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The Audit Committee, Sharia Supervisory Board and Audit Report Lag: Empirical study of Islamic Banking

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ABSTRACT

The purpose of this research is to examine the influence of audit committee and sharia supervisory board on audit report lag. The dependent variable is audit report lag and the independent variables in consist of audit committee size, audit committee expertise, audit committee meetings, sharia supervisory board size, and sharia supervisory board meeting. The population involve Islamic banking companies listed on the Otoritas Jasa Keuangan in 2017 and 2021. The data was analyzed using descriptive statistical analysis and linear regression analysis with the SPSS 25 program. The findings show that, audit committee size and audit committee expertise have a significant relationship with audit report lag. Meanwhile, the audit committee meeting have a negligible relationship with audit report lag. Also, sharia supervisory board size and sharia supervisory board meeting has significant effect on audit report lag.

Keywords: Audit Report Lag, Audit Committee, Sharia Supervisory Board, Islamic Banking

INTRODUCTION

Annual reports are crucial information sources in developing capital markets (Kaaroud et al., 2020), despite frequent information asymmetry and disclosure delays (Afify, 2009). Thus, timeliness is essential for financial reporting, and annual audit duration directly impacts report timeliness. Audit report lag (ARL) is the primary determinant of financial report timeliness (Ashton et al., 1989; Sultana et al., 2015), often compromising information quality and indicating corporate problems (Kaaroud et al., 2020).

Boards and their committees are vital for corporate efficiency and accountability. The audit committee specifically oversees accounting, financial reporting, and audits, enhancing reporting quality (Sarbanes Oxley Act, 2002; Cadbury, 1992) and directly impacting financial statement quality and timeliness (Alzeban & Sawan, 2015). Islamic banks ensure Sharia compliance through a Sharia Supervisory Board (SSB) (Basri et al., 2016), whose core role is to oversee Sharia principle application (Faozan, 2013). This function, rooted in agency theory (Jensen & Meckling, 1976), addresses inherent agency problems. Strong governance is essential for effective supervision in Islamic banks, as the independent SSB ensures religious compliance, potentially complicating managerial

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decisions. Research highlights the need for SSB members to have broad expertise, including accounting and finance, to enhance oversight and performance (Ghayad, 2008). Sharia non-compliance risk from poor governance is a primary threat, emphasizing the fundamental importance of Sharia compliance (Lewis, 2005).

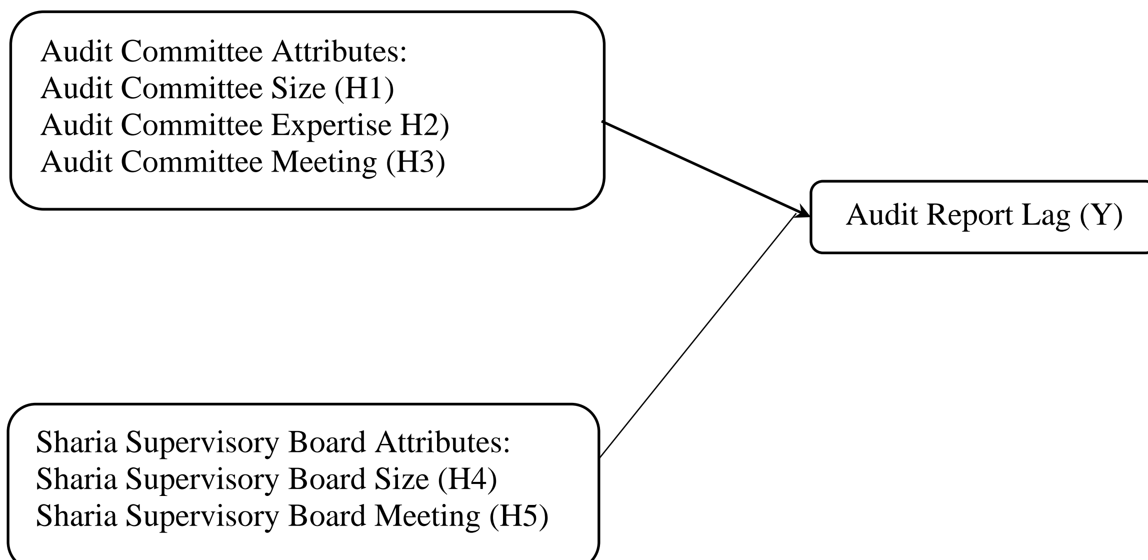
This study, building on prior work (Kaaroud et al., 2020), examines the relationship between the audit committee, Sharia Supervisory Board, and audit report lag (ARL) in Indonesian Islamic banks, using 2017-2021 OJK data. Research on ARL presents mixed findings. Kaaroud et al. (2020) showed **a**udit committee size and expertise significantly reduce ARL in Islamic banks. Yet, they found negligible, or even positive, links for audit committee meeting frequency and Sharia committee expertise. This contrasts with Baklouti (2022), who reported that SSB size and meeting frequency positively impact financial performance (potentially affecting ARL). Furthermore, Maranjory & Tajani (2022) found no significant relationship for audit committee size, differing from Kaaroud et al. (2020).

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

An agency relationship entails a principal delegating to an agent, leading to inherent monitoring costs and potential interest divergence (Jensen & Meckling, 1976). Managing these agency problems is vital, particularly when managers aren't directly accountable (Fama & Jensen, 1983). As suggested by Safieddine (2009), effective corporate and Sharia governance in Islamic banks relies on active monitoring by various bodies, including BODs, audit, and Sharia committees, external, and internal auditors**,** all influencing Audit Report Lag (ARL). This study applies agency theory to explain how the Audit Committee and Sharia Supervisory Board address information asymmetry - a core agency problem - thereby impacting ARL.

Figure 2.1 Theoretical Framework

(Adapted from Wan-Hussin & Bamahros, 2013)



The Influence of Audit Committee Size on Audit Report Lag

Audit committee size impacts audit report lag; adequate membership is vital for effectiveness and timely reporting (Dezoort et al., 2002; Mohamad-Nor et al., 2009), with Islamic banks often requiring at least three members (Kaaroud et al., 2020). Conversely, Bédard & Gendron (2010) suggest that increased costs in larger committees might offset benefits. Agency theory posits smaller audit committees are more effective due to improved dynamics, cohesion (Collier & Gregory, 1996; Jensen, 1993), coordination, and consensus (Oussii & Boulila Taktak, 2018). Empirical findings on audit committee size and audit report lag are varied. Many studies report a negative, significant relationship, indicating larger committees lead to faster reports (Mohamad Naimi et al., 2010; Santoso, 2018). Yet, some research finds either an insignificant negative link or no association at all (Ogoun & Perelayefa, 2020; Wan-Hussin & Bamahros, 2013). Consistent with the majority of prior research, the following hypothesis is proposed:

H1: Audit committee size has a negative effect on audit report lag

The Influence of Audit Committee Expertise on Audit Report Lag

Expertise in financial reporting and auditing enables audit committee members to make sound decisions (DeZoort & Salterio, 2001). This knowledge is crucial for comprehending financial information and for directors to understand their legal obligations (Takhtai et al., 2011). Thus, there's a consistent emphasis on independent audit committees comprising financially knowledgeable members (Beasley & Salterio, 2001). Agency theory positions the audit committee as a key shareholder monitoring mechanism for financial reporting. A lack of financial knowledge here forces reliance on external auditors (Defond et al., 2005). However, financial expertise within the committee significantly boosts its oversight. Research consistently shows this expertise leads to shorter audit lags by facilitating better scrutiny and faster issue resolution (Mohamad Naimi et al., 2010; Raweh et al., 2019; Habib et al., 2019). Hashim & Rahman (2011) and Ogoun & Perelayefa (2020) emphasize the significant positive influence of audit committee financial reporting expertise on audit report timeliness. Increased financial experts on the committee are crucial for reducing report lag by proactively identifying issues, streamlining auditor interactions, and enhancing management accountability, leading to a more efficient audit. Based on these findings, the following hypothesis is proposed:

H2: Audit committee expertise has a negative effect on audit report lag

The Influence of Audit Committee Meeting on Audit Report Lag

Regular audit committee meetings foster proactive monitoring, aiding financial report assessment and executive evaluation (Al Farooque et al., 2020). Increased frequency keeps the committee updated, allowing for timely issue resolution (Nelson & Shukeri, 2011). Rooted in agency theory, frequent meetings enhance monitoring by reducing information asymmetry, leading to better financial reporting decisions, stronger internal controls, and fewer auditor inquiries (Habib et al., 2019). This compels management diligence, streamlining the audit and shortening audit report lag. While some studies show no significant impact (Abbott et al., 2004), most empirical evidence indicates that more frequent meetings reduce audit report lag (Sultana et al., 2015), aligning with agency theory. Thus, increased meeting frequency is expected to improve audit oversight and shorten report release time. Based on these findings, the following hypothesis is proposed:

H3: Audit committee meeting has a negative effect on audit report lag

The Influence of Sharia Supervisory Board Size on Audit Report Lag

Board size is a critical governance factor (Hillman et al., 2009). For Islamic banking, a larger Sharia Supervisory Board (SSB) potentially enhances performance by leveraging diverse expertise and strategic networks, incorporating scholars from various Fiqh schools (Nomran et al., 2018). From an agency theory standpoint, a larger SSB acts as a key internal governance mechanism monitoring management for principals. Its expanded, diverse membership enhances monitoring capacity, improving product certification and detecting inefficiencies that cause reporting delays (Farag et al., 2018). This increased oversight reduces information asymmetry, compelling timely and accurate reporting, thereby shortening audit report lag. Despite potential communication challenges in smaller boards (Khan et al., 2017), the comprehensive expertise of a larger SSB is believed to better mitigate audit complexities. Empirical studies by Matoussi & Grassa (2012) and Mollah & Zaman (2015) found a significant relationship potentially influencing audit report lag. Based on these considerations, the following hypothesis is proposed:

H4: Sharia supervisory board size has a negative effect on audit report lag

The Influence of Sharia Supervisory Board Meeting on Audit Report Lag

Regular and frequent Sharia Supervisory Board (SSB) meetings signal their capacity to oversee management and protect shareholder equity (Ntim et al., 2017), aligning with their function to address community inquiries (Banaga et al., 1994). From an agency theory viewpoint, frequent SSB meetings reduce information asymmetry,

enhancing monitoring effectiveness. This fosters stakeholder loyalty (Vafeas, 2003) and enables better oversight of transactions and decision-making, ultimately improving performance and reducing audit report lag (Ntim et al., 2017). While some research suggests negative impacts from meeting frequency due to formalities or costs (Vafeas, 1999; Musleh Alsartawi, 2019), this study specifically examines the relationship between SSB meeting frequency and audit report lag, based on these considerations. The following hypothesis is proposed:

H5: Sharia supervisory board meeting has a negative effect on audit report lag

RESEARCH METHODOLOGY

This research employs six variables: one dependent variable (audit report lag) and five independent variables (audit committee size, audit committee expertise, audit committee meeting frequency, Shariah Supervisory Board size, and Shariah Supervisory Board meeting frequency). The following sections detail each variable.

Operational Variable:

1. Audit Report Lag

   This study's dependent variable, audit report lag (ARL), is defined as the days between a company's fiscal year-end and the auditor's report date (Carslaw & Kaplan, 1991; Bamber et al., 1993). We measure it from January 1 (book closing) to the auditor's report signing date.
2. Audit Committee Size

   Audit committee size denotes the number of members on a company's audit committee, a key corporate governance characteristic influencing its oversight effectiveness. Following OJK Regulation Number 55's minimum three-member requirement, this variable is measured by dividing the number of audit committee members by 3.
3. Audit Committee Expertise

   The measure audit committee expertise as the proportion of members with specialized knowledge in accounting, auditing, financial management, or industry-specific areas (Kaaroud et al., 2020).
4. Audit Committee Meeting Frequency

   The frequency of these meetings annually reflects the committee's diligence. Consistent with OJK Regulation Number 55 (minimum quarterly meetings), this study measures Audit Committee Meeting frequency by the total number of meetings held per fiscal year (Kaaroud et al., 2020).
5. Sharia Supervisory Board Size

A larger SSB is thought to enhance Shariah adherence and disclosure. This study measures Shariah Supervisory Board Size by the total number of SSB members at each fiscal year-end (Kaaroud et al., 2020).

6. Sharia Supervisory Board Meeting Frequency

   Shariah Supervisory Board (SSB) Meetings are formal gatherings of independent Islamic scholars for oversight. The measure this intensity by the total number of SSB meetings held per fiscal year (Kaaroud et al., 2020).

Sample Selection

1. Islamic banks must have released their annual reports for the years 2017 through 2021 and be registered with the Financial Services Authority (OJK).
2. The financial reports of the selected Islamic banks must be presented in Indonesian Rupiah currency.
3. The selected Islamic banks must have provided complete data that meets all the requirements of this research.

Analytical Method

The general form of a multiple linear regression equation is as follows:

$$\mathbf{ARL} = \boldsymbol{\beta}\mathbf{0} + \boldsymbol{\beta}\mathbf{1}\,(\mathbf{ACS}) + \boldsymbol{\beta}\mathbf{2}(\mathbf{ACE}) + \boldsymbol{\beta}\mathbf{3}\,(\mathbf{ACM}) + \boldsymbol{\beta}\mathbf{4}\,(\mathbf{SBS}) + \boldsymbol{\beta}\mathbf{5}(\mathbf{SBM}) + \boldsymbol{\varepsilon}$$

Description:

ARL: Audit Report Lag

ACS: Audit Committee Size

ACE: Audit Committee Expertise

ACM: Audit Committee Meeting

SBS: Sharia Supervisory Board Size

SBM: Sharia Supervisory Board Meeting

RESULTS AND DISCUSSION

Description and Research Object

Table 4.1 Population and Sample

Sample Criteria	Total
Islamic banking companies listed on the OJK in 2017 and 2021	34
Islamic banking companies that do not provide complete data according to the research variables	(10)
Research Sample	24
Total sample (5 year observation)	120

This study used 120 observations from OJK-registered Indonesian Islamic banks between 2017 and 2021. From an initial 170 potential observations, 10 were excluded due

to incomplete data or unmet criteria. Data was collected from company websites via purposive sampling.

Descriptive Statistics Test

Table 4.2 Descriptive Statistics

	N	Range	Min	Max	Mean		Std. Deviation	Variance
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Statistic
ARL	120	106	11	117	49.76	2.186	23.943	573.277
ACS	120	3	1	3	1.29	.032	.349	.122
ACE	120	1	0	1	.83	.021	.228	.052
ACM	120	34	3	37	14.25	.744	8.151	66.441
SSS	120	3	1	4	2.34	.051	.558	.311
SSM	120	60	0	60	16.50	.817	8.946	80.034
Valid N	120							

Descriptive statistics reveal key characteristics of our variables. Audit report lag (ARL) averaged 49.76 days (range: 11-117, SD: 23.943). Audit committee size (ACS) had a mean of 1.29 (range: 1-3), aligning with OJK regulations for smaller committees. Audit committee expertise (ACE), a binary measure, indicated 83% of committees possessed expertise. Audit committee meetings (ACM) averaged 14.25 (range: 3-37), showing varied frequency. For the Shariah Supervisory Board, size (SSS) averaged 2.34 members (range: 1-4), and meeting frequency (SSM) averaged 16.50 (range: 0-60), highlighting significant variability across companies.

Multicollinearity Test

Multicollinearity was assessed via tolerance (0.822–0.951) and VIF (<1.22) values. These results indicate no significant multicollinearity in the regression model, with VIFs well below 10 and tolerance above 0.1.

Autocorrelation Test

The Durbin-Watson (DW) statistic for autocorrelation in the regression model's residuals was 1.983. This value, being very close to 2 (which signifies no autocorrelation), indicates little to no evidence of autocorrelation. Practically, this suggests the assumption of independent errors in the regression model is likely not violated.

Heteroscedasticity Test

The heteroscedasticity test was conducted using the Glejser method. With a significance value of 0.088 (greater than 0.05), we conclude that there is no statistically significant evidence of heteroscedasticity in the regression model.

Normality Test

The Kolmogorov-Smirnov test (statistic = 0.051, p-value = 0.200) confirms the normality of residuals ($p > 0.05$). This supports a key assumption for valid regression analysis.

Simultaneous Significance Test (F-Test)

An F-test confirmed the overall significance of the regression model (F = 4.710, p = 0.001). This suggests at least one independent variable significantly impacts audit report lag.

The Coefficient of Determination Test (R^2)

The R^2 (coefficient of determination) measures how well the model explains dependent variable variance. Our model yielded an R^2 of 0.171, meaning 17.1% of the variation in audit report lag (ARL) is attributable to audit committee size, expertise, and meeting frequency, plus Shariah Supervisory Board size and meeting frequency.

T-Test

Table 4.12 T-Test

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	89.474	13.574		6.591	.000
	ACS	-12.645	6.382	-.184	-1.981	.050
	ACE	-25.896	9.471	-.247	-2.734	.007
	ACM	-.936	.257	-.319	-3.644	.000
	SBS	2.503	3.845	.059	.658	.512
	SSM	.323	.252	.121	1.284	.202

Discussion

The Effect of Audit Committee Size on Audit Report Lag

The analysis showed a marginally significant negative relationship between audit committee size (ACS) and audit report lag (ARL) ($\beta = -12.645$, $p = 0.050$), indicating larger committees correlate with slightly shorter ARLs. This aligns with agency theory, which suggests that a larger committee's broader expertise enhances monitoring, leading to more efficient audits (Al-Baidhani, 2020). Numerous studies support this negative association (e.g., Habib & Bhuiyan, 2011; Sultana et al., 2015).

However, not all research agrees; some studies find no significant relationship (e.g., Ashton et al., 1987; Baatwah et al., 2015), implying that effectiveness depends on active engagement, not just size. Some even report a positive relationship, citing coordination difficulties in larger committees that can hinder decision-making (e.g., Abdillah et al.,

2020; Carslaw & Kaplan, 1991). Thus, the marginal significance in our findings suggests that while larger committees offer potential benefits, their impact on audit timeliness is moderated by other critical factors.

The Effect of Audit Committee Expertise on Audit Report Lag

The analysis found a significant negative relationship between audit committee expertise (ACE) and audit report lag (ARL) ($\beta=-25.896$, $p=0.007$), indicating that more expert committees lead to shorter reporting delays. Consistent with agency theory (Jensen & Meckling, 1976), expert audit committees, acting as crucial monitoring mechanisms, enhance the understanding of complex accounting, improve management assessment, and streamline the audit process (Abernathy et al., 2014). This result aligns with prior findings that expertise improves financial reporting quality and timeliness (Krishnan & Visvanathan, 2008; Sultana et al., 2015). Expertise allows for effective auditor interaction and prompt issue resolution (Bedard et al., 2004), reduces earnings management, and promotes higher audit quality, contributing to shorter lags (Lara et al., 2007; Salehi et al., 2020). Essentially, expert committees facilitate rigorous and timely audits (Dhaliwal et al., 2010), particularly in challenging environments (Soliman & Ragab, 2014), while a lack of expertise can prolong them.

The Effect of Audit Committee Meeting on Audit Report Lag

A significant negative relationship between audit committee meeting frequency (ACM) and audit report lag (ARL) ($\beta=-0.936$, $p=0.000$), indicating that more frequent meetings lead to more prompt report issuance. Consistent with agency theory (Jensen & Meckling, 1976), active monitoring via frequent meetings helps resolve complex issues, address disagreements, and track audit progress (Vafeas, 1999), ultimately speeding up reporting. This aligns with prior research on improved audit quality and reporting timeliness (Sultana et al., 2015; Haji, 2014). Frequent meetings also reduce reporting lag, earnings management, and enhance disclosures (Menon & Williams, 1994; Abbott et al., 2004), facilitating timely interventions and preventing audit delays through better auditor-committee communication (Karamanou & Vafeas, 2005).

The Effect of Sharia Supervisory Board Size

The analysis revealed no significant relationship between Shariah Supervisory Board (SSB) size and audit report lag (ARL) ($\beta=2.530$, $p=0.512$). This non-significance is partly due to limited variability in SSB size within our sample (mean: 2.34; range: 1-4), hindering the detection of any systematic effect. While agency theory (Jensen & Meckling, 1976) suggests larger monitoring bodies should enhance oversight, leading to faster

reporting, its application in Sharia governance implies that effectiveness hinges on expertise, engagement, and authority, not just size. Prior research also found no significant impact of SSB size on financial reporting timeliness (Alfraih, 2017; Mollah & Zaman, 2015), emphasizing that factors like financial expertise, independence, and diligence are more critical. Studies suggest that the quality, not quantity, of Sharia supervision determines its effectiveness (Garas, 2012; Farook et al., 2011). Larger boards might also face coordination challenges, and merely expanding the board without ensuring members' financial or auditing expertise may add little value (Hasan & Alam, 2009; Bukhari et al., 2020).

The Effect of Sharia Supervisory Board Meetings on Audit Report Lag

The analysis found no significant relationship between Shariah Supervisory Board (SSB) meeting frequency (SSM) and audit report lag (ARL) ($\beta=0.323$, $p=0.202$). Although SSM showed variability (mean: 16.50, SD: 8.946), this did not translate to a systematic linear effect on ARL. This suggests that the relationship may be non-linear, influenced by unmodeled factors, or contingent on other variables. Consistent with agency theory, effective information flow, not just meeting frequency, is crucial for reducing agency costs (Jacobides & Croson, 2001). Prior research corroborates that Sharia board meeting frequency doesn't consistently improve reporting or audit efficiency (Mollah et al., 2017; Farook et al., 2011). Instead, the effectiveness of monitoring is driven by the content, expertise, and engagement within these meetings.

Studies in Islamic corporate governance emphasize that meeting quality, independence, and competency are more critical than frequency for better financial outcomes and oversight (Grais & Pellegrini, 2006; Bukhari et al., 2020). Boards lacking technical competence, despite frequent meetings, may still fail to enhance audit efficiency (Almutairi & Quttainah, 2019). Similarly, symbolic meetings for regulatory compliance offer little governance benefit (Abdullah et al., 2012). Thus, substantive SSB engagement is paramount for influencing audit timeliness.

CONCLUSION

The regression analysis provided the following conclusions:

1. Audit Committee Size (ACS): Researcher found a marginally significant negative relationship between ACS and ARL ($\beta=-12.645$, $p=0.050$). While indicating a weak tendency for larger committees to lead to slightly shorter lags, the marginal significance suggests its effect isn't strongly supported in this study.
2. Audit Committee Expertise (ACE): There was a significant negative relationship between ACE and ARL ($\beta=-25.896$, $p=0.007$). This indicates that companies with more expert audit committees tend to have significantly shorter audit report lags, highlighting the important role of expertise in timely reporting.
3. Audit Committee Meeting Frequency (ACM): ACM showed a significant negative relationship with ARL ($\beta=-0.936, p=0.000$). This implies that more frequent audit committee meetings lead to shorter audit report lags, underscoring the importance of active committee monitoring for timely financial reporting.
4. Shariah Supervisory Board Size (SSS): No significant relationship was found between SSS and ARL ($\beta=2.530, p=0.512$), suggesting the number of SSB members does not significantly influence audit report timeliness.
5. Shariah Supervisory Board Meeting Frequency (SSM): Similarly, SSM did not exhibit a significant relationship with ARL ($\beta=0.323, p=0.202$), indicating that the frequency of SSB meetings is not a significant determinant of audit report lag.

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