



**ECONOMIC FACULTY  
ANDALAS UNIVERSITY**

**AUDIT COMMITTEE EFFECTIVENESS IN  
INDONESIA – FROM THE PERSPECTIVE OF  
INDEPENDENT AUDITOR**

**THESIS**

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## **ABSTRACT**

### **Audit Committee Effectiveness in Indonesia – From The Perspective of Independent Auditor**

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This research is aimed to describe the opinion of independent auditor towards the effectiveness of audit committee in Indonesia. The participants of this research are 6 independent auditors who have working experience over than 8 years in some CPA firms. The model of this research is deductive qualitative research which use interview as technique in collecting the data. The data is analyzed by using content analysis method. As a result, the participants stated that audit committee effectiveness in Indonesia is varies.



## INTRODUCTION

### 1.1 Background

Financial reporting is the process of gathering and recording financial information which done by management in one accounting period. The financial reporting produces a financial report that will be announced to the users for intended purposes. The users of financial report are commonly called as the stakeholders, which include investor, creditors, analysts, employees, and government. The stakeholders use financial report as a basis to measure the company's performance.

The financial report reflects the whole company's financial condition in one accounting period. So that the financial report must be reliable and relevance for the stakeholders. Unreliable disclosure in financial report will cause wrong decision that suffers stakeholders to the loss.

One example of unreliable disclosure in financial report was the scandal of Enron. The bankruptcy of Enron Corporation was the biggest case of bankruptcy in 2001. Enron was the biggest natural gas pipeline company founded by Kenneth Lay in 1985 through the merger of Houston Natural Gas and Internorth (Palepu, Healy, 2003). Enron had an excellent performance in the year of 1990 - 2000. It could be seen through its stock rose 311%. By December 31, 2000, Enron's stock was priced at \$83.13 and its market capitalization exceeded \$ 60 billion, 70 times earnings and

six times book value, indication of the stock market's high expectations about its future prospects. In Addition, Enron was rated the most innovative large company in America in Fortune's Most Admired Companies survey. In the year of 2001, Enron's image was in tatters and its stock price became nearly to zero and December 2001 the company was going to bankruptcy (Palepu, Healy, 2003). The bankruptcy of Enron indicated that there was a fraudulent in financial reporting done by management and the weaknesses of its internal control.

Palepu, Healy (2003) assed that the governance and incentives problem contributed to Enron's rise and fall. Catanach Jr, Catanach (2003) found a high probability of earnings manipulation in Enron's financial statement for several years preceding its bankruptcy. In addition, they briefly described that there was a misused of accounting and financial reporting standards related to Enron's consolidation of Special Purpose Entity (SPE) and issuance of stock for notes receivable.

Overall, the bankruptcy of Enron was caused by the weaknesses of its internal control that trigger management did manipulation through using the limitation of accounting standard in that time. This fraudulent was undetected for so long because there was cooperation between its management, external auditor – Arthur Andersen, and its sell-side analyst in hiding the problem. The corporate audit committee, as a monitoring board, did not effective at all. There are some facts about the weaknesses of Enron's audit committee that quoted from Journal of Economics Perspectives - The Fall of Enron written by Palepu, Healy (2003) :

1. Corporate audit committee usually meets for just a few times during the year.

## CONCLUSION AND RECOMMENDATION

### 5.1 Research Conclusion

The overall objective of this research is to explain the implementation of roles of audit committee regarding to maintain the quality of financial reporting within the company that will let the company achieving good corporate governance. In addition this research explains the nature of the implementation audit committee and good corporate governance in Indonesia based on the opinion of some independent auditors.

The development of good corporate governance existed in Indonesia since the case of Enron in 2002. The government makes serious effort to create GCG condition in Indonesia by issuing the regulation to implement GCG within the company, especially in the highly regulated companies such as public listed company, BUMN, and banking company. The regulation brings positive impacts to the business environment in Indonesia, event though the companies are forced by the regulation. Mostly the auditor assessed that there is rapid development of GCG in Indonesia, but it is not effective at all. In contrary, there are some auditor who do not able to assessed the development of GCG in Indonesia because they not aware in assessing GCG specifically.

Audit committee is one of important elements of corporate governance as an oversight function that help BoC in monitoring the company. The need of audit



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