The Characteristics of Audit Committee and Intellectual Capital Disclosure in Indonesia Banking Industry

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***Abstract*— The purpose of this study is to investigate the practice of Intellectual Capital Disclosure in Indonesian Banking Industries. In doing so, the study investigate the influence of Audit committee characteristics of banking (size of audit committee, proportion of audit committee independence, frequency meeting of audit committee, background of education of audit committee, women on audit committee, and auditor expertise of audit committee) to Intellectual Capital Disclosure. The level of Intellectual Capital Disclosure is measured with the indexes identified by Sveiby (1997).**

Sample consists of the annual report of 15 banks listing in BEI for the year 2008-2011. The the sample is selected by purposive sampling method. This research is conducted by examination of regression, multiple regression, and t test.

The result that overall Intellectual Capital Disclosure are positively associated with audit committee characteristic such as women on audit committee and frequency meeting of audit committee. We find no significant relationship between Intellectual Capital Disclosure and the size of audit committee, the proportion of audit committee independence, background of education of audit committee and auditor expertise of audit committee.

Keywords-Intellectual Capital Disclosure, Audit Committee Characteristic, Banking, Annual Report, Content Analysis

INTRODUCTION

This study aimed to examine the influence of the Audit Committee of the intellectual capital disclosure imposed on Indonesian banks. The Audit Committee is represented by: Size Member of Audit Committee, Member of Audit Committee Independent Proportions, Frequency of Meetings Member of Audit Committee, Member of Audit Committee Background, Women's' Member of Audit Committee, and Experience of Audit Committee Members. Intellectual Capital Disclosure measured using an index developed by Sveiby (1997) to determine the level of disclosure in the published report of banking.

Discussion of intellectual capital disclosure in recent years continues to increase in many countries such as Australia, Austria, England, Sweden, Netherlands, Canada, Italy, Hong Kong, Malaysia and Indonesia. Intellectual capital disclosure evolved since the company began to realize the importance of a systematic management of external communication and respect for intellectual capital (Eccles, 2001). The importance of intellectual capital (IC) to create value in a knowledge-based economy in the present fact can not be ignored (Marr, 2004). Previous research revealed that 50 to 90 percent of the value created for the company in the new economy is that intellectual capital from the production and sale (Ehrhardt, 2007). The data showed in 1982, hard assets such as machinery and heavy equipment contributed 62% to the market value of the company, but ten years later in 1992 their role had fallen sharply to 38% (IFAC, 1998). The role of intangible assets has been replaced by intangible assets, which is a reflection of the intellectual capital. Intellectual capital disclosure related to the disclosure of financial and non-financial information as diverse as knowledge, innovation and employee turnover, and so forth (Bukh, 2001). Forms of Intellectual capital disclosure are valuable information to investors that can help them reduce uncertainty about future prospects and facilitate accuracy assessment of the company (Bukh, 2004).

External environment and internal situation of banks experience rapid development followed by the increasing complexity of risks faced. To offset the corporate governance practices required one of them is a good role of the Audit

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Committee and monitoring functions to enhance intellectual capital disclosure. Keenan and Aggestam (2001) reveals that the responsibility for investment in intellectual capital lies in corporate governance. Abeysekera (2010) who conducted a study on the 26 companies listed on the Nairobi Securities Bura produce that many members of the Independent Audit Committee has a positive effect on intellectual capital disclosure. Reeb and Zhao (2009) conducted a study that linked the Audit Committee and intellectual capital disclosure. The results of their study on 615 industrial companies in the United States found that the education and experience possessed by individuals in the Audit Committee a positive effect on intellectual capital disclosure. The research conducted by Gan et al. (2008) shows that the frequency of meetings of the Audit Committee and the Audit Committee of size has an influence on intellectual capital disclosure.

LITERATURE REVIEW

Intellectual Capital Disclosure

Intellectual Capital can be seen as knowledge, intellectual property and experience that can be used to create wealth (Stewart, 1997). Intellectual Capital has been identified as a set of intangible assets (resources, capabilities and competencies) that drives organizational performance and value creation (Bontis, 1998). According Bukh (2003), some form of intellectual capital disclosure practices is valuable information to investors that can help them reduce uncertainty about future prospects and facilitate accuracy assessment of the company. Intellectual capital disclosure practices can also show better financial performance of a company (Saleh et al., 2007).

Previous researchers (Sveiby, 1988 Stewart, 1994; Edvinsson, 1997) suggest that intellectual capital consists of human capital and capital structure. Further researches (Roos et al, 1997;. Stewart, 1997, Sveiby, 1997; Edvinsson and Malone, 1998) divide components capital structure or organization to internal capital and external capital. Brooking (1996) makes additional adjustments to the internal dividing the capital into infrastructure assets and intellectual property. Most researchers divide intellectual capital into three main elements (Sveiby, 1997; Stewart, 1999; Meritum, 2002), namely human capital, structural capital or organizational capital and relational capital.

The first element intellectual capital is human capital which is the lifeblood in intellectual capital and as a source of innovation and development, including human resources, and includes education, knowledge and competence (Suhardjanto, 2010). The second element of structural capital or organizational capital which is the company's ability to meet the company routines and structure, which supports employee efforts to produce optimal intellectual performance and overall business performance that includes intellectual property (patents, copyrights, and trademarks, etc.) and infrastructure assets (corporate culture, information systems, and management processes, and so on), while the last element is the relational capital (customers, business collaboration, franchise agreements, and so on) (Suhardjanto, 2010).

Size of the Audit Committee

PBI No. 8/4/PBI/2006, membership of the Audit Committee consists of at least 3 (three) members, one of whom is independent company that also doubles as chairman of the Audit Committee, while the other two members of an independent external party which one of whom has expertise in finance or banking.

Several studies have shown a significant positive effect size of the Audit Committee of the disclosure (Beasley, 1996; Felo et al., 2003; Felo et al., 2009; Linda, 2011), but the results were contrary to research Hoitash et.al. (2009) which states there is no effect of the size of the disclosure committee. Mangena and Pike (2005) found there was no effect of the size of the Audit Committee of the Intellectual Capital Disclosure in these interim financial statements due to the Audit Committee in overseeing the process of Intellectual Capital Disclosure is not determined by the size of the Audit Committee.

Conflicts of this research encourage researchers to use as a proxy measure of the Audit Committee and to test its effect on the ICD. Size of the Audit Committee is expected to show a positive effect on the ICD because of the size of the Audit Committee by the board of commissioners designed to ensure effective supervision (Kalbers-Fogarty, 1993). Based on the description above, it can be formulated as the following hypothesis:

H1: The size of the Audit Committee has a positive influence on Intellectual Capital Disclosure.

Independence of Audit Committee

The independence is a cornerstone of effective performance of the audit committee. Independence of the study was assessed by the absence of linkage with the audit committee position or operating position in the company where the audit committee members are (Tugiman, 1995). Research Felo (2003) result that there is no influence of the Audit Committee of the Intellectual Capital Disclosure Independent. But the results contradict the results of research Felo Hong and Wong (2001) in Hong Kong that found significant effect of the independent Audit Committee member of the Intellectual disclosure.

Based on the results of the above study, which reported inconsistent results, so this study expected the greater the number of Independent Audit Committee it will be a positive influence on Intellectual Capital Disclosure, so that the hypothesis can be formulated as follow:

H2: Audit Committee Independence has a positive influence on Intellectual Capital disclosure

Frequency of Audit Committee Meetings

Bapepam (2004) and PBI No. 8/4/PBI/2006 requires that the Audit Committee held a meeting with the same frequency as the frequency of meeting the minimum requirements set out in the board of commissioners' statutes.

Therefore, it can be concluded that the duties of the Audit Committee should do at least three or four meetings a year (corporate governance guidelines, 2007) and special meetings when needed.

Goodwin (2003) and Vafeas et al. (2005) in their research state that the more the number of independent members of the Audit Committee, the frequency of meetings between the audit committee and internal audit firm to be more frequent in order to assess the performance of the Audit Committee. Besides, regular meetings of the Audit Committee conducted have an oversight function in the process of disclosure.

Li et al., (2008) recommends that the Audit Committee shall hold at least three or four meetings each year and special meetings when necessary. Thus the Audit Committee meetings are more often will have more influence in regulating the practice of IC disclosure. Li et al. (2008) proved that there is a positive effect of the frequency of meetings of the Audit Committee of the level of IC disclosure.

Based on the description above, the hypothesis in this study is:
H3: Frequency of Audit Committee Meetings has positive influence on Intellectual Capital Disclosure.

Educational Background of Audit Committee

PBI No. 8/4/PBI/2006 Article 12 states that one of the members of the Audit Committee should have an educational background in accounting or finance. Braswell and Mauldin (2004) state that the audit committee expertise in accounting or finance can avoid agency costs. So companies tend to prefer the audit committee who has expertise in the field of finance or accounting so that they are confident that the audit committee can improve the transparency of financial statements, one of which is realized through the disclosure of intellectual property.

According to McDaniel et al., (2002) the Audit Committee is an ideal that has knowledge in the field of accounting and auditing processes to improve their understanding in terms of the financial statement reporting process, identify the problems, and asked what happened to the management issues and auditor. While research Chapple, Jubb and Lee (2012) states that the number of audit committee members who are experts (expertise) in the fields of accounting and finance, such as indicated by the number of audit committee have accounting education background would make audit committees more effective. The effectiveness is demonstrated by the increasing level of compliance with the disclosure of one intellectual disclosure (Chapple, Jubb and Lee, 2012).

Similarly, the results of research conducted by Sultana and Zahn (2012) states that audit committee members to have a deeper knowledge of accounting so that they can better identify and recommend accounting policies are most appropriate for the company, one of the policies in terms of intellectual capital disclosure. Based on the description above, the hypothesis of this study is:
H4: Educational Background Audit Committee has a positive influence on Intellectual Capital Disclosure.

Women's Member of Audit Committee

Khan (2010) states that the diversity of the Audit Committee will bring a positive impact on performance. The existence of women as members of the Audit Committee may be a significant variable in the Audit Committee (Carter, Betty and Gary, 2003). Although Khan has not been able to find the influence of the Audit Committee of Women for voluntary disclosure, but Khan (2010) revealed a higher efficacy of the Audit Committee in the presence of women as members of the Audit Committee will increase the number of meetings and attendance that will encourage the disclosure of intellectual capital. The study Carter et al. (2003) found that companies with two or more women board members in companies that have a value higher than the number of women who are less than two. Catalyst (2007) found from the financial perspective of the average financial performance of the company with the percentage of women in the board composition has improved outcomes banking. In Indonesia, where women are supported by a system of emancipation of women in Indonesia is growing, so that its presence can be recognized and aligned.

Ittonen, Miettinen and Vahamaa (2007) in their study found that female members of the Audit Committee is able to reduce the inherent risk of misstatement because most women in the Audit Committee have high competence and hard work. It can be concluded that the presence of women in increasing the effectiveness of the Audit Committee, which in turn increases the effectiveness of corporate governance. The effectiveness of increased CG will have an impact on the company, one of them in terms of doing intellectual disclosure.

H5: Women's Member of the Audit Committee have influence on Intellectual Capital Disclosure.

Experience of Auditor Member of Audit Committee

Members of the Audit Committee can be said well experienced if ever experienced a specific position as auditor (Pamuji and Trihartati, 2007). Additionally, Defond (2005) and Dhaliwal (2007) state that the committee with the expertise of accounting / finance is someone who has experience as an auditor. Experienced audit committee members as the auditor can make a more consistent decision, have more favorable so as to provide input to the management (DeZoort, 1998).

Sultana and Zahn (2012) in their research indicate that audit committees have at least one member experienced in the previous auditors are more effective in ensuring the company adopted appropriate accounting practices, disclosure practices intellectual one. Defond (2005) found that the experience of working as a professional auditor in Public Accountant and has a Certificate of Public Accountants will improve effectiveness. This is due to the Audit Committee who has experience as an auditor has been trained in improving the mechanism of control and supervision of the company, especially the practice of disclosure.

H6: The Experience of the Audit Committee has a positive influence on Intellectual Capital Disclosure.

METHOD

The population in this study is conventional banking companies listed in the Indonesia Stock Exchange (IDX) during 2008 -2011, as many as 29 banks. This study used purposive sampling technique. Criteria samples used in this study, namely conventional banking companies listing on the Stock Exchange and publish financial statements for three consecutive years for the years 2008 - 2011 and published, as well as presents data on the Audit Committee. Based on these criteria the number of observation data obtained by 60 annual reports. Methods of data collection in this study using secondary data drawn from the annual reports of banks listed on the Stock Exchange in the year 2008 to 2011. In addition, secondary data were collected derived from Indonesian Capital Market Directory (ICMD), site www.idx.co.id.

Dependent variables in this study are published Intellectual Capital Disclosure banking company in its annual report. Measuring Intellectual Capital Disclosure using scores on the points obtained from the annual disclosure report sample firms in the form of disclosure index developed by Sveiby (1997).

Operational Definition and Measurement
Independent Variables

a. The size of the Audit Committee
PBI No. 8/4/PBI/2006, membership of the Audit Committee consists of at least 3 (three) members, one of whom is independent company that also doubles as chairman of the Audit Committee, while the other two members are independent external party where one of them has expertise in finance or banking.
The variable size of the Audit Committee's investigation draws on research of Felo et al (2003) measured by summing the Audit Committee members present at the bank. Measurements made by Felo et al. (2003) also supported the study by Beasley (1996), Linda (2011) and Jing Li et al (2012).
Additionally, PBI No. 8/4/PBI/2006 and BEI (2001) stipulate that membership of the Audit Committee of at least 3 people numbered.

b. Independence of Audit Committee (PROP_KAI)
The independence of the Audit Committee to neutralize the function of oversight and accountability that is run on the banking commissioner. In addition the Audit Committee independence is a cornerstone of the effectiveness of the Audit Committee (Tugiman, 1995).
The indicators used in the study as Chapple, Jubb and Lee (2012), Sultana and Zahn (2012), Zhang and Taylor (2011) and Taliyang and Jusop (2011), is the percentage of independent Audit Committee to all members of the Audit Committee.

c. The frequency of meetings of members of the Audit Committee
PBI No. 8/4/PBI/2006 requires that the Audit Committee held a meeting with the same frequency as the frequency of meeting the minimum requirements set out in the board of commissioners' statutes. Therefore, it can be concluded that the duties of the Audit Committee should do at least three or four meetings a year (corporate governance guidelines, 2007) and special meetings when needed. This is in line with the Blue Ribbon Committee (1999) which recommends that the number of meetings of the Audit Committee of not less than four times a year.
Indicators which are used as in the study Ittonen, Miettinen and Vahamaa (2007), Chapple, Jubb and Lee (2012), Sultana and Zahn (2012), Taliyang and Jusop (2011) and Braswell (2012), are the number of meetings held by the Committee Audit within a period of 1 year.

d. Educational Background Audit Committee
Based on PBI No. 8/4/PBI/2006 Article 38 paragraph 1b states that the Audit Committee should have an educational background in Accounting or Finance. The Audit Committee is having education in the field of accounting as well as having expertise in the field of accounting (Felo, Krishnamurthy and Solieri, 2003). Indicators are also used in research Sultana and Zahn (2012), Zhang and Taylor (2011) and Krishnan and Visvanathan (2008), ie the percentage of the Audit Committee of Educational Background on all members of the Audit Committee.

e. Women's Member of Audit Committee
Audit Committee The woman is being a woman as a member of the Audit Committee (Ittonen, Miettinen and Vahamaa, 2007). The indicators used in this study as Ittonen et al. (2007) is the percentage of women Audit Committee to all members of the Audit Committee.

f. Experience Auditor Audit Committee (PKA)
Experienced Audit Committee in terms of the auditor is a member of the Audit Committee once the auditor (Dhaliwal, Naiker and Navissi, 2006). The indicators used in this study as Dhaliwal et al. (2006), the percentage of the Audit Committee Auditor experience to all members of the Audit Committee.

Dependent Variable

Sveiby (1997) Intellectual capital divided into three categories, namely (1) the internal structure, (2) external structure, and (3) employee competence. Internal category structure has nine (9) items, categories external structure has ten (10) items and employee competence has six (6) items, bringing the total items in this study were 25 item. Intellectual capital disclosure was measured by using the technique of scoring, if these items are disclosed in the annual report is given a score of 1 and a score of 0 is given Juka item is not disclosed in the annual report.

Analysis of the data in the study was done by descriptive statistics and hypothesis testing using regression. Multiple regression equation to test the hypothesis in this study is:

ICD = β0 + β1 + β2 UKA PROP_KAI RKA + β3 + β4 + β5 LBPKA KAW PKA + β6 + ε ¬

Description:

ICD : Intellectual capital disclosure
UKA : Size of the Audit Committee
PROP_KAI : Proportion of Audit Committee Independence
RKA : Meeting of the Audit Committee
LBPKA : Educational Background of Audit Committee
KAW :Women's Member of the Audit Committee
PKA : Experience of Audit Committee

RESULTS

Descriptive Statistics

Rate of Intellectual Capital Disclosure in Indonesian banks by 62% indicating that banks in Indonesia are already aware of the importance of disclosure of Intellectual Capital in comparison to other industries that just does disclosure of Intellectual Capital at 34.5% (Suhardjanto and Mari, 2008). The management of the bank as information providers have realized the importance of Intellectual Capital Disclosure and its effects in the future in the annual report. Bank Indonesia as the regulator should have already started to create specific regulations regarding what should be disclosed in the annual report also cause the level of disclosure, including the Intellectual Capital Disclosure in Indonesian banks to a maximum. Disclosure of the maximum of a bank will help stakeholders to assess the banking system and to make decisions Bukh (2001).

Regression Result

Adjusted R2 value of 42% means that intellectual capital disclosure can be explained by variations in the independent variables are size member of the Audit Committee, the Audit Committee Independence, the frequency of meetings of the Audit Committee members, Educational Background members of the Audit Committee, Women's member of Audit Committee of, and a member of the Audit Committee Auditor Experience by 42% while the remaining 58% is influenced other factors.

Examination of hypotheses

The results of hypothesis testing are performed using the SPSS tool is as follows:

ICD = 0518-0003 UKA PROP_KAI 0000 + RKA + 0006 - 2335 + 0001 LBPKA KAW - 0000 PKA ¬

From the results of hypothesis testing known that the size of the audit committee, the proportion of audit committee independence, the educational background of the audit committee, audit committee and auditor experience have no significant positive effect on intellectual capital disclosure. As a result, agency problems in banking Indonesia can not be minimized in relation to encourage management to intellectual capital disclosure. While the frequency of meetings of the audit committee and the women's audit committee affects intellectual capital disclosure, so that the two variables can be used as a parameter for the active conduct of the audit committee disclosure of intellectual capital banking firm.

The existence of the woman and the more frequent audit frequency of meetings held by the audit committee to minimize problems in the banking agencies to supervise disclosure, especially disclosure of intellectual capital.

CONCLUSION

Intellectual Capital Disclosure Rate by 62% indicating that banks in Indonesia have begun to realize the importance of disclosure of Intellectual Capital in comparison to other industries that just does disclosure of Intellectual Capital at 34.5% (Suhardjanto and Mari, 2008). This means the management of company listed on the Stock Exchange banks already has the awareness to reveal the Intellectual Capital in the annual report.

Meetings of the Audit Committee and Women's' member of the Audit Committee proved a significant positive impact on Intellectual Capital Disclosure in Indonesian banks. Regular meetings of the members of the Audit Committee are opportunity for the Audit Committee to assess performance, and indirectly a function of oversight in the process of Intellectual Capital Disclosure. While the presence of Women's members of the Audit Committee in Indonesian Banking has high competence in terms of encouraging the management to do the Intellectual Capital Disclosure. So that, both proxies are relevant to explain the influence of the Audit Committee on Intellectual Capital Disclosure.

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