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BOARD OF DIRECTOR, AUDIT COMMITTEE, AUDIT CHARACTERISTICS AND TIMELINESS OF FINANCIAL REPORT IN LISTED COMPANIES IN INDONESIA

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ABSTRACT

This study aims to investigate the relationship between the board of directors, audit committee and auditor characteristics, and timeliness of financial report in listed companies in Indonesia. Cohen et al. (2004) suggested that the board of directors, management, and internal and external auditors could influence the financial reporting quality, including timeliness of financial reporting. In addition, there is a lack of studies in countries in which the board system is a two-tier board system, such as is practiced in Indonesia. This study uses 218 companies listed on the Indonesian Stock Market from 2006 to 2008 (n=654). Thus, the analysis method used is panel data analysis. Management report lag model is used in this study. The results show that several board characteristics affect the timeliness of financial reporting. In addition, board composition, board size, board shareholding, board expertise and knowledge, age of board members, and length of service of board members are significantly related to the management report lag. Further, audit committee size and external auditor opinion are significantly related to the management report lag. Finally, return on asset also influences the management report lag. The findings imply that the role of board of director and its committee as internal mechanism are important to control the process of producing the financial reports. This study is contributing to the agency theory and resources dependence theory.

Field of Research: Corporate Governance and Financial Reporting.

1. Background Of Study

Timeliness of financial reports has become an important issue, now more than ever before, as a consequence of the phenomenal changes in both modern technology and business practices worldwide (Owuso-Ansah & Leventis, 2006). In addition, the importance of timeliness of financial reporting has been identified by many researchers (see for example, Beaver, 1968; Owusu-Ansah, 2000; Owusu-Ansah & Leventis, 2006; Lee, Mande, & Son 2008 and among other). Based on the literature, the importance of the timeliness of financial reporting could be affecting the firm value, a greater amount of asymmetric information, and other. In the earlier study of timeliness of financial reporting, the research only focused on the determinants of timeliness of financial reporting (see for example, Courtis (1976) and Gilling (1977). Later, the study had been diversified to other determinants, such as audit technology (Newton & Ashton, 1989), company control (owner control vs. management control) (Carslaw & Kaplan, 1991), the case of quarterly earning review (Kinney & McDaniel, 1993), audit structure (Bamber et al., 1993), auditor change (Schwartz & Soo, 1996), monitoring cost (Owusu-Ansah, 2000), and earning review (Ettredge et al., 2000).

Studies on timeliness of financial reporting have focused more on variables relating to client-related factors, audit-related factors and environmental factors. There are limited studies using the corporate governance variables as the determinants of timeliness of financial report as suggested by Owusu-Ansah (2000), Leventis & Caramanis (2005) and Behn et al. (2006). The issue of timeliness of financial report is important in corporate governance because it is associated with corporate transparency (Abdullah, 2006). Agency theory suggests that shareholders require protection because management (agents) may not always act in the interests of the corporation's owners (Jensen & Meckling, 1976; Fama, 1980). Besides, there is a lack of studies done in continental Europe corporate governance system, especially in Indonesia. In addition, Indonesia has a unique two-tier board system and business environments.

There are various characteristics of boards of directors and audit committee issues: composition, independence, knowledge and expertise, effectiveness, power and duties and responsibilities (Cohen et al., 2004). In addition, other actors, such as external and internal auditors, also affect the financial reporting quality (Cohen et al., 2004). Therefore, the board and audit committee characteristics as well as the external and internal auditors as proxies for corporate governance concepts can affect the timeliness of financial reporting. In addition, this study aims to investigate the effect of the board, audit committee and audit characteristics on the timeliness of financial report. The remainder of this paper proceeds as follow: literature review and hypothesis development, data and methodology, findings and discussion, and conclusion and implication.

2. Literature Review and Hypothesis Development

2.1. Board characteristics

The corporate board has three roles in a company, namely institutional, internal governance and monitoring, and strategic decision-making roles (Goodstein, Gautum, & Boeker, 1994). In the institutional role, the board provides a link between company and its environment and secures critical resources (Williamson, 1996). In addition, the board is also on finding instruments to access external resources, reduce environmental uncertainty, and decrease transaction costs associated with external linkages (Pfeffer & Salancik, 1978). This role is often seen from the resources dependent perspective.

The control role is involved with control of managers and evaluating the managerial performance for shareholder's interest (Barnhart, Marr, & Rosenstein, 1994). In addition, the director's job is to hire and fire the management as well as executive compensation. Indonesia's Code of Corporate Governance clearly states that the board has the control role (NCG, 2006). It adds that the board of directors may impose sanctions on members of the management in the form of a suspension, subject to further determination by a General Meeting of Shareholders, according to the Code. In the strategic role, the directors are involved with developing a vision, a mission, screening the environment and selecting and conducting the choice role of strategic options (Hendry & Kiel, 2004). The control and institutional (dependence resources perspective) role of directors are important roles in the financial reporting quality. Therefore, the role of boards in timeliness of financial reporting is explained by these theories.

Timeliness is a necessary component of relevant financial information and it is receiving increased attention by accounting regulators and listing authorities worldwide (Abdelsalam & Street, 2007). The role of the board in the corporate reporting process is from the contention by Jensen (1993). He argues that board characteristics, such as board composition, are associated with the board monitoring incentives. Therefore, examining board characteristics on the timeliness of financial report will reveal the extent to which the board is involved in overseeing the financial reporting process. In fact, the board is at the apex of the internal corporate governance systems as argued by Jensen (1993) and suggests that the board is important in determining the timeliness of financial report.

The characteristics of boards as determinants of the timeliness of financial reporting consist of board composition (Abdullah, 2006), board size (Beekes et al., 2004), board expertise and knowledge, board shareholding (Niu, 2006), and board experience (Abdelsalam & Street, 2007). Abdelsalam & Street (2007) divided board experience into three aspects; multiple directorship, age of directors, and length of services of board members. Therefore, the hypotheses are as follow:

H1 : *Board composition is significantly associated with the timeliness of financial report.*
H2 : *Board size is significantly associated with the timeliness of financial report.*
H3 : *Board expertise and knowledge is significantly associated with the timeliness of financial report.*
H4 : *Board shareholding is significantly associated with the timeliness of financial report.*
H5a : *Multiple directorships are significantly associated with the timeliness of financial report.*
H5b : *Age of board of director is significantly associated with the timeliness of financial report.*
H5c : *Length of services of Board member is significantly associated with the timeliness of financial report.*

2.2. Audit committee characteristics

The role of audit committees in the board was stressed by Jensen & Meckling (1976). They argue that the agency costs increase when the management takes the opportunity to act against the shareholder. Contractual relationships between the management and shareholders will reduce the agency cost but this relationship should be monitored systematically. Therefore, it is the role of the audit committee to monitor the relationship. The audit committee is a subcommittee of the full board. They facilitate the communication with other corporate governance mosaics; internal auditors, external auditors, management and board of directors (Cohen et al., 2004). Klein (1998) argues that the audit committee meets regularly with external and internal auditors to review financial statements and internal control. Hence, the audit committee would reduce the asymmetric information between insiders and outsiders and thereby mitigating the agency problem (Hsu, 2007).

The audit committee may also be associated with better financial reporting practice as quoted by DeFond & Jiambalvo (1994) and McMullen (1996). For example, McMullen (1996) finds that companies with an audit committee are less likely to experience errors, irregularities and other indicators of unreliable financial reporting. Others argue that the creation of audit committees would improve the quality and accuracy of financial information (Cohen et al., 2004). In other words, the audit committee has a role to improve financial reporting quality, including the timeliness of financial reporting (DeFond & Jiambalvo, 1994). There are several characteristics of audit committees that have been used in the study of financial reporting quality, such as audit committee independence, size, activity, financial expertise. Since audit committees would reduce the asymmetric information, they may be associated as well with the timeliness of financial reporting. In addition, the characteristics of audit committee: independence (Saleh et al., 2007), size (Lin et al., 2006), financial expertise (Abbott et al., 2004), and activity (Xie et al., 2003) could influence accounting quality. Therefore, these characteristics should also affect the timeliness of financial report. The hypotheses are as follows

H6 : *Audit committee size is associated with the timeliness of financial report.*
H7 : *Audit committee financial expertise is significantly associated with the timeliness of financial report.*
H8 : *Audit committee activities are significantly associated with the timeliness of financial report.*
H9 : *There is a significant relationship between type of external auditor and timeliness of financial report.*

2.3. Auditor characteristics

The external auditor plays a significant role in helping to promote financial reporting quality (Cohen et al., 2004). Hence, prior research regarding the relationship between various corporate governance actors and external auditors has focused on several aspects: (i) auditor selection and client acceptance, (ii) audit quality and audit fees, and (iii) audit opinion and audit process. In addition, there are several external auditor characteristics that may affect the timeliness of financial reporting: auditor type/quality (Abdullah, 2006), opinion (Carslaw and Kaplan (1991), and change (Schwartz & Soo, 1996). This study also employs the internal auditor existence (Cohen et al., 2004) as factors affecting the timeliness of financial report. Thus, the next hypotheses are as follows.

H10 : *There is a significant relationship between external auditor opinion and timeliness of financial report.*
H11 : *There is a significant relationship between external auditor change and timeliness of financial report.*
H12 : *There is a significant relationship between internal audit existence and timeliness of financial report.*

3. Data and Methodology

The purpose of this study is to investigate the effect of the board of directors, audit committee, and auditors' characteristic on the timeliness of financial report. The sample of the study is all companies listed from the data for the period from 2006 to 2008. The number of companies listed at the end of 2008 was 485 companies. The final number of companies fell due to the unavailability of the data and IPO companies during the entire time period (2006 to 2008). The unavailable data could be from board and audit committee characteristics since Indonesia's listed companies are less compliant with disclosure (Lukviarman, 2004). Therefore, this would reduce the final number of companies involved in this study.

Timeliness of financial reporting used two measurements; Audit Report Lag and Management Report Lag (Cho, 1987). In this study, Management Report Lag is used and measured by the difference between the time the auditor signs the audit report and the company releases its financial report to the public (Al-Ajmi, 2008). Board composition would be measured by the ratio of independent directors relative to the total directors in the board as was also used by many researchers, such as Lefort & Urzua (2008). Board size is measured by the total number of directors on the board of a company as suggested by Cheng (2008). Board expertise and knowledge is measured by using the Hsu (2007) measurement. It is based on the expertise and education of its members. In addition, the measurement includes the ratio of directors who have business and management academic backgrounds relative to the total number of directors.

Board of director shareholding is measured by the number of directors who are shareholders in that particular company, as suggested by Haniffa & Hudaib (2006). If the directors have shares, one (1) is assigned, and if not, zero (0). Board experience is measured by the ratio of directors who sit in other companies as a board of directors relative to the total number of directors in a company (Abdelsalam & Street, 2007). Age of director members is measured by the average age of director members (Abdelsalam & Street, 2007). Further, length of service of the board of directors is measured by the average length of service by the board of directors (Abdelsalam & Street, 2007).

Audit committee independence is measured by the ratio of the independent directors on the audit committee relative to the total number of audit committee members as was also used by Saleh et al. (2007). Audit committee size is measured by the number of members of the audit committee on the board as suggested by many researchers such as Saleh et al. (2007). Audit committee financial expertise in this study is measured by using the measurement offered by Hsu (2007). It is measured by seeing the proportion of the financial experts on the audit committee. Hence, the financial experts are categorized as persons who have a financial academic background. An audit committee activity is the number of audit committee meetings held in a year (Lin et al., 2006). If there are more meetings held in a year, this indicates that there will be more evaluations made by the audit committee.

Audit type uses the proxy of Big 4 or non-Big 4. A Big 4 audit firm is assigned one (1), and otherwise zero (0). Abdullah (2006) and Cullinan (2003) used this measurement in their research. Type of audit opinion is represented by a dummy variable, unqualified audit opinions are assigned one (1), and otherwise zero (0) as suggested by Ashton et al. (1987) and Carslaw & Kaplan (1991). Auditor change is measured by seeing whether firm have a different auditor compared to the prior year. One (1) is assigned if there is audit firm change, and otherwise zero (0). This measurement was used by Whittred & Zimmer (1984). This study employs three control variables: profitability, leverage and company size. Profitability is measured by return on asset (ROA) where as the debt to asset ratio as the proxy of leverage. Thus, company size uses the total assets as its proxy. Panel data analysis is used in this study. Thus, the mathematical model is below

$$MRL_{it} = a + \beta_1 BC_{it} + \beta_2 BZ_{it} + \beta_3 BS_{it} + \beta_4 BEK_{it} + \beta_5 BED_{it} + \beta_6 BEA_{it} + \beta_7 BET_{it} + \beta_8 ACI_{it} + \beta_9 ACS_{it} + \beta_{10} ACFE_{it} + \beta_{11} ACA_{it} + \beta_{12} AT_{it} + \beta_{13} AO_{it} + \beta_{14} AC_{it} + \beta_{15} IA_{it} + \beta_{16} ROA_{it} + \beta_{17} DAR_{it} + \beta_{18} SIZE_{it} + e$$

4. Finding and Discussion

This session discuss about the findings and discussion. The number of companies involved is only 218 (44.9%) companies or 654 observations (from 2006 to 2008), which are from nine different industries.

Table 4.1
Descriptive Statistics
After Remedying for outliers

No	Variables	Outlier		Descriptive Statistic After Outlier Remedy (n=654)			
		# of Obs	%	Min	Max	Means	SD
1	MRL	4.00	0.61	0.00	84.00	19.37	16.42
2	BC	7.00	1.07	0.00	75.00	40.69	13.57
3	BZ	2.00	0.31	1.00	10.00	4.32	1.88
4	BEK	0.00	0.00	0.00	100.00	49.98	24.87
5	BED	0.00	0.00	0.00	100.00	64.23	28.49
6	BEA	3.00	0.46	36.30	76.00	55.36	6.20
7	BET	1.00	0.15	0.20	19.70	5.64	3.64
8	ACI	0.00	0.00	0.00	100.00	45.34	23.96
9	ACS	6.00	0.92	1.00	5.00	3.18	0.60
10	ACFE	0.00	0.00	0.00	100.00	52.70	26.01
11	ACA	10.00	1.53	1.00	30.00	7.03	5.85
12	ROA	5.00	0.76	-26.10	34.00	3.46	7.88
13	DAR	1.00	0.15	0.00	158.00	53.11	28.36
14	SIZE	12.00	1.83	0.40	29706.90	3751.96	6807.35
15	BS	-	0.00	0.00	1.00	0.16	0.37
16	AT	-	0.00	0.00	1.00	0.41	0.49
17	AO	-	0.00	0.00	1.00	0.96	0.20
18	AC	-	0.00	0.00	1.00	0.18	0.38
19	IA	-	0.00	0.00	1.00	0.85	0.36

The sample of studies are from agriculture (47.1%), Mining (63.3%), basic and chemical (16.7%), miscellaneous (15.7%), consumer goods (18.6%), property, real estate and construction (69.4%), infrastructure, utilities and transportation (65.4%), finance and banking (57%), and trade, services and investment industry (69.2%). There are a few assumptions that have to be satisfied before the data is analyzed. The assumptions are outliers, normality, autocorrelation, multi-collinearity, and heteroskedasticity. An outlier is an observation that lies outside the overall distribution (Moore & McCabe, 1999). In this study, the case of outliers are detected using the Grubb's extreme Studentised deviated test (Grubb, 1969). Table 4.1 above presents the summary of all variables and the percentage of outliers.

Table 4.2

Normality and Transformation

Variable	Skewness		Kurtosis		Transformation	Skewness		Kurtosis	
	Stat	**SE**	**Stat**	**SE**		**Stat**	**SE**	**Stat**	**SE**
MRL	1.66	0.10	2.91	0.19	Logarithm	-0.28	0.10	-0.07	0.19
BC	0.35	0.10	0.86	0.19	None needed	0.35	0.10	0.86	0.19
BZ	1.10	0.10	0.91	0.19	Square root	0.63	0.10	-0.022	0.19
BEK	0.04	0.10	-0.30	0.19	None needed	0.04	0.10	-0.30	0.19
BED	-0.53	0.10	-0.34	0.19	None needed	-0.53	0.10	-0.34	0.19
BEA	-0.10	0.10	0.98	0.19	None needed	-0.10	0.10	0.98	0.19
BET	1.36	0.10	2.00	0.19	Square root	0.53	0.10	0.17	0.19
ACI	1.26	0.10	0.64	0.19	Inverse	-0.52	0.10	-0.11	0.19
ACS	1.68	0.10	3.67	0.19	Normal score*	-0.94	0.10	1.76	0.19
ACFE	0.00	0.10	-0.44	0.19	None needed	0.00	0.10	-0.44	0.19
ACA	2.19	0.10	5.16	0.19	Logarithm	0.32	0.10	0.35	0.19
ROA	0.63	0.10	4.98	0.19	Normal score*	-0.01	0.10	-0.19	0.21
DAR	0.47	0.10	0.96	0.19	None needed	0.47	0.10	0.96	0.19
SIZE	2.77	0.10	7.22	0.19	Logarithm	-0.48	0.10	0.24	0.19
BS	3.38	0.10	10.36	0.19	Dummy				
AT	0.38	0.10	-1.86	0.19	Dummy				
AO	-4.62	0.10	19.42	0.19	Dummy				
AC	1.67	0.10	0.78	0.19	Dummy				
IA	-1.97	0.10	1.87	0.19	Dummy				

**The data were transformed by computing normal scores using Van der Waerden's transformation defined by the formula r/(w + 1), where w is the sum of the case weight and r is the rank ranging from 1 to w.*

In order to have non-biased results, it is assumed that observations have to be normally distributed. The diagnostics of normality utilize the skewness and kurtosis value. The rule of thumb states that the variable is reasonably close to normal if its skewness and kurtosis have values between –1.0 and +1.0. Table 4.2 above presents skewness and kurtosis values before and after transformation. It has been argued that the issue of non-normal distribution of variables is frequent in social science research and quite common in research that involves a large sample (Pallant, 2001). Further, others state that the analysis of variances is not heavily dependent on the normality assumption as long as the data are not extremely non-normal and it involves a large amount of data (Norusis, 2000). This study covers the whole population and involves a large amount of data (654 observations), and the normality assumption is probably not seriously affected. Therefore, only a few variables (e.g. ACS, after having transformed in all technique, the skewness and kurtosis values are still not satisfactory) have a skewness and kurtosis value more than ±1 or violated the rule of thumb (should be less than one)

Multi-collinearity refers to a situation in which two or more independent variables in a multiple regression model are highly correlated (Gujaraty, 1995). This study uses the Pearson-correlation matrix to detect it. The result of the Pearson-correlated matrix is presented in Table 4.3. Anderson, Sweeney & William (1996) argued that if the Pearson-correlation result is higher than 0.6, there would be a multi-collinearity problem. However, this correlation is far below 0.60. Therefore, there is no evidence of a multi-collinearity problem.

The procedure used to analyze the effect of the independent variables on timeliness of financial report is as follow. First, it estimates the model by using the random effects and then the fixed effects. Second, it utilizes the Hausman Test to see which model is preferred. Third, it would test the heteroskedasticity problems by using White covariance variance. Any difference in standard error and p-value between the ordinary and White covariance variance, will indicate the existence of heteroskedasticity. The corrected covariance result would be interpreted and used to see the effect of the independent variables on timeliness of financial reporting.

Having regressed the management report lag (MRL) against board of director, audit committee and auditor characteristics using random effect and fixed effect, the Hausman Test shows that there is significant (p value < 0.05) random cross section. Therefore, H_0 is rejected (at α=5%), since a random effect model results in a biased estimator. Thus, the fixed model is preferred. The next stage is to test if there is any heteroskedasticity problem with the model. The White method is used. The result of heteroskedascity test shows that there is heteroskedascity problem. However, the White cross-section of coefficient covariance method (White, 1980) has corrected the standard errors and probability, and then solved the heteroskedasticity problem. Finally, the corrected model is used to reject hypotheses.

Table 4.3
Pearson Correlation

	MRL	BC	BZ	BS	BEK	BED	BEA	BET	ACI	ACS	ACFE	ACA	AT	AO	AC	IA	ROA	DAR	SIZE
MRL	1																		
BC	-.03	1																	
BZ	-.01	-.06	1																
BS	-.05	-.07	-.08*	1															
BEK	-.04	.06	-.00	-.06	1														
BED	-.01	-.15**	.12**	-.02	.02	1													
BEA	.03	-.03	.15**	.05	-.10**	.00	1												
BET	.05	-.09*	-.13**	.04	-.08*	.02	.28**	1											
ACI	-.07	.11**	.26**	-.01	.16**	.02	.10*	-.11**	1										
ACS	-.03	.04	.36**	-.03	.03	-.08*	.06	-.15**	.15**	1									
ACFE	-.06	-.01	.04	-.03	.19**	.02	-.01	-.00	.14**	.02	1								
ACA	-.08*	.10*	.25**	-.04	-.05	-.10*	.05	-.02	.19**	.41**	.15**	1							
AT	-.03	-.07	.36**	-.11**	-.06	.02	.19**	-.01	.19**	.31**	.15**	.22**	1						
AO	-.01	.04	.11**	.03	.13**	.12**	.04	.01	.03	.09*	-.02	.08	.09*	1					
AC	.01	-.06	-.08*	.03	.02	.02	-.14**	-.07	-.06	-.00	-.06	-.01	-.11**	-.02	1				
IA	.01	.01	.24**	-.17**	.03	.02	.10**	.03	.12**	.13**	.06	.17**	.21**	.08*	-.09*	1			
ROA	.04	-.00	.20**	-.06	-.03	-.04	.10**	-.01	-.02	.13**	-.01	.15**	.26**	.25**	-.03	.16**	1		
DAR	-.08*	.05	-.02	-.04	.06	-.05	.09*	-.01	.26**	.10*	.09*	.16**	.04	-.07	-.08*	.01	-.25**	1	
SIZE	-.12**	.04	.45**	-.14**	-.03	-.02	.18**	.03	.27**	.25**	.06	.28**	.40**	.16**	-.09*	.27**	.24**	.09*	1

*Notes: two-tailed, * and ** significant at 5% and 1% respectively*

The final results of the regression are presented in Table 4.4 below. Thus, it accepted eight hypotheses; board composition, board size, board expertise and knowledge, board shareholding, board age, board tenure, audit committee size, and external auditor opinion. Thus, these variables affect significantly the management report lag. Out of three control variables used in this study, profitability is significantly associated with management report lag. Board composition has a significantly negative relationship with management report lag. It means that independent director have a significant role in the management reporting lag. The significant relationship between board composition and management report lag supports the agency theory and contention by Fama & Jensen (1983). Thus, board independence can reduce the management report lag and asymmetric information.

Table 4.4
Result of Regression
Management Report Lag (MRL) is DV

Variable	Coef	SE	P-value
C	4.671	1.041	0.000
BC	-0.809	0.063	0.000***
BZ	-0.222	0.105	0.035**
BS	-1.226	0.280	0.000***
BEK	-0.724	0.217	0.001***
BED	-0.016	0.095	0.868
BEA	-0.015	0.008	0.047**
BET	0.071	0.017	0.000***
ACI	0.014	0.051	0.785
ACS	0.421	0.106	0.000***
ACFE	-0.203	0.196	0.303
ACA	0.264	0.167	0.114
AT	-0.015	0.143	0.915
AO	-0.732	0.229	0.002***
AC	0.015	0.033	0.648
IA	0.064	0.193	0.740
ROA	0.135	0.005	0.000***
DAR	0.155	0.113	0.171
SIZE	-0.156	0.128	0.222
R Square		0.534	
Adj. R Square		0.272	
F stat		2.036	
F Sig		0.000	

*Note; ***, **, and * are significant at 1%, 5% and 10%, respectively*

Meanwhile, board size is negative significantly associated with the management report lag. This finding implies that more board member in board room, more effective the control. The result is consistent with the resources dependence theory. the next finding is that there is a significantly negative relationship between board shareholding and management report lag. This finding supports the agency theory.

The effect of board expertise and knowledge on management report lag is a significantly negative. This finding is consistent with Fama & Jensen (1983), which argued that board expertise would align the company vision and at the same time, they would reduce the agency problems and agency costs. Meanwhile, there is a significantly negative relationship between board age and management report lag. The relationship implies that the older the board members, the shorter the management report lag. The findings support the agency theory. In addition, board tenure has a significant negative relationship with management report lag. Thus, the longer the company's board tenure, the shorter the management report lags. This finding is also consistent with Abdel-Salam & Street (2007) and supports the agency theory.

The relationship between audit committee size and management report lag is significantly negative. Thus, it is in line with Pincus et al. (1989), which stated that big number of audit committee might bring more skills and knowledge to enhance monitoring. The findings support the agency theory. Besides, auditor opinion has a significantly negative with the management report lag and supports the agency theory. Only profitability has a significantly positive with the management report lag. It means that the profitable company tends to have a longer management report lag and a company that experiences loss would have a shorter management report lag.

5. Conclusion and Implication

Timeliness of the financial report is one of the qualitative attributes of general purpose financial reports. Other important attributes of timeliness is that of information content (Beaver, 1968), and affect company values (Givoly & Palmon, 1982). In addition, management has incentives to exercise discretion over the timeliness of reporting (Ashton et al., 1989) and a greater amount of asymmetric information between management and shareholders (Lee et al., 2008). In fact, timely reporting would enhance decision-making and reduce information asymmetry in emerging markets (Owosu-Anshah, 2006). Moreover, it is an important device to mitigate insider trading, leaks and rumors in emerging capital markets (Owusu-Anshah, 2000). Thus, it contributes to the prompt and efficient performance of the stock market in their pricing and evaluation function.

This study is based on the issue regarding the timeliness of financial reports among Indonesian listed companies. The problem arises when many Indonesian listed companies submitted their financial report late. Hilmi & Ali (2008) reported that there were about 133 (15.13%) Indonesian listed company financial reports from 2004 to 2006 (879 financial reports as the sample of their study) submitted after the expected date. The result of this study is that there is a significant relationship between the board composition, board size, board expertise and knowledge, board shareholding, board age, board tenure, audit committee size, external auditor opinion, and profitability and management report lag.

Based on the conclusions from this research, there are several theoretical implications. Agency Theory posits that the relationship between principal and agents may be subject to inefficiencies, to the extent that asymmetric information prevents effective monitoring of the agent's actions by the principal. Therefore, the solution to this problem is the assigning of a formal monitoring role to the board of directors (Fama & Jensen, 1983). Further, one of the monitored actions is the financial accounting process, in order for companies to have a higher quality of accounting information. The other accounting information quality is timeliness. The asymmetric information is high over the timeliness of financial report. This research illustrated that formation of a board of directors and their sub-committees (such as the Audit committee) and assigning a higher quality of auditor have an impact on the timeliness of financial reports.

Resources Dependent Theory predicts that a board can link to its environment by establishing important contacts and providing access to timely information through personal and professional networks (Ees & Postma, 2004). Therefore, boards can have more knowledge and expertise and transform it in the form of higher quality of accounting quality or timeliness of financial report. Boards with multiple directorships can improve the accounting quality due to experience that they gained from other companies or industries. This research shows that board expertise and knowledge and board experience (directorship) have the significant effect on the timeliness of financial report. These findings also contribute to the companies, government agencies and other parties. For the Indonesian companies, these findings provide information about variables that significantly affect the timeliness of financial report or specifically management reporting. These variables are considered by a company if the company intends to appoint a board of directors, audit committee, and auditors in the future.

There are several avenues for future research based on the limitations of this research. First, future research might think of other actors, such as management to be included as variables affecting the timeliness of financial report. The type of variables could be management expertise and knowledge and other variables. Second, the future research could segment samples based on the industry. For example, do the board characteristics affect the timeliness of financial reports for finance and banking industry, or what about the defense industry? The length of data also could be extended, for example, from 2002 to 2008 in the case of Indonesia. Third, future research could consider other data sources such as primary data, to test the hypotheses. Fourth, future research could test other board, audit committee or auditor characteristics that affect the timeliness of financial report, such as foreigners on the board, male and female board members, and audit committee tenure and etc. Fifth, future research could use the interaction of characteristics, such as the interaction of board independence and board expertise and knowledge. It also can use other variables as the mediating variable(s). Finally, future research might focus on the determinants and consequences of timeliness (complex model).

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