# Agency Cost, Audit Committee Size and Gender Diversity on financial Reporting Timeliness

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***Abstract.*** *This study aims to explore on the effect of agency cost, audit committee size, gender diversity on financial reporting timeliness. Reporting timeliness plays a crucial part in making decisions. The credibility of financial statements is shown on its timeliness. The impact of audit fee, audit committee size, auditor gender, and Chief Financial Officer (CFO) gender on the promptness of financial reporting among Indonesia Stock Exchange-listed companies is investigated in this study. This study uses a quantitative approach to evaluate the association between these variables and the speed of financial statement disclosure using data gathered from 140 publicly traded companies. The findings show that financial reporting timeliness is significantly improved by both agency cost and audit committee size, indicating that larger audit committees and greater audit investment lead to more effective financial reporting procedures. However, there is no discernible effect of the auditor's and CFO's gender—specifically, their male gender—on the promptness of reporting. The main elements that can improve the accountability and transparency of financial reporting timeliness in developing markets like Indonesia are highlighted in these results for regulators, investors, and corporate governance organizations.*

***Keywords: Timeliness of audit report, agency cost, audit committee size, gender diversity***

## INTRODUCTION

### Background

Audited financial statements must be reported within the given time allowed by the government. Time is the essence of every events or transactions. Both scholars and industry professionals have expressed interest in the timeliness of financial accounting information (Dao, 2014). One of the primary factors influencing the quality of financial reporting that improves the caliber of decision-making is timely reporting (Hassan, 2016). Timely reporting will enhance decision making and reduce information asymmetry in these markets. The promptness of the annual audit is one of the most significant elements that influences the timeliness of information disclosures (Afify, 2009).

Timely and regular financial reporting aids in forecasting, budgeting, and strategic planning. In the end, preserving timeliness in financial reporting is essential to building a company's long-term stability, transparency, and trust. In Indonesia, based on 14/POJK.04/2022, annual financial report must be submitted to the Financial Services Authority or *Otoritas Jasa Keuangan* (OJK) and announced to the public no later than the end of the third month after the date annual financial report. The timeliness of financial accounting information release may influence the level of uncertainty in decision making (Dao, 2014). Delays in audits can result in postponed earnings releases, less informative earnings, and a weaker reaction from the market (Dao & Pham, 2014). The information generated in the financial statements will no longer be able to influence user decisions due to unintentional delays in their distribution Praditya dan Fitriany, 2013).

The cost of an audit (known as agency cost) can affect how soon financial statements are completed and made available, hence audit fees have a big influence on how timely financial reporting is. More complicated audits, which may need more time and resources to assure accuracy and completeness, are frequently associated with higher audit prices. By examining the financial accounts, the audit fee acts as a watchdog on the management's actions on behalf of the principal (Simanjuntak & Sinaga, 2021). The audit fee serves as an example of the relationship between audit fees and client relationships. Auditing fees are the most influential factors that impact on performance and audit quality. (Hai & Nang, 2019). The audit fee is the total amount that a business pays auditors for their services, including the audit fee that is given to the auditor. Financial report preparation may be delayed as a result, especially for larger firms or those with complex financial arrangements.

The ability and effectiveness of an audit committee to supervise the financial reporting process are impacted by its size, which can have a substantial impact on the timeliness of financial reporting. An overly big audit committee, however, would find it difficult to coordinate its activities, which could cause delays in financial reporting and slower decision-making. The secret to maximizing timeliness is to balance the audit committee's size to guarantee both adequate experience and efficient communication. A smaller audit committee, on the other hand, can have issues with specialization and job distribution, which could hinder its capacity to promptly and comprehensively monitor the financial reporting process. Smaller committees may be quicker and more nimble in their decision-making (Wu et al., 2012), but they might not have the resources needed to effectively manage intricate financial matters.

The possible influence of gender diversity on the timeliness of financial reporting has come to light more and more in the corporate governance structure. Companies with a strong commitment to diversity and inclusivity, where different points of view are respected and actively sought, may have a greater impact of gender on timeliness. In the end, gender diversity should be viewed as one of several elements that affect the overall effectiveness of the financial reporting process, even though it can help with timeliness. Audit firms have important and pressing obligations to improve the current state of affairs by helping women overcome obstacles in their careers, electing women, and providing them with opportunities to advance into senior positions (Hao et al., 2022). The findings offer solid and consistent evidence that the quality of audit services is positively impacted by female auditors (Garcia-Blandon et al., 2019). On the contrary, auditors are comprised mostly by men.

Further, the presence of female CFOs attenuate the audit fees and report lag increases in the post-adoption periods (Hao et al., 2022). There is a claim that having female board members raises the standard of business decision-making and improves company results (Lefley et al., 2022). Female, when compared to male, showed an extraordinary characteristic that made their performance better than male's performance. Some studies revealed that male CFOs are more likely than female CFOs to manipulate results. Compared to their male count The findings offer solid and consistent evidence that the quality of audit services is positively impacted by female auditors (Garcia-Blandon et al., 2019). erparts, female CFOs report financial information more conservatively and participate in less earnings management (Liu et al., 2016). Companies with female CFOs are less likely than those with male CFOs to engage in financial misreporting; these gender disparities are more pronounced when major stakeholders are not closely watching the company (Chakrabarty et al., 2017).

This research focuses on the timeliness of financial reporting of which it is affected by agency cost, audit committee size and gender diversity.

### Research Question

Based on the above statements, it showed that the issue lies on the timeliness in reporting the audited financial statements. Timeliness matter in every aspect of decision making, thus, the research questions are as follows:

1. Does agency cost affects financial reporting timeliness?
2. Does audit committee affects financial reporting timeliness?
3. Does gender diversity (auditor) affect financial reporting timeliness?
4. Does gender diversity (CFO) affect financial reporting timeliness?

## LITERATURE REVIEW

### Theoretical Framework and Hypothesis Development

### Theoretical Framework

The fundamental distinction between stewardship and agency theory is the model that underpins the definition of human nature. However, according to agency theory, agents are humans with economic rationality who want to maximize their own interests (Jensen & Meckling, 1976.) Agency theory supports the need of an auditor to do an audit to all companies in order to attest that the recorded transactions are in accordance to the established criteria. The connection between proprietors (owners or shareholders) and agents (managers or auditors), wherein the principals assign decision-making authority to agents, is examined by agency theory in the context of auditing. Since agents may behave more in their own self-interest than in the best interests of the principals, the theory emphasizes the possibility of conflicts of interest. This conflict may arise in auditing if auditors, in their capacity as agents, are under pressure from management or other stakeholders to offer impartial and accurate evaluations of financial accounts. According to stewardship theory, there are instances where managers are stewards whose motivations coincide with those of their bosses rather than being driven by personal ambitions (Davis et al., 2018). Stewardship theory's theoretical contribution has not been sufficiently proven due to its recent inception (Kaplan, 2009). According to stewardship theory, auditors can rely on management to perform responsibly in the context of auditing in order to maximize long-term value for shareholders. According to this viewpoint, audits ought to concentrate on confirming the integrity and correctness of financial reporting, presuming that management are dedicated to openness and moral conduct. But even under stewardship theory (Linsley & Shrives, 2006), auditors continue to play a critical role in making sure that management's activities align with shareholder expectations, which strengthens financial reporting's accountability and dependability.

In this study the, it focuses on the timeliness of audit report. The period between a company's fiscal year-end and the audit report date is known as audit report lag (ARL), and it is frequently thought of as the most significant factor influencing financial reporting timeliness (Abernathy et al., 2017; Nelson & Shukeri, 2011; Ika & Mohd Ghazali, 2012). The number of days between the year-end and the audit report date is a popular way to gauge how timely an audit report is; this is often referred to as audit report lag. Since it has been shown that the timeliness of audit reports greatly affects the timeliness of financial reporting, regulators and policymakers are now very interested in determining what factors might affect the timeliness of audit reports (Nelson & Shukeri, 2011).

The time between a company's fiscal year-end date and the audit report date is known as the audit report lag (ARL) (Viani et al., 2022); (Guizani & Abdalkrim, 2021);(Hao et al., 2021); (Ariyanti et al., 2022). The more quickly the ARL releases audited financial statements, the more valuable and advantageous these disclosures are for users. Timely audited financial information improves pricing of securities (Hassan, 2016). According to (McGee & Yuan, 2012), companies that release their annual reports on January 1st are in a timely manner, but there is a possibility that some of the information may not be as complete or accurate as it would be if the company had taken more time to prepare the statements and released them a few weeks or months later. The shorter the audit report lag period, the shorter the time required to submit an audited annual financial report (Sari et al., 2019). Because it influences the timeliness of financial statements, which provide investors with financial information, the timeliness of audit reports is regarded as crucial (Jaggi & Tsui, 1999). Additionally, timely financial statement submission will reduce the likelihood of agency issues (Juwita et al., 2020).

Agency cost in this study is represented by audit fee. The total amount of money paid to the auditor for completing an audit procedure is known as the audit fee. The audit fees are affected by a number of things. (Kanakriyah, 2020). The term "audit fee" refers to all costs that a business pays the auditor for the services they deliver (Prabhawa & Nasih, 2021). Audit firms, in particular, usually set the audit price in the first year lower than the real cost that the business pays in order to profit more from the contract's implementation later on pays (Hai & Nang, 2019). The audit delay has an impact on the audit fee paid to the auditor. These are the factors that affect the audit fee amount. (Hai & Nang, 2019). (Simunic, 1980) defined audit pricing theory as a method for determining the cost of an audit (audit fees). It is the audit charge paid to the auditor in exchange for their services (Prabhawa & Nasih, 2021). On the other hand, a reduced audit price can incentivize auditors to take shortcuts, which could jeopardize the audit's quality and, consequently, the financial reporting process's timeliness.

Audit committee size usually impacts the decision to make. Audit committee would have more hands to deal with, a large audit committee would have greater control and supervision functions, which would result in higher audit quality (Asiriuwa et al., 2018). The audit committee is in charge of monitoring the financial reporting procedure and communicating with auditors in order to identify and address any possible issues pertaining to financial reporting.(Chalu, 2021). In Governance Manual, each company must have three (3), at least, audit committee members. For an audit committee to be effective, it needs a sufficient number of members (DeZoort, F.T., Hermanson, D. R., Archambeault, D.S. and Reed, 2002). The sufficient number of the audit committee is decided by the company itself.

Gender diversity talks about the equal representation of people of different genders. In general, there is an impression that male is better that female. In reality, both have its own characteristics which make them outperform the work of one another. Based on the research of (Mathuva et al., 2019), female have better attributes that male. The results provide sound and consistent support for a positive female auditor effect on the quality of audit services. Although our figures suggest that men and women tend to audit different types of clients, the results are not driven by these differences (Garcia-Blandon et al., 2019). According to the study's findings, AC female chairmen' accounting knowledge improves financial reporting quality more than that of their male colleagues. Additionally, the accounting knowledge of AC female chairperson enhances internal control and corporate governance frameworks. The study's most significant and convincing finding is that the auditor's gender has a significant influence on the caliber of financial reporting. The results of this study indicate that having women on the audit committee who are knowledgeable about accounting improves the caliber of financial reports. (Shujah-ur-Rahman et al., 2024)

**Hypothesis Development**

*Agency cost on financial reporting timeliness*

Agency cost (as represented by audit fee) is being paid to the external auditor in every audit engagement. Higher audit fees may indicate the auditor's assessment of a client's business risk, resulting in higher compensation.(B. Li & Ma, 2020). All expenses incurred in providing this service, including a competitive return to audit firm equity investors, should be covered by the fees the auditor charges (Kim Duong et al., 2022). Audit fee is impacted by longer audit days(Abernathy et al., 2017). However, (Naser & Hassan, 2016) revealed that audit fees are not significantly associated financial reporting timeliness (audit report lag). The ARL is found to be shorter in large companies, when profit figures are positive, in financial service companies, and when the audit firms are large (Maltese Companies) (Baldacchino et al., 2016). With all the statements mentioned, the hypothesis developed is as follows:

*$H_1$: Agency cost affects financial reporting timeliness*

*Audit committee size on financial reporting timeliness*

Audit committee plays an important role in choosing external auditors. Audit committee scrutinizes independent auditors to be hired by certain company or organizations. Audit report timeliness is influenced by audit committee size (Nelson & Shukeri, 2011).. However, audit committee size (ACS) is not significantly related to the timeliness of financial reports (Cna, 2013). Audit committee size were found to have a positive influence on audit report lag (Chalu, 2021). ARL will decrease as audit committee size increases, seems to be supported by the majority of research, despite conflicting findings regarding the relationship between audit committee size and ARL (DeZoort, F.T., Hermanson, D. R., Archambeault, D.S. and Reed, 2002). Numerous studies indicate that larger audit committees are associated with improved timeliness. This is consistent with resource dependence theory since it is expected that a large audit committee will include individuals with a variety of skills and qualities (Sultana et al., 2015). However, the study made by (Lajmi & Yab, 2022) showed that no evidence that the audit committee is associated with the audit report lag. With all the statements mentioned, the hypothesis developed is as follows:

*$H_2$: Audit committee size affects financial reporting timeliness.*

*Auditor gender on financial reporting timeliness*

The results showed that better financial reporting quality is associated with a larger percentage of women on boards. It's interesting to note that having a woman chair the board—a "voice" effect—can still improve reporting quality in organizations with insufficient female board members (Dobija et al., 2022). Female chair enhances FRQ better than their male counterparts. (Ud Din et al., 2021). (Oradi & E-Vahdati, 2021)It is projected that female financial specialists will demand more effective internal controls since they are better monitors (Abbasi et al., 2020; Zalata et al., 2018). With all the statements mentioned, the hypothesis developed is as follows:

*$H_{3a}$: Gender diversity (auditor) affects financial reporting timeliness.*

*Chief financial officer (CFO) gender on financial reporting timeliness*

It was discovered that the audit fees and report latency increases in the post-adoption periods are mitigated by the presence of female CFOs (Hao et al., 2022). CFO financial expertise are reported to be associated with timely audit reports. Supplementary tests also confirmed this result. In addition, it is suggested and documented that there is an interaction effect between financial expertise concerning the timeliness of audit reports (Baatwah et al., 2015). Female executives possess better transformational leadership qualities than their male counterparts. When governance is inadequate, the misreporting of companies with male CFOs will be more different from that of companies with female CFOs. Financial statement irregularities are less likely to occur in companies with female CFOs than in those with male CFOs.(Chakrabarty et al., 2017). Female CFOs are linked to more timely forward-looking provisioning than their male counterparts, indicating that they adhere to more open financial reporting guidelines. By demonstrating that banks going through a man-followed-by-woman CFO transfer saw a considerable improvement in the timeliness of reporting. With all the statements mentioned, the hypothesis developed is as follows:

*$H_{3b}$: Gender diversity (CFO) affects financial reporting timeliness.*

## RESEARCH METHODS

The data in this study were gathered from Indonesia Stock Exchange website from 2016 to 2022. This study focuses on examining all State-Owned Enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX) over the period from 2016 to 2022. According to information obtained from the official IDX website, there are 20 state-owned companies listed during this timeframe. By observing these 20 companies over the seven-year period, the research comprises a total of 140 firm-year observations for analysis. The data utilized in this research are secondary in nature and consist of annual reports that include the companies' financial statements. These reports were collected from the official IDX website at www.idx.co.id, ensuring the authenticity and reliability of the data sources. The use of secondary data, such as audited annual reports, provides standardized and comprehensive information about the firms' financial performance and corporate activities, which is crucial for empirical analysis

## RESULTS AND DISCUSSION

*Descriptive Statistics*

There were 140 observations gathered, tabulated, and interpreted. See Table 1 for its description:

Table 1 – Descriptive Statistics

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| FRTL | 140 | 65.69286 | 32.87012 | 15 | 196 |
| AF | 140 | 21.82877 | 1.249594 | 19.5391 | 24.98015 |
| ACSZ | 140 | 4.328571 | 1.294387 | 3 | 8 |
| AUGEN | 140 | .0428571 | .2032622 | 0 | 1 |
| CFOGEN | 140 | .1214286 | .3277975 | 0 | 1 |

The Table 1 above is the descriptive statistics for the variables provide a clear overview of the dataset, offering insights into the distribution and range of values. For the financial reporting timeliness (FRTL) variable, there are 140 observations, with a mean value of 65.69 and a standard deviation of 32.87. This suggests a moderate level of variability in financial reporting timeliness, with values ranging from a minimum of 15 to a maximum of 196. The wide range indicates that some firms are able to report their financials much quicker than others. The ACSZ variable, which likely represents some form of company size or specific attribute, has a mean of 4.33, with a standard deviation of 1.29, suggesting moderate variability. The minimum value for ACSZ is 3, while the maximum is 8, indicating that the firms in the dataset are relatively similar in terms of this particular variable. The AF variable, possibly referring to an important financial factor, has a mean of 21.83 with a standard deviation of 1.25. This shows that the firms in the sample are fairly consistent in their values for this variable, with the range from 19.54 to 24.98 being quite narrow. The AUGEN and CFOGEN variables are binary, with values of 0 and 1. The mean for AUGEN is 0.04, with a standard deviation of 0.20, suggesting that the majority of firms have a value close to 0, with very few having a value of 1. Similarly, CFOGEN has a mean of 0.12 and a standard deviation of 0.33, indicating that most firms in the sample have a value of 0, while only a smaller portion have a value of 1. Both binary variables show limited variation across the firms in the dataset.

*Agency Cost Fee on Financial Reporting Timeliness*

This part discusses the regression of agency on financial reporting timeliness with controlling variables auditor's gender and CFO's gender.

Table 2 – Regression Analysis of Agency Cost on Financial Reporting Timeliness

| | (1)<br>FRTL | (2)<br>FRTL |
|---|---|---|
| Constanta | -214.9$^{*}$ | -249.3$^{*}$ |
| | (-2.01) | (-2.30) |
| AF | 13.77$^{**}$ | 15.42$^{**}$ |
| | (2.68) | (2.97) |
| AUGEN | | -21.17 |
| | | (-1.88) |
| CFOGEN | | -10.49 |
| | | (-1.43) |
| Firm FE | Yes | Yes |
| N | 140 | 140 |
| Adj. R Square | 0.46 | 0.48 |

*t* statistics in parentheses

$^{*}$ $p < 0.05$, $^{**}$ $p < 0.01$, $^{***}$ $p < 0.001$

Table 2 above shows the regression results indicate several important relationships between the variables and financial reporting timeliness (FRTL). The constant (Constanta) shows a negative association with FRTL in both models, with coefficients of -214.9 and -249.3, which are statistically significant at the 0.05 level (indicated by *). This suggests that as the constant variable increases, the timeliness of financial reporting decreases. The negative coefficients, coupled with the t-statistics of -2.01 and -2.30, reinforce the significance of this finding. Additionally, the variable AF (likely representing a financial factor) has a positive and statistically significant effect on financial reporting timeliness, with coefficients of 13.77 and 15.42, both significant at the 0.01 level (indicated by **). These results suggest that higher values of AF lead to more timely financial reporting, which is supported by the t-statistics of 2.68 and 2.97.

In contrast, the variables AUGEN and CFOGEN show negative coefficients of -21.17 and -10.49, respectively, but neither of these results is statistically significant, as reflected by the absence of asterisks. This indicates that these factors do not have a meaningful impact on the timeliness of financial reporting. The models include firm fixed effects (Firm FE), which help control for unobserved heterogeneity across firms, ensuring that the relationships observed are not influenced by firm-specific characteristics. The adjusted R-squared values of 0.46 and 0.48 suggest that the models explain a substantial portion of the variation in financial reporting timeliness, with the second model providing a slightly better fit. Overall, the results highlight the significant influence of the constant and AF on financial reporting timeliness, while the effects of AUGEN and CFOGEN remain negligible.

*Audit Committee Size on Financial Reporting Timeliness*

This part discusses the regression of audit committee size (ACSZ) on financial reporting timeliness (FRTL) with controlling variables auditor's gender (AUGEN) and CFO's gender.

Table 3 – Audit Committee Size on Financial Reporting Timeliness

| | (1) | (2) |
|---|---|---|
| | FRTL | FRTL |
| Constanta | 48.66*** | 47.08*** |
| | (3.71) | (3.61) |
| ACSZ | 7.495* | 8.023* |
| | (2.39) | (2.55) |
| AUGEN | | -21.59 |
| | | (-1.90) |
| CFOGEN | | -8.611 |
| | | (-1.18) |
| Firm FE | Yes | Yes |
| N | 140 | 140 |
| Adj. R Square | 0.45 | 0.47 |

*t* statistics in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

The Table 3 above describes the regression results presented in the table show the relationship between different variables and financial reporting timeliness (FRTL). The model includes both constant and firm fixed effects (Firm FE). Fixed effects isolates the effect of the independent variables (such as Constanta, AF, etc.) on the dependent variable with a sample size of 140 observations. In both models, the constant (represented by Constanta) has a significant positive impact on financial reporting timeliness, with coefficients of 48.66 and 47.08, both statistically significant at the 0.001 level (denoted by ***), indicating that this variable strongly contributes to timeliness. The variable ACSZ is positively associated with financial reporting timeliness, with coefficients of 7.495 and 8.023 in the two models, both statistically significant at the 0.05 level (denoted by *). This suggests that as ACSZ increases, the timeliness of financial reporting also improves.

**Auditor and CFO Gender of Financial Reporting Timeliness**

CPA firm employs male and female to perform audit. Table 4 describes that frequency of auditor working in the firm. It shows that male gender represents the majority with a percentage of 95.71. This means that there are only 6 female auditors employed.

Table 4 – Frequency Distribution - Auditor

| Gender | Freq. | % | Cum. |
|---|---|---|---|
| Male | 134 | 95.71 | 95.71 |
| Female | 6 | 4.29 | 100.00 |
| Total | 140 | 100.00 | 100.00 |

Likewise, Table 5 represents the frequency distribution for CFO. It showed that there are only 14 female CFO out of 140 firm year observations, thus, 87.86% are male CFO.

Table 5 – Frequency Distribution - CFO

| Gender | Freq. | % | Cum. |
|---|---|---|---|
| Male | 123 | 87.86 | 87.86 |
| Female | 14 | 12.14 | 100.00 |
| Total | 140 | 100.00 | 100.00 |

In addition, Table 2 & 3 explains that the variables AUGEN and CFOGEN show negative coefficients of -21.59 and -8.611, respectively, though neither is statistically significant, as indicated by the lack of asterisks or p-values below 0.05. This suggests that these factors do not have a meaningful impact on financial reporting timeliness in this context. Finally, the adjusted R-squared values of 0.45 and 0.47 indicate that the models explain a substantial portion of the variability in financial reporting timeliness, with the second model providing a slightly better fit to the data. This explain that gender has nothing to do with timeliness.

Unconscious biases may cause male and female auditors to be assessed differently. For instance, even if the quality of the work produced by male auditors is comparable to that of female auditors, they may receive higher ratings on specific tasks if they are seen as more self-assured or forceful. It's possible that the structure of the auditing profession has historically favored particular leadership qualities, communication styles, or behavioral patterns that are more frequently linked to men. The perception that male auditors are more "effective" due to their greater conformity to certain standards may result from this.

## CONCLUSIONS AND SUGGESTIONS

Timeliness of financial reporting gives value to the credibility of financial statements. Based on the study, agency cost (audit fee) and audit committee size significantly influences financial reporting timeliness, while gender of auditor and chief operating officer do not significantly affect it. The results indicate that there is a substantial impact of the Audit Fee on the promptness of financial reporting. According to this relationship, the cost of audit services may have an impact on how quickly and effectively businesses complete and publish their financial accounts. Increased audit fees can be a reflection of faster and more comprehensive audit procedures, which would result in more timely reporting. On the other hand, lengthier audit periods may be linked to cheaper fees, which could postpone financial disclosures. As a result, audit fees become a crucial component in guaranteeing timely financial reporting. We may conclude that timely financial reporting is significantly impacted by the size of the Audit Committee. Consequently, the size of the audit committee has a significant impact on encouraging timely financial reporting. According to the study's findings, there is no discernible impact of the chief financial officer's and auditor's gender—more especially, their male gender—on the promptness of financial reporting. This suggests that the speed at which financial statements are prepared and disclosed is not necessarily impacted by the presence of a male auditor or CFO. Therefore, it would seem that financial reporting timeliness is not influenced by gender in these important financial roles.

It is recommended that for further research, explore other variables that could affect financial reporting timeliness such as company size, and complexities of transactions of other listed companies aside from companies categorized as *Kompas 100.* It also recommended, that experience and skills are to be considered on the part of auditor and CFO.

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