

Research Article

The Effect of Board of Directors and Audit Committee Characteristics on Financial Reporting Quality: Evidence from Consumer Non-Cyclicals Companies Listed on the Indonesia Stock Exchange, 2022–2025

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Abstract. The research evaluates the effect of board of directors and audit committee characteristics on the quality of financial reporting in consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX) during 2022–2025. The research is motivated by concerns regarding the quality of financial reporting and the potential for managerial opportunistic behavior through managerial earnings manipulation. Therefore, this study aims to empirically analyze whether board size, board gender diversity, and audit committee size influence the quality of financial reporting. A quantitative causal-comparative approach was employed using secondary data obtained from companies' annual reports and financial statements. The sample was selected using purposive sampling, and panel data regression was applied to test the partial and simultaneous effects of the independent variables. Financial reporting quality was proxied by discretionary accruals measured using the Modified Jones Model. The estimates suggest that board size has a negative and significant effect on discretionary accruals, suggesting that a larger board of directors is related to lower managerial earnings manipulation and, consequently, higher the quality of financial reporting. In contrast, board gender diversity has no significant effect on discretionary accruals. Audit committee size also does not have a significant effect at the 5% significance level. Overall, the findings indicate that board size plays a more significant role in improving the quality of financial reporting than board gender diversity and audit committee size.

Keywords: Audit Committee Size; Board Gender Diversity; Board Size; Discretionary Accruals; Financial Reporting Quality; Modified Jones Model.

1. Introduction

Financial statements function as a major vehicle for conveying information concerning an entity's financial position and performance to its stakeholders. The Indonesian Institute of Accountants (Ikatan Akuntan Indonesia/IAI, 2022) states that general-purpose financial statements supply information intended to assist existing and prospective investors, lenders, and other creditors when allocating economic resources. Regulators and other information users also depend on these disclosures to assess financial condition, future prospects, investment attractiveness, and creditworthiness. Consequently, financial statements need to exhibit adequate qualitative characteristics to facilitate well-grounded economic decisions.

In actual reporting settings, these expectations can be influenced by managerial incentives and accounting choices. Agency Theory, introduced by Jensen & Meckling, (1976), offers a theoretical lens for understanding this condition. Within this relationship, shareholders act as principals and entrust managerial decision-making authority to managers in their role as agents. Because ownership and control are separated, managers may possess information about the firm's underlying condition that is not equally available to shareholders, thereby creating information asymmetry. This divergence of interests can consequently create incentives for managers to act opportunistically, including the management of reported

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earnings. Healy & Wahlen, (1999) characterize earnings manipulation as the exercise of managerial judgment in financial reporting or transaction structuring to alter reported information, either to shape stakeholders' perceptions of economic performance or to affect outcomes based on accounting figures. Reporting quality may deteriorate when the resulting accounting information no longer faithfully represents the firm's underlying economic circumstances.

The quality of financial reporting is also linked to the possibility of financial statement fraud. Cressey's (1953) fraud triangle conceptualizes fraudulent conduct as the result of the interaction among pressure, opportunity, and rationalization, with weak oversight potentially creating the opportunity for misconduct. The broader importance of this issue is reflected in the Association of Certified Fraud Examiners (ACFE, 2024), which recorded 1,921 fraud cases across 138 countries and estimated organizational losses at approximately 5% of annual revenue. Although financial statement fraud represented only about 5% of the recorded cases, the median loss associated with such cases reached USD 766,000, exceeding the median losses associated with other major categories of occupational fraud. Thus, even when financial statement manipulation occurs less frequently, its consequences can be considerable and can undermine stakeholders' confidence in reported information.

Indonesian cases also illustrate the consequences that may arise from inadequate reporting and weak oversight. PT Asuransi Jiwasraya (Persero), for example, was associated with the presentation of artificial profits that concealed its underlying financial difficulties and preceded serious problems in meeting policyholder obligations. At PT Garuda Indonesia (Persero) Tbk, Otoritas Jasa Keuangan (OJK) determined that the company had misstated its 2018 annual financial statements by prematurely recognizing revenue from a cooperation agreement. More recently, allegations concerning eFishery pointed to differences between reported revenue and the company's actual financial condition. Viewed together, these cases suggest that weaknesses in internal control and monitoring may contribute to reporting problems. Accordingly, reinforcing governance mechanisms, particularly the board of directors and audit committee, is therefore relevant to constraining opportunistic reporting and supporting higher-quality financial information.

Within the governance framework, the audit committee serves as one mechanism for overseeing financial reporting. Financial Services Authority Regulation No. 55/POJK.04/2015 describes it as a committee formed by and responsible to the board of commissioners to assist in carrying out supervisory responsibilities. DeZoort et al. (2002) maintain that effective audit committees depend on appropriate qualifications, authority, and resources to protect stakeholder interests through oversight of reporting reliability, internal control, and risk management. Its role consequently goes beyond merely fulfilling a formal requirement, as the committee is expected to make a substantive contribution to reporting integrity and transparency. Earlier evidence also connects audit committee attributes with corporate outcomes. Al-Jalahma (2022), for example, identified positive associations of committee size, independence, and financial expertise with firm performance, whereas evidence regarding meeting frequency was less consistent. Nguyen & Dan, (2022) similarly associated audit committee characteristics with tax avoidance, suggesting that committee composition can affect managerial decisions.

The board of directors represents another fundamental component of the corporate governance system. Pursuant to Indonesian Company Law No. 40 of 2007, the responsibility for managing a company in accordance with its objectives and interests is assigned to the board of directors. Indonesia employs a two-tier board structure: the board of directors is responsible for operational management, while the board of commissioners performs supervisory functions. This makes directors relevant to financial reporting because they participate directly in strategic decisions and corporate policies that can influence reporting practices. Differences in board composition can therefore influence the strength of managerial monitoring and the ability to constrain opportunistic conduct.

Board size constitutes one structural feature that can affect the board's effectiveness in carrying out its responsibilities. Resource Dependence Theory, as proposed by Pfeffer & Salancik, (1978), holds that a larger number of directors can broaden access to expertise, experience, information, and external resources. With more members, the board may pool a broader set of capabilities and viewpoints when monitoring management and responding to complex business conditions. In Indonesia, Financial Services Authority Regulation No. 33/POJK.04/2014 requires public companies to maintain at least two directors. Empirical evidence likewise underscores the importance of board size. Vitolla et al. (2020) found positive and significant relationships between board size, board independence, board diversity, board activity, and integrated reporting quality, while Githaiga et al. (2022)

associated larger boards with lower earnings management. Taken together, these results suggest that board size may strengthen monitoring and constrain opportunistic financial reporting.

Gender diversity represents another board characteristic that may affect the quality of oversight. The concept refers to the representation and participation of women on the board of directors, whose involvement can contribute experiences and viewpoints that differ from those of other directors. This diversity can widen the range of perspectives considered when managerial actions and reporting practices are assessed. Empirical research also points to the relevance of board diversity for corporate reporting. Peng et al. (2021), for instance, identified a positive relationship between gender and educational diversity on corporate boards and corporate social responsibility disclosure. Yismaw et al. (2026) likewise reported negative relationships between gender, age, tenure, and educational diversity and earnings management. However, the consequences associated with gender diversity may differ with institutional circumstances, the extent of female representation, and firm characteristics.

These governance considerations are especially pertinent for consumer non-cyclicals firms. Household expenditure continued to represent one of Indonesia's largest GDP components during 2022–2025, reaching 54.04% in 2024 and remaining the largest component at 53.8% in 2025. Within the IDX-IC classification, consumer non-cyclicals includes producers and distributors of essential or primary consumer products, such as food and beverages, agricultural products, tobacco, household goods, and personal care products. Given the sector's close connection to essential household demand and participate in the capital market, the reliability of their financial reporting is especially important to investors and other stakeholders.

Earlier literature has not produced a consistent conclusion about whether corporate governance mechanisms improve reporting quality. Vitolla et al. (2020) documented significant positive relationships between several board characteristics and integrated reporting quality, whereas Githaiga et al. (2022) found that board size, board independence, and gender diversity were negatively associated with earnings management. Indonesian evidence is similarly mixed. Wijayanti & Setiawan, (2023) reported a positive relationship between the board of commissioners and financial reporting quality but found no significant effect for the audit committee. Al-Jalahma (2022) also identified significant effects for certain audit committee characteristics, although results for attributes such as meeting frequency and gender diversity have differed across studies. These differences suggest that the role of governance mechanisms may depend on institutional conditions, variable measurement, industry characteristics, and the selected proxy for financial reporting quality.

Another limitation of the existing body of literature is the concentration of research on banking, manufacturing, or broad multi-industry samples. Only limited evidence directly addresses consumer non-cyclicals companies in Indonesia during 2022–2025. This observation period is also noteworthy because firms operated through post-pandemic shifts in market conditions, consumer behavior, and competitive pressures. Given the substantial representation of consumer non-cyclicals firms on the Indonesia Stock Exchange, this sector provides a relevant context for evaluating whether governance arrangements support reliable financial reporting. Accordingly, more sector-specific evidence is needed regarding the relationship between board and audit committee characteristics and financial reporting quality within this industry and period.

Against this background, the investigation examines whether board size, board gender diversity, and audit committee size are associated with financial reporting quality among consumer non-cyclicals companies listed on the Indonesia Stock Exchange during 2022–2025. Financial reporting quality is represented by discretionary accruals (DAC), estimated using the Modified Jones Model. This measurement is based on the premise that greater managerial earnings manipulation, reflected in higher discretionary accruals, signals lower reporting quality. By separating the discretionary component from total accruals, the Modified Jones Model permits examination of whether governance characteristics are related to the discretion exercised by management in reported earnings. This approach is aligned with Agency Theory, which emphasizes monitoring as a means of reducing conflicts of interest and information asymmetry between principals and agents.

The expected relationships derive from the monitoring functions of the board and audit committee. An increase in board membership may broaden the expertise and viewpoints available for oversight, while gender diversity may broaden the perspectives applied to managerial decisions. An appropriately structured audit committee may likewise support more reliable financial reporting. However, the mixed findings of prior studies mean that these relationships cannot be presumed to be significant in every setting. Consequently, these

relationships require empirical verification. The present investigation accordingly evaluates whether the selected governance characteristics are associated with discretionary accruals among Indonesian consumer non-cyclicals companies.

The study provides three principal contributions. First, it extends empirical evidence on the relationship between board and audit committee characteristics and financial reporting quality in the Indonesian consumer non-cyclicals sector, an area that has received comparatively limited attention. Second, the analysis considers board size, gender diversity, and audit committee size within the same empirical framework, with discretionary accruals used as the proxy for financial reporting quality, enabling the governance mechanisms to be evaluated within a common framework. Third, the analysis situates the inconsistent findings of previous research within a specific institutional, industry, and observation-period context. The findings may also provide useful information for companies, investors, and regulators in assessing whether formal governance arrangements are accompanied by effective financial reporting oversight. The empirical results show that board size has a negative and significant effect on discretionary accruals, while board gender diversity has no significant effect. Audit committee size is likewise insignificant at the 5% significance level.

2. Literature Review

Agency Theory

Jensen & Meckling, (1976) conceptualize Agency Theory in terms of the relationship between a principal and an agent. In the corporate context, shareholders are principals who delegate managerial authority to managers acting as agents. The separation of ownership and management can lead to differences in interests. Managers may also have access to information concerning company operations and financial condition that is not equally available to shareholders, producing information asymmetry. In such circumstances, managers may have greater scope to pursue objectives that are not fully aligned with those of shareholders.

When divergent interests coexist with information asymmetry, agency problems and agency costs may arise. Financial reporting represents one area in which these conflicts may emerge because managers exercise judgment in accounting-policy choices, estimates, and the determination of reported earnings. This discretion may be exercised to influence reported performance for managerial purposes. Earnings management is therefore closely related to Agency Theory: managers may alter accounting information to meet particular objectives, whereas shareholders rely on credible financial information in making decisions.

Corporate governance is expected to mitigate agency-related problems by reinforcing oversight of management. The board of directors and audit committee serve as important mechanisms of oversight that can restrict opportunistic conduct and enhance the credibility of financial reporting. Their effectiveness may nevertheless differ according to structural characteristics, including the number of directors, board diversity, and audit committee size. Accordingly, Agency Theory provides the theoretical foundation for assessing how these governance characteristics may be associated with financial reporting quality in the present investigation.

Financial Reporting Quality and Discretionary Accruals

Financial reporting quality reflects the degree to which financial statements faithfully represent a company's underlying economic conditions and provide useful information for stakeholders' decisions. In an agency setting, reliable reporting is particularly important because it can reduce the information gap between managers and shareholders. The closer reported information is to the firm's economic condition, stakeholders can evaluate performance and make decisions on a more informed basis.

One practice capable of weakening financial reporting quality because managerial discretion is involved in determining accrual-based earnings. Discretionary accruals (DAC) are consequently often used to represent the accrual component of earnings management. A larger magnitude of discretionary accruals implies greater managerial discretion over reported earnings; accordingly, the present investigation interprets higher DAC as an indication of lower financial reporting quality.

The analysis estimates discretionary accruals using the Modified Jones Model developed by Dechow et al. (1995). Relative to the original Jones specification, the modified specification incorporates changes in receivables when estimating nondiscretionary accruals. This procedure then distinguishes total accruals into nondiscretionary and discretionary components. This measurement choice is in line with earlier studies considered in the investigation, including Githaiga et al. (2022), which used discretionary accruals to examine

earnings management, Attia et al. (2024), which assessed several accrual-based earnings management models.

The Modified Jones Model is also pertinent to the state-of-the-art discussion because alternative measures of earnings management may generate different empirical outcomes. Attia et al. (2024), for example, examined board gender diversity using four accrual-based models and found no significant relationship when earnings management was measured with the Modified Jones Model, whereas significant relationships appeared under several alternative models. These findings illustrate that the measurement approach can affect the interpretation of the relationship between corporate governance and financial reporting quality.

Resource Dependence Theory and Board Size

From the perspective of Resource Dependence Theory, Pfeffer & Salancik, (1978) regard the board of directors as an organizational mechanism through which important resources can be obtained and accessed. Such resources include knowledge, expertise, experience, information, and external relationships. Directors consequently contribute not only through oversight but also through their backgrounds and networks, which can provide resources that assist organizational decisions and responses to business challenges.

Board size can matter to financial reporting quality because board size determines, in part, the breadth of expertise and viewpoints available during board deliberations. Greater membership may enable managerial decisions and reporting policies to be examined from more perspectives, increasing the opportunity to identify and constrain potentially opportunistic behavior. Resource Dependence Theory therefore provides a basis for expecting a larger board to be associated with less managerial discretion in financial reporting.

The empirical evidence reviewed here broadly supports this expectation. Githaiga et al. (2022) reported a negative and significant relationship between board size and earnings management, implying that larger boards were associated with lower earnings management. Vitolla et al. (2020) also identified a positive relationship between board size and integrated reporting quality. Together, these results suggest that a larger board may reinforce monitoring and contribute to better reporting quality.

The empirical results are in accordance with the theoretical and empirical arguments above. Board size has a negative and significant effect on discretionary accruals. The empirical evidence further shows that firms with comparatively larger boards tend to report lower discretionary accruals than firms with smaller boards. This finding supports the view that an adequately sized board can provide broader resources, expertise, and perspectives for monitoring management and restricting opportunistic financial reporting.

Board Gender Diversity

Board gender diversity refers to the representation of different genders among directors. The participation of women on corporate boards may introduce distinct experiences, perspectives, and approaches to decision-making and monitoring. From a corporate governance perspective, greater diversity can therefore expand the range of viewpoints considered when managerial actions and financial reporting are evaluated.

Prior studies have produced divergent conclusions about gender diversity and earnings management. Githaiga et al. (2022) found a negative and significant relationship between gender diversity and earnings management, suggesting that greater diversity may help limit managerial opportunism. Yismaw et al. (2026) similarly reported a negative and significant effect of gender diversity on earnings management. These results suggest that gender diversity may strengthen monitoring and constrain earnings management.

Other evidence, however, points in another direction. Attia et al. (2024) found that gender diversity was statistically insignificant when earnings management was measured using the Modified Jones Model, although significant relationships emerged with other accrual models. Robiyanto et al. (2022) likewise found no direct significant effect of board gender diversity on accrual quality, although an indirect relationship operated through cash-flow variability.

The variation across studies suggests that the effect of gender diversity may be conditional on institutional context, board composition, and the way earnings management is measured. The present investigation adds evidence by examining board gender diversity among Indonesian consumer non-cyclicals companies and using discretionary accruals estimated through the Modified Jones Model. Consistent with Attia et al. (2024) and Robiyanto et al. (2022), the results indicate that board gender diversity does not significantly affect discretionary accruals.

Audit Committee Size

The audit committee functions as a corporate governance mechanism that assists the board of commissioners in performing its supervisory responsibilities, particularly in relation to financial reporting and internal control. From an agency perspective, effective audit committee oversight can reduce information asymmetry by strengthening monitoring of management and the financial reporting process.

Audit committee size refers to the number of individuals serving on the audit committee. From a theoretical standpoint, a larger committee could supply additional resources, knowledge, and viewpoints for monitoring. However, committee effectiveness cannot be inferred from membership count alone. Monitoring quality can also depend on independence, financial expertise, leadership, experience, and the extent to which members actively perform their responsibilities.

Prior evidence reflects this inconsistency. Zadeh et al. (2023) found associations between audit committee characteristics and accrual-based earnings management, although the direction and magnitude varied across characteristics. Conversely, Almarayeh et al. (2021) reported that audit committee size did not significantly affect earnings management. Their evidence indicated that monitoring quality, especially independence, was more closely related to audit committee effectiveness than the number of members itself.

Al-Absy et al. (2019) likewise emphasized that characteristics of the audit committee chair, including tenure, gender, experience, and competence, can be more consequential than committee size. Thus, increasing the number of members does not automatically improve financial reporting quality when the additional membership does not strengthen substantive monitoring.

The present analysis adds evidence to this discussion. Audit committee size has a positive coefficient but is not statistically meaningful at the 5% significance level. The results therefore do not provide sufficient evidence that audit committee size affects financial reporting quality when it is measured through discretionary accruals.

Control Variables

In addition to the principal explanatory variables, the investigation includes several firm-level characteristics as controls because these factors may also be related to financial reporting quality. The control variables are Return on Equity (ROE), firm size (SIZE), and Debt to Equity Ratio (DER). These controls are incorporated to lessen the possibility that the observed relationship between board and audit committee characteristics and discretionary accruals is attributable to differences in firms' financial characteristics. The thesis explicitly includes BS, BGEND, ACS, ROE, SIZE, DER, and DA in the statistical analysis.

Return on Equity

Return on Equity (ROE) reflects the ability of a company generates profit from shareholders' equity. Profitability is relevant to financial reporting because firms with different profitability levels may face different incentives and pressures when reporting performance. ROE is therefore included as a control so that the estimated relationship between governance characteristics and discretionary accruals can be distinguished from differences in firm profitability.

ROE is obtained from the ratio of net income divided by total equity. A higher ROE reflects greater profitability relative to the capital supplied by shareholders. Controlling profitability makes it possible to assess whether the relationship between governance characteristics and discretionary accruals persists beyond differences in firms' capacity to generate profit.

Firm Size

Firm size reflects the scale of a company's operations and resources. Larger firms generally possess more complex organizational structures and face greater scrutiny from investors, creditors, regulators, and other stakeholders. Differences in firm size may consequently be accompanied to differences in financial reporting practices and monitoring intensity.

Firm size is operationalized through the natural logarithm of total assets. Including SIZE as a control variable accounts for differences in organizational scale when estimating the relationship between corporate governance characteristics and discretionary accruals.

Debt to Equity Ratio

Debt to Equity Ratio (DER) represents the proportion of company financing derived from debt relative to shareholders' equity. Leverage is relevant to managerial earnings manipulation because companies with higher debt obligations may face greater pressure to maintain financial performance and comply with debt-related requirements. Consequently,

differences in capital structure may influence managerial reporting decisions independently of corporate governance characteristics.

DER is measured as total liabilities divided by total equity. Including DER as a control variable, the investigation accounts for differences in financial leverage that may influence discretionary accruals.

State-of-the-Art and Research Gap

The literature considered in the present investigation suggests that the connection between corporate governance and financial reporting quality remains unresolved. Board size provides the relatively more consistent evidence, with prior research generally suggesting that larger boards can strengthen monitoring and reduce earnings management. Githaiga et al. (2022), for example, identified a negative and significant relationship between board size and earnings management, while the present investigation likewise finds a negative and significant effect of board size on discretionary accruals.

Findings concerning board gender diversity are more varied. Some studies indicate that gender diversity reduces earnings management, whereas others do not identify a significant direct relationship. The contrast is especially relevant when different earnings-management measures are applied. Attia et al. (2024) showed that gender diversity was insignificant under the Modified Jones Model but significant under several alternative models, highlighting measurement choice as an important methodological issue.

Research on audit committee size likewise suggests that membership count may not fully represent the effectiveness of financial reporting oversight. Although some studies report significant relationships between audit committee characteristics and earnings management, Almarayeh et al. (2021) and Al-Absy et al. (2019) suggest that independence, leadership, competence, and experience can be more important than the number of members.

The study's state of the art is reflected in the joint examination of three governance characteristics board size, board gender diversity, and audit committee size—within one empirical framework, while profitability, firm size, and leverage are controlled. The research concentrates on consumer non-cyclicals companies listed on the Indonesia Stock Exchange during 2022–2025 and uses discretionary accruals estimated through the Modified Jones Model as the measure of financial reporting quality. This setting provides a more focused assessment of whether structural governance characteristics are associated with managerial discretion in financial reporting among Indonesian consumer non-cyclicals companies.

The results further contribute to the literature by showing that formal governance characteristics do not necessarily produce equivalent effects. Board size has a significant negative effect on discretionary accruals, whereas board gender diversity and audit committee size are not significant at the 5% level. The results therefore suggest that, within the observed sample, the number of directors may be more relevant to financial reporting quality than the presence of gender diversity or the size of the audit committee.

Development of Research Propositions

Building on Agency Theory and Resource Dependence Theory, the governance mechanisms considered in the present investigation are theoretically expected to be associated with managerial discretion in financial reporting. A larger board may increase monitoring resources and capacity, while gender diversity may broaden the perspectives used in decision-making. An appropriately structured audit committee may likewise strengthen oversight of financial reporting. These theoretical considerations, together with the mixed evidence from previous research, motivate the examination of the following relationships: a) P1: Board size is associated with financial reporting quality; b) P2: Board gender diversity is associated with financial reporting quality; c) P3: Audit committee size is associated with financial reporting quality.

The empirical model also includes ROE, SIZE, and DER as control variables to account for differences in profitability, organizational scale, and leverage across the sampled firms.

3. Research Method

Research Design and Data Collection

The study adopts a quantitative design and applies panel-data analysis to examine the effect of board of directors and audit committee characteristics on financial reporting quality. Panel data combine observations across firms with observations over time, enabling the analysis to reflect both differences between companies and changes across the observation years.

The research focuses on firms in the consumer non-cyclicals sector that were listed on the Indonesia Stock Exchange (IDX) during 2022–2025. Secondary information is obtained from annual reports and audited financial statements issued during the observation period. The sample is constructed through purposive sampling using predetermined criteria, including continuous listing during 2022–2025, availability of complete annual reports and audited financial statements, availability of information on board size, board gender diversity, and audit committee size, and the absence of delisting, merger, or acquisition during the observation period.

According to the sample-selection table in the thesis, 123 companies were initially identified. Of these, 23 were excluded because of incomplete data, leaving 100 sample companies and 393 firm-year observations. The thesis then reports the exclusion of 100 outlier observations, producing 293 observations in the sample-selection table.

Variable Measurement

Financial reporting quality serves as the dependent variable, represented by Discretionary Accruals (DAC). The principal explanatory variables comprise board size (BS), board gender diversity (BGEND), and audit committee size (ACS). Return on Equity (ROE), firm size (SIZE), and Debt to Equity Ratio (DER) are incorporated as control variables. The thesis explicitly treats DER as a control variable rather than as a variable forming part of the main hypothesis testing.

Financial Reporting Quality

Financial reporting quality is operationalized by means of Discretionary Accruals using the Modified Jones Model developed by Dechow et al. (1995). Relative to the original Jones specification, this specification incorporates changes in accounts receivable when estimating nondiscretionary accruals. The thesis uses the absolute value of discretionary accruals because earnings management can involve either income-increasing or income-decreasing reporting choices.

The calculation is performed in three principal stages.

First, Total Accruals (TA) are calculated from net income and operating cash flow:

$$TA_{it} = NI_{it} - CFO_{it} \dots \dots \dots (i)$$

where represents total accruals of firm in period , represents net income, and represents cash flow from operating activities.

Second, Non-Discretionary Accruals (NDA) are estimated using the Modified Jones regression:

$$NDA_{it} = \alpha_1 \left(\frac{1}{A_{it-1}} \right) + \alpha_2 \left(\frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} \right) + \alpha_3 \left(\frac{PPE_{it}}{A_{it-1}} \right) + \varepsilon_{it} \dots \dots \dots (ii)$$

where represents total assets in the preceding period, represents changes in revenue, represents changes in accounts receivable, and represents gross property, plant, and equipment. The estimated coefficients are then used to obtain:

Third, Discretionary Accruals are calculated as:

$$DA = \frac{TA_{it}}{A_{it-1}} - NDA_{it} \dots \dots \dots (iii)$$

The absolute DAC value is subsequently used to represent the magnitude of discretionary accruals.

Independent Variables

Board Size (BS) is defined according to the total number of directors serving on the company's board during the relevant observation period.

Board Gender Diversity (BGEND) is expressed as the proportion of female directors on the board, calculated by dividing the number of female directors by the total number of directors.

Audit Committee Size (ACS) is represented by the total number of members serving on the audit committee during the relevant observation period.

Control Variables

Three firm-level variables are incorporated as controls:

DER is included as a control for differences in corporate leverage that may affect discretionary accruals independently of the main governance variables. The thesis explicitly indicates that DER is not the focus of the hypothesis tests but is included to reduce potential estimation bias associated with differences in firms' financing structures.

Proposed Empirical Model

After calculating the dependent variable and defining the explanatory and control variables, the investigation estimates the following panel-data regression model:

$$DAC_{it} = \alpha + \beta_1 BS_{it} + \beta_2 BGEND_{it} + \beta_3 ACS_{it} + \beta_4 ROE_{it} + \beta_5 SIZE_{it} + \beta_6 DER_{it} + \varepsilon_{it} \dots \dots \dots (i)$$

where: a) DAC_{it}= discretionary accruals of firm in period; b) BS_{it}= board size; c) BGEND_{it}= board gender diversity; d) ACS_{it}= audit committee size; e) ROE_{it}= return on equity; f) SIZE_{it}= firm size; g) DER_{it}= debt-to-equity ratio; h) α = constant; i) $\beta_1 - \beta_6$ = regression coefficients; j) ϵ = error term.

The model estimates both partial and simultaneous relationships between governance characteristics and financial reporting quality. The same panel regression specification is presented in the methodology of the thesis.

Panel Data Estimation Procedure

The analysis considers three alternative panel-data estimators: Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM).

Model selection is carried out through a sequential testing procedure.

Common Effect Model

In the CEM specification, differences across firms and periods are not treated as generating separate effects that require explicit modeling. Cross-sectional and time-series observations are consequently estimated using a common intercept.

Fixed Effect Model

The FEM allows each company to have its own intercept, thereby controlling for unobserved firm characteristics that remain relatively stable throughout the observation period.

Random Effect Model

The REM treats firm-specific effects as random components within the error structure and is appropriate when these individual effects are assumed to be uncorrelated with the explanatory variables.

Model Selection

The preferred panel-data specification is determined through three model-selection tests. The Chow Test determines whether the Common Effect Model (CEM) or Fixed Effect Model (FEM) is more suitable.

The Hausman Test is applied to choose between the FEM and Random Effect Model (REM).

The Lagrange Multiplier (LM) Test compares the CEM and REM. The model identified through these procedures is subsequently used for hypothesis testing.

The model-selection process can be summarized as follows: a) CEM → Chow Test → FEM/ CEM; b) FEM vs. REM → Hausman Test → FEM/REM; c) CEM vs. REM → LM Test → CEM/REM

This sequence is intended to ensure that the final regression estimates use the panel-data specification that most appropriately reflects the characteristics of the observed dataset.

Statistical Analysis and Hypothesis Testing

Before estimating the panel regression, descriptive statistics are used to summarize the characteristics of all research variables. Minimum, maximum, mean, and standard deviation values are reported for DAC, BS, BGEND, ACS, ROE, SIZE, and DER.

The empirical analysis further conducts diagnostic tests for normality, multicollinearity, heteroskedasticity, and autocorrelation. Normality is assessed using the Shapiro–Wilk and skewness-kurtosis procedures; multicollinearity is evaluated using VIF and tolerance; heteroskedasticity is tested with the Glejser procedure; and autocorrelation is examined using the Wooldridge procedure.

The hypotheses are evaluated using three principal measures.

Coefficient of Determination

The coefficient of determination (R^2) indicates how much variation in DAC is accounted for by the explanatory variables. A higher value indicates greater explanatory capacity of the regression model.

F-Test

The F-test examines whether the explanatory variables collectively have a statistically significant relationship with discretionary accruals. A significance value below 0.05 indicates a statistically significant simultaneous effect.

4. Results and Discussion

Research Data and Analytical Tools

The empirical analysis draws on secondary information from annual reports and audited financial statements of consumer non-cyclicals companies listed on the Indonesia Stock Exchange (IDX) during 2022–2025. Companies were selected through purposive sampling according to the availability and completeness of the financial and corporate-governance

information needed to measure the study variables. From 123 initially identified companies, 23 were excluded for incomplete information, leaving 100 companies and 393 firm-year observations. After 100 identified outliers were removed, the final sample comprised 293 observations.

Data preparation and statistical estimation were conducted with Stata/MP 18. The software was used because it integrates panel-data estimation, model-specification tests, robust standard-error procedures, and econometric diagnostics. The analysis covered descriptive statistics, panel-model selection, classical assumption testing, and hypothesis testing.

A personal computer was used for data preparation, data transformation, discretionary accrual calculations, and statistical estimation. The hardware specification can be reported based on the researcher's actual device to support reproducibility.

Initial Data Analysis

Descriptive Statistics

Descriptive statistics were employed to evaluate the distribution and variability of the dependent variable, the principal explanatory variables, and the control variables. The reported measures comprise the minimum, maximum, mean, and standard deviation.

Table 1. This is a table. Tables should be placed in the main text near to the first time they are cited.

Variable	Minimum	Maximum	Mean	Std. Deviation
Discretionary Accruals (DA)	-0.0020	0.0030	0.0002	0.0010
Board Size (BS)	2.0000	9.0000	4.2840	1.9910
Gender Diversity (GD)	0.0000	0.5000	0.1360	0.1840
Audit Committee Size (ACS)	2.0000	5.0000	3.0150	0.3020
ROE	-0.4040	0.3300	0.0650	0.1660
Firm Size (SIZE)	25.2470	31.3870	28.5120	1.7430
DER	0.0840	5.2160	1.2160	1.3230

Source: STATA MP 18 Output

DA has a mean value of 0.0002, which is close to zero, indicating that discretionary accruals are relatively small on average among the sampled firms. However, the standard deviation of 0.001 shows that DA differs across observations. Thus, while the overall magnitude of discretionary accruals is low, variation in financial reporting practices can still be observed between companies.

The observed board size spans 2 and 9 directors, with an average of 4.284. The mean therefore corresponds to approximately four to five directors per company. A standard deviation of 1.991 indicates substantial dispersion in the number of directors across observations.

The gender-diversity measure spans 0 to 0.50 and has a mean of 0.136. On average, women account for approximately 13.6% of board membership. The zero minimum indicates that some sampled companies have no female directors, while the maximum of 0.50 shows that female representation reaches half of the board in some observations.

ACS takes values from 2 to 5 members, with a mean of 3.015 and a standard deviation of 0.302. The mean is close to three and the dispersion is small, indicating that audit committee size is highly homogeneous across the sample. This concentration suggests limited variation in ACS.

ROE ranges from -0.404 to 0.330 , with a mean of 0.065 , indicating positive average profitability despite some observations showing negative returns on equity. SIZE ranges from 25.247 to 31.387 , while DER ranges from 0.084 to 5.216 . These values indicate meaningful differences in firm scale and leverage across the sampled companies.

Panel Model Selection

Because the final specification uses lagged explanatory variables and year dummy variables, model selection relies on the Chow Test and the Breusch–Pagan Lagrange Multiplier Test.

Table 2. Panel Model Selection.

Test	Statistic	p-value	Conclusion
Chow Test	2.02	0.6405	CEM preferred to FEM
Breusch-Pagan LM Test	0	1	CEM preferred to REM

Source: STATA MP 18 Output.

Chow Test

The Chow Test produces an F-statistic of 2.02 and a p-value of 0.6405. Because the p-value exceeds 0.05, the null hypothesis cannot be rejected. The Common Effect Model (CEM) is therefore preferred over the Fixed Effect Model (FEM).

Breusch–Pagan Lagrange Multiplier Test

The LM procedure produces a Breusch–Pagan statistic of 0.00 and a p-value of 1.000. Since the probability value is well above 0.05, there is no statistical evidence of significant random effects. The CEM is consequently preferred to the Random Effect Model (REM).

The two specification tests converge on the same conclusion: the Common Effect Model is the appropriate model for the final estimation.

Diagnostic Tests

Normality Test

Table 3. Normality Test.

Normality Test	Swilk Prob>z	Sktest Prob>chi2
	0	0

Source: STATA MP 18 Output.

The two diagnostic tests indicate that the residuals are not perfectly normally distributed because both probability values are below 0.05. Nevertheless, the regression is retained because the final sample contains 293 observations, allowing asymptotic properties of the estimators to be invoked under the Central Limit Theorem.

Hence, the formal indication of non-normality is treated as a diagnostic limitation rather than as a basis for rejecting the regression model.

Multicollinearity Test

Table 4. Multicollinearity Test.

Variable	VIF	1/VIF
board_size~g	1.78	0.561
gender_div~g	1.09	0.913
komite_aud~g	1.03	0.969
roe_lag	1.32	0.759
size_lag	1.99	0.501
der_lag	1.32	0.757
year		
2024	1.33	0.749
2025	1.33	0.75
Mean VIF =1.44		

Source: STATA MP 18 Output.

Every VIF statistic remains below 10, while every tolerance value exceeds 0.10. With a mean VIF of 1.44, the results provide no indication of problematic multicollinearity among the explanatory variables, control variables, and year dummy variables.

This result implies that the coefficient estimates can be interpreted without substantial distortion arising from strong linear relationships among the predictors.

Heteroskedasticity Test

Table 5. Heteroskedasticity Test.

Cook-Weisberg	chi2(1)	Prob > chi2
	5.97	0.01

Source: STATA MP 18 Output.

The test produces a p-value of 0.010, which is below 0.05, indicating that heteroskedasticity is present in the model.

The final specification deals with this issue by applying heteroskedasticity-robust standard errors through the vce(robust) procedure in Stata. This procedure adjusts the estimated standard errors while leaving the regression coefficients unchanged.

This adjustment matters because the subsequent hypothesis tests are based on standard errors that are more robust to unequal residual variance.

Autocorrelation Test

Table 6. Autocorrelation Test.

Wooldridge Test	F Test	Prob > F
	0.007	0.933

Source: STATA MP 18 Output.

The Wooldridge procedure produces an F-statistic of 0.007 and a p-value of 0.933. Because the probability value is substantially above 0.05, the results provide no statistical evidence of first-order serial correlation in the residuals.

Accordingly, heteroskedasticity represents the main diagnostic issue identified in the model, and it is addressed through robust standard errors.

Robust Panel Regression Results

The model-selection evidence points to the Common Effect Model as the appropriate specification. Because heteroskedasticity is present, the final regression uses robust standard errors. The specification also includes one-period lagged explanatory and control variables together with year dummy variables.

Table 7. Robust Panel Regression Results.

Variable	Coefficient	Robust std.err.	t	p-value
board_size_lag	-0.000098	0.0004315	-2.34	0.02
gender_diversity_lag	0.0003742	0.0004315	-0.81	0.421
komite_audit_lag	0.0003742	0.0001987	1.88	0.061
roe_lag	0.0009525	0.0004765	2	0.047
size_lag	-0.00000696	0.0000584	-0.12	0.905
der_lag	-0.0001043	0.0000636	-1.64	0.102
2024	0.0001509	0.0001726	0.87	0.383
2025	-0.0001811	0.0001617	-1.12	0.264
_cons	-0.0001748	0.0017329	-0.1	0.859
N (Number of obs)	293			
Prob > F	0.0016			
R-squared	0.0698			

Source: STATA MP 18 Output.

The regression model is statistically significant as a whole, producing an F-statistic of 3.23 and Prob > F of 0.0016. Because $0.0016 < 0.05$, the explanatory variables collectively provide statistically meaningful information about DA.

The estimated model produces an R^2 of 0.0698, indicating that approximately 6.98% of the variation in DA is explained by the governance variables, control variables, and year dummy variables. The remaining 93.02% reflects factors outside the specified model.

A relatively low R^2 should not, by itself, be interpreted as evidence that the model is inadequate. DA is a complex managerial reporting outcome that may be affected by many factors beyond board and audit committee characteristics. This outcome suggests that the governance variables account for only a limited share of DA variation within this sample and model specification.

Hypothesis Testing and Discussion

Board Size and Financial Reporting Quality

For board size, the estimated coefficient is of -0.000098 , a t-statistic of -2.34 , and a p-value of 0.020. Since $0.020 < 0.05$, the negative relationship between board size and DA is statistically meaningful. Accordingly, H1 is supported.

The negative sign indicates that a larger board in the preceding period is associated with lower discretionary accruals in the following period. Because lower discretionary accruals represent less managerial discretion in financial reporting, the result suggests that larger boards may enhance monitoring and thereby contribute to higher financial reporting quality.

The one-period lag is important when interpreting this finding. The evidence does not simply show that board size and DA are associated in the same period; instead, it indicates that board structure in the preceding period is related to reporting quality in the subsequent period.

This evidence is compatible with the monitoring mechanism described by Agency Theory. A larger board may increase monitoring capacity by bringing broader expertise and distributing oversight responsibilities across more directors. This may reduce management's opportunities to engage in opportunistic reporting.

Gender Diversity and Financial Reporting Quality

The p-value of 0.421 indicates that, gender diversity is statistically insignificant at the 5% level. Therefore, H2 is not supported.

Although the thesis discussion interprets the relationship as negative, there is an relevant data inconsistency that must be corrected before journal submission: the thesis narrative reports a coefficient of -0.0003479 , whereas the actual Table 4.9 reports 0.0003742 for `gender_diversity_lag`.

The p-value of 0.421 does not alter the H2 decision, but the coefficient discrepancy affects the interpretation of its direction. The coefficient has therefore been deliberately marked as [VERIFY] in the Excel table rather than selecting one value without verification.

From a substantive perspective, the insignificant result means that the proportion of female directors alone does not provide sufficient evidence of an effect on DA in this sample. The descriptive statistics indicate that female directors represent only 13.6% of board membership on average, suggesting that female representation remains relatively limited.

This outcome suggests that gender diversity does not necessarily translate into stronger financial reporting oversight. Its effectiveness may depend on whether female directors have sufficient authority, independence, expertise, and involvement in board monitoring.

Audit Committee Size and Financial Reporting Quality

For audit committee size, the estimated coefficient is of 0.0003742 , a t-statistic of 1.88, and a p-value of 0.061. Because the result is not significant at the 5% level, H3 is rejected according to the investigation's 5% decision criterion.

While the p-value of 0.061 falls below 0.10, the result should be described only as weak evidence at the 10% level. It is not classified as statistically significant under the principal decision rule of $\alpha = 5\%$.

The positive sign suggests that larger audit committees are associated with higher DA, which runs counter to the hypothesized direction. Nevertheless, the magnitude and statistical significance are insufficient to establish a robust effect at the 5% level.

One explanation for this pattern is the very limited variation in audit committee size. Of the 293 observations, 274 observations—or approximately 93.5%—have three audit committee members. Only nine observations have two members, seven have four members, and three have five members.

Such concentration implies that audit committee size may be a weak proxy for substantive monitoring effectiveness. Membership count does not necessarily reflect competence, independence, experience, or the quality of monitoring activities. This offers a more informative interpretation of the insignificant result than simply concluding that the audit committee is ineffective.

Control Variables

Regarding the control variables, ROE has a positive and statistically significant relationship with DA, with a coefficient of 0.0009525 and a p-value of 0.047.

This evidence suggests that greater profitability in the preceding period is associated with higher discretionary accruals in the subsequent period. One possible explanation is that profitable firms may face stronger incentives to sustain reported performance, which can create greater incentives or opportunities for accrual-based reporting adjustments.

SIZE and DER, in contrast, are not statistically significant, with p-values of 0.905 and 0.102, respectively.

The year dummy variables for 2024 and 2025 are also statistically insignificant. Thus, the model provides no strong evidence that the year-specific effects represented by these dummies systematically influence DA relative to the omitted reference year.

Overall, the empirical results indicate that board size is the only principal governance characteristic with a statistically meaningful relationship with financial reporting quality. Gender diversity and audit committee size do not exhibit statistically meaningful effects at the 5% level.

The principal implication is that governance effectiveness cannot be inferred solely from the existence or numerical composition of governance mechanisms. Board size is significant, whereas gender diversity and audit committee size are not. The strong concentration of audit committee observations around three members further illustrates why a purely quantitative measure may have limited explanatory power.

Comparison

The study's findings are compared with previous empirical studies to identify whether the results are consistent with, complementary to, or different from the existing state of the art concerning corporate governance and financial reporting quality. The present investigation examines board size, gender diversity, and audit committee size in relation to discretionary accruals (DA) as a proxy for financial reporting quality. The comparison is particularly important because previous studies have reported heterogeneous findings, indicating that the effectiveness of corporate governance mechanisms may vary depending on the institutional environment, characteristics of the sample, measurement of earnings management, and operationalization of governance variables.

The statistically significant negative association of board size on discretionary accruals is in line with earlier evidence. In the present investigation, board size has a coefficient of -0.000098 and a p-value of 0.020 , indicating that larger boards are associated with lower discretionary accruals. This evidence suggests that adding directors may increase the board's monitoring capacity and reduce managerial discretion in financial reporting. It is consistent with Githaiga et al. (2022), who found a negative and significant effect of board size on managerial earnings manipulation. Their findings indicate that larger boards may provide broader monitoring capacity together with a wider pool of knowledge and expertise, thereby constraining managerial opportunism. The agreement between the present result and Githaiga et al. (2022) reinforces the view that board structure can operate as a relevant governance mechanism for improving financial reporting quality.

This finding also complements the evidence reported by Vitolla et al. (2020), who found that board size, board independence, board diversity, and board activity significantly affect integrated reporting quality. Although their dependent variable differs because it concerns integrated reporting quality, both studies indicate that board characteristics are relevant to corporate reporting outcomes. The present research extends that evidence by using discretionary accruals as the dependent measure and applying a one-period lag to the independent variables. Accordingly, the negative significant relationship observed here suggests that board characteristics in the preceding period are associated with financial reporting quality in the following period and provides further evidence that board size may constrain opportunistic reporting.

In contrast, board gender diversity has no statistically significant effect on discretionary accruals in the present investigation, with a p-value of 0.421 . This result agrees with research indicating that the presence or proportion of female directors does not necessarily produce a direct improvement in financial reporting quality. Attia et al. (2024) is particularly relevant because it examined board gender diversity and earnings management using several discretionary accrual models. The study found no significant effect under the Modified Jones Model, whereas significant relationships appeared under several alternative models. This evidence is directly relevant because the present study also employs the Modified Jones Model to measure discretionary accruals.

The absence of a significant gender-diversity effect is likewise consistent with Robiyanto et al. (2022), who found no direct effect of board gender diversity on accrual quality. Their evidence suggests that gender diversity may affect accrual quality indirectly through other organizational mechanisms rather than through a direct relationship. At the same time, the present result differs from Githaiga et al. (2022), who identified a negative and significant relationship between gender diversity and earnings management. The contrast indicates that the effect of gender diversity may depend on institutional conditions, industry characteristics, the degree of female representation, and the measurement of earnings management. Thus, gender diversity alone may not adequately explain differences in discretionary accruals among Indonesian consumer non-cyclicals companies.

The audit committee-size finding can likewise be considered alongside with earlier research. In the present analysis, audit committee size has a coefficient of 0.0003742 and a p-value of 0.061 . The relationship is therefore not statistically meaningful at the 5% level, although it provides weak evidence at the 10% level. This differs from Zadeh et al. (2023), who reported significant effects of audit committee characteristics, including audit committee size, financial expertise, and independence, on accrual-based managerial earnings manipulation. One possible reason is the operationalization of audit committee effectiveness: the present investigation measures the committee only by membership count, whereas prior research may incorporate broader characteristics such as financial expertise and independence.

This distinction is important because committee size by itself may not adequately capture the effectiveness of audit committee monitoring. In the present sample, most observations contain three audit committee members, leaving relatively little variation in the variable. Such concentration may reduce its explanatory variation and contribute to the insignificant result. The finding should therefore not be interpreted as evidence that audit committees are ineffective; rather, it suggests that membership count alone may not capture substantive oversight. Accounting and financial expertise, independence, meeting frequency, tenure, and professional experience may provide more informative indicators of audit committee effectiveness.

Taken together, comparison with earlier studies indicates that the findings are partly consistent with the state of the art. The significant negative relationship between board size and discretionary accruals supports earlier evidence that board structure can constrain earnings management. The insignificant effect of gender diversity is consistent with studies showing that female representation does not automatically improve accrual quality, particularly when the Modified Jones Model is used. Meanwhile, the insignificant effect of audit committee size suggests that numerical structure alone may not adequately reflect the effectiveness of corporate monitoring.

The study consequently contributes by demonstrating that corporate governance mechanisms do not necessarily have the same explanatory power for financial reporting quality. Board size exhibits a measurable monitoring role, whereas gender diversity and audit committee size do not produce statistically meaningful effects at the 5% level. The results further imply that governance effectiveness should be considered in terms of both numerical composition and functional characteristics within a particular institutional context. By examining Indonesian consumer non-cyclicals companies with lagged governance variables, the Modified Jones Model, year controls, and robust estimation, the investigation adds evidence on the heterogeneous relationship between corporate governance and financial reporting quality.

6. Conclusions

The study examines board characteristics in relation to financial reporting quality, proxied by Discretionary Accruals (DA), among consumer non-cyclicals companies listed on the Indonesia Stock Exchange during the observation period. The analysis considers board size, gender diversity, and audit committee size while controlling for return on equity (ROE), firm size, debt-to-equity ratio (DER), and year effects. Panel-data regression is conducted using the Common Effect Model with heteroskedasticity-robust standard errors, and the explanatory and control variables are specified with a one-period lag.

The empirical evidence indicates that board size has a negative and statistically meaningful effect on discretionary accruals, indicating that a larger board is associated with less managerial discretion in financial reporting and supporting the first hypothesis. Gender diversity, in contrast, has no statistically meaningful effect on discretionary accruals, so the second hypothesis is not supported. Audit committee size is likewise not statistically meaningful at the 5% level, resulting in rejection of the third hypothesis. Regarding the control variables, ROE is statistically meaningful, whereas firm size and DER are not. Overall, board size appears to play a more observable role in explaining financial reporting quality than gender diversity and audit committee size.

The findings add to the corporate governance and financial reporting literature by indicating that governance effectiveness cannot be judged solely from the existence or numerical composition of governance structures. The significant board-size result supports the view that board capacity can strengthen monitoring and constrain managerial discretion. In contrast, the insignificant effects of gender diversity and audit committee size suggest that numerical representation alone may not adequately capture governance effectiveness. The limited variation in audit committee size, in particular, reduces the information that membership count provides about monitoring effectiveness. The study therefore contributes empirical evidence from Indonesian consumer non-cyclicals companies concerning how different governance mechanisms relate to financial reporting quality.

Several limitations of the analysis should be recognized. First, governance mechanisms are measured mainly through quantitative characteristics, including the number of directors, the proportion of female directors, and audit committee size, which may not fully represent qualitative governance effectiveness. Second, the investigation is limited to a particular sector and institutional environment, which may restrict the generalizability of the findings to other industries. Third, the model has relatively low explanatory power, indicating that discretionary

accruals are also influenced by factors not included in the specification. Future research may incorporate additional governance characteristics, including board independence, directors' financial expertise, board meeting frequency, audit committee expertise, audit committee independence, and managerial ownership. Alternative measures of financial reporting quality and managerial earnings manipulation could also be considered, together with longer observation periods or other sectors, to provide broader evidence.

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