

## Audit Committee Characteristics, Quality of Financial Statement and Audit Quality

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**Abstract:** The purpose of this research is to find out about audit committee effect to quality of financial statement that moderated by audit quality. The theory used as the base of this research is agency theory. This research used non-financial sector BUMN company as a sample that registered in BEI year 2018-2020. The data that is used is secondary data. The result of this research shows that audit committee size, committee audit that financial expertise and audit committee independence has a significant effect to financial statements quality.

**Keywords:** Quality of Financial Statement, Audit Committee Characteristics, Audit Quality, BUMN, Agency Theory.

### 1. Introduction

The purpose of this research is to find out about audit committee effect to quality of financial statement that moderated by audit quality in BUMN company that registered in BEI where audit committee in this research is using financial expertise, size, and audit committee independence. Besides, the audit quality in this research is proxied by real earning management.

This research is focusing on financial statements quality because financial statements quality is financial statements that there is no manipulation, honest presentment, complete, et cetera. With the quality of financial statements so the result of the financial statement is trusted and avoiding information asymmetry between principal and agent. That matter is based on some cases where company manipulating their financial statement causing the financial statement is not of good quality. (Ojeka, Iyoha dan Asshoalu: 2015).

This research using agency theory because there is agency problem between principal and agent that is information asymmetry, in order the information asymmetry does not happen so agent need supervisor (controlling) where in this research is audit committee as agent supervisor expected to reduce information asymmetry act which is conducted by agent. Besides that, this research also adds the audit quality that in this research the audit quality is proxied to big four and non-big four with controlling by external auditor, agent is expected not to do information asymmetry act. With no information asymmetry, financial statement quality is high.

In this research, supervisor (controlling) uses audit committee characteristic and audit quality. Audit Committee characteristic in this research are Size of Audit Committee and Independence of Audit Committee. The reason that Independence of Audit Committee use in this research because the independence is a cornerstone of effective performance of the audit committee (Uzliawati, Suhardjanto, and Djati: 2014). Audit committee characteristic role that good in giving controlling to management is intend to avoid fraud in financial statement making. This caused how low the quality of financial statement. Beside a good committee audit role, it needed audit quality that produced by competent external auditor and big auditor (big four) that believed has strong motivation and greater competence to give high quality audit (DeAngelo, 1981) and also that audit quality is one of the main themes in audit research (Nugroho, Uzliawati, and Taqi; 2021).

This research use agency theory because there is agency problem between principal and agent that is information asymmetry, to prevent information asymmetry to happen so the agent need supervisor (controlling) where in this research audit committee as agent supervisor can reduce information asymmetry act that conducted by agent.

Besides that, this research is also added audit quality where audit quality in this research is proxied to the big four and non-big four and supervised from external auditor, agent is expected not to do information asymmetry act. With no information asymmetry, financial statement quality is high.

The involvement between committee audit characteristic and financial statement is very important because many committee audit role shows in financial sector in terms of ensures is accounting and company policy report in accordance with law conditions and ethical practice that agreed, reviewing scope and audit requirements planning and findings on management problems in relation with external auditor and top department response (Ojeka, et al: 2015)

This committee audit intends to develop recommendation that helps to increase financial statements quality with their roles. Besides that, a competent auditor quality or famous is usually more trusted because auditor quality (Big four) would not cooperate with the company to produce an opinion for financial statement that has manipulation becomes a financial statement that has a certain quality. Other than that with the quality of auditor that competent (Big four) is also an attraction for the investor to invest because the quality of the financial statement that has audited by Big four is usually has no manipulation or profit management in their financial statement. So that the quality of auditor that competent in this research can moderate audit committee in improving financial statement quality. Indicator in measuring profit quality in this research is with profit management.

Many previous research that focused on financial statement quality issue, such as Habiba, Aly, and Steven (2015) also in Dinal (2019) research is researching audit committee to financial statement quality where audit committee does not have significant effect to financial statement quality. Besides, based on Ojeka, Iyoha, and Asolu (2016) research is getting results of audit committee that has financial skill and has significant positive effect to financial statement quality. According to Kanukuntla and Seyed (2017), that audit committee characteristic can give a significant positive effect to financial statement quality.

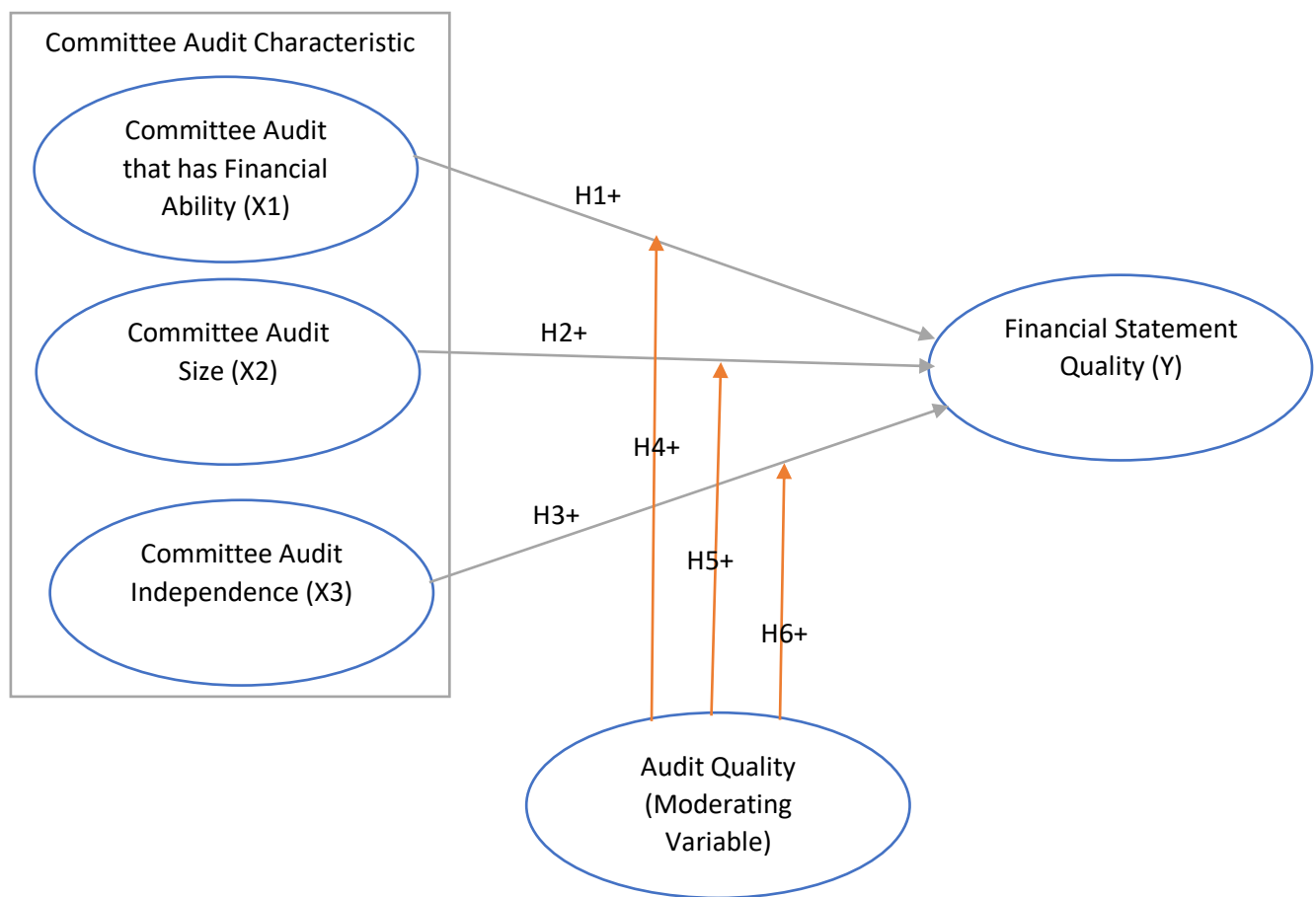
## 2. Methods

This research is secondary data analysis research where the secondary data that is researcher is not collecting the data alone, but analyse the existing or available data from a data collection result or obtained by research result or even observation. In this case, researcher takes BUMN annual financial report data non-financial sector that registered in Bursa Efek Indonesia during the 2018-2020 year period. The data source for this research is obtained from BEI site ([www.idx.co.id](http://www.idx.co.id)). Dependent variable in this research is Financial Statement Quality, while independent variable is committee audit size, committee audit that has financial ability and committee audit independence. This research use moderation variable that is audit quality. This research use SPSS version 25 for processing data.

$$FRQ = \beta_0 + \beta_1 SAC + \beta_2 ACFE + \beta_3 ACI + \beta_4 SAC*QA + \beta_5 ACFE*QA + \beta_6 ACI*QA + \varepsilon$$

(Research Model)

### 3. Model Penelitian



### 4. Results

Based on the results of statistical tests using SPSS Ver 25 can be seen the results as follows:

**Table 4.1 Normality Tests**

Variable	Normality	Result
Financial Statement Quality	0.0935	Normal
Audit Committee Size	0.33	Normal
Audit Committee that has Financial Ability	0.096	Normal
Audit Committee Independence	0.87	Normal
Audit Committee Size*QA	0.53	Normal
Audit Committee that has Financial Ability*QA	0.45	Normal
Audit Committee Independence*QA	0.333	Normal

Based on table 4.1 can be known that every construct or latent variable has normality composite value above 0.05; shows that every variable has fulfil the requirements normality test. (Ghozali, 2016)

Table 4.2 T-Statistics Value

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		Result
		B	Std. Error	Beta			Tolerance	VIF	
	(Constant)	1.038	2.065		.503	.619			
H1	SAC	2.383	.943	.410	2.527	.018	.638	1.567	Accepted
H2	ACFE	2.261	.720	.495	3.138	.004	.677	1.477	Accepted
H3	ACI	1.504	.539	.374	2.788	.010	.935	1.070	Accepted
H4	SAC*QA	1.420	.517	.561	2.747	.011	.403	2.481	Accepted
H5	ACFE*QA	-.160	.273	-.104	-.587	.562	.537	1.864	Rejected
H6	ACI*QA	2.026	.536	.659	3.783	.001	.554	1.805	Accepted

Source: Data processing results

### Audit Committee Size Influence to Financial Statement Quality

Based on Table 4.2 shows results of t value in the amount of 2.527 with significant level of 0.18, that large audit committee size or large number of audit committee is not reducing financial statement quality. In accordance with Shanif at al (2020) and Onyabe at al (2018) research give a same result that large audit committee size can detecting real profit management well so can increase financial statement quality.

### Audit Committee That has Financial Ability Influence to Financial Statement Quality

Based on T result = 3.138 with significance of 0.004 where significant level of this research is smaller than 0.05 so there is an influence of audit committee to financial statement quality. In accordance with agency theory where with a large number of audit committee that has financial ability so the controlling level to agent in order to make a financial statement that has a certain quality. The more audit committee members that has financial ability so the financial statement quality in the company is good. Audit committee that the member has a financial ability is very important in order to take care of effectivity of external auditor performance. That is because audit committee duty as mediator between management and external auditor (Hashim and Rahman, 2011). DeZoort et al (2003) stated that audit committee that members has financial ability, especially that has CPA would understand auditor tasks and auditor responsibility, would be more supporting auditor and easier to do controlling for external auditor performance. In accordance with Safar, at al (2021), Bilal, Chen, Komal research in 2018 and Ojeka, at al (2016) that audit committee that has financial ability has positive relation to financial statement quality and accounting finance expert has a close bond with financial statement quality than non-accounting financial expert. Because there is accounting standards that also applies to avoid fraud and irregularities from financial reporting quality.

### Audit Committee Independence Influence to Financial Statement Quality

T value in table 4.2 shows 2.788 with sig. level 0.010 that is from the data significance level is <0,05 besides, T value in the table shows positive number so it can be concluded that inside this research there is influence between audit committee independence to financial statement quality. In accordance with Amin at al (2020), Hasan at al (2020) resulting that there is positive significant influence audit committee independence to financial statement quality. Agency theory stated that to avoid agency problem between principle and agent need controlling except internal auditor that is audit committee. Independent audit committee member is not involved in daily tasks from management that manage the company that will make sure a good quality financial report. One of the main reasons from this independency is for maintaining integrity and objective view in reports and also preparation of recommendation that submitted by audit committee, because independent individual tend to be fair and objectively impartial in dealing with a problem. (FCGI, 2002)

### Audit Committee Size Influence to Financial Statement Quality Moderated with Audit Quality

Based on Table 4.2 that T value for hypothesis 4 shows 2.747 with significance level of  $<0.011$  where significance level is lower than  $\alpha 0.05$  so in this research big four and non-big four auditor quality can moderate relation between many or number of audit committee in the company. Big four audit quality in fact in this research can be moderate or strengthen relation between audit committee size with financial statement quality. So, with large audit committee member the quality of financial statement that resulted would be good because with large audit committee member can minimize fraud and misrepresent act that resulted by management in making financial statement. In accordance with Mardessi, et al (2021) and Eka et al (2019) research shows the same result that big four audit quality can increase moderation influence between audit committee size and BUMN non-financial sector financial statement quality.

### Audit Committee Independence Influence to Financial Statement Quality Moderated with Audit Quality

As seen from T total in table 4.2 shows in total of 3.783 with significance of 0.001 that means T significance level is positive so the big four audit quality can increase relation (moderation) audit committee independence to financial statement quality in BUMN non-financial sector company. To avoid agency problem, one of the way that applied by the company is applying corporate governance mechanism, one of the element is audit committee. With auditor quality in company can controlling management and audit committee in order that fraud for financial statement is not happening, so the financial statement can be trusted and has a certain quality. When a company is audited by Big four auditor, it reflects company joint effort to resulting high financial report and as the result giving ownership information and secret to shareholder and in turn reduce error range accounting presentation. Supported with Shanif, et al (2021) research give a result that audit committee independence has a significance effect to financial statement quality moderated with audit quality. Therefore, in this research audit quality can increase relation between audit committee independence to financial statement in BUMN non-financial sector.

## 4. Conclusions

Based on the results of the above research and discussion, it can be concluded as follows:

1. Audit committee size has a significant positive effect to financial statement quality in BUMN non-financial sector company.
2. Audit committee that has a financial ability has a significant positive effect to financial statement quality in BUMN non-financial sector company.
3. Audit committee independence has a significant positive effect to financial statement quality in BUMN non-financial sector company.
4. Audit committee size has a significant positive effect to financial statement quality moderated with audit quality in BUMN non-financial sector.
5. Audit committee that has a significant positive effect to financial ability has a significant positive effect to financial statement quality moderated with audit quality in BUMN non-financial sector.
6. Audit Committee independence has a significant positive effect to financial statement quality moderated with audit quality in BUMN non-financial sector.

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