The Influence of Audit Committee Structure on Financial Statements (Study on Energy Sector Companies Listed on the Indonesia Stock Exchange)

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Abstract : The objective of this study is to directly analyze and illustrate the composition of the audit committee, which consists of financial knowledge, independence and the quantity of members on the committee, concerning the financial statement quality of energy sector industries listed on the IDX in 2023-2024.High-quality financial statements are a crucial component reflecting the outcome of the accounting process and are vital for stakeholders in decision-making. Despite regulatory requirements for audit committees, corporate financial statements in Indonesia often contain earnings management or accounting irregularities, indicating that the audit committee's very existence is insufficient to guarantee financial statements' quality. A numerical approach with a causal-comparative approach is utilized in this investigation. The secondary quantitative data are obtained from companies' yearly financial statements, annual reports, and corporate governance disclosures published on the official IDX website. The data are examined using EViews software for panel data regression, going through many steps, including descriptive statistics, classical assumption testing, panel data model selection, and regression analysis for hypothesis testing. The audit committee's size, objectivity, and financial acumen make up the study's independent variables. Meanwhile, financial statement quality as the dependent variable is measured through earnings quality proxy using the discretionary accruals calculation approach (Jones model or Modified Jones model). Specifically, this research seeks to deliver theoretical and practical benefits for regulators in formulating corporate governance policies, give companies a comprehension of the importance of an effective audit committee, and help investors make informed investment choices.

Keywords : Audit Committee Structure; Committee Size; Earnings Quality; Financial Statement Quality; Independence.

1. INTRODUCTION

One important factor that represents the outcomes of the accounting process is the caliber of financial statements and is a key pillar of good corporate governance. High-quality financial statements present relevant and reliable information, which is important for stakeholders to make informed decisions (Annisa, et al., 2024; Beest et al., 2009; Mardessi, 2022; Okon, 2024; Safari Gerayli et al., 2021). Under these circumstances, as a supervisory body, committee on auditing is essential to maintaining the precision and dependability of financial accounts. The structure of the audit committee, which includes independence, financial expertise, and committee size, is considered to have a significant impact on the efficiency of oversight and financial statements' quality (Mardessi, 2022; Okon, 2024; Safari Gerayli et al., 2021).

While the establishment of audit committees in Indonesia is regulated, such as in Bapepam-LK Regulation Number X.K.5 of 2012 and PJOK Number 55/PJOK.04/2015, which require all public companies to have one, there is still a gap between the regulations and their implementation in the field. This phenomenon shows that the existence of audit committees

does not fully ensure the optimal quality of financial reports (Mardessi, 2022; Silva et al., 2025). This is because profit management practices and accounting irregularities are still often found in the financial reports of companies in Indonesia (Annisa, et al., 2024). This condition shows that the productivity of audit committees in limiting accrual manipulation is still limited, raising questions about the productivity of their function in supervising financial reporting (Ibrahim et al., 2024; Mardessi, 2022; Okon, 2024).

This study intends to explore and address several gaps identified in the existing literature. First, previous studies often produce inconsistent and even contradictory results about the causality between the reliability of financial reports and the role of the audit committee structure. Second, there is a gap in research that comprehensively examines the three dimensions in terms of audit committee size, independence, and financial aspects knowledge all at once in the Indonesian context. Furthermore, there is debate about the best proxy for measuring financial statement quality, where variations in the models used to calculate discretionary accruals can affect the results.

As a novelty, this study uses a simultaneous and comprehensive method on the three variables of audit committee structure in an integrated analysis model for non-financial companies in Indonesia. Additionally, this research makes use of the most recent panel data regression model and discretionary accrual-based earnings quality proxies adjusted to Indonesian market conditions. In addition, this study highlights the empirical inconsistencies of previous studies and recommends directions for further research involving mediation or moderation variables. The objective is to analyze and empirically prove how Tthe autonomy of the audit committee influences the quality of financial reporting, shaped by the members' expertise in finance as well as the overall size of the committee.This research attempts to offer both theoretical and practical insights for regulators, companies, and investors.

Considering the background phenomena, theoretical framework, and research gaps that have been presented, this study formulates the hypothesis that the independence of the audit committee has a positive effect on the quality of financial statements, the financial expertise of audit committee members has a positive effect on the quality of financial statements, and the size of the audit committee has a positive effect on the quality of financial statements.

2. LITERATURE REVIEW

This study is based on three main theoretical foundations, namely Agency Theory, Stewardship Theory, and Resource-Based and Group Dynamics Theory. These three were chosen because they are relevant to explaining the linkage between audit committee

composition and the quality of financial reporting. Agency Theory illustrates the link between managers as agents and shareholders as principals, where there is potential for conflicts of interest because managers tend to pursue personal goals, such as profit management to meet certain targets (Mardessi, 2022; Okon, 2024). In this context, the autonomy of the audit committee is a crucial factor instrument to minimize such conflicts. Non-executive audit committee members without familial ties or business ties to management, are expected to provide objective oversight of accounting policies and reduce the potential for manipulation (Liyayi et al., 2023). Thus, the autonomy of the audit committee aligns with Agency Theory because it serves to protect the interests of shareholders while maintaining the reliability of financial statements.

Stewardship Theory assumes that managers have a tendency to prioritize collective interests over personal interests (Liyayi et al., 2023). However, this theory emphasizes the importance of competence for effective oversight. In this research framework, the accounting proficiency of audit committee members is one of the main factors. Members with a degree in accounting/finance or relevant professional experience are better able to understand complex transactions, detect material errors, and interact with external auditors (Mardessi, 2022; Safari Gerayli et al., 2021; Silva et al., 2025). Therefore, in accordance with Stewardship Theory, an academic foundation in accounting/finance is seen as a prerequisite for producing quality oversight and more reliable financial reports. The Resource-Based Theory and Group Dynamics Theory are applied to clarify the function of audit committee size. From a Resource-Based perspective, the greater the size of the audit committee, the more diverse their knowledge, experience, and perspectives, thereby increasing oversight capacity (Mardessi, 2022). However, Group Dynamics Theory warns that audit committees that are too large may face coordination problems, inefficient communication, and even free rider phenomena (Okon, 2024). Therefore, the effectiveness regarding the size of the audit committee is estimated to be optimal in the range of three to five members, where the additional benefits of members still outweigh the potential losses (Pratiwi, 2023).

Based on the integration of these theories, the structure of the audit committee is expected to be closely related to the quality of financial reports. Independence is expected to reduce profit management practices and improve reporting objectivity. The financial expertise among the members of the audit committee enables them to detect material errors and understand complex accounting policies. Meanwhile, an adequate audit committee size can strengthen oversight effectiveness through diversity of knowledge and experience. However, an overly large size has the potential to cause coordination problems, slow communication,

and free rider phenomena. Therefore, this study assumes that companies tend to form audit committees with an optimal number of members (3–5), so that the benefits of oversight still outweigh the disadvantages.

3. HYPOTHESIS

This study examines three null hypotheses (H0) and three corresponding alternative hypotheses (H1) regarding the impact of the characteristics of the audit committee on the quality of financial statements. The null hypotheses (H1, H2, and H3) respectively assert if the autonomy of the audit committee, along with the financial expertise of its members, has a significant impact on determining the reliability of financial reporting is not remarkably affected by the size of the committee.

For comparison, an alternative hypothesis is proposed. H1a suggests that audit committee independence enhances the quality of financial reporting (Mardessi, 2022). For comparison, an alternative hypothesis is proposed. According to agency theory, disputes that might occur within management, acting as agents, and shareholders, who are principals. It is possible that those in management positions may be motivated to engage in practices such as earnings management or accounting manipulation to achieve certain goals or conceal poor performance. In this context, as an impartial supervision instrument, the independence of the audit committee is essential.

Independent audit committee members, defined as individuals who have no family, business, or other affiliations with company management, are expected to provide more objective and impartial oversight. Independence allows audit committee members to critically evaluate the accounting policies implemented by management to guarantee financial reporting's accuracy and protect the interests of stakeholders, question accounting treatments that do not comply with applicable standards, identify potential manipulation when financial statements are being prepared, and offer recommendations for improvement that are not influenced by personal bias or external pressure. Empirical evidence supporting this is provided by Pratiwi's (2024) study, which demonstrates that standard of financial reporting of businesses listed on the IDX between 2020 and 2022 is significantly impacted by the independence of the audit committee (Sartika Pratiwi, 2023). According to this evidence, formulation of Hypothesis 1 is as follows:

H1: The financial statements' quality is positively impacted by the audit committee's independence (Liyayi et al., 2023; Mardessi, 2022; Silva et al., 2025).

Furthermore, H1 hypothesizes that the audit committee's work improves the competence of financial reporting financial knowledge. Stewardship theory emphasizes the importance of competence in carrying out supervisory duties. Inside the audit committee's scope, a fundamental prerequisite for the effective performance of oversight responsibilities is proven competence in financial expertise. Audit committee members that hold degrees in accounting or finance, as well as those with relevant professional experience, have the expertise necessary to understand the complexity of financial transactions and their accounting treatment. They are also skilled at identifying potential warning signs in financial statements, interacting effectively with external auditors, and evaluating the adequacy of accounting policies. Empirical evidence from Hartati & Sukarmanto (2024) supports this view, showing that the effectiveness of audit committees (including their expertise) enhanced the standard of financial reporting of manufacturing businesses on the IDX in 2018–2022 (Sartika Pratiwi, 2023). Based on these theoretical arguments and empirical evidence, the hypothesis proposed is:

H2: The financial expertise of audit committee members positively influences the quality of financial reporting (Mardessi, 2022; Safari Gerayli et al., 2021).

Finally, H3 predicts the number of members in the audit committee will have a favorable effect on the caliber of financial reports.The audit committee's size is correlated with resource-based theory and group dynamics theory. From a resource-based theory perspective, an audit committee of adequate size can provide more diverse human resources in terms of expertise, experience, and perspective. This approach encourages diversification of expertise and experience, more effective workload distribution, increased monitoring capacity, and better oversight quality. However, it should be emphasized that the connection between the audit committee's size and effectiveness is not necessarily linear. Group dynamics theory states that committees that are too large may face challenges such as coordination problems, where members have difficulty coordinating schedules and reaching consensus, the "free-rider effect" phenomenon, which refers to the tendency of certain members to rely on the contributions of other members, and communication inefficiencies. However, in this study, it is hypothesized that companies tend to form audit committees with a size that is still within the optimal range (3-5 members), so that the benefits of additional members still outweigh the costs. This hypothesis is also supported by Pratiwi's (2024) study, which identified a favorable the relationship between financial reporting quality and the size of the audit committee (Sartika Pratiwi, 2023). Drawing on the theoretical framework and the empirical evidence discussed

above, and assuming the number of members in the audit committee is still within the optimal range, the proposed hypothesis is:

H3: The financial statements' quality is positively impacted by the audit committee's size (Mardessi, 2022; Okon, 2024).

4. METHOD

Research Type

The quantitative research is conducted by using a causal-comparative approach, also known as cause-and-effect. This approach was chosen because the main objective was to employ statistical analysis and numerical data to test the hypothesis about the causal relationship utilizing statistical analysis and numerical data to establish a correlation between audit committee structure variables and financial statement quality variables. Without changing the independent variable directly, correlation between audit committee structure variables and financial statement quality variables was investigated utilizing the causal-comparative form.

Research Population and Sample

Every non-financial company listed on the IDX in 2023-2024 is included in the study's population, with data availability on audit committee structure and relevant annual financial reports serving as the selection criteria.

Forms and Origins of Data

Quantitative secondary data was employed in this investigation. The following secondary data sources were used:

a. The firm's annual consolidated financial reports, accessed through www.idx.co.id, the official IDX website.
b. The information on the structure the audit committee information is obtained from the annual report of the business supported by the governance report.

Data Analysis Techniques

The information gathered will be examined using panel data regression analysis, chosen due to combining time series data (annual periods) as well as cross-sectional data (number of companies). The analysis will be conducted using STATA or EViews software. The data analysis process will involve the following stages:

a) Descriptive Statistics: present an overview of the characteristics of the study variables, including their average, standard deviation, as well as the lowest and highest observed values.

b) Classical Assumption Tests: These consist of tests for normality, multicollinearity, heteroscedasticity, and autocorrelation (if necessary for panel data).

c) Panel Data Regression Model Selection: To identify the most suitable model—Pooled OLS, Fixed Effect, or Random Effect—the following tests are applied: the Chow test (to compare Pooled OLS with Fixed Effect), the Hausman test (to distinguish between Fixed and Random Effect), and the Lagrange Multiplier (LM) test (to evaluate Pooled OLS against Random Effect).

d) Regression Analysis of Panel Data: Testing hypotheses is conducted by analyzing the regression coefficients, t-statistic values, and significance values for each independent variable, as well as the F-statistic value for simultaneous significance testing and the coefficient of determination (R2).

In addition to these stages, this study also anticipates potential violations of classical assumptions in panel data regression, such as multicollinearity, autocorrelation, and normal distribution of residuals. Violations of assumptions can affect the accuracy of regression coefficient estimates, so the interpretation of results needs to be done more carefully. To minimize bias, this study prepares corrective measures, including using the White cross-section correction method to overcome heteroscedasticity and considering more robust alternative estimates, such as Generalized Least Squares (GLS). With this approach, the reliability of the results is maintained even if the classical assumptions are not fully met.

Research Variables

Independent Variable :

Independence of the Audit Committee: Proportion of individuals serving as members of the audit committee that are regarded as independent, signifying that they have no familial ties or affiliations.

a. Financial Expertise within the Audit Committee: The proportion of audit committee members possessing educational credentials or work experience in finance or accounting.

b. Audit Committee Size: how many people are on the audit committee overall.

Dependent Variable:

Financial Statement Quality: measured using earnings quality proxies with a discretionary accrual approach (Jones model or Modification)

Research Proxy

The Discretionary Accruals (DA) technique is used to calculate in this research, earnings quality is utilized as a proxy to represent the reliability of financial statements. The calculation model used is the Jones Framework or its Modified Version. This approach is

considered effective in reflecting accounting manipulation practices (earnings management) and the integrity of financial statement presentation. A smaller DA value indicates that the company tends to prepare financial statements fairly and honestly, which can be interpreted as higher financial statement quality.
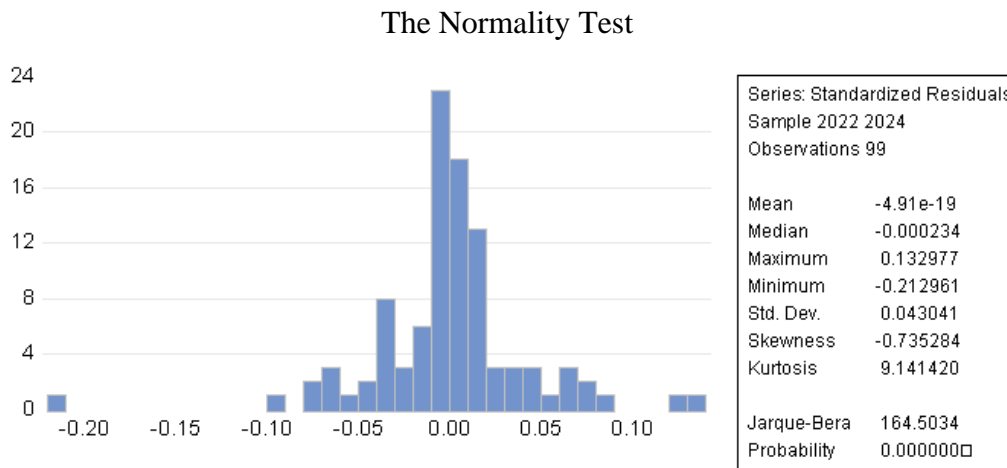
5. RESULTS AND DISCUSSION

The Normality Test

Figure 1. Normality Test Results.

Source: Eviews Output

The probability value of 0.000000 was obtained from the normalcy test using the Jarque-Bera technique, which is below the 0.05 significance level. This result implies that the residuals in the regression model are not normally distributed. Consequently, the classical residuals' normality assumption is not satisfied, making it necessary to apply data transformation or adopt alternative estimation techniques that are more resilient to non-normal data. This violation of the normality assumption indicates that regression coefficient estimates may be biased if interpreted without caution. Therefore, the results of the analysis must be read with greater caution. To minimize the impact, this study considers the use of alternative estimation methods that are more robust, such as Generalized Least Squares (GLS) or robustness checks, so that the reliability of the results is maintained even if the data is not normally distributed.

Heteroscedasticity Test

Table 1. Heteroscedasticity Test Results Panel Cross-section Heteroskedasticity LR Test

Equation: UNTITLED
Model Specification: Y C X1 X2 X3
Null hypothesis: Residuals are homoskedastic

Likelihood ratio	Value	df	Probability
	282.1823	33	0.0000

LR Test Summary:			
	Value	df	
Restricted LogL	136.3874	95	
Unrestricted LogL	277.4786	95	

Source: Eviews Output

The hypothesis proposed in this test is as follows:

H0: $\beta 1 = 0$ (heteroscedasticity issue not present)

H1: Heteroscedasticity is an issue ($\beta 1 \neq 0$).

The criteria for decision making in the Glejser test are::

 a. In the event that the probability value exceeds 0.05, H1 is rejected, indicating that Heteroscedasticity does not exist in the company data.

 b. H1 is acceptable if probability value is less than 0.05, suggesting that the firm data has heteroscedasticity.

According to the test findings, the likelihood ratio is less than 0.05, with a probability value of 0.0000. This suggests the presence of heteroscedasticity, as confirmed by the Panel Cross-Section Heteroscedasticity LR Test. To overcome this problem, improvements were made using the White cross-section method.

Table 2. Heteroscedasticity Period Test

Panel Period Heteroskedasticity LR Test
Equation: UNTITLED
Specification: Y C X1 X2 X3
Null hypothesis: Residuals are homosdkedastic

Likelihood ratio	Value	df	Probability
	21.70962	33	0.9339

LR Test Summary:

	Value	df	
Restricted LogL	136.3874	95	
Unrestricted LogL	147.2422	95	

Source: Eviews Output

The results presented above indicate that each independent variable's probability value is greater than 0.05.Furthermore, Probability Value of the Likelihood Ratio Test under Panel Period Heteroskedasticity of 0.9339 > 0.05 confirms that the model does not encounter heteroscedasticity issues. This is in line with the testing criteria, where heteroscedasticity is declared not to happen if each variable's probability is greater than 0.05. Consequently, it can be concluded that the model is largely unaffected by heteroscedasticity, with the exception of the CR variable, which indicates a probability value below 0.05, so that heteroscedasticity is still detected in that variable.

Multicollinearity Test

Table 3. Multicollinearity Test Results.

Variable	X1	X2	X3
X1	1.000000	0.755000	0.854025
X2	0.755000	1.000000	0.889307
X3	0.854025	0.889307	1.000000

Source: Eviews Output

The above table displays the test results the correlation coefficients among variables X1, X2, and X3 range from 0.755 to 0.889, indicating a relatively strong relationship. Nevertheless, based on multicollinearity testing criteria, a regression model is deemed problematic when the correlation values of the independent variables exceeds 0.80.

The table shows:

a) There is a 0.755 connection between X1 and X2 (below 0.8, no problem).

b) Correlation between X1 and X3 = 0.854025 (above 0.8, there is an indication of multicollinearity)

c) Correlation between X2 and X3 = 0.889307 (above 0.8, indicating multicollinearity)

Hence, the data shows evidence of multicollinearity. because there are relationships between independent variables (X1–X3 and X2–X3) with correlation coefficients greater than 0.8. This condition indicates that there is multicollinearity, which has the potential to cause regression coefficient estimates to become unstable and difficult to interpret individually. Therefore, regression results must be interpreted with caution. To minimize the impact of

multicollinearity, this study considers the use of alternative estimation methods that are more robust, such as Generalized Least Squares (GLS) or robustness checks, so that the analysis results remain reliable

Autocorrelation Test

Table 4. Autocorrelation Test Results.

Effect Specification			
Cross-section fixed (dummy variables)			
R-squared	0.522896	Mean dependent var	-0.002539
Adjusted R-squared	0.257838	S.D. dependent var	0.062312
S.E. of regression	0.053681	Akaike info criterion	-2.736222
Sum squared resid	0.181545	Schwarz criterion	-1.792542
Log likelihood	1.714430	Hannan-Quinn criterion	-2.354408
F-statistic	1.972762	Durbin-Watson stat	3.071241
Prob(F-statistic)	0.009413		

Source: Eviews Output

The value of the lower boundary (dL) is 1.6108, while the upper boundary (dU) is 1.7355, the Durbin-Watson (DW) test findings above indicate a DW value of 3.071241. DW < dL Indicates the presence of positive autocorrelation, while a Durbin-Watson value greater than 4 – dL suggests negative autocorrelation. If the statistic falls within the range of dU < DW < 4 – dU, it implies the absence of autocorrelation no autocorrelation, and DW values within dL ≤ DW ≤ dU or 4 - dU ≤ DW ≤ 4 - dL are inconclusive, according to the Durbin-Watson test's decision rules.

From these calculations, 4 – dL equals 2.3892 and 4 – dU equals 2.2645. Because the DW value of 3.071241 is higher than 4 – dL, We might conclude that this study's regression model experiences negative autocorrelation. This indicates that the classical assumption of no autocorrelation is not satisfied, requiring corrective measures such as introducing lag variables or applying a more suitable estimation technique. The presence of negative autocorrelation indicates that errors in one period are related to errors in the next period in the opposite direction. This condition can interfere with the validity of the regression model because it produces biased coefficient estimates. Therefore, the results must be interpreted with caution. To minimize the impact of autocorrelation, this study considers the use of alternative methods such as Generalized Least Squares (GLS) or the addition of lag variables in the regression model, so that the analysis results remain reliable

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***Common Effect Model* (CEM)**

Table 5. Common Effect Test Results.

Dependent Variable: Y
Method: Panel Least Squares
Date: 08/26/25 Time: 19:01
Sample Period: 2022 2024
Number of Periods: 3
Number of Cross-sections: 33
Total panel observations (balanced): 99

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.021735	0.035362	0.614646	0.5403
X1	-0.001818	0.016711	-0.108783	0.9136
X2	-0.030160	0.019553	-1.542490	0.1263
X3	0.022989	0.026967	0.852505	0.3961
R-squared	0.031326	Mean dependent var		-0.002539
Adjusted R-squared	0.000737	S.D. dependent var		0.062312
S.E. of regression	0.062289	Akaike info criterion		-2.674494
Sum squared resid	0.368594	Schwarz criterion		-2.569640
Log likelihood	1.363874	Hannan-Quinn criter.		-2.632070
F-statistic	1.020486	Durbin-Watson stat		1.586671
Prob(F-statistic)	0.385586			

Source: Eviews Output

According to the Common Effect Model (CEM) estimate findings shown in the above table, none of the three independent variables (X1, X2, and X3) are significant on their own at the $\alpha = 5\%$ level, as all have p-values exceeding 0.05 The type has extremely little explanatory power, as seen by the corrected R^2 value of 0.000737, suggesting that it only explains 0.07% of the variation in the dependent variable. Furthermore, the model is not significant overall, as indicated by the F-statistic probability value of 0.3856 (> 0.05). The 1.586671 Durbin-Watson statistic, being close to 2, indicates that this model does not exhibit significant autocorrelation problems.

Fixed Effect Model (FEM)

Table 6. Fixed Effect Test Results.

Dependent Variable: Y
Method: Panel Least Squares
Date: 08/26/25 Time: 19:02
Sample Period: 2022 2024
Number of Periods: 3
Cross-sections included: 33
Total panel observations (balanced): 99

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.152114	0.059422	2.559198	0.0129
X1	-0.023401	0.016843	-1.390127	0.1694
X2	-0.038670	0.019928	-1.940467	0.0568
X3	0.005397	0.031525	0.171201	0.8646
R-squared	0.522896	Mean dependent var		-0.002539
Adjusted R-squared	0.257838	S.D. dependent var		0.062312
S.E. of regression	0.053681	Akaike info criterion		-2.736222
Sum squared resid	0.181545	Schwarz criterion		-1.792542
Log likelihood	1.714430	Hannan-Quinn criter.		-2.354408
F-statistic	1.972762	Durbin-Watson stat		3.071241
Prob(F-statistic)	0.009413			

Source: Eviews Output

Using the Fixed Effect Model as a basis estimation results presented above, it can be observed that none at the $\alpha = 5\%$ level, each of the independent variables is significant on its own, although the X2 variable approaches significance with a probability value of 0.0568. The model accounts for 25.78% of the variance in the outcome variable, as reflected by the adjusted R^2 value of 0.257838, with the remaining variation accounted for by factors outside the model. Additionally, Overall, the significance of the model is confirmed through the F-statistic probability value of 0.0094 (< 0.05), this indicates that the independent variables exert an influence on the dependent variable. The Durbin-Watson stat value of 3.071241, which is greater than 2, indicates the potential for negative autocorrelation in the model..

***Random Effect Model* (REM)**

Table 7. Random Effect Test Results.

Dependent Variable: Y

Method: Panel EGLS (Cross-section random effects)

Date: 08/26/25 Time: 19:09

Sample Period: 2022 2024

Number of Periods: 3

Number of Cross-sections: 33

Total panel observations (balanced): 99

Estimator: Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.038029	0.036760	1.034.520	0.3035
X1	-0.007720	0.015299	-0.50461	0.6150
X2	-0.034770	0.018034	-1.928034	0.0574
X3	0.026424	0.025552	1.034148	0.3037

Effects Specification

	SD	Rho
Cross-section random	0.028466	0.2195
Idiosyncratic random	0.053681	0.7805

Weighted Statictics

R-squared	0.522896	Mean dependent var	-0.002539
Adjusted R-squared	0.257838	S.D. dependent var	0.062312
S.E. of regression	0.053681	Akaike info criterion	-2.736222
Sum squared resid	0.181545	Schwarz criterion	-1.792542
Log likelihood	1.714430	Hannan-Quinn criter.	-2.354408
F-statistic	1.972762	Durbin-Watson stat	3.071241
Prob(F-statistic)	0.009413		

Source: Eviews Output

The table shows that the t-stat test did not find any significant variables at the $\alpha = 5\%$ level, but the X2 variable approached the significance threshold with a probability value of 0.0568. The adjusted R^2 value of 0.025980 indicates that the model accounts for only 2.59% of the variability in the dependent variable, with the remaining portion influenced by other external factors. 0.139675 is the F-statistic's probability value (> 0.05), indicating that the model is not simultaneously significant. Moreover, since with a Durbin-Watson statistic of 1.962402 around 2, it can be said that autocorrelation issues are mostly absent from the model.

Chow Test

Table 8. Chow Test Results.

Redundant Fixed Effects Tests			
Equation: Untitled			
Test for cross-section fixed effects			
Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.028442	(32, 63)	0.0084
Cross-section Chi-square	70.111124	32	0.0001

Source: Eviews Output

According to the test findings, the probability value obtained from the Chi-square cross-sectional test is less than 0.05, at 0.0001, leading to the acceptance of H1. The hypotheses are as follows:

H0: The Common Effect Model is the proper model.

H1: The Fixed Effect Model is the proper model.

Therefore, the findings indicate that within this study, the Fixed Effect Model (FEM) offers a more appropriate fit compared to the Common Effect Model (CEM).

Hausman Test

Table 9. Hausman Test Results.

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	9.002306	3	0.0293

Source: Eviews Output

From the calculations performed, according the Chi-square distribution, the probability cross-section random value of 0.0293 is significant at the 95% confidence level ($\alpha = 5\%$). According to the Hausman Test, H1 (P-value < 0.05) is accepted, and the hypothesis is as follows:

Model of Random Effects (H0)

Fixed Effect Model (H1)

Based on the outcomes of the Hausman Test, the Fixed Effect Model proves to be more suitable for this study compared to the Random Effect Model.

Panel Data Regression Analysis

The panel data regression was analyzed using several approaches, including the Common Effect Model, Fixed Effect Model, Random Effect Model, as well as the Chow Test, Hausman Test, and Lagrange Multiplier Test, which was carried out utilizing EViews. According to the analysis, this study is best suited for the Fixed Effect Model was applied, and the results of the panel data regression along with the t-test are summarized in the table below:

Table 10. Panel Data Regression Analysis.

Dependent Variable: Y
Method: Panel Least Squares
Date: 08/26/25 Time: 19:02
Sample Period: 2022 2024
Number of Period: 3
Number of Cross-sections: 33
Total Panel Observations (Balanced): 99

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.152114	0.059422	2.559198	0.0129
X1	-0.023401	0.016843	-1.390127	0.1694

X2	-0.038670	0.019928	-1.940467	0.0568
X3	0.005397	0.031525	0.171201	0.8646

R-squared	0.522896	Mean dependent var	-0.002539
Adjusted R-squared	0.257838	S.D. dependent var	0.062312
S.E. of regression	0.053681	Akaike info criterion	-2.736222
Sum squared resid	0.181545	Schwarz criterion	-1.792542
Log likelihood	1.714430	Hannan-Quinn criter.	-2.354408
F-statistic	1.972762	Durbin-Watson stat	3.071241
Prob(F-statistic)	0.009413		

Source: Eviews Output

$$Y = 0,152114 - 0,023401X1 - 0,038670)X2 + 0,005397X3 + \varepsilon it$$

a. The constant (α) of 0.152114 suggests that when the independent variables audit committee independence, financial expertise, and committee size are held constant, the quality of financial statements is 0.152114.

b. The coefficient for X1 (Audit Committee Independence) is -0.023401, demonstrating that a 1% rise in audit committee independence is connected to 0.023401 decrease in financial statement quality, assuming that all other factors stay the same.

c. The X2 coefficient (Audit Committee Financial Expertise) is -0.038670, meaning that a 1% increase in The financial knowledge of the audit committee corresponds to a 0.038670 decrease in financial statement quality, holding other variables constant.

d. The coefficient for X3 (Audit Committee Size) is 0.005397, suggesting that a 1% increase in audit committee size leads to a 0.005397 improvement in financial statement quality, assuming the other independent variables remain unchanged.

Negative coefficients on the independence variable (X1) and the financial expertise of audit committee members (X2) indicate an interesting phenomenon in the context of corporate governance in Indonesia. These results indicate that a higher level of independence or a greater number of members with a financial background does not always lead to an improvement in the quality of financial reports. This condition may occur because the independence of audit committees is often still an administrative formality, where members who are said to be independent actually have indirect links to management. Similarly, the presence of members with financial backgrounds does not guarantee effective supervision if their roles are passive or limited to regulatory compliance. Thus, these negative results reflect that corporate governance in Indonesia still faces challenges in ensuring that audit committees function substantively, rather than merely symbolically.

The results for the audit committee size variable (X3) show a positive coefficient, although it is not statistically significant. This finding is in line with the literature, which states that a larger number of audit committee members can increase diversity of experience and oversight capacity. However, in the Indonesian context, the effectiveness of audit committee size is often limited by coordination issues, the free-rider effect, and a role that remains formalistic. Thus, despite the positive direction of the coefficient, the insignificance of this result confirms that simply increasing the number of audit committee members is not sufficient to improve the quality of financial reports without accompanying strengthening of actual oversight functions.

Hypothesis Testing (T-Test)

Table 11. Hypothesis Test H1 – Audit Committee Independence.

Variable	Coefficient	Std. Error	t-Statistic	Prob
X1 (Independence)	-0.023401	0.016843	-1.390127	0.1694

Hypothesis Testing (H1): The regression coefficient for audit committee independence is -0.023401 with a t-statistic of -1.390127 and a significance value of 0.1694 (> 0.05). These results indicate that H1 is rejected, meaning that the independence of the audit committee does not have a significant effect on the quality of financial reports. These findings indicate that the independence of audit committees in Indonesia is often still administrative in nature and does not yet function optimally in reducing profit management practices.

Table 12. Hypothesis Test H2 – Audit Committee Financial Expertise.

Variable	Coefficient	Std. Error	t-Statistic	Prob
X2 (Audit Committee Financial Expertise)	-0.038670	0.019928	-1.940467	0.0568

Recent studies indicate that the financial expertise of audit committee members does not automatically enhance financial reporting quality. Komal et al. (2023) emphasized that the educational background, professional experience, and gender of audit committee members can influence financial reporting quality, but additional supporting factors are necessary. Similarly, Alqatamin and Al-Sharif (2024) found that audit committee independence and meeting frequency have a significant positive relationship with financial reporting quality, highlighting that financial expertise alone is insufficient. Saraswati et al. (2024) also reported that audit committee membership does not have a significant impact on financial reporting quality in non-financial companies in Indonesia. Essien (2024) added that although audit committee size

has a positive effect, its influence on financial reporting quality in Sub-Saharan Africa is not significant, underscoring the need for active roles and effective oversight. Handoko et al. (2025) stated that audit committee characteristics, such as independence and financial expertise, can affect the occurrence of financial statement restatements in Indonesia. Muslim (2025) found that audit committee financial expertise, together with audit quality as a moderating variable, influences earnings quality throughout the company lifecycle. Belgacem (2025) emphasized the importance of additional mechanisms, such as whistleblowing disclosure, to improve financial reporting quality, indicating that financial expertise alone is insufficient. These findings are consistent with the H_2 test result, which shows a regression coefficient of 0.038670, a t-statistic of -1.940467, and a significance value of 0.0568; thus, H_2 is rejected, although it approaches the 10% significance level. This suggests that audit committee members' financial expertise must be complemented by active oversight, true independence, and additional control mechanisms to effectively enhance financial reporting quality.

Table 13. Hypothesis Test H3 – Audit Committee Size.

Variable	Coefficient	Std. Error	t-Statistic	Prob
X3 (Size)	0.005397	0.031525	0.171201	0.8646

Hypothesis Testing (H3): The regression coefficient for audit committee size is 0.005397 with a t-statistic of 0.171201 and a significance value of 0.8646 (> 0.05). Therefore, H3 is rejected, which means that the number of audit committee members does not significantly affect the quality of financial statements. This shows that increasing the number of audit committee members without improving coordination and active roles is not enough to improve the effectiveness of supervision.

Simultaneous Test (F-Test)

The probability value of 0.009413 for the F-statistic is less than 0.05, indicates that the independent variables, which are the quality of financial reports is significantly impacted by the independence, financial knowledge, and size of the audit committee.

Coefficient of Determination (R²)

The audit committee's independence, financial knowledge, and size are thought to be responsible for 25.7% of of the variation in financial statement quality, according to the Adjusted R2 value of 0.257838, with other factors outside the purview of this study influencing the remaining 74.3%.

6. CONCLUSION

Based on the panel data regression using the Fixed Effect model, the size, independence, and financial expertise of the audit committee do not individually exert a significant influence on the quality of financial reporting. In fact, independence and financial expertise showed negative coefficients, which contradicted agency theory and stewardship theory. This may indicate which the audit committee involved in Indonesian non-financial firms is still merely a formality and has not been optimally implemented in overseeing accounting practices.

Conversely, all three variables were simultaneously shown to significantly influence the quality of financial report preparation. This finding confirms that the performance efficiency of audit committees cannot be assessed based on a single aspect (independence, expertise, or size) alone, but rather on the overall synergy of the audit committee structure. In other words, the presence of independent, competent members in optimal numbers will only have a real impact if all three work together in an integrated manner.

However, this study also identified methodological limitations in the form of violations of classical assumptions (multicollinearity, autocorrelation, and abnormal residual distribution), so that the regression the findings should be viewed carefully. The Adjusted R^2 value of 25.7% reflects that there are still many other elements that affect the caliber of financial reporting, such as the quality of external audits, other governance mechanisms (e.g. the board of commissioners, as well as attributes of the business, including profitability, leverage, and firm size).

In practical terms, these findings imply that regulators and companies should recognize the reliability of financial statements is not guaranteed through the audit committee's involvement mere existence. Companies need to improve the duties of the audit committee by ensuring genuine independence (not merely administrative), enhancing financial expertise through ongoing training, and maintaining the committee's size within optimal limits to ensure effective oversight.

For upcoming research, it is recommended to provide control variables, use a robust regression or generalized least squares (GLS) approach, and test the role of moderation/mediation (e.g., audit quality or board effectiveness) to obtain more comprehensive results that are in line with empirical conditions in Indonesia.

Acknowledgement

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