"Sharia corporate governance and financial reporting timeliness: Evidence of the implementation of banking regulations in Indonesia"

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NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
62	0	11

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SHARIA CORPORATE GOVERNANCE AND FINANCIAL REPORTING TIMELINESS: EVIDENCE OF THE IMPLEMENTATION OF BANKING REGULATIONS IN INDONESIA

Abstract

This paper aims to study Islamic banking (IB) regulations related to the influence of the Sharia corporate governance (SCG) mechanism on financial reporting timeliness (FRTL) in Indonesia. The unbalanced panel data obtained empirically during a period that ranges from 2016 to 2019 includes observations from 54 Islamic commercial banks (ICb), 82 Sharia business unit (SBu) banks and 82 conventional banks (CB). Panel regression model is used in this study to adjust the unbalanced panel data obtained. The findings indicate that the variation of FRTL for IBs (represented by ICb) is determined by Sharia corporate governance (SCG) mechanisms. Further findings relate to a comparative study of variations in FRTL between ICb, SBu, and CBs. Although there are different determinants between ICb (SCG) and CBs (CG), there is no difference in FRTL variation between the two. Meanwhile, between ICb and SBu, whose regulations have the same determinant, there are differences between the two FRTL variations. The novelty of this paper is that, firstly, SCG is constructed on the basis of the IBs regulation to determine FRTL, and secondly, the variations in FRTL between the IBs and CBs groups are compared.

Keywords	corporate governance, conventional banks, Islamic banks, Sharia business unit, Sharia supervisory board
JEL Classification	G21, G34, G38

INTRODUCTION

Islamic institutions have unique characteristics of their corporate governance structures compared to conventional institutions, especially the presence of Sharia supervisory boards (SSB) (Albarrak & El-Halaby, 2019; Alman, 2012; Amalina Wan Abdullah et al., 2013; Aribi, et al., 2019; Aslam & Haron, 2020; Buallay, 2019; Bukhari et al., 2013; Darmadi, 2013; Garas & Pierce, 2010; Grassa, 2016; Hamza, 2013; Haridan et al., 2018; Hayat & Hassan, 2017; Hidayat & Al-Khalifa, 2018; Mihajat, 2019; Muneeza, 2014; Safieddine, 2009). SSB are bodies established through banking regulations with the aim of maintaining the credibility of Islamic banks (IBs). The main function of SSB in the Sharia corporate governance (SCG) structure is to certify and control compliance with Sharia on financial contract activities carried out by shareholders, stakeholders and clients (Alkhamees, 2013; Alman, 2012).

In general, SCG is the same as a conventional corporate governance mechanism, which consists of several main proxies, namely the board of commissioners and directors (BOC and BOD) and the audit committee (AC). Previous SCG studies were widely used in the financial

literature, for example, those related to a number proxies of quality of financial reporting in Islamic financial institutions. These proxies include accountability for financial information (Aribi et al., 2019; Jabbar, 2010), financial performance (Aribi et al., 2019; Buallay, 2019), dimensions of financial reporting quality (Rini, 2014), earnings management (Mersni & Ben Othman, 2016), financial reporting effectiveness (Hamza, 2013), and the level of disclosure (Darmadi, 2013). However, there is no literature that proves SCG as a determinant of FRTL of Islamic banks. The expectation regarding the relationship between SCG and timeliness assumes that Islamic financial reports represent cooperation between management and SSB as a guarantor of compliance with Sharia rules.

The Institute of Indonesian Chartered Accountants (Ikatan Akuntan Indonesia, abbreviated as IAI) defines timeliness as one of the qualitative characteristics aimed at increasing the usefulness of information, which simultaneously provides a faithful representation of what it is intended to represent and is relevant (IAI, 2017). The International Accounting Standard Board (2018) states that timeliness means that the available information can influence users to make decisions in a timely manner, so the older the information, the less useful it is. In Islamic banks, timeliness is useful for users of financial reports that include current and potential investors; qard fund owners; owners of temporary syirkah investment funds; owners of deposited funds; payers and recipients of zakah, infaq, alms and waqf; employees; suppliers and other business partners; customers; government and its institutions; and society. They use financial reports to meet several different information needs. To evaluate the gap between their importance and the availability of timely financial reports, this study focuses on SCG as the determinants of FRLT for IBs.

The implementation of Islamic banking regulations in Indonesia relating to corporate governance and FRTL are two different mechanisms. This raises a research question, namely whether the implementation of corporate governance regulations affects banks' compliance with the timeliness of financial reports.

1. LITERATURE REVIEW AND HYPOTHESES

Since 2007, IAI (2017), through The Indonesian Sharia Accounting Standards Board, has published a basic framework of Islamic financial reports for their preparation and presentation. One of the objectives of this framework is to use it as a reference for users to interpret the information provided in the financial reporting prepared in accordance with Sharia financial accounting standards (IAI, 2017). To achieve these objectives, an understanding of the qualitative characteristics of financial statements is required, including constraints on relevant and reliable information. The relevance and reliability of information depends on providing the information in a timely manner. The basic framework states that if there are undue delays in reporting until all aspects are known, then the information generated may be very reliable but will lose relevance or be of little use to decision makers (IAI, 2017). This suggests that the timely consideration of information is a way to strike a balance between relevance and reliability.

The timeliness of issuing company reports in Indonesia refers to the regulations of the Otoritas Jasa Keuangan (OJK, 2016). In this regulation, OJK requires companies to submit annual reports at least at the end of the fourth month after the financial year ends. Furthermore, if the annual report is available to shareholders before the end of the annual report submission period, OJK must also receive the annual report on the same date that the annual report is available to shareholders.

The main theoretical approach to the study of CG as a determinant and FRTL is based on agency theory (Baatwah et al., 2019; Ika & Mohd Ghazali, 2012; Oussii & Boulila Taktak, 2018; Sultana et al., 2014). Agency theory explains that information asymmetry arises because control and information about the company's operations are rather owned by agents than principals (Jensen & Mecling, 1976). Meanwhile, the agent's opportunistic behavior (motivation to maximize self-interest) cannot be fully detected by the principal. If these two things are combined, it will be a major problem for the principal. Related to agency theory,

Indonesia adheres to a two-layered system governance structure, each of which performs a different function (as principals and agents). The first function is controlled by the BOC, which represents shareholders in supervising the management of the company (principals), and the other function is performed by the BOD as a firm policy maker (agents). The existence of BOC is part of a protection mechanism to reduce agency cost (Fama & Jensen, 1983). The higher the level of agency problems, the greater the BOC's efforts to mitigate this problem (Aslam & Haron, 2020). One of the efforts taken was to encourage external auditors to improve the timeliness of financial reports (Habib & Muhammadi, 2018; Robin & Amran, 2016).

Kusumawati and Hermawan (2013) investigated the role of BOC in financial reporting fraud in companies that were sanctioned by the capital market investment agency for the period 2005–2011. Kusumawati and Hermawan (2013) found evidence that the presence of BOCs had no effect on preventing financial reporting fraud. Wiralestari (2015) identifies the characteristics of BOC, including competence, independence, and meeting frequency associated with the financial reporting quality. Wiralestari (2015) concluded that investigations of financial reporting quality in a sample of 82 non-financial companies were hampered by the condition of BOCs that did not understand the conditions of the company, worked part time, were in a minority and were unable to solve problems. The results of these studies indicate that the existence of BOC is not effective in supervising financial reporting. The failure of BOC in supervising the financial reporting preparation process implies that it takes longer time to produce quality financial reporting (Rini, 2014). Previous studies on BODs have mainly focused on their size and independence (Safieddine, 2009; Nelson & Shukeri, 2011; Habib & Bhuiyan, 2011; Li et al., 2014; Kaaroud et al., 2020). Li et al. (2014) explained that the influence between BOD size and reporting timeliness is explained by the hypothesis that the greater the number of BODs, the longer it will take to verify reporting. Larger BOD size indicates poor communication and slow decision making. Furthermore, Christensen et al. (2010) stated that the relationship between the independence of BOD and the reporting timeline is related to the hypothesis that the greater the proportion

of independent BOD, the faster the time required for reporting verification. Bliss (2011) argues that independent BOD plays a more significant role in monitoring and supporting external auditors.

Sharia principles are among the fundamental features that distinguish Islamic banks from conventional banks. All interested parties, either directly or indirectly, hope to get benefits from bank activities in accordance with Sharia principles. To meet the expectations of these stakeholders, an agency that supervises the operation of the business is needed according to the right mechanism to solve Sharia problems (Kaaroud et al., 2020).

The role of SSB in improving the quality of financial reporting has not been widely discussed in the scientific literature. However, some literature confirms the importance of SSB in Islamic banks. For example, there is evidence that earnings management practices in IFIs can be minimized by the presence of SSB (Quttainah & Almutairi, 2016; Quttainah et al., 2013). Other evidence shows that SSB, which has a membership of accounting/financial experts, can improve the performance of IFIs (Grassa & Matoussi, 2014).

Kaaroud et al. (2020), in their recent study, use the term Sharia committee as an independent body formed by Islamic banks in Malaysia. An effective Sharia committee (membership requirements at least have expertise in accounting or finance) can be seen from the success in reducing the risk management of Islamic banks and the extent of ARL in particular (Kaaroud et al., 2020). However, Kaaroud et al.'s (2020) study of the Sharia committee and the extent of ARL was unable to find evidence of a relationship between the two. This shows that the existence of the Sharia committee has not been effective in resolving the extent of ARL in Islamic banks in Malaysia.

Previous studies investigated the relationship between the feature of AC composition and FRTL using multiple proxies that demonstrate the effectiveness of their work (Ika & Mohd Ghazali, 2012; Sultana et al., 2014; Oussii & Boulila Taktak, 2018; Kaaroud et al., 2020). Ika and Mohd Ghazali (2012) concluded that the relationship between the AC effectiveness and FRTL depends on the characteristics of the AC, such as independence, meeting

frequency and size. Sultana et al. (2014) found evidence that the AC member's financial expertise, prior AC experience and member independence can reduce audit report lag. Oussii and Boulila Taktak (2018) support the conclusions of Sultana et al. (2014) who state that the higher proportion of AC members who have financial expertise is associated with more timely financial reporting. A further characteristic associated with an audit committee having financial and accounting knowledge can shorten the audit lag (Raweh et al., 2019; Baatwah et al., 2019).

The purpose of this study is to examine the influence of the board of commissioners (BOC), the board of directors (BOD), the Sharia supervisory board (SSB) and the audit committee (ACE) on the financial reporting timeliness (FRTL). Based on prior research that has been previously discussed, this study has formulated the following hypotheses:

H1: *The board of commissioners has a negative influence on financial reporting timeliness.*

H2: *The board of directors has a negative influence on financial reporting timeliness.*

H3: *The Sharia supervisory board has a negative influence on financial reporting timeliness.*

H4: *The effectiveness of the audit committee has a negative influence on financial reporting timeliness.*

2. RESEARCH METHOD

Table 1 reports the sampling results. The sampling process begins with identifying the number of banks registered on the OJK website. Then, banks were selected that have the main criteria classified as IBs in the 2016–2019 period.

This study uses a two-stage approach. In the first stage, the study identifies the attributes of BOC, BOD, SSB, and ACE to determine the measure of these variables. The variables in this study are measured using the corporate governance compliance disclosure index (CGCDI), which is a comprehensive checklist of items of bank compliance with CG implementation regulations (see Appendix). Content analysis is carried out by reading the entire annual report before assessing the regulatory compliance index of each bank (Amalina Wan Abdullah et al., 2013; Darmadi, 2013). The score for each bank is determined by the item disclosed in a dichotomous way, if disclosed, is given the value of '1', '0' otherwise if the penalty if the item is not disclosed. The formula used to assign each index is as follows:

$$CGCDI = \frac{\sum_{t=1}^{n_j} X_{ij}}{n_j}. \qquad (1)$$

In the second stage, this study designed a model to test whether BOC, BOD, SSB and AC had a relationship with the financial reporting timeliness of IBs. The study uses a regulation issued by the OJK Number 29/POJK.04/2016, which states that the annual report must be submitted to the OJK no later than the end of the fourth month after the financial year ends by the issuer or public company (OJK, 2016). Based on these provisions, Table 2 shows the pattern of companies in the sample submitting the publications of the audited annual financial reports.

In addition to the main variables, this study includes control variables, such as company size, asset quality, efficiency, financial condition, and capital adequacy. Baatwah et al. (2019) explained that the inclusion of control variables in the study is aimed at ensuring that the model used has better predictive ability, and the omitted variables do not

Table 1. Number of banks and observations

Year	Islamic commercial banks	Sharia business unit banks	Conventional banks	Total observations
2016	13	21	21	55
2017	13	21	21	55
2018	14	20	20	54
2019	14	20	20	54
Total	54	82	82	218

Table 2. Pattern of sample banks submitting audited financial statements

Number of days	2016			2017			2018			2019		
	f	fx	Cf	f	fx	Cf	f	fx	Cf	f	fx	Cf
0-50	4	7	7	6	11	11	7	13	13	9	17	17
51-90	10	18	25	14	25	36	15	28	41	20	37	54
91-120	12	22	47	17	31	67	14	26	67	10	19	72
121ª-150	19	35	82	10	18	86	12	22	89	9	17	89
151-180	8	15	96	5	9	95	4	7	96	3	6	94
181-210	2	4	100	3	5	100	2	4	100	3	6	100

Note: a – regulatory deadline, *f* – frequency, *fx* – frequency in percent, and *Cf* – cumulative frequency in percent.

affect it being eliminated. Panel data sample used in this study covers the period 2016–2019. The estimation method used is panel regression model. Thus, to test whether FRTL is influenced by SCG in IBs, the following regression model is used:

$$FRTL = \alpha + \beta_1 BOC + \beta_2 BOD + \\ + \beta_3 SSB + \beta_4 ACE + \beta_5 SIZE + + \\ + \beta_6 PROFIT + \beta_7 AQUAL + \\ + \beta_8 FICOND + \beta_9 CAPITAL + e, \quad (2)$$

This study is consistent with other studies that generally include firm characteristics as control variables. Company size is one of the control variables that is probably the most widely used in research on determinants of reporting timeliness. The results have also been widely verified by many authors (Alfraih, 2016; Baldacchino et al., 2016; Baxter & Cotter, 2009; Habib & Bhuiyan, 2011; Hassan, 2016; Ika & Mohd Ghazali, 2012; Owusu-ansah & Leventis, 2006; Rusmin & Evans, 2017; Sultana et al., 2014). The argument that has been consistently expressed by some researchers explains that large company size involves the breadth and complexity of transactions (Baldacchino et al., 2016). The other bank characteristics used by several previous studies are, for example, profitability (Baldacchino et al., 2016; N. Khoufi & W. Khoufi, 2018; Nelson & Shukeri, 2011), asset quality (Garcia & Guerreiro, 2016; Kosmidou, 2008; Salike & Ao, 2018), financial condition (Halteh et al., 2018), and capital adequacy (De Moraes & de Mendonça, 2017; Öhman & Yazdanfar, 2018)

To find out whether there are differences between groups, the 'type' variable was included to determine the comparison of the timeliness of financial reports between Islamic commercial banks (ICBs) and Sharia business unit (SBU) banks. This study excludes the variable SSB, but includes the variable

'type' (a dummy variable if Islamic banks take 1, and 0 otherwise) to compare the financial report timeliness between:

- ICBs and conventional banks (CBs); and
- ICBs and SBU banks versus CBs.

The new model to compare ICBs and SBU banks is as follows:

$$FRTL = \alpha + \beta_1 BOC + \beta_2 BOD + \beta_3 SSB + \\ + \beta_4 ACE + \beta_5 SIZE + \beta_6 PROFIT + \\ + \beta_7 AQUAL + \beta_8 FICOND + \beta_9 CAPITAL + \\ + \beta_{10} TYPE + e. \quad (3)$$

Table 3. Variable types, expected signs and their measurement

Variable	Expected signs	Measurement
Dependent		
FRTL		Number of days between the financial year-end and the date OJK received the company's audited financial statement
Independent		
BOC	–	Total index score of the board of commissioners
BOD	–	Total index score of the board of directors
SSB	–	Total index score of the Sharia supervisory board
ACE	–	Total index score of the audit committee effectiveness
SIZE	–	The value of a bank's total assets expressed as a natural log of assets
PROFIT	–	The ratio of net income to total assets
AQUAL	+	Asset quality is measured by the ratio of loan loss provision to total loans
FICOND	+	Financial condition estimated from Zmijewski's (1984)
CAPITAL	–	The ratio of total equity to total assets
TYPE	–/+	Type is a dummy variable if the bank is Islamic commercial bank taking 1, and 0 otherwise

3. RESULTS

Tables 4 and 5 show descriptive statistics for the dependent and independent variables. FRTL is the number of days between the financial year-end and the date OJK received a company's audited financial statement. The greater the mean value of FRTL, the longer the time for the announcement of the audited financial report. The mean value of FRTL on ICb is shorter than SBu. This is evidenced by the results of the ANOVA test that the values at a different mean are significant at the 1 percent level. Meanwhile, there is no difference between ICb and CBs.

Table 4. Descriptive statistics

Variables	N	Mean	Median	SD	Max	Min
Panel A: Islamic commercial banks						
FRTL	54	97.48	93.67	23.56	205	45
BOC	54	0.95	0.82	0.12	1	0.74
BOD	54	0.93	0.83	0.18	1	0.69
SSB	54	0.83	0.73	0.21	0.98	0.67
ACE	54	0.85	0.76	0.24	0.96	0.64
SIZE	54	12.23	9.35	2.57	17.35	8.27
PROFIT	54	0.35	0.28	0.68	0.68	0.18
AQUAL	54	0.064	0.043	1.26	0.082	0.026
FICOND	54	−7.67	−5.86	1.84	−9.75	−4.87
CAPITAL	54	0.35	0.23	2.18	0.48	0.19
Panel B: Sharia business unit banks						
FRTL	82	102.25	97.46	26.78	210	51
BOC	82	0.81	0.72	0.17	0.94	0.67
BOD	82	0.84	0.75	0.24	0.96	0.71
SSB	82	0.76	0.68	0.14	0.87	0.53
ACE	82	0.79	0.69	0.26	0.91	0.58
SIZE	82	8.86	7.84	2.15	12.87	5.97
PROFIT	82	0.22	0.18	1.78	0.48	0.12
AQUAL	82	0.095	0.074	1.82	0.11	0.058
FICOND	82	−4.38	−3.88	2.76	−5.78	−2.98
CAPITAL	82	0.15	0.12	3.14	0.18	0.083

Variables	N	Mean	Median	SD	Max	Min
Panel C: Conventional banks						
FRTL	82	95.87	92.68	23.87	202	47
BOC	82	0.97	0.86	0.15	1	0.78
BOD	82	0.96	0.84	0.13	1	0.73
ACE	82	0.91	0.81	0.22	1	0.71
SIZE	82	14.72	10.68	2.87	19.74	8.21
PROFIT	82	0.56	0.41	3.13	0.86	0.47
AQUAL	82	0.05	0.03	1.45	0.06	0.01
FICOND	82	−10.65	−8.79	2.76	−12.46	−6.58
CAPITAL	82	0.42	0.29	3.15	0.52	0.24

Table 5 presents the correlation matrix between independent variables. The correlation matrix aims to test whether there is multicollinearity or not between independent variables (Gujarati, 2004). It is expected that the correlation between variables is not > 0.80, and the variance inflation factor is no more than two (Gujarati, 2004). It is evident that the correlation between independent variables presented in Table 5 is less than 0.80, and the VIF value is no more than two for each variable. Thus, it can be concluded that the model used does not have multicollinearity problems.

Table 6 reports the fixed effect analysis for all model specifications showing the relationship of the SCG mechanism and all control variables to *FRTL* (Panels A, B and C). F value for all model specifications is significant at the 1 percent level (panel A = 14.65, panel B = 12.06, panel C = 15.04), with adjusted R^2 values for panels A, B and C, respectively, of 0.36, 0.32, and 0.38, indicating that the subset of the independent variables does explain the variation in *FRTL*.

Table 6 reports the results of the first and second regression equations aimed at analyzing each bank

Table 5. Pearson correlation matrix

Variables	1	2	3	4	5	6	7	8	9	10
BOC	1	–	–	–	–	–	–	–	–	–
BOD	0.47**	1	–	–	–	–	–	–	–	–
SSB	0.52*	0.65*	1	–	–	–	–	–	–	–
ACE	0.64**	0.73	0.48**	1	–	–	–	–	–	–
SIZE	0.71	0.57	0.56	0.56	1	–	–	–	–	–
PROFIT	−0.68	−0.48	0.67	0.63	0.44	1	–	–	–	–
AQUAL	−0.59*	−0.36*	−0.72*	0.74*	0.49*	0.66	1	–	–	–
FICOND	−0.36	−0.39	−0.43	−0.38	−0.52	−0.57	−0.48	1	–	–
CAPITAL	0.46**	0.72**	0.38**	0.58**	0.51**	0.75**	0.69**	0.67**	1	–
FRTL	−0.63**	−0.74**	−0.55*	0.46	−0.32*	0.52	0.61	−0.64	−0.37	1
V I F	1.23	1.35	1.44	1.65	1.54	1.72	1.66	1.58	1.73	1.38

Note: *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

Table 6. Regression model results from equation 2

Variables	Panel A			Panel B			Panel C		
	Est. β	Std. error	t-test	Est. β	Std. error	t-test	Est. β	Std. error	t-test
CONSTANT	4.08***	1.09	3.74	3.87**	1.45	2.67	4.98***	1.18	4.20
Independent									
BOC	−5.15***	−1.79	2.88	−3.98***	−1.24	3.22	−6.36***	−2.08	3.06
BOD	−7.27**	−2.89	2.52	−4.87**	−2.12	2.29	−8.14**	−3.16	2.58
SSB	−3.82*	−1.91	2.02	−1.78	−1.47	1.21			
ACE	−2.20**	−0.89	2.46	−1.70**	−0.91	1.87	−4.65*	−2.34	1.99
Control									
SIZE	−8.84	−5.60	1.58	−5.27	−3.73	1.41	−10.70	−8.92	1.21
PROFIT	−6.24	−4.19	1.49	−3.90	−2.59	1.51	−9.09	−8.13	1.12
AQUAL	−4.11	−3.03	1.36	−2.19	−1.37	1.60	−6.08	−5.12	1.19
FICOND	4.97	3.88	1.28	2.35	1.55	1.52	5.71	5.25	1.09
CAPITAL	−3.08**	−1.43	2.16	−1.41**	−0.60	2.36	−4.60**	−1.82	2.53
Total obs. (N)	54			82			82		
Adjusted R^2	0.36			0.32			0.38		
F-statistics	14.65***			12.06***			15.04***		

Note: *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

group (ICb, SBu and CBs). The regression results are in accordance with the expectations stated by *H1-H4* and show that Sharia corporate governance (*BOC*, *BOD*, *SSB* and *ACE*) is a determinant of *FRTL* on IBs. Regression coefficient means all main variables are statistically significant at 1, 5 and 10 percent.

4. DISCUSSION

H1 and *H2* state that the boards of commissioners and directors are negatively associated with *FRTL*. The negative sign implies that the higher the level of bank compliance with regulations regarding the existence of *BOC* and *BOD*, the more effective it is in complying with OJK regulations, which is marked by the short time to submit financial reports. *H1* statement is supported in the findings of this study, which is indicated by the negative direction of the *BOC* coefficient, namely −5.15 for ICb, −3.98 for SBu, and −6.36 for CBs (each significant at the 1 percent level). These results support the findings of Robin and Amran (2016) that the presence of *BOC* is effective as control against the risk of timeliness. Meanwhile, the findings of this study also support the direction of *H2* as indicated by the magnitude of the *BOD* coefficient, namely −7.27 for ICb, −4.87 for SBu, and −6.36 for CBs (each significant at the 5 percent level). This result is different from those of Kaaroud et al. (2020) that

failed to prove the relationship between *BOD* and the extent of the audit report lag.

H3 predicts *SSB* to be negatively associated with *FRTL*. The findings of this study support the *H3* direction, especially in the IBs group (ICb and SBu). In ICb, it was found that the *SSB* coefficient statistic was −3.82, significant at the 10 percent level. The study of SSB related to timeliness was carried out by Kaaroud et al. (2020). The results of this study do not support their investigation, which concluded that SSB had a weak association with timeliness. This is probably due to the different models and measurements of SSB they use. Their investigations focus on the skills that SSB members should possess while the current investigation is broader on the activities of SSB members in accordance with regulations. The more active the SSB members are, in addition to ensuring that operations are in compliance with Sharia, the shorter the audited financial reporting process. The investigation into the SBu group, although in a negative direction, had a weak association. This is made possible by the relationship between SBu and its parent company, CBs, which focuses more on conventional CG.

This study finds evidence for the *H4* statement, which states that the audit committee effectiveness has a negative association with *FRTL*. The ACE coefficient statistical values for all bank

Table 7. Regression model results from equation 3

Variable	Panel A			Panel B			Panel C		
	Est. β	Std. error	t-test	Est. β	Std. error	t-test	Est. β	Std. error	t-test
CONSTANT	4.57***	1.31	3.49	3.25***	0.91	3.59	5.21***	1.74	2.99
Independent									
BOC	−5.02**	−1.91	2.63	−4.76***	−2.17	2.19	−5.97***	−2.09	2.86
BOD	−6.04**	−2.57	2.35	−5.29**	−2.76	1.92	−6.46**	−2.64	2.45
SSB	−3.31*	−1.70	1.95						
ACE	−2.01	−1.36	1.48	−2.18**	−1.08	2.02	−2.58*	−1.38	1.87
Control									
SIZE	−6.07	−3.87	1.57	−5.73	−8.43	0.68	−6.68	−6.49	1.03
PROFIT	−5.45	−4.43	1.23	−4.25	−23.61	0.18	−5.92	−5.58	1.06
AQUAL	−3.09	−3.15	0.98	−3.31	−2.57	1.29	−3.29	−3.23	1.02
FICOND	3.19	8.18	0.39	2.87	3.50	0.82	2.95	6.70	0.44
CAPITAL	−3.11*	−1.67	1.86	−2.69**	−1.15	2.34	−3.48**	−1.48	2.35
TYPE	−2.37**	−1.09	2.17	−2.23	−20.27	0.11	−2.13	−3.13	0.68
Total obs. (N)	136			136			218		
Adjusted R²	0.32			0.38			0.43		
F statistics	11.45***			13.67***			12.64***		

Note: *, **, and *** denote significance at the 10, 5, and 1 percent levels, respectively.

groups support the findings. The *ACE* coefficient is negative, with values for ICb, SBu and CBs being –2.20, –1.70 and –4.65, respectively. This result supports the conclusion of *H4*, since the significance level is less than 5 percent. Overall, the results of the investigation on *H4* are consistent with Raweh et al. (2019), Ika and Mohd Ghazali (2012), Kaaroud et al. (2020), Oussii and Boulila Taktak (2018), and Owusu-Ansah and Leventis (2006). Despite the use of a different ACE model and the measurement from previous research, it was concluded that the higher the level of compliance with banking regulations regarding audit committee activities, the more effective it will be to comply with OJK regulations related to shorter financial reporting submission times.

Furthermore, this study investigates the control variable. However, the evidence for the relationship between these variables is weak, as shown in Table 6 on the control variable group. This study did not find any significant evidence of a relationship between firm size, profitability, asset quality and financial condition and FRTL. Most of the previous literature was inconsistent with this research for two reasons. First, most of the literature reviewed excluded banks as the object of analysis due to different regulations between a bank and non-banking industries. This has led

to a limited amount of literature on timeliness research in banks. Second, in relation to the regulations that apply to the banking industry, it is believed that there is no banking regulation in Indonesia that regulates the functions and obligations to meet the requirements of company size, profitability, asset quality, and financial condition.

Meanwhile, evidence of the relationship between capital adequacy and FRTL is shown by the significance of the coefficient at the 5 percent level for each bank group, namely –3.08 (ICb), –1.41 (SBu), and –4.60 (CBs). This is in line with the opinion that capital adequacy is one of the characteristics required for bank sustainability as stipulated in banking regulations (De Moraes & de Mendonça, 2017; Öhman & Yazdanfar, 2018).

The study extends the analysis in the form of additional discussion with testing impact type banks (ICb, SBu and CBs) on *FRTL* (see Table 7).

The regression model in Table 7 shows that the relationship of the type to FRTL is significant at the 5 percent level for the specification of the first model (panel A). As previously explained, panel A was used to analyze the comparison of FRTL variations on ICb and SBu. The direction of the

relationship between the type and FRTL is negative, which means that ICb requires a shorter time to issue audited financial reports than SBU. This finding is consistent with the statement that banking regulations are generally aimed at their parent companies (Muneeza, 2014). This statement is supported by additional findings reported in Table 7 for the next two model specifications (panels B and C), which show that the relationship between the type and FRTL is not significant. These indicates that there is no difference in FRTL between IBs and CBs.

CONCLUSION

Previous authors have done extensive research on the relationship between CG and FRTL, but typically with non-financial firms. In this study, financial companies, especially banks, are used as research objects. The novelty of this paper is, firstly the construction of the SCG based on the IBs regulation to determine FRTL, and secondly, the comparison of the variation in FRTL between the IBs and CBs groups.

This study is based on Islamic banking regulations in Indonesia. The objective is to investigate the implementation of SCG (consisting of BOC, BOD, SSB, and AC) associated with FRTL. Each main variable is reviewed using content analysis on the disclosure of SCG and the implementation of FRTL regulation. The samples collected included 14 ICb, 20 SBu, and 20 CBs with the 2016–2019 observation period, so that during that period, 218 sample data were obtained. Based on the availability of unbalanced panel data, the panel regression model estimation method is used. The panel regression model is designed to analyze the variation in FRTL, as determined by BOC, BOD, SSB, and ACE for each bank specification. This paper finds evidence that the variation of FRTL for IBs is determined by the SCG mechanism (consisting of BOC, BOD, SSB, and AC). These findings indicate that the higher the level of compliance with SCG implementation, the shorter the time for issuing audited financial reports as a form of compliance with OJK regulations. As for SBu and CBs, the variation in FRTL is determined by the corporate governance mechanism (without SSB). SBu, although the operation uses Sharia principles, is actually an integral part of CBs, since SBu is generally part of the office channeling owned by the CB. Overall, the comparative study between IBs and CBs yields the same conclusions as the previous panel regression model analysis, namely that the FRTL variation in IBs is explained by the SCG mechanism (consisting of BOC, BOD, SSB, and AC), and CBs is explained by the CG mechanism (without SSB). Recent findings from this study concluded that the higher the capital adequacy, the shorter the FRTL.

Overall, the results of this study are useful for financial service authorities, auditors and investors. They can help OJK in overseeing the implementation of banking regulations based on information disclosed in annual reports. Based on these findings, OJK can find reasons why banks are late in issuing financial reports. The auditor may consider that the stronger the SCG and CG, the lower the audit risk presented to the audited bank. These findings can also be explored when making investment decisions in banks, especially with regard to better control over managers in the presence of SCG and CG. This study complements the FRTL literature, especially regarding SCG as a determinant that is being introduced for the first time in Islamic banking.

AUTHOR CONTRIBUTIONS

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APPENDIX A.
CHECKLIST REGULATION COMPLIANCE DISCLOSURE

Table A1. BOC dimensions

No.	Items of disclosure	Sources of reference	Score	Hypothetical Bank "X"
Composition				
1.	Consists of one or more members	Bank Indonesia (2009, 2010)	1	1
2.	BOC independence	Bank Indonesia (2009, 2010)	1	1
Authority				
3.	Report of BOC	Bank Indonesia (2009, 2010)	1	1
4.	Duties of BOC	Bank Indonesia (2009, 2010)	1	1
5.	Responsibilities of BOC	Bank Indonesia (2009, 2010)	1	1
6.	Remuneration	Bank Indonesia (2009, 2010)	1	1
7.	Establish committee	Bank Indonesia (2009, 2010)	1	0
8.	Recommendation to management	Bank Indonesia (2009, 2010)	1	1
BOC Members' background				
9.	Relationship to family	Bank Indonesia (2009, 2010)	1	0
10.	Educational background	Bank Indonesia (2009, 2010)	1	1
11.	Experience	Bank Indonesia (2009, 2010)	1	1
Diligence				
12.	BOC meeting	Bank Indonesia (2009, 2010)	1	1
13.	Regulation compliance procedures	Bank Indonesia (2009, 2010)	1	1
	Total		13	10

Note: Overall score for Hypothetical Bank "X" = 10/13 =0.77.

Table A2. BOD dimensions

No.	Items of disclosure	Sources of reference	Score	Hypothetical Bank "X"
Composition				
1.	Consists of one or more members	Bank Indonesia (2009, 2010)	1	1
2.	BOD independence	Bank Indonesia (2009, 2010)	1	1
Authority				
3.	Report of BOD	Bank Indonesia (2009, 2010)	1	1
4.	Duties of BOD	Bank Indonesia (2009, 2010)	1	1
5.	Responsibilities of BOC	Bank Indonesia (2009, 2010)	1	1
6.	Remuneration	Bank Indonesia (2009, 2010)	1	1
7.	Establish committee	Bank Indonesia (2009, 2010)	1	0
BOD Members' background				
8.	Relationship to family	Bank Indonesia (2009, 2010)	1	0
9.	Educational background	Bank Indonesia (2009, 2010)	1	1
10.	Experience	Bank Indonesia (2009, 2010)	1	1
Diligence				
11.	BOD meeting	Bank Indonesia (2009, 2010)	1	1
12.	Regulation compliance procedures	Bank Indonesia (2009, 2010)	1	1
	Total		12	10

Note: Overall score for Hypothetical Bank "X" = 10/12 = 83.33 per cent.

Table A3. SSB dimensions

No.	Items of disclosure	Sources of reference	Score	Hypothetical Bank "X"
Authority				
1.	Report of SSB	Bank Indonesia (2009, 2010)	1	1
2.	Duties and responsibilities	Bank Indonesia (2009, 2010)	1	1
3.	Remuneration	Bank Indonesia (2009, 2010)	1	1
4.	Recommendation	Bank Indonesia (2009, 2010)	1	0
SSB Members' background				
5.	Membership and charter	Bank Indonesia (2009, 2010)	1	0
6.	Educational background	Bank Indonesia (2009, 2010)	1	1
7.	Experience	Bank Indonesia (2009, 2010)	1	1
Activity conducted				
8.	SSB meeting	Bank Indonesia (2009, 2010)	1	1
9.	Sharia audit	Bank Indonesia (2009, 2010)	1	1
10.	Sharia compliance procedures	Bank Indonesia (2009, 2010)	1	1
	Total		10	8

Note: Overall score for Hypothetical Bank "X" = 8/10 = 80 per cent.

Table A4. AC effectiveness dimension

No.	Items of disclosure	Sources of reference	Score	Hypothetical Bank "X"
Compositions				
1.	AC independence	Bank Indonesia (2009, 2010)	1	1
2.	AC expertise	Bank Indonesia (2009, 2010)	1	1
Authority				
3.	Membership and charter	Bank Indonesia (2009, 2010)	1	0
4.	Reviewing company's financial information	Bank Indonesia (2009, 2010)	1	0
5.	Reviewing external auditing activity	Bank Indonesia (2009, 2010)	1	1
6.	Reviewing the effectiveness of company's internal control	Bank Indonesia (2009, 2010)	1	1
7.	Reviewing company's compliance with regulations	Bank Indonesia (2009, 2010)	1	1
Resource				
8.	AC size	Bank Indonesia (2009, 2010)	1	1
Diligence				
9.	AC meeting	Bank Indonesia (2009, 2010)	1	1
10.	AC voluntary disclosure	Bank Indonesia (2009, 2010)	1	1
	Total		10	8

Note: Overall score for Hypothetical Bank "X" = 8/10 = 80 per cent.