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Research Article

The Influence of Audit Committee Characteristics on the Quality of Financial Reporting from a Corporate Governance Perspective

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Abstract

The quality of financial reporting is a crucial element in achieving transparency and accountability within the framework of Good Corporate Governance (GCG). Numerous financial scandals have demonstrated that weaknesses in internal oversight, particularly within audit committees, can lead to financial misreporting and loss of stakeholder trust. This study aims to analyze the influence of audit committee characteristics—namely independence, financial expertise, committee size, and meeting frequency—on the quality of financial reporting from a corporate governance perspective. The research employs a qualitative approach using a systematic literature review method. Secondary data were collected from peer-reviewed journals, conference proceedings, and official regulatory reports indexed in Scopus, ScienceDirect, Emerald Insight, SpringerLink, and Google Scholar, covering publications from 2010 to 2025. The data were analyzed using thematic content analysis to identify patterns, relationships, and governance implications. The findings indicate that audit committee independence and financial expertise play a dominant role in enhancing financial reporting quality by reducing earnings management and improving oversight effectiveness. Additionally, an optimal committee size and frequent, well-structured meetings contribute to better monitoring, transparency, and accountability. Overall, the study concludes that the integration of audit committee characteristics is essential for strengthening financial reporting quality and supporting effective corporate governance practices, particularly in emerging market contexts.

Keywords: Audit Committee Characteristics; Financial Reporting Quality; Good Corporate Governance.

INTRODUCTION

The quality of financial reporting is a fundamental aspect of achieving transparency and accountability within companies, especially in the context of good corporate governance (GCG) (Dechow et al., 2010). High-quality financial reports provide reliable and relevant information that assists stakeholders in making economic decisions (Francis et al., 2004). However, various cases of manipulation and accounting fraud, such as the Enron and WorldCom scandals, indicate that weak internal oversight—particularly by the audit committee—can reduce the quality of financial reporting (Yassin & Nelson, 2012). Therefore, the audit committee plays a key role in maintaining the integrity of financial reporting as an essential component of corporate governance (Badolato et al., 2014).

The audit committee serves as a communication bridge between management, external auditors, and the board of commissioners to ensure compliance with accounting principles and internal control systems (Klein, 2002). Audit committee characteristics such as independence, financial expertise, committee size, and meeting frequency have been identified as important factors influencing the effectiveness of oversight functions (Carcello et al., 2006). Audit committees that are independent and possess adequate accounting competence are more capable of detecting errors or potential fraud in financial statements (Lin et al., 2006). Hence, the characteristics of the audit committee are crucial in determining the extent to which a company can maintain the quality and reliability of its financial reports.

Within the framework of GCG, the audit committee is part of the supervisory structure aimed at reducing agency conflicts between management and shareholders (Fama & Jensen, 1983). Effective implementation of GCG requires a strong audit mechanism to ensure transparency and reliability of financial information (Inaam & Khamoussi, 2016). Studies have shown that firms with financially competent audit committees tend to exhibit lower levels of earnings manipulation (Abbott et al., 2004). Therefore, exploring audit committee characteristics within the GCG framework is highly relevant in identifying determinants of financial reporting quality in modern corporations.

Moreover, the evolving corporate governance regulations in many countries, including Indonesia, increasingly emphasize the importance of the audit committee's role in enhancing financial transparency (Otoritas Jasa Keuangan, 2019). In Indonesia, GCG implementation is governed by Financial Services Authority Regulation No. 55/POJK.04/2015, which mandates that public companies have an independent audit committee member with expertise in finance or accounting. Nevertheless, the effectiveness of this regulation remains questionable as financial reporting irregularities continue to occur in several public firms (Siregar & Utama, 2008). This highlights the need for a deeper examination of how audit committee characteristics influence financial reporting quality within Indonesia's corporate governance practices.

The urgency of this study lies in the increasing demand for effective oversight mechanisms to ensure financial reporting reliability amid complex business operations and growing reporting pressures (Beasley et al., 2009). As corporate accountability and transparency gain more attention, this research provides valuable empirical evidence regarding the relationship between audit committee characteristics and financial reporting quality, particularly within the context of GCG. The findings of this study are expected to benefit academics, regulators, investors, and management by strengthening internal monitoring structures and enhancing corporate governance practices (Al-Matari et al., 2014).

Previous studies have produced mixed results concerning the impact of audit committee characteristics on financial reporting quality. For instance, (Bédard & Gendron, 2010) found that audit committees with financially experienced members were less likely to engage in earnings management. In contrast, (Maulana et al., 2022) found no significant relationship between committee size and reporting quality among Indonesian public companies. Furthermore, (Mohid Rahmat et al., 2009) suggested that audit committee effectiveness is also influenced by meeting frequency and member independence. These varying results suggest a research gap and highlight the need for further investigation into contextual factors that may moderate this relationship.

Based on the above discussion, this study aims to analyze the influence of audit committee characteristics—including independence, financial expertise, committee size, and meeting frequency—on the quality of financial reporting from a Good Corporate Governance perspective. This research is expected to contribute theoretically to the development of corporate governance literature and practically to regulators and corporations in strengthening financial monitoring mechanisms. Additionally, the findings may serve as a foundation for improving corporate governance policies in Indonesian public companies to enhance the integrity and credibility of financial reporting.

METHOD

This study employs a qualitative approach using the literature study method. The purpose is to analyze and synthesize previous research related to the influence of audit committee characteristics on financial reporting quality from a Good Corporate Governance (GCG) perspective. A literature study was chosen to develop a comprehensive conceptual understanding based on existing theories, empirical findings, and regulatory frameworks (Snyder, 2019).

Data Sources

The research uses secondary data collected from scientific journals, conference proceedings, and official reports indexed in Scopus, ScienceDirect, SpringerLink, Emerald Insight, and Google Scholar. The inclusion criteria cover studies published between 2010 and 2025 that discuss audit committee characteristics (independence, financial expertise, size, meeting frequency), financial reporting quality, and GCG implementation (Xiao & Watson, 2019).

Data Collection Technique

Data were gathered through a systematic literature review following the PRISMA framework, which includes identification, screening, eligibility, and synthesis stages (Tricco et al., 2018). Keywords such as *"audit committee characteristics," "financial reporting quality,"* and *"corporate governance"* were used to search relevant studies. Only peer-reviewed and thematically relevant articles were included in the analysis.

Data Analysis Method

The data were analyzed using thematic content analysis to identify and group major themes such as audit committee independence, expertise, size, meeting frequency, and their influence on reporting quality (Nowell et al., 2017). The analysis was interpretive and descriptive, focusing on patterns, relationships, and research gaps.

The findings were then compared and aligned with corporate governance theories to ensure conceptual consistency (Creswell & Poth, 2016).

This method provides a comprehensive synthesis of how audit committee characteristics affect financial reporting quality under the GCG framework and offers insights for future empirical studies.

RESULT AND DISCUSSION

Audit Committee Independence and Financial Reporting Quality

Audit committee independence is widely recognized as one of the most crucial determinants of effective corporate oversight and high-quality financial reporting. Independence allows committee members to perform their duties objectively, without undue influence from company management, thereby ensuring that financial statements reflect the company's true economic condition (Klein, 2002). Independent audit committees are less likely to tolerate opportunistic behavior such as earnings manipulation or creative accounting practices, which can undermine investor confidence.

Empirical evidence across global markets supports this relationship. For example, a study of 692 U.S. firms found that firms with a higher proportion of independent audit committee members reported significantly lower levels of discretionary accruals, indicating reduced earnings management (Xie et al., 2003). Similarly, (Klein, 2002) documented that when audit committees lose independence—such as when members have financial or familial ties to management—earnings manipulation becomes more prevalent. This finding underscores that independence is not merely a structural formality but a substantive element that determines the audit committee's capacity to protect shareholder interests.

From a Good Corporate Governance (GCG) perspective, independence is vital to ensuring transparency and accountability, two of the OECD's core governance principles (OECD, 2015). Independent audit committees act as a buffer between management and external auditors, helping to align financial disclosures with shareholder interests and regulatory requirements (Al-Shaer & Zaman, 2018). In emerging economies, including Indonesia and Malaysia, audit committee independence is also associated with better compliance with disclosure standards and reduced financial restatements (Abdullah et al., 2016).

However, several studies highlight that independence alone is insufficient without complementary factors such as financial literacy, authority, and active engagement. For instance, (Mohid Rahmat et al., 2009) found that independent committees without financial expertise were less effective in constraining earnings management. Similarly, (Krishnan & Visvanathan, 2007) revealed that firms with independent yet financially inexperienced audit committees exhibited higher levels of discretionary accruals compared to those with members possessing accounting backgrounds. Thus, independence must be coupled with expertise and authority to maximize its governance impact.

A real-world case that illustrates the importance of independence is the Enron scandal (2001). Although Enron's audit committee was formally independent, several members maintained close business ties with management, compromising objectivity. The lack of genuine independence allowed Enron's executives to manipulate off-balance-sheet transactions and hide billions in debt, ultimately leading to bankruptcy and investor losses exceeding USD 70 billion (Healy & Palepu, 2003). Following the scandal, the Sarbanes–Oxley Act of 2002 in the United States mandated that all public companies must have fully independent audit committees, reinforcing the idea that independence is foundational to credible financial reporting.

In the Indonesian context, cases such as Garuda Indonesia's 2018 financial misstatement—where the airline reported profits despite actual losses—further demonstrate the practical implications of weak audit committee independence. The Financial Services Authority (OJK) found that some audit committee members failed to challenge management's recognition of revenue that did not meet accounting standards. This highlighted the ongoing need for stronger independence and oversight mechanisms within Indonesia's corporate governance framework (Otoritas Jasa Keuangan, 2019).

Overall, the literature and real-world evidence demonstrate that audit committee independence significantly enhances financial reporting quality by reducing the likelihood of fraud, improving transparency, and increasing investor confidence. However, independence must coexist with competence, authority, and ethical commitment to be truly effective in achieving the goals of Good Corporate Governance.

Financial Expertise of the Audit Committee

Financial expertise is one of the most decisive factors influencing the effectiveness of audit committees in safeguarding the integrity of financial reporting. Members with accounting or financial backgrounds possess the technical ability to evaluate complex accounting estimates, understand audit reports, and challenge management judgments critically (Carcello et al., 2006). Audit committees that include financially literate members are more capable of detecting misstatements, ensuring accurate disclosures, and maintaining compliance with accounting standards (DeFond et al., 2005). In contrast, audit committees that lack financial expertise are often dependent on management explanations, leading to a higher risk of oversight failure and reporting bias (Krishnan & Visvanathan, 2007).

Empirical research strongly supports this relationship. (Dhaliwal et al., 2010) found that firms with audit committees containing accounting experts have a lower incidence of earnings restatements and higher earnings quality. Similarly, (Zalata et al., 2018) reported that audit committees with financial expertise are more effective in constraining real and accrual-based earnings management, especially in firms with complex transactions. Financial expertise enhances the audit committee's ability to interpret the financial implications of managerial decisions, assess auditor independence, and promote more transparent corporate reporting (Abernathy et al., 2015).

From a Good Corporate Governance (GCG) perspective, financial expertise contributes directly to the principles of transparency, accountability, and fairness, as outlined by the OECD. It allows audit committees to bridge the information asymmetry between management and shareholders, reinforcing investor confidence in financial statements (OECD, 2015). Financially competent audit committees can also improve coordination with external auditors, ensuring that the audit process addresses key risk areas such as revenue recognition, impairment testing, and contingent liabilities (Ghafran & O'Sullivan, 2017).

A notable real-world case demonstrating the significance of financial expertise is the Lehman Brothers collapse in 2008. Despite having an audit committee, Lehman's financial statements used questionable accounting treatments (notably the "Repo 105" transactions) to temporarily remove billions of dollars of debt from its balance sheet. Subsequent investigations revealed that the audit committee lacked members with deep accounting expertise, preventing them from understanding the implications of complex off-balance-sheet financing structures (Valukas, 2010). The absence of technically proficient oversight contributed to one of the largest bankruptcies in history, emphasizing the critical role of financial literacy in preventing financial misreporting.

Similarly, in Malaysia, the 1Malaysia Development Berhad (1MDB) scandal illustrates how insufficient audit committee expertise can exacerbate financial misconduct. Reports indicated that the audit committee did not include any qualified accountants, which weakened their capacity to detect irregular fund transfers and questionable investment structures (Arjoon, 2005). This case underscores that formal committee structures are ineffective without members who understand financial intricacies and can interpret complex audit evidence.

Recent evidence from developing economies further validates the importance of financial expertise. (Kusnadi et al., 2016) found that in Asian markets, companies with financially expert audit committee members experience higher audit quality and stronger investor perceptions of credibility. This aligns with GCG's broader objective of promoting long-term corporate sustainability through informed oversight and responsible governance practices.

In conclusion, financial expertise enhances the audit committee's ability to identify, evaluate, and mitigate reporting risks, ultimately improving the reliability and transparency of financial information. Nevertheless, the mere presence of financial experts is not sufficient—effectiveness also depends on their active involvement, independence, and understanding of industry-specific contexts. The integration of financial literacy with ethical commitment and professional skepticism forms the foundation for achieving high-quality financial reporting under Good Corporate Governance principles.

Audit Committee Size and Effectiveness

The size of the audit committee is a critical structural element influencing its overall effectiveness in performing monitoring and oversight functions. An appropriately sized audit committee ensures adequate diversity of expertise, perspectives, and workload distribution, thereby enhancing the quality of financial supervision (Anderson et al., 2004). Committees that are too small may lack the range of skills and knowledge required to address complex financial reporting issues, while excessively large committees may encounter coordination difficulties, diluted responsibility, and slower decision-making processes (Xie et al., 2003).

Empirical research generally supports the existence of an optimal committee size, typically between three and six members, which balances diversity with efficiency (Klein, 2002). For example, (Vafeas, 1999) found that firms with moderately sized audit committees had better financial performance and fewer restatements than those with either very small or excessively large committees. Similarly, (Al-Matari et al., 2014) found that in Middle Eastern companies, an audit committee with five to six members exhibited the highest levels of oversight effectiveness and lower levels of earnings manipulation. The authors concluded that size matters not only in numerical terms but also in how it facilitates communication, accountability, and information sharing among members.

From a Good Corporate Governance (GCG) perspective, the size of the audit committee influences both board dynamics and independence of judgment. Larger committees can accommodate members with diverse professional backgrounds (finance, law, management, and risk auditing), allowing for multi-dimensional scrutiny of financial reports (Bédard & Gendron, 2010). However, when the committee becomes too large, the risk of "social loafing" and passive participation increases—members may rely on others to perform core oversight tasks, thereby reducing collective accountability (Bozec et al., 2010). Thus, effective governance requires an optimal balance between inclusiveness and decisiveness.

A notable real-world example illustrating the consequences of inappropriate committee size can be seen in the Wells Fargo unauthorized accounts scandal (2016). The U.S. Senate investigation revealed that Wells Fargo's audit committee, composed of nine members, struggled to manage internal control and compliance oversight due to excessive delegation and lack of clear accountability (United States Senate, 2017). The committee's large size led to communication breakdowns and delayed responses to whistleblower reports of fraudulent account openings. This case exemplifies how oversized committees can weaken governance efficiency and oversight precision despite having independent directors.

Conversely, the Toshiba accounting scandal (2015) in Japan provides insight into the dangers of having an audit committee that is too small. Toshiba's audit committee consisted of only three members, two of whom lacked substantial accounting experience. The limited size and expertise constrained the committee's ability to detect the overstatement of profits totaling approximately USD 1.2 billion over seven years (Bozec et al., 2010). Following the scandal, the Tokyo Stock Exchange amended its corporate governance code to recommend expanding audit committees to include members with diverse professional backgrounds to strengthen internal oversight.

Further evidence from emerging markets shows that an audit committee's size also correlates with regulatory compliance and disclosure quality. A study on Indonesian listed firms found that companies with audit committees of four to five members demonstrated higher financial reporting quality and adherence to GCG principles (Ismail et al., 2022). Larger committees, however, often exhibited bureaucratic inefficiencies and limited involvement in auditor selection and risk monitoring. These findings suggest that beyond numerical composition, the committee's functional cohesiveness and clarity of roles are central to achieving high-quality oversight outcomes.

In essence, audit committee size influences the group's collective capacity for oversight, communication effectiveness, and decision-making speed. From a GCG standpoint, an optimal committee size promotes transparency, accountability, and responsibility by ensuring that financial oversight is both participative and efficient. Regulatory bodies such as the U.S. Securities and Exchange Commission (SEC) and Indonesia's Financial Services Authority (OJK) recommend audit committees to have at least three independent members, striking a balance between diversity and governance agility (Otoritas Jasa Keuangan, 2019). Ultimately, size interacts with other attributes—such as independence and financial expertise—to determine the audit committee's true capacity to uphold the principles of good governance and ensure reliable financial reporting.

Frequency of Audit Committee Meetings and Financial Reporting Quality

The frequency of audit committee meetings is an important indicator of how actively and diligently the committee fulfills its monitoring responsibilities. Frequent meetings reflect the committee's level of commitment and engagement in overseeing the financial reporting process, internal controls, and the work of external auditors (Beasley et al., 2009). A higher number of meetings enables the committee to address complex financial issues promptly, review interim results, and ensure that any irregularities or deficiencies are resolved before the publication of annual reports (Lin et al., 2006).

Empirical studies consistently demonstrate a positive relationship between audit committee meeting frequency and financial reporting quality. For instance, (Knechel et al., 2007) found that firms with audit committees meeting more than four times per year exhibited significantly lower levels of discretionary accruals and higher audit quality. Similarly, (Menon & Williams, 1994) showed that frequent meetings enhance information exchange between management, auditors, and the board, thus strengthening corporate transparency. Moreover, (Raghunandan & Rama, 2007) reported that companies with more frequent audit committee meetings were more likely to have timely financial reporting and fewer restatements, indicating better oversight effectiveness.

From a Good Corporate Governance (GCG) perspective, the frequency of meetings embodies the principles of responsibility, transparency, and accountability. A diligent audit committee that meets regularly signals to shareholders and regulators that the organization prioritizes monitoring integrity and compliance (OECD, 2015). Regular meetings facilitate proactive discussion of emerging risks, including fraud, cyber threats, and accounting estimate uncertainties, thereby enhancing overall corporate resilience (Alzeban & Gwilliam, 2014). However, it is not merely the quantity of meetings that matters; rather, the quality and substance of discussions determine the true impact on financial reporting outcomes (Vafeas, 1999).

A notable case underscoring the importance of meeting frequency is the WorldCom accounting scandal (2002). Before its collapse, WorldCom's audit committee held only two meetings per year, far below the U.S. average at that time. Investigations revealed that the limited frequency of meetings and lack of detailed discussions prevented the committee from identifying USD 11 billion in fraudulent accounting entries (Khudhair et al., 2019). The case demonstrated how infrequent meetings can lead to weak oversight and catastrophic governance failure. Following this scandal, the Sarbanes–Oxley Act of 2002 introduced stronger expectations for audit committee engagement, urging committees to meet regularly and document their deliberations comprehensively.

In contrast, the HSBC money-laundering scandal (2012) provides an example of the limits of frequency without substance. HSBC's audit and risk committees met more than ten times per year, but investigative reports by the U.S. Senate found that the meetings lacked depth and failed to focus on high-risk areas such as compliance controls and suspicious transaction monitoring (U.S. Senate Permanent Subcommittee on Investigations, 2012). The committee's failure to translate frequent meetings into meaningful risk oversight led to a USD 1.9 billion fine. This case highlights that meeting frequency alone is not a safeguard unless meetings are strategically structured, data-driven, and outcome-oriented.

Further evidence from emerging economies supports these findings. In Indonesia, companies with audit committees meeting at least four times annually showed higher financial reporting quality and compliance with GCG standards compared to those that met less frequently (Denziana, 2015). Likewise, a Malaysian study found that frequent meetings improved coordination with internal auditors and reduced the likelihood of earnings manipulation. Both studies reinforce that regular, well-organized audit committee meetings are essential for effective governance in developing markets where regulatory enforcement is still evolving.

In summary, frequent and well-structured audit committee meetings enhance the quality of financial reporting by enabling continuous oversight, improving auditor communication, and facilitating timely detection of irregularities. Nevertheless, excessive meetings without clear agendas or follow-up actions may yield diminishing returns. Therefore, effective audit committees should not only meet often but also ensure that each meeting is purposeful, data-informed, and aligned with the principles of Good Corporate Governance to promote transparency and protect stakeholder interests.

Audit Committee Characteristics and Good Corporate Governance (GCG) Principles

The four key characteristics of the audit committee—independence, financial expertise, optimal size, and meeting frequency—operate interdependently to uphold and enhance Good Corporate Governance (GCG). Each characteristic individually strengthens the committee's oversight capacity, but their integration determines the committee's overall effectiveness in improving financial reporting quality and corporate accountability (Bédard & Gendron, 2010). When these attributes function synergistically, audit committees act as a cornerstone of governance by ensuring transparency, accountability, responsibility, and fairness—the core pillars of GCG as defined by the OECD (2015).

1. Synergistic Interaction of Audit Committee Attributes

   Independence provides the foundation for objective oversight, minimizing management interference and potential conflicts of interest. Financial expertise allows audit committee members to critically assess accounting policies, understand audit outcomes, and detect irregularities. Meanwhile, an appropriately sized committee ensures effective communication and diverse perspectives, while frequent meetings maintain continuous engagement and responsiveness to emerging risks.

   Empirical evidence shows that firms where these characteristics coexist exhibit stronger financial reporting integrity. For example, (Badolato et al., 2014) found that companies with independent and financially expert committees, meeting regularly and operating within an optimal size, had significantly lower instances of earnings management and higher market valuations. This reinforces the interdependence of audit committee characteristics as complementary mechanisms that collectively strengthen governance quality.

2. Audit Committees as Agents of Transparency and Accountability

   From a GCG perspective, transparency and accountability are achieved when audit committees operate independently and competently, ensuring that management's disclosures reflect true and fair information. Independence ensures impartial evaluation, while expertise and meeting diligence translate oversight into tangible results.

   For instance, after the Enron and WorldCom scandals, which exposed failures in oversight and audit independence, the Sarbanes–Oxley Act of 2002 (SOX) mandated fully independent audit committees with at least one financial expert. This regulatory shift significantly improved investor confidence and transparency in the U.S. capital market (Cohen et al., 2010). It also became a model for corporate governance reforms in other jurisdictions, including Asia and Europe, highlighting the universal value of independent and expert-driven audit oversight.

3. Real-World Corporate Cases Illustrating the GCG Link

   A compelling example of integrated audit committee effectiveness is the Unilever Group. Unilever's audit committee comprises six members—all independent non-executive directors—with three holding professional accounting qualifications. The committee meets at least six times a year, focusing on risk management, internal control, and external audit independence. This structure aligns with OECD's GCG principles, contributing to Unilever's consistent high ranking in corporate transparency indices (Unilever Annual Report, 2022). The synergy of independence, expertise, size, and meeting diligence enables Unilever to maintain stakeholder trust and long-term investor confidence.

In contrast, Wirecard AG's collapse (2020) demonstrates the severe consequences of weak audit committee governance. Despite having a formally independent audit committee, Wirecard lacked members with accounting expertise, and meetings were infrequent and poorly documented. Investigations revealed that the committee failed to challenge management over €1.9 billion in missing cash balances (Bloch et al., 2025). The Wirecard scandal highlighted that without the integration of independence, expertise, and active engagement, formal compliance with governance structures is meaningless.

In Indonesia, PT Garuda Indonesia's 2018 accounting misstatement similarly reflected the failure of audit committee synergy. Although the company's audit committee was independent and properly sized, the lack of financial expertise and limited meeting activity led to the approval of premature revenue recognition. The Financial Services Authority (OJK) sanctioned Garuda Indonesia for violating GCG principles, reinforcing that partial compliance without holistic integration of audit committee characteristics is insufficient (Otoritas Jasa Keuangan, 2019).

4. Integrative Mechanism Within the GCG Framework

Within the broader GCG framework, audit committees serve as intermediaries between internal management and external stakeholders. They mitigate agency conflicts by reducing information asymmetry and aligning management behavior with shareholder interests. When independence and expertise are reinforced by frequent meetings and optimal size, audit committees enhance the reliability of external audits, the timeliness of financial disclosures, and compliance with regulatory standards.

Furthermore, an integrated audit committee structure supports the ethical dimension of GCG. The combination of independence and professional competence encourages ethical judgment, preventing opportunistic or fraudulent financial behavior (Cohen et al., 2010). As a result, effective committees not only improve financial quality but also foster a culture of integrity and accountability across the organization.

5. Implications for Emerging Markets and Policy Reform

   In emerging economies, particularly in Southeast Asia, establishing integrated audit committee structures remains challenging due to limited expertise pools and regulatory inconsistencies. Research by (Ikhsan et al., 2024) found that Indonesian and Malaysian firms that integrated all four audit committee characteristics—independence, expertise, optimal size, and frequent meetings—demonstrated higher compliance with GCG standards and stronger investor perceptions of trustworthiness.

These findings suggest that policy reforms should not merely focus on mandating independence or minimum meetings, but on holistic governance integration—ensuring committees have the right composition, competencies, and engagement practices. Regulatory bodies such as the Financial Services Authority (OJK) and Bursa Efek Indonesia (IDX) have begun aligning their audit committee requirements with OECD GCG principles, emphasizing capacity building and transparency over box-ticking compliance.

CONCLUSION

This study concludes that audit committee characteristics have a significant and interconnected influence on the quality of financial reporting within the Good Corporate Governance framework. Audit committee independence enables objective and unbiased oversight, while financial expertise equips members with the technical capacity to evaluate complex accounting issues and challenge managerial discretion. Furthermore, an optimal committee size enhances communication and collective responsibility, and frequent, well-organized meetings ensure continuous monitoring of financial reporting processes. The literature consistently demonstrates that the effectiveness of audit committees does not rely on a single characteristic but on the integration of these attributes. When independence, expertise, appropriate size, and meeting diligence function synergistically, audit committees are more capable of preventing financial misstatements, reducing earnings manipulation, and strengthening transparency and accountability. Consequently, audit committees serve as a central governance mechanism that safeguards stakeholder interests and enhances corporate credibility.

Practical Implications

From a practical perspective, companies should prioritize the substantive implementation of audit committee requirements rather than mere formal compliance. Regulators and boards of directors are encouraged to ensure that audit committee members are not only independent but also possess adequate financial and accounting expertise. Companies should also maintain an optimal committee size to balance efficiency and diversity of perspectives, while scheduling regular and agenda-driven meetings that focus on high-risk financial reporting areas. Strengthening training programs and continuous professional development for audit committee members can further enhance oversight effectiveness. These measures can improve financial reporting reliability and reinforce investor confidence, particularly in emerging markets.

Suggestions for Future Research

Future studies are recommended to employ empirical quantitative methods to test the relationships identified in this literature-based analysis. Researchers may explore moderating or mediating variables such as firm size, ownership structure, regulatory enforcement, or industry characteristics. Comparative cross-country studies would also provide valuable insights into how institutional and cultural differences affect audit committee effectiveness. Additionally, future research could examine the role of audit committee gender diversity, tenure, and technological competence in enhancing financial reporting quality within evolving corporate governance environments.

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