

TROUBLED FIRMS IN INDONESIA STOCK EXCHANGE: THE MONITORING ROLE OF AUDIT COMMITTEE

Syahriar Abdullah¹, Istinganah Eni Maryanti²

Accounting, Faculty of Economics and Business, Universitas Tunas Pembangunan, Indonesia^{1,2}

E-mail: syahriar.abdullah@lecture.utp.ac.id¹ istinganah.maryanti@lecture.utp.ac.id²

Abstract: Given the significant number of troubled firms in Indonesian Stock Exchange in recent years, this study aims to examine the role of the audit committee in helping Indonesian listed firms to overcome various problems. We analyse secondary data from troubled firms in Indonesia Stock Exchange for 2018-2020 using ordered logistic regression. From our examination, there are several Indonesian listed firms were given special notation in IDX website, dominated with financial reporting problems, followed with financial problems, and legal compliance problems. We also find that audit committee expertise, activities, and meeting attendance hold significant monitoring role in helping firms avoid accountability problems, proven with significant negative effect. This research contributes to answering the limitations of the literature on issues of issuers' study on the Indonesia Stock Exchange so that it plays a role in enriching the existing literature with a comprehensive investigation of the role of the audit committee. This research also contributes to providing recommendations for the practice of audit committees in order to realize an accountable company that is free from various problems, both financial, legal, and financial reporting issues.

Keywords: *troubled firms, audit committee, expertise, activity, meetings, independence, gender, size.*

Submitted: 2023-09-29; Revised: 2023-11-29; Accepted: 2023-12-04

1. Introduction

The issue of regulatory compliance has become a special concern in capital market in various countries, including the Indonesia Stock Exchange. There are various cases of non-compliance experienced by firms as share issuers in the capital market, mainly related to bankruptcy issues (Jamaluddin, 2018), legal issues (Cheng et al., 2019), and even financial reporting issues (Ghafran & Yasmin, 2018; Horvat & Lipičnik, 2016). As a consequence, these issues have great potential in reducing firms' accountability that may impact on firms' reputation (Xin et al., 2018) that is further followed by declining trust on firms (Montesdeoca et al., 2019). Moreover, if this condition happens in large scale in a country's capital market, this condition will worsen the reputation of the country and becomes a barrier of investment activities in the country (Cheng et al., 2019).

The Indonesia Stock Exchange as the organizer of the capital market in Indonesia realizes the importance of with the accountability aspects that should be fulfilled by their listed firms. Starting in 2018, the Indonesia Stock Exchange has published a list of firms that previously suffered accountability problems through the provision of 'Special Notations' published on the

IDX website and i-suite program. In the implementation, the Indonesia Stock Exchange will perform continuous monitoring on all listed firms' activities along with the compliance and accountability aspect. Firms that does not meet the required accountability criteria will be given special notation as 'troubled firm' because the firm suffers specific issue(s). The notations cover several business issues such as financial problems, legal issues, violations of capital market regulations, and financial reporting issues. The more notations indicate more troubled firm. This step is intended as an early warning system, aiming at protecting investors in the capital market.

In regards with the accountability of Indonesian listed-firms, the firms actually have corporate governance mechanism to ensure that the business is carried out properly according to the existing regulations (Ditta & Setiawan, 2019), even though the implementation still faces several challenges (Johan & Maruf, 2017). In the supervisory function, the firms are equipped with audit committee that carries out monitoring and audit activities of the firms' operations (Gebrayel et al., 2018). Following the issues suffered by a number of Indonesian listed-firms, investigating the role of audit committee becomes interesting as it has been mentioned to have significant role in realizing good financial reporting (Ghafran & Yasmin, 2018; Oussii & Taktak, 2018), increasing compliance (Sellami & Fendri, 2017), and protecting from fraud (Prabowo, 2018; Prasetyo, 2014).

Since the Indonesia Stock Exchange practice announcing the list of troubled firms through special notation in its website, empirical studies that examines the role of the audit committee to overcome the issue is still very limited. The existing studies in the literature only investigate partial firm issues such as accounting and fraud issues (Kusumawati & Hermawan, 2013; Prasetyo, 2014; Salloum et al., 2014; Sellami & Fendri, 2017), financial reporting timeliness and restatement (Ashraf et al., 2019; Carcello et al., 2011; Ghafran & Yasmin, 2018; Oussii & Taktak, 2017, 2018; Schmidt & Wilkins, 2013a; Wan Mohammad et al., 2018), and earnings management (Hermawan, 2011; Prabowo, 2018; Sae-Lim & Jermisittiparsert, 2019; Zgarni et al., 2016). There is very limited studies that examine comprehensive firm issues. Therefore, adequate empirical research is needed to answer the gap in the existing literature. This research is one of the earliest studies that deeply examines the role of audit committee in overcoming firm's problems by analyzing the effect of audit committee characteristics on listed-firm's problems as represented by Indonesia Stock Exchange special notation. We investigate the effect of audit committee expertise, activities, meetings, independence, gender, and size on firm's problems.

This research contributes to answering the limitations of the literature, specifically on Indonesia Stock Exchange, by enriching the existing literature with a comprehensive investigation of audit committee's role. This research also brings novelty by analyzing various activities of the audit committee as mandated by POJK Number 55 of 2015 that are rarely studied in previous studies. The remainder of the paper is presented as follows: literature review, hypothesis development, research method, results and discussion, and conclusion.

2. Research Method

2.1. Agency Theory, Corporate Governance, and Audit Committee

Agency theory, as introduced by Jensen & Meckling (1976), is popular for its agency relationship between principal and agent in which principal delegates the authority to agent on behalf of the principal. In business, the application of agency theory normally happens when shareholder (principal) delegates the authority to manage resources to management (agent), famously known as separation between ownership and control (Denis, 2001). It is assumed that

manager tend to act to gain self-benefit while performing the management activities (Fama, 1980). This situation is known as agency problem (Denis & McConnell, 2003). Thus, a good corporate governance mechanism is implemented to minimize the agency problem and ensure that management (agent) perform the job properly to meet stakeholder demands (Mäntysaari, 2010). In practice, however, there is usually a gap that happen between the shareholders and stakeholders' expectation and management achievement in running the business. In general, firms' shareholders and stakeholders demand good business activities from firms' operation to realize accountability. However, in some cases, the firm experience specific problems related to compliance and accountability. In Indonesia, the Indonesia Stock Exchange sees the importance of this aspect to protect the shareholders and stakeholders from firms' misconduct and thus the IDX special notation is given to the firms with specific problems.

In order to mitigate the problems, firms actually have corporate governance mechanism. Corporate governance covers a supervision mechanism in which a supervisory board (board of commissioners in Indonesian context) is assigned to make sure that a firm has proper accountability to stakeholders (Amidjaya et al., 2023; Johan & Maruf, 2017). While the board of commissioners perform general supervision, the board is assisted by audit committee that performs more technical supervision through monitoring on firm activities (OECD, 2016). Audit committee often holds the key of monitoring effectiveness as the committee perform specific monitoring on various aspects such as internal control evaluation, external audit selection, financial report review, and legal compliance evaluation (Hermawan, 2011). Prior studies have proven significant role of the audit committee in reducing the agency problems. For example, effective audit committee support internal control quality (Khlif & Samaha, 2016), reduce the probability of fraud to happen in a firm (Kusumawati & Hermawan, 2013), improve the disclosure of firm's reporting (Amidjaya & Widagdo, 2020), promoting on-time financial reporting timeliness (Ghafran & Yasmin, 2018), and improve earnings quality (Sae-Lim & Jermisittiparsert, 2019). It is all thanks to their contribution in supporting and assuring firms' compliance with the applicable regulations.

2.2. Troubled Firms in Indonesian Stock Exchange

The organization of capital market requires a high-level accountability to ensure the security of investors' funds and improve the activities of capital market to finally support the whole economy in a country. The Indonesia Stock Exchange as the organizer of the capital market in Indonesia has continuously published a list of firms that suffered accountability problems through the publication of 'Special Notations' in the IDX website and i-suite program, as regulated in IDX Circular Letter Number SE-00001/BEI/12-2018. The details of firm's accountability issues along with the given notations are presented in Table 1.

Table 1. Special Notation of Troubled Firms in IDX

Notation	Problem Details
B	Bankruptcy filing against the company
M	Moratorium of debt payment
E	Financial report shows negative equity
A	Adverse opinion of the audited financial report
D	Disclaimer opinion of the audited financial report
L	Late submission of financial report
S	No sales based on latest financial report
C	Lawsuit against Listed Firm, its subsidiary, and/or member of Board of Directors and Board of Commissioners of Listed Firm which has Material impact

Notation	Problem Details
Q	Restriction of business activity of Listed Company and/or its subsidiary by regulator
Y	Listed Company has not held Annual General Meeting of Shareholders until 6 (six) months after the end of previous year
F	Sanction from OJK due to minor offense
G	Sanction from OJK due to moderate offense
V	Sanction from OJK due to serious offense

2.3. Hypothesis Development

Audit Committee Expertise and Troubled Listed Firms

Considering its function, audit committee should be filled by members with great competency in accounting and finance in order to be able to carry out their role effectively (Ghafran & Yasmin, 2018). In Indonesia, the regulation issued by Indonesia Financial Service Authority requires that an audit committee should at least have one member with accounting or finance education background. Previous studies have evidenced the role of audit committee competence in accounting and finance on the effectiveness of the firm's internal control (Oussii & Boulila Taktak, 2018). Prabowo (2018) also find that the presence of audit committee with financial expertise improve the monitoring and negatively affects earnings management. Schmidt & Wilkins (2013a) further state that accounting expertise is crucial for audit committee to conduct review on firm's financial statement so that it is less likely to have restatement. Moreover, Sae-Lim & Jermisittiparsert (2019) also find that audit committee expertise increases earnings quality. In addition to improving financial reporting and compliance, Salloum et al. (2014) also find that the audit committee plays an important role in preventing the firm from making risky financial decisions, so that the firm does not experience financial problems. Therefore, we formulate the following hypothesis:

H1. Audit committee expertise negatively affects firm's problem

Audit Committee Activities and Troubled Listed Firms

The audit committee as a corporate governance organ is regulated by the Financial Services Authority to carry out a certain set of activities in carrying out its functions. Hermawan (2011) states that the audit committee must carry out several activities including evaluating internal control, selecting external auditors, reviewing financial reports, and ensuring legal compliance. The assessment of these activities will determine how the audit committee performs, whether the performance is adequate or not (Kusumawati & Hermawan, 2013). Active audit committee members are expected to be able to carry out their functions effectively in accordance with corporate governance codes (OECD, 2016) where the audit committee that holds more meetings tends to carry out its functions more effectively. Prabowo (2018) reveals the role of audit committee activeness in ensuring firm's earnings management in safe level. Hashim & Amrah (2016) also find that the cost of debt tends to be lower when firm's audit committee conduct many supervision activities. Thus, our research hypothesis is formulated as follows:

H2. Audit committee activities negatively affects firm's problem

Audit Committee Meetings and Troubled Listed Firms

Apart from audit committee activities as stated in the previous hypothesis, audit committee meetings are also considerable factors that determine the effectiveness of the audit committee,

especially the meeting participation and frequency (Stewart & Munro, 2007). The guidelines for corporate governance in Indonesia do not specifically regulate the frequency of audit committee meetings. Meanwhile, the Blue Ribbon Committee (BRC) recommends that the audit committee hold at least four meetings per year, while the Smith Report recommends no less than three meetings per year (Stewart & Munro, 2007). This indicates that audit committee regular meetings will improve corporate governance (Kusumawati & Hermawan, 2013). Thus, this study assumes that the higher the frequency and level of attendance of the audit committee in meetings, the audit committee's monitoring can be expected to be better, adequate, and even comprehensive.

Prior studies have explained the role audit committee meetings in supporting firm activities. Prabowo (2018) finds that audit committee meetings and the activeness of their members have a negative effect on earnings management actions. Khlif & Samaha (2014) further found the results of research that audit committee meetings are associated with timely financial reporting that further suggests that the audit committee also improves firm's internal control so that the risk of fraudulent behaviour can be reduced. In addition, Arif et al. (2020) find a positive effect of audit committee meetings on information disclosure in sustainability reports. These findings indicate that a more active audit committee will play a significant role in supporting best business practices. Thus, firm operations can avoid practices that are not in accordance with applicable regulations. Thus, our research hypothesis is formulated as follows:

H3. Audit committee meeting frequency negatively affects firm's problem

H4. Audit committee meeting attendance level negatively affects firm's problem

Audit Committee Independence and Troubled Listed Firms

Gender has become a considerable factor in economic and social research, including accounting research in recent decades (Eagly & Johannesen-Schmidt, 2001). In practice, female personality produces several traits such as being more responsive, demanding, ethical, and punctual (Fine, 2009). Stewart & Munro (2007) state that female members of the audit committee tend to be more orderly and consistent in carrying out the duties and functions of the audit committee. Thiruvadi & Huang (2011) reveal that the audit committee with representation of female members plays a role in accounting conservatism practices so that the earnings quality of the company's financial statements is better. The existence of a women's audit committee is also considered to support communication with external auditors (Ittonen et al., 2010). Thus, the representation of women in the membership of the audit committee is expected to improve good corporate governance practices through comprehensive monitoring so that the firm runs better with fewer problems. The research hypothesis is formulated as follows:

H6. Audit committee gender negatively affects firm's problem

Audit Committee Size and Troubled Listed Firms

The size of the audit committee can influence the effectiveness of the audit committee's monitoring role. However, there are two conflicting arguments about the role of the audit committee. The first argument reveals that a large audit committee size plays a positive role for the firm. Hashim & Amrah (2016) find that audit committee size has a negative effect on cost of debt. Schmidt & Wilkins (2013b) also find a negative effect of audit committee size on earnings restatement. Furthermore, Prabowo (2018) finds the role audit committee in preventing earnings management. In addition, Albitar (2015) also evidences audit committee size positively affects mandatory disclosure level. Another argument is that when audit

committee size is too large, it will result in ineffective and inefficient supervision (Siregar & Bachtiar, 2010). Abdullah et al. (2015) find that audit committee size negatively affects IFRS accounting standards application. Kent & Stewart (2008) also demonstrate negative effect of audit committee size on financial statement disclosure. Based on the references above, we formulate the following hypothesis:

H7. Audit committee size affects firm's problem

2.4. Population, Samples, and Research Data

The population of our study is all troubled firms that are given special notation because of suffering problems in Indonesian Stock Exchange in 2018-2020. We use secondary data obtained from firms' annual reports and Indonesian Stock Exchange website. Samples are selected with purposive sampling in which the firms should be (a) given special notation in IDX website due to having specific problem in 2018-2020; (b) publish accessible annual reports. There are 86 troubled firms that are given special notation in 2018-2020. Due to the existence of several firms that do not publish accessible annual reports, we generate 240 observations. Further, the data are analyzed with Ordered Logistic Regression.

2.5. Research Variables

The dependent variable of this study is firm's problem in the Indonesia Stock Exchange. This variable is measured by the number of special notations given to the troubled firms. The independent variables consist of audit committee expertise, activities, meeting frequency, meeting attendance, independence, gender, and the size. This study also uses a control variable, namely firm size that is represented by total assets. The operational definition of the research variables is described in Table 2 as follows.

Table 2. Variables' operational definition

Variable	Operational Definition	Reference
Problem(s) suffered by listed firm (PROB)	The number of special notation problems given to listed firm by Indonesia Stock Exchange	IDX Circular Letter No. SE-00001/BEI/12-2018 ¹
Audit committee expertise (EXPERT)	Proportion of audit committee with accounting education background	Ghafran & Yasmin (2018), Oussii & Boulila Taktak (2018), Sae-Lim & Jermsittiparsert (2019), Schmidt & Wilkins (2013)
Audit committee activities (ACTIV)	The number of activities performed by audit committee that consist of: internal control evaluation; external auditor selection; financial statement review; and legal compliance analysis	Hermawan (2011)
Audit committee meeting frequency (MEET_FREQ)	Total number of meetings held by audit committee	Khelif & Samaha (2014), Prabowo (2018), Stewart & Munro (2007)
Audit committee meeting attendance level (MEET_ATT)	Percentage of audit committee members' attendance in audit committee meetings	Khelif & Samaha (2014), Prabowo (2018), Stewart & Munro (2007)

¹ Indonesian Stock Exchange Circular Letter Number SE-00001/BEI/12-2018 concerning the Additional Information of Special Notation on Listed Firm's Code

Variable	Operational Definition	Reference
Audit committee independence (IND)	Proportion of independent audit committee members to total audit committee members	Abdullah, et al. (2015), Mohammad, et al. (2011), Sellami & Hendri (2017)
Audit committee gender (GEND)	Proportion of female audit committee members to total audit committee members	Ittonen, et al. (2010), Thiruvadi, et al. (2011)
Audit committee size (AC_SIZE)	Total number of audit committee members	Abdullah, et al. (2015), Albitar (2015), Kent & Stewart (2008)
Firm size (FIRM_SIZE)	Natural logarithm of firm's total assets	Amidjaya & Widagdo, (2020), Chee et al. (2022)

2.6. Data Analysis

Analysis of research data is started with descriptive statistics analysis to obtain general summaries of research variables and the details of research phenomena during the observation period, which consists of analysis of the mean, median, minimum, maximum, and standard deviation (Sekaran & Bougie, 2013). Variables' correlation analysis is further conducted with Pearson correlation analysis (Ghozali, 2011). As for the main analysis, the hypothesis testing is conducted with ordered logistic regression (Gujarati, 2009) using the following equation:

$$PROB = \alpha + \beta_1 EXPERT + \beta_2 ACTIV + \beta_3 MEET_FREQ + \beta_4 MEET_ATT + \beta_5 IND + \beta_6 GEND + \beta_7 AC_SIZE + \beta_8 FIRM_SIZE + \varepsilon$$

Information:

PROB : Problem(s) suffered by listed firm
EXPERT : Audit committee expertise
ACTIV : Audit committee activities
MEET_FREQ : Audit committee meeting frequency
MEET_ATT : Audit committee meeting attendance level
IND : Audit committee independence
GEND : Audit committee gender
AC_SIZE : Audit committee size
FIRM_SIZE : Firm size
 α : Constant
 $\beta_1 - \beta_8$: Regression Coefficient
 e : Error standard

3. Results and Discussion

3.1. Results

Descriptive Statistics

Firstly, we conduct descriptive statistics analysis as presented in Table 3. The average number of problems suffered by listed firm is 0.775. This implies that among the troubled firms in Indonesia Stock Exchange, most of them only suffer one problem that is not suffered in the whole examination period. Firms only suffered problem(s) in one or two years of examination period. Firms with the most problems have 3 problems while the lowest statistic is 0. Audit committee expertise has mean value of 0.473 indicating that the average proportion of audit committee with accounting background is not even half of the committee. As for the activities, audit committee in average perform 3 out of 4 activities that must be performed. Audit

committee with lowest activity only perform 1 activity while the highest value is 4 in which all activities are performed.

As for the meeting, average meeting frequency is 6.033 with average attendance level of 91.9%. The highest meeting frequency is 77 times with 100% highest attendance level. Average audit committee independence is 63% while average female audit committee is considerably low only at 11.9%. Meanwhile, audit committee average size is 2.96 with largest size of 5 members. The lowest audit committee size is 0 in which there is a firm that has not established audit committee. Thus, the lowest value of audit committee independence, meeting frequency and attendance is also 0 due to audit committee inactivity.

Table 3. Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
PROB	258	0.775	0.811	0	3
EXPERT	240	0.473	0.271	0	1
ACTIV	240	3.337	0.684	1	4
MEET_FREQ	240	6.033	7.605	0	77
MEET_ATT	240	0.919	0.161	0	1
IND	240	0.63	0.145	0	0.8
GEND	240	0.119	0.224	0	1
AC_SIZE	240	2.946	0.572	0	5
FIRM_SIZE	240	11.97	0.8	9.73	13.8

We conduct further analysis to identify the problems suffered by troubled listed firms in Indonesia Stock Exchange as presented in Table 4. We find that the problems are dominated with financial reporting problems, contributing to more than a half of all problems suffered by troubled listed firms. During 2018-2020, there are 86 firms whose financial report shows negative equity, 52 firms with late financial report submission, 17 firms whose financial report shows no sales, 10 firms who get disclaimer opinion, and 1 firm who gets adverse opinion from external auditor. As for financial problems, there are 11 firms with moratorium of debt payment and 5 firms with bankruptcy filing. Regarding legal compliance issue, there are 20 firms that have not held annual general meeting of shareholders until 6 (six) months after the end of previous year.

Table 4. Special Notation of Troubled Firms in IDX

Notation	Problem Details	Total Cases
B	Bankruptcy filing against the company	5 cases
M	Moratorium of debt payment	11 cases
E	Financial report shows negative equity	86 cases
A	Adverse opinion of the audited financial report	1 case
D	Disclaimer opinion of the audited financial report	10 cases
L	Late submission of financial report	52 cases
S	No sales based on latest financial report	17 cases
C	Lawsuit against Listed Firm, its subsidiary, and/or member of Board of Directors and Board of Commissioners of Listed Firm which has Material impact	0 case
Q	Restriction of business activity of Listed Company and/or its subsidiary by regulator	0 case
Y	Listed Company has not held Annual General Meeting of Shareholders until 6 (six) months after the end of previous year	20 cases
F	Sanction from OJK due to minor offense	0 case

Notation	Problem Details	Total Cases
G	Sanction from OJK due to moderate offense	0 case
V	Sanction from OJK due to serious offense	0 case

We have also checked for the *Pearson* correlation test. We find very little serious correlation issue among independent variables so that hypothesis testing with ordered logistic regression analysis can be performed.

Table 5. Ordered logistic regression result

Dependent: PROB	Coef.	t-value	p-value	Sig
EXPERT	-0.433	-2.53	0.011	**
ACTIV	-1.278	-5.83	0.000	***
MEET_FREQ	-0.001	-0.04	0.970	
MEET_ATT	-1.408	-1.68	0.094	*
IND	-0.436	-0.92	0.357	
GEND	-0.259	-1.15	0.250	
AC_SIZE	0.322	0.70	0.481	
FIRM_SIZE	-0.050	-0.28	0.778	
Constant	-7.339	.b	.b	
Constant	-4.647	.b	.b	
Constant	-3.252	.b	.b	
Pseudo R-squared				0.117
Chi-square				60.934
Akaike crit. (AIC)				483.091
Number of observations				240
Prob > Chi-square				0.000
Bayesian crit. (BIC)				521.378

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

3.2. Discussion

Audit committee expertise negatively affects firms' problem that confirms hypothesis 1. Firms with higher audit committee with accounting expertise is less likely to suffer accountability problems in Indonesia Stock Exchange. Proper expertise in accounting and finance is essential for audit committee to effectively perform its function (Ghafran & Yasmin, 2018). Audit committee with higher expertise are more likely to understand better about firm's business process and governance. Having better accounting expertise also enables audit committee members to identify and analyze the applicable regulation that the firm need to follow from the capital market regulators such as Indonesia Financial Service Authority and Indonesia Stock Exchange. Audit committee members can implement their expertise in ensuring that the firm is managed and governed properly. Thus, the performance and compliance aspect of the firm can be satisfying enough, away from various accountability problems mentioned in IDX special notations. This finding confirm previous studies in which audit committee expertise is important in strengthening internal control (Oussii & Boulila Taktak, 2018), minimizing earnings management (Prabowo, 2018), improve financial reporting (Schmidt & Wilkins, 2013a), increasing earnings quality (Sae-Lim & Jermisittiparsert, 2019), and avoiding risky financial decision to reduce financial problem (Salloum et al., 2014).

We further find that audit committee activities provide the highest effect in reducing firm's problems in IDX regulation. This finding confirms hypothesis 2. Consistent with the concept

from (OECD, 2016), active audit committee is more likely to be more effective in performing their duties in accordance with corporate governance code. Mandated activities namely evaluating internal control, selecting external auditors, reviewing financial reports, and ensuring legal compliance are important to realize firm accountability (Hermawan, 2011) in which the activities performed must be adequate (Kusumawati & Hermawan, 2013). When the mandated tasks are performed adequately by audit committee members, firm's activities can be monitored properly to meet the specified targets. As the assistant of the board of commissioners who represents the shareholders and even stakeholders, a more active audit committee will be more likely to ensure that shareholders' and stakeholders' interest are fulfilled. Even further, with comprehensive monitoring activities, the coverage of firm supervision will also be comprehensive to reduce information asymmetry to satisfy as many interests as possible. Thus, the firm will be less likely to experience problems concerned by IDX. This empirical evidence also confirms (Prabowo, 2018) that reveals the role of audit committee in ensuring firm's earnings management in safe level and (Hashim & Amrah, 2016) that also find negative effect on cost of debt.

Our analysis also reveals that audit committee meeting attendance provides negative effect on the problems suffered by listed firms, confirming hypothesis 4. However, the meeting frequency shows no significant impact, rejecting hypothesis 3. In this case, the participation of audit committee in the meetings is more important than the number of meetings held. Higher participation of audit committee members is very important for decision making. Higher presence of audit committee members in the audit committee meetings enables more insights and opinions to be delivered so that the audit recommendations given to the board of commissioners and management for better governance and compliance can be followed to improve firm's accountability with less problem. This finding also confirm previous studies such as reducing earnings management (Prabowo, 2018), increasing financial reporting timeliness and reducing potential fraud risk (Khlif & Samaha, 2014), and improving information disclosure (Arif, 2020). While for the insignificance of audit committee meeting frequency, it can be argued that too less meeting may be inadequate to conduct proper monitoring while too many meetings can be inefficient for the monitoring. Thus, the frequency of audit committee meetings must be ideal and adequate to cover the necessary monitoring (Stewart & Munro, 2007).

Audit committee independence shows no significant effect that rejects hypothesis 5. This result may due to less variation of audit committee independence among the research samples. Thus, the practice among firms are quite identical. Audit committee gender also has no significant effect, rejecting hypothesis 6. This may be due to the fact that the level of women participation among research samples is considerably low, only at 11.9%. Thus, the expected influence from women personality in previous studies (Fine, 2009; Ittonen et al., 2010; Thiruvadi & Huang, 2011) is not delivered properly. As for the audit committee size, the effect is also insignificant, rejecting hypothesis 7. It has also been a debate between two concept in previous studies in which one concept argue for the positive influence (Albitar, 2015; Hashim & Amrah, 2016) and another one states negative influence (Abdullah et al., 2015; Kent & Stewart, 2008).

4. Conclusion

Our study examines the role of audit committee characteristics in mitigating accountability problems in Indonesian listed firms. We conclude that around 10% of listed firms in Indonesian Stock Exchange are still troubled as there are various problems suffered, both in financial

reporting, financial, and legal compliance. The most dominant problems suffered by the listed firms are in financial reporting. Based on our analysis, we reveal that audit committee expertise, activities, and meeting attendance hold significant role in mitigating potential problems that may be suffered by the firm. We suggested that the firms listed in should maintain the ideal composition and the performance of audit committee to effectively conduct monitoring on firms' operation. Thus, the firm can ensure that its operation comply with the applicable regulations and free from accountability issues. With high-level firms' compliance, Indonesia Stock Exchange can realize an accountable capital market that can attract more investors to participate. Our study contributes to filling the limitations of the existing literature related to troubled firms' studies in Indonesia Stock Exchange by enriching the literature with a comprehensive investigation of the role of the audit committee.

Our study still contains limitation. The audit committee in this research is represented by the audit committee members that hold the position in the end of the year. Thus, audit committee member change and discharge that may happen during the observed year are not taken into account due to disclosure limitation. Further research can apply weighted measurement that is able to fully represent the audit committee characteristics when the information is available.

References

- Abdullah, M., Evans, L., Fraser, I., & Tsalavoutas, I. (2015). IFRS Mandatory disclosures in Malaysia: the influence of family control and the value (ir)relevance of compliance levels. *Accounting Forum*, 39(4), 328–348. <https://doi.org/10.1016/j.accfor.2015.05.003>
- Albitar, K. (2015). Firm Characteristics, Governance Attributes and Corporate Voluntary Disclosure: A Study of Jordanian Listed Companies. *International Business Research*, 8(3), 1–10. <https://doi.org/10.5539/ibr.v8n3p1>
- Amidjaya, P. G., & Widagdo, A. K. (2020). Sustainability reporting in Indonesian listed banks: Do corporate governance, ownership structure and digital banking matter? *Journal of Applied Accounting Research*, 21(2), 231–247. <https://doi.org/10.1108/JAAR-09-2018-0149>
- Amidjaya, P. G., Yau, J. T. H., & Cheuk, S. C. S. (2023). Board Diversity and Sustainability Reporting: Empirical Evidence from Indonesian Listed Banks. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 13(2), 1161–1178. <https://doi.org/10.6007/ijarafms/v13-i2/17795>
- Arif, M., Sajjad, A., Farooq, S., Abrar, M., & Joyo, A. S. (2020). The impact of audit committee attributes on the quality and quantity of environmental, social and governance (ESG) disclosures. *Corporate Governance*, 21(3), 497–514. <https://doi.org/10.1108/CG-06-2020-0243>
- Ashraf, M., Michas, P. N., & Russomanno, D. (2019). The Impact of Audit Committee Information Technology Expertise on the Reliability and Timeliness of Financial Reporting. *The Accounting Review*, 95(5), 23–56. <https://doi.org/10.2308/accr-52622>
- Carcello, J. V., Neal, T. L., Palmrose, Z. V., & Scholz, S. (2011). CEO involvement in selecting board members, audit committee effectiveness, and restatements. *Contemporary*

Accounting Research, 28(2), 396–430. <https://doi.org/10.1111/j.1911-3846.2010.01052.x>

- Chee, F. W., Yau, J. T.-H., Amidjaya, P. G., Liwan, A., & Kueh, J. S.-H. (2022). Does Corporate Environmental Management Disclosures Improve Corporate Performance? Evidence from FTSE 100 Malaysian Firms. *Academy of Accounting and Financial Studies Journal*, 26(2), 1–18.
- Cheng, Y., Gu, M., Cheng, Y., Hu, X., & Cheng, K. (2019). Analysis on the governance path of financial fraud of listed companies from the perspective of new media. In *Advances in Intelligent Systems and Computing* (Vol. 885). Springer International Publishing. https://doi.org/10.1007/978-3-030-02804-6_137
- Ditta, A. S. A., & Setiawan, D. (2019). Corporate governance in Indonesia: One decade perspective. *Jurnal Keuangan Dan Perbankan*, 23(1), 61–77. <https://doi.org/10.26905/jkdp.v23i1.2182>
- Gebrayel, E., Jarrar, H., Salloum, C., & Lefebvre, Q. (2018). Effective association between audit committees and the internal audit function and its impact on financial reporting quality: Empirical evidence from Omani listed firms. *International Journal of Auditing*, 22(2). <https://doi.org/10.1111/ijau.12113>
- Ghafran, C., & Yasmin, S. (2018). Audit committee chair and financial reporting timeliness: A focus on financial, experiential and monitoring expertise. *International Journal of Auditing*, 22(1), 13–24. <https://doi.org/10.1111/ijau.12101>
- Gujarati, D. N. (2009). *Basic econometrics 4th Edition*. New York: Tata McGraw-Hill. <https://doi.org/10.1126/science.1186874>
- Hashim, H. A., & Amrah, M. (2016). Corporate governance mechanisms and cost of debt. *Managerial Auditing Journal*, 31(3), 314–336. <https://doi.org/10.1108/maj-12-2014-1139>
- Hermawan, A. A. (2011). The Influence of Effective Board of Commissioners and Audit Committee on the Informativeness of Earnings: Evidence from Indonesian Listed Firms. *Asia Pacific Journal of Accounting and Finance*, 2(1), 1–38.
- Horvat, T., & Lipičnik, M. (2016). Internal audits of frauds in accounting statements of a construction company. *Strategic Management*, 21(4), 29–36.
- Ittonen, K., Miettinen, J., & Vähämaa, S. (2010). Does Female Representation in Audit Committees Affect Audit Fees? *Quarterly Journal of Finance and Accounting*, 49(3–4), 113–139. <https://doi.org/10.2307/23074633>
- Jamaluddin, M. (2018). The Effect of Financial Distress and Disclosure on Going Concern Opinion of the Banking Company Listing in Indonesian Stock Exchange. *International Journal of Scientific Research and Management*, 6(01), 64–70. <https://doi.org/10.18535/ijsrc/v6i1.em10>
- Jensen, N., & Meckling, W. (1976). Theory of the firm: Managerial behavior, agency costs, and capital structure. *Journal of Financial Economics*, 3(4), 305–360.

- Johan, A. P., & Maruf, N. L. (2017). Corporate Governance in Indonesia : Business Ethics Prespectives and Challenges in Globalization Era. *World Applied Sciences Journal*, 35(12), 2541–2546. <https://doi.org/10.5829/idosi.wasj.2017.2541.2546>
- Khlif, H., & Samaha, K. (2014). Internal control quality, Egyptian standards on auditing and external audit delays: Evidence from the Egyptian stock exchange. *International Journal of Auditing*, 18(2), 139–154. <https://doi.org/10.1111/ijau.12018>
- Khlif, H., & Samaha, K. (2016). Audit committee activity and internal control quality in Egypt: Does external auditor's size matter? *Managerial Auditing Journal*, 31(3), 269–289. <https://doi.org/10.1108/MAJ-08-2014-1084>
- Kusumawati, S. M., & Hermawan, A. A. (2013). The Influence of Board of Commissioners and Audit Committee Effectiveness, Ownership Structure, Bank Monitoring, and Firm Life Cycle on Accounting Fraud. *Jurnal Akuntansi Dan Keuangan Indonesia*, 10(1), 20–39. <https://doi.org/10.21002/jaki.2013.02>
- Mäntysaari, P. (2010). *The law of corporate finance: General principles and EU Law (Volume I)*. Berlin Heidelberg: Springer. <https://doi.org/10.1007/978-3-642-02750-5>
- Montesdeoca, M. R., Medina, A. J. S., & Santana, F. B. (2019). Research topics in accounting fraud in the 21st century: A state of the art. *Sustainability (Switzerland)*, 11(6), 1–31. <https://doi.org/10.3390/su11061570>
- OECD. (2016). *G20/OECD Principles of Corporate Governance*. Paris: OECD. <https://doi.org/10.1787/9789264257443-tr>
- Oussii, A. A., & Boulila Taktak, N. (2018). The impact of internal audit function characteristics on internal control quality. *Managerial Auditing Journal*, 33(5), 450–469. <https://doi.org/10.1108/MAJ-06-2017-1579>
- Oussii, A. A., & Taktak, N. B. (2017). Audit committee effectiveness and financial reporting timeliness: The case of Tunisian listed companies. *African Journal of Economic and Management Studies*, 9(1), 34–55. <https://doi.org/10.1108/AJEMS-11-2016-0163>
- Oussii, A. A., & Taktak, N. B. (2018). Audit committee effectiveness and financial reporting timeliness: The case of Tunisian listed companies. *African Journal of Economic and Management Studies*, 9(1), 34–55. <https://doi.org/10.1108/AJEMS-11-2016-0163>
- Prabowo, M. A. (2018). Tingkat Keaktifan Komite Audit dan Manajemen Laba di Indonesia. *Jurnal Manajemen Teknologi*, 17(2), 95–110.
- Prasetyo, A. B. (2014). Pengaruh Karakteristik Komite Audit Perusahaan terhadap Kecurangan Pelaporan Keuangan (Studi Empiris pada Perusahaan yang Listed di Bursa Efek Indonesia Periode 2006-2010). *Jurnal Akuntansi & Auditing*, 11(1), 1–24.
- Sae-Lim, P., & Jermisittiparsert, K. (2019). Audit committee and earnings quality. *International Journal of Innovation, Creativity and Change*, 6(2), 335–347. <https://doi.org/10.108/CG-02-2011-0009>

- Salloum, C., Azzi, G., & Gebrayel, E. (2014). Audit Committee and Financial Distress in the Middle East Context: Evidence of the Lebanese Financial Institutions. *International Strategic Management Review*, 2(1), 39–45. <https://doi.org/10.1016/j.ism.2014.09.001>
- Schmidt, J., & Wilkins, M. S. (2013a). Bringing darkness to light: The influence of auditor quality and audit committee expertise on the timeliness of financial statement restatement disclosures. *Auditing: A Journal of Practice & Theory*, 32(1), 221–244. <https://doi.org/10.2308/ajpt-50307>
- Schmidt, J., & Wilkins, M. S. (2013b). Bringing darkness to light: The influence of auditor quality and audit committee expertise on the timeliness of financial statement restatement disclosures. *Auditing*, 32(1), 221–244. <https://doi.org/10.2308/ajpt-50307>
- Sekaran, U., & Bougie, R. (2013). *Research Methods for Business A Skill-Building Approach Sixth Edition*. John Wiley & Sons Ltd.
- Sellami, Y. M., & Fendri, H. B. (2017). The effect of audit committee characteristics on compliance with IFRS for related party disclosures: Evidence from South Africa. *Managerial Auditing Journal*, 32(6), 603–626. <https://doi.org/10.1108/MAJ-06-2016-1395>
- Siregar, S. V., & Bachtiar, Y. (2010). Corporate social reporting: empirical evidence from Indonesia Stock Exchange. *International Journal of Islamic and Middle Eastern Finance and Management*, 3(3), 241–252. <https://doi.org/10.1108/17538391011072435>
- Thiruvadi, S., & Huang, H. W. (2011). Audit committee gender differences and earnings management. *Gender in Management*, 26(7), 483–498. <https://doi.org/10.1108/17542411111175469>
- Wan Mohammad, W. M., Wasiuzzaman, S., Morsali, S. S., & Zaini, R. M. (2018). The Effect of Audit Committee Characteristics on Financial Restatements in Malaysia. *Journal of Asia-Pacific Business*, 19(1), 4–22. <https://doi.org/10.1080/10599231.2018.1419043>
- Xin, Q., Zhou, J., & Hu, F. (2018). The economic consequences of financial fraud: evidence from the product market in China. *China Journal of Accounting Studies*, 6(1), 1–23. <https://doi.org/10.1080/21697213.2018.1480005>
- Zgarni, I., Hlioui, K., & Zehri, F. (2016). Effective audit committee, audit quality and earnings management. *Journal of Accounting in Emerging Economies*, 6(2), 138–155. <https://doi.org/10.1108/jaee-09-2013-0048>