.
6. The audit committee was able to moderate the influence of specialist auditor on information asymmetry by strengthening the influence between auditor specialization and information asymmetry.

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