

Going Concern: A Note of Audit Committee and Independent Commissioners

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Abstract

This research aims to analyze the role of audit committee (AC) and independent commissioners (ICs) in relation to companies' going concern opinion. Based on the Indonesian GCG rules, one of its duties is to maintain company's long term going concern. However, prior studies show that the existences of AC and ICs have no influence on the performance of their companies. As such, this study analyzed four companies with going concern opinion, two of them received the opinion from their external auditors (Berlian and SLJ) and the other two should be given going concern opinion based on their Z score (Panasia and Bentoel). The role of AC members and ICs was analyzed from their educational background, experience, and independency. The data of this study were collected from the four companies' annual reports from 2012 to 2014, commissioner reports, websites, and social media. The results show that the role of AC and ICs has not yet been optimal as required by the rules. It suggested that future studies to conduct in-depth interview with related parties and to explore the role of AC and ICs in other companies.

Keywords: audit committee, independent commissioners, educational background, experience, independency

Introduction

The Indonesian good corporate governance (GCG) rules require all public companies in Indonesia to have an audit committee (AC, hereafter) and independent commissioners (ICs, hereafter). Their duty is to monitor the performance of the companies in order to produce the information which fulfills the CG principles (transparency, accountability, responsibility, independency, and fairness) for their stakeholders. The related rules are Rule Number 40 Year 2007, Rule of Financial Service Authority Number 33 Year 2014, Rule of Indonesian Stock Exchange (2014), General Rules of GCG (2006), and Indonesian GCG Roadmap (2014).

ICs are members of board who have tasks to monitor and give advises to the board. As members of board who do not affiliated with other members of board, ICs should be free from any interests which can influence their independency. ICs are members of Commissioner Board who are not parts of entity and have a qualification as independent commissioners (Rule of Financial Service Authority No 33 Year 2014). ICs should not have any relationships with the company directly or indirectly. ICs have to monitor and evaluate the performance of management and have an important role to produce a qualified financial statement. ICs also have a responsibility to evaluate the human resources management in order to maintain long term going concern (General Rules of GCG, 2006). Beasley (1996) said that the existence of outside board could increase the effectiveness to monitor the management and to prevent financial statement fraud. The qualified ICs should monitor and evaluate all management decisions in order to achieve the company's goals.

Meanwhile, AC is a committee formed by ICs to help them doing their tasks. AC has to be independent. One of the main reasons for this independence is to maintain objective integrity and perspective of the report and the preparation of recommendations proposed by the audit committee,

since independent individuals tend to be more impartial and objective in dealing with a problem (FCGI, 2002). The responsibilities of the audit committee cover three areas, namely, financial reporting, corporate governance, and corporate control (Surya & Yustiavandana, 2006). According to Routledge (2012), AC has an important role to maintain the quality and the independency of external auditors. The effective audit process will detect going concern problems. The existence of AC will enhance the monitoring of managerial performance, so the company can achieve its goals and can be avoided from going concern problem.

However, previous research found conflicting evidence. Prior research failed to find evidence that the existence of ICs and AC influences going concern opinion (Ema, 2012; Nurpratiwi & Shiddiq, 2014; Sherly & Jumiati, 2015; Sukrapratiwi & Made, 2015; Zureigat, 2014). One common thing among the research is the use of quantitative approach which has a limitation of inability to deeply explore the focus of the research. Indira (2009) stated that previous studies of ICs measured by the number or proportion of ICs were not able to describe their performances well. To overcome the limitation and also to get better understanding on AC and ICs in the companies, this research used a qualitative method to analyze the role of AC and ICs related to going concern problem. The role of AC and ICs will be analyzed based on their members' proficiencies. Indeed, competence members of AC and IC will be able to carry out their tasks as stated in GCG rules. The proficiency is measured by their educational backgrounds, experiences, and independency, compared to the related rules about GCG, including social relationship. Bruynseels (2014) found that social relationship (friendship) decreases the quality of monitoring and independency.

Some of the requirements of the audit committee members in accordance with the rule of the Indonesian Security and Exchange Commission (*Badan Pengawas Pasar Modal*—BAPEPAM) and Corporate Governance Guidelines 2006 are as follows. (1) The obligation to have the charter of the Audit Committee and its posting on the Issuer or Public Company website. (2) Have adequate knowledge about the laws and regulations in the capital market and other laws and regulations. (3) Implementation of audit committee meetings on a scale at least once in three months. (4) Have a high integrity, ability, knowledge and experience adequate in accordance with educational background, and able to communicate well. (5) One of the members of the audit committee has an accounting or financial education background. (6) Have sufficient knowledge to read and understand financial statements.

Furthermore, the requirements for independency are as follows. (1) It is not the person who has the authority and responsibility to plan, lead, or control the company's activities within the last six months. (2) Do not own any shares either directly or indirectly to the company. (3) Has no family relationship due to marriage and descent to second degree, either horizontally or vertically with commissioners, directors or major shareholders of the company. (4) Has no business relationship either directly or indirectly related to the company's business activities. (5) The term of the member of the audit committee shall not exceed the term of the board of commissioners and may be re-elected only for one subsequent period.

According to the Corporate Governance Roadmap of Indonesia (2014), ICs play an important role in the interests of management, companies, shareholders, as well as in decision-making on corporate action. In line with the Rules of the Board of Directors (BOD) of the Indonesian Stock Exchange (IDX) No. SE0001/BEI/02-2014, the time duration of ICs is maximum two assigned periods. In determining the independence of the commissioners, some countries have detailed criteria of independence. In Indonesia, the Independent Commissioner as a member of the board of commissioners who comes from the outside of the company must meet certain criteria. The criteria that must be met by an independent commissioner are as follows. (1) He is not a person who works or has the authority and responsibility to plan to lead or control, or supervise the activities of company within the last six months, except for reappointment in the next period. (2) Not owning shares directly or indirectly in the company. (3) Has no affiliation with the issuer or public company, member of the board of

commissioners, members of the board of directors or major shareholder of the company. (4) Has no business relationship either directly or indirectly related to the business activities of the company.

Based on above explanation, this study chose companies with going concern problem as the focus of the study. They were two companies with going concern opinions in 2012-2014 i.e. PT Berlian Laju Tanker Tbk. (a shipping company) and PT SLJ Global Tbk. (a forestry and timber company). As the comparison, this study also analyzed companies that should be given going concern opinion in the same periods based on their Z score, i.e. PT Panasia Indo Resources Tbk. (a textile company) and PT Bentoel Internasional Investama Tbk. (a tobacco company). In order to get data and information about the proficiency of AC and ICs, this study utilized many resources such as annual reports and social media.

The research question of this study is: **Do the AC members and ICs play a role as required by the rules?** We hope this research will be a preliminary study about GCG, and the results will be useful to further explore and to conduct studies on GCG in Indonesia.

Information has become increasingly important in the current digital era. It is easier for public to access information on various aspects of companies, including the background of the members of AC and ICs. Thus, it is expected that the results of this study will offer more understanding about which group has more proficient AC members and ICs and the role of corporate governance mechanism in Indonesia.

The remainder of this paper is organized as follows. The next section presents the research methods and is followed by results and discussion. The final section concludes the paper and offer some suggestions.

Methods

This study uses a qualitative descriptive approach. This study focuses the analysis on companies with going concern opinions in 2012-2014 (PT Berlian Laju Tanker Tbk. and PT SLJ Global Tbk.) and companies that should receive going concern opinions based on the calculation of their Z-score (PT Panasia Indo Resources Tbk. and PT Bentoel Internasional Investama Tbk.).

This study was conducted by undertaken several steps, as follows:

1. Data collection
The data needed for this study was information about educational background, experiences, and independency of AC members and ICs from four companies. The data were collected from annual reports (2012-2014), commissioner reports, websites, and social media.
2. Data reduction
The collected data then summarized in the worksheet to get the description about AC members and ICs.
3. Data analysis
The data were analyzed and compared to related GCG rules about the requirements of AC members and ICs. After that, the results were interpreted and concluded.

Based on GCG rules, the requirements for educational background and experiences that have to be fulfilled for AC are:

1. Has a AC charter and publishes it in the company's website;
2. Understands and obeys the rules about capital market and other related rules;
3. Hold a meeting routinely at least once three months; and
4. Has an experience as a public accountant/ auditor, controller, CEO, or other similar positions related to internal control;
5. One of AC has accounting or finance background; and
6. Has enough knowledge to read and understand the financial statement.

Whereas, the requirements for educational background and experiences that have to be fulfilled for ICs are:

1. Have to be competent and have integrity to monitor the management and give advises for commissioner board.
2. Do not use the company for personal, family, or business interests
3. Understand and obey the rules related to their responsibility
4. Understand and implement GCG rules
5. One of ICs has accounting or finance background
6. The composition of ICs can make the decision effectively
7. Understand about the activities and business processes of the company

The requirement for independency both for ICs and AC are:

1. Do not work or has an authority and responsibility to plan, lead or control, or monitor the company's activities in last six months, unless for reappointment in next periods
2. Do not have company's shares directly or indirectly
3. Do not have an affiliation relationship with the company as a member of BOD or shareholder
4. Do not have a personal or social relationship with BOD
5. Do not have a business relationship directly or indirectly with the company
6. Length of position as IC maximum two periods respectively

Results and Discussion

The Proficiency of AC members

Although this study able to collect much information about AC members than ICs, this study unable to find information about educational background of AC members and their personal/social relationships with the Board of Director (BOD). During the observation periods of 2012-2014, in general, the AC of Berlian and Panasia (which both have six members) is less qualified than SLJ and Bentoel (which have three and one members, respectively).

Companies with going concern opinion (Berlian and SLJ)

The data analysis shows that the AC of Berlian is less qualified than those of SLJ. Berlian does not have an AC charter and its AC do not understand and obey the rules about capital market and other related rules. There are some members of Berlian's AC who do not attend meetings routinely. Meanwhile, the members of SLJ's AC fulfill all the requirements related to educational background and experiences.

From independency point of view, the AC of Berlian possess a comparable level of independency as SLJ. They did not hold any authority in that company before they were appointed as an AC member. They did not have company's share directly or indirectly. They also did not have business relationship, but had personal/social relationship with BOD, and held the position longer than the assigned period.

Companies which should get going concern opinion (Panasia and Bentoel)

The data analysis shows that the AC members of Panasia are relatively less qualified than those of Bentoel. Panasia does not have an AC charter and its AC do not understand obey the rules about capital market and other related rules. Some members of Panasia's AC do not have experiences related to internal control which is a main area of AC's task. Meanwhile, the members of Bentoel's AC fulfill all the requirements with regards to educational background and experiences.

From independency point of view, the AC of Panasia has a comparable level of independency as that of Bentoel. The AC of both companies do not have business relationship with BOD. There are members of Panasia's AC who have an authority in the company prior they appointment as the AC members. There is an AC member of Panasia, in particular, who is also the company's shareholder. The analysis results also indicate that there is an AC member of Bentoel who is a friend of BOD. Further, there is an AC member of both companies who held the position longer than the assigned period.

The comparison of those two company groups showed that companies that should be given going concern opinion has breached relatively more rules than companies with going concern opinion. It means the AC of companies with going concern opinion (Berlian and SLJ) is more qualified than those of companies which should be given going concern opinion (Panasia and Bentoel). The findings raised a big question, why Berlian and SLJ have going concern problems meanwhile they have qualified AC members? The next question is how AC of Panasia and Bentoel prevent their external auditor to find out about their going concern problems?

The first question can only be answered by conducting an in-depth interview with the companies' top management and auditors, which is suggested to be conducted by future research. The answer for the second question is revealed by the information that one of AC members of Bentoel used to be an auditor at Price Waterhouse Coopers (PWC) which was the external auditor of Bentoel for three years (2011-2013). As stated in GCG rules, one of the AC tasks is to choose the external auditor for company. This responsibility can threaten the AC's independence in certain situation where there is social ties such as friendship between AC and external auditors. The situation is evidenced in Bentoel and is, most likely, the reason why the company do not receive going concern opinion. The findings consistent with Bruynseels (2014) which found that social relationship could reduce AC's independence.

The Proficiency of ICs

The limitation on available information about ICs is the main constraint to do an in-depth analysis. This obstacle has also been reported by Choi (2011:86) that the availability of the company's special information is very low in the developing countries. During the observation periods (2012-2014), in general, Berlian show tendency towards secrecy publishing information related to its company, compared to the other three companies in this study. This study also finds no information about power use and GCG training in the four companies.

Companies with going concern opinion (Berlian and SLJ)

As mentioned earlier, Berlian tends to be secretive in publishing information. This study finds no information about educational background of its ICs. Meanwhile, SLJ has ICs who have law and accounting/finance background. Berlian and SLJ comply to the requirement of ICs composition (at least 30% of total member of Board of Commissioner). None of Berlian's and SLJ's ICs have required experience to be the members of IC.

From independency point of view, the ICs of Berlian are relatively more independent than SLJ. Berlian fulfill the requirements of independency such as do not have company's shares, do not have affiliation/social/business relationship with the company, and obeyed the rule about length of position as IC that is maximum two periods respectively. Otherwise, SLJ' ICs do not obey the rule on length of assignment, it has an IC member who held the position more than two assigned periods. Both Berlian and SLJ have ICs members who have personal/social relationship with BOD and do not have business relationship directly or indirectly with the companies.

Companies which should get going concern opinion (Panasia and Bentoel)

Comparing the quantity of ICs members, Panasia have less IC members than Bentoel. Bentoel have one IC while Panasia have three ICs. With regards to the ICs educational background and experience, Panasia have IC members with comparable level of proficiency as those of Bentoel. Panasia's ICs do not have law background, while those of Bentoel do. Bentoel has an IC who has experience related to the activities and business processes of their respective company, while it is not the case in Panasia's IC. However, both companies have ICs with accounting/finance background. Although all ICs of these companies have related educational background as stated in GCG rules, they do not have any experience related to the activities and business processes of their respective companies, except James Richard Suttie from Bentoel.

From independency point of view, Panasia's IC is relatively less independent than that of Bentoel. The IC of Panasia held a position the company before his appointment as an IC member, while it is not the case in Bentoel' IC. Both companies have ICs who are alumnus of a university as the BOD, although they do not have direct or indirect business relationship with the companies' BOD. Both companies also have ICs who held the position longer than the assigned period.

The comparison of those two company groups showed that companies which should have going concern opinion breach relatively more rules than companies with going concern opinion. It means the ICs of companies with going concern opinion (Berlian and SLJ) are more qualified than those of companies which should have got going concern opinion (Panasia and Bentoel). The results strengthen the result of AC's proficiency and raise similar questions as the AC case.

The first question is why Berlian and SLJ have going concern opinion meanwhile they have qualified ICs. This question can only be answered by conducting further research. The second question is how AC of Panasia and Bentoel prevent their auditors from finding out about their going concern problems? The answer is the fact that IC is not as independent as its name. There is indication of threats of independence in IC of Panasia and Bentoel. Their ICs have social relationships with the companies' BOD, both affiliation and business relationship. The threats may lead to the emphasis on the formal existence of ICs but not in substance, in contrast to the spirit of the GCG rules. The findings are consistent with Ravyanda (2014) that show companies in Indonesia have not yet exploit the role of ICs; they just fulfill the rule which states that a public company must have IC of 30% total board of commissioners.

Conclusions

Based on the analysis in the previous section, this study shows that AC and ICs of companies with going concern opinion are more qualified than those of companies which should have received going concern opinion. The results show that AC and ICs have not play the monitoring role in the companies as required by GCG and other related rules.

The results of this study should be considered by taking into account some limitations, as follows:

1. There are many items that could not be analyzed because we could not find any information about them. It is suggested that future studies explore these items by using in-depth interview with related parties, such as BOD, ICs, and AC members;
2. This study has not explored why AC and ICs have not been able to play the role as required by the rules. It is suggested that future studies to explore this topic; and
3. This study only compared the proficiency of ICs and AC of four companies and has not yet explored the phenomenon in other companies. It is suggested that future studies explore the role of AC and ICs in other companies to offer better understanding about GCG implementation in Indonesia.

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