



The Influence of Audit Committees on the Financial Viability of Real Estate Companies in Indonesia

Natasha Elisabeth Manuputty¹, Agus Munandar²

¹Universitas Esa Unggul, Jakarta, Indonesia, natasha.elisabeth.manuputty@student.esaunggul.ac.id

²Universitas Esa Unggul, Jakarta, Indonesia, agus.munandar@esaunggul.ac.id

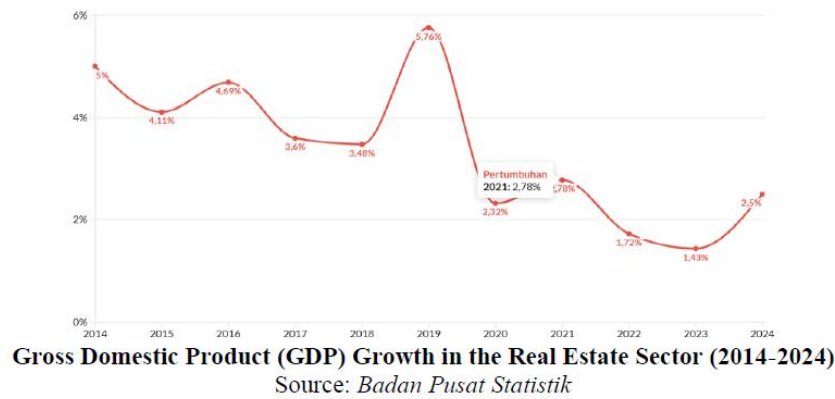
Corresponding Author: agus.munandar@esaunggul.ac.id²

Abstract: Alignment with the company's commitment to implementing good governance so it can support the company's goal of improving performance. The intention of this study is to determine the role of the audit committee in the company's financial viability. The findings show that audit committee size has a positive but insignificant effect on company financial viability. Financial expertise possessed by audit committee has a negative and insignificant effect on financial viability, while audit committee independence also has a negative and insignificant effect on financial viability. Simultaneously, the three audit committee characteristic variables do not significantly influence company financial viability, as indicated by the F-statistic probability value of 0.317 (>0.05). The conclusion of this study show that audit committee characteristics do not take part in significant role in improving company financial viability. Therefore, companies are advised to not only heed to the formal structure of the audit committee but also to improve the effectiveness, frequency of meetings, and quality of audit committee oversight to ensure they can make a significant contribution to company viability.

Keywords: Audit Committee Size, Audit Committee Financial Expertise, Audit Committee Independence, Financial Viability

INTRODUCTION

Company owners and management certainly have a need for stability in their company's financial viability. Therefore, management strives to make decisions that can drive growth in the company's financial viability (Pathiraja et al., 2023). In accordance with *Otoritas Jasa Keuangan* (OJK), real estate can be defined as land and the physical buildings located on it. The real estate industry consists of companies engaged in the provision, procurement, and development of buildings. The real estate sector experienced a decline in growth during the Covid-19 pandemic and has exhibited unstable GDP growth in subsequent years. According to data from the Badan Pusat Statistik (2024), the real estate sector's gross domestic product contributed IDR 520.7 trillion to the national economy, 1% increase from 2023 after three consecutive years of decline. However, its contribution to the country is not significant, ranking only 11th out of 17 business categories.



The unstable growth of real estate companies is a concern for regulatory authorities and investors, given that many people still need housing, but this high demand does not significantly impact real estate company growth. Therefore, companies are striving to increase investor and consumer confidence by strengthening the responsibility of audit committees (Hassan Bazhair, 2022). Audit committees assist companies by keeping under observation regulatory compliance and accountability in financial reporting, thereby achieving the principles of accuracy, reliability, and transparency (Al-Zaimoor et al., 2024). Several previous studies have varying results regarding audit committee attributes, so there is still inconsistency in the research results. Based on these result, the motivation of this study is to determine the role of audit attributes in the financial viability of real estate companies in Indonesia. The attributes used in this research are audit committee size, audit committee financial expertise, and audit committee independence.

Corporate governance encompasses all the rules and regulations that guide and control a company. Various stakeholders in corporate governance are considered crucial in the decision-making process (Huynh et al., 2022). The audit committee takes a key part in corporate governance. The internal audit responsibility is developed to regularly keep a check on controls and procedures within the company's activities (Pathiraja et al., 2023). The audit committee oversees the management of agency conflicts and maximizing company viability, thereby increasing investor confidence in the company's financial statements (Debbarma & Roy, 2023).

Agency theory, as defined by Jensen and Meckling in 1976, describes the bond formed among principal (shareholder) and agent (management) to perform certain actions in the principal's interest, including in decision-making, thus creating a conflict of interest (Pratama Marpaung et al., 2022). This conflict arises because the principal does not fully monitor daily operational activities, which would ensure that company management aligns with the principal's interests. Management should strive to maximize shareholder interests, but often tends to maximize its own interests (Nur Novianto & Putri, 2019). Corporate governance takes a crucial part in balancing shareholder interests because it oversees and controls company activities, ensuring that managerial actions are intended to benefit shareholders (Kurnia et al., 2024).

The audit committee consists of commissioners, with at least one member having experience in accounting. The audit committee takes a part in maintaining the integrity of financial reporting and creating a disciplined work environment, thereby minimizing conflicts of interest among management and shareholders (Noviarty et al., 2021).

Audit committee that has a large size brings together individuals with diverse backgrounds and perspectives, contributing to a comprehensive knowledge of the business (Pasko et al., 2024). Research by Pathiraja et al. (2023), Huynh et al. (2022) and Musallam (2020) indicates that audit committee size positively influences company financial viability. Meanwhile, research by Al-Jalahma (2022), Hassan Bazhair (2022), Fariha et al. (2022), and

Omotoye et al. (2021) stated that audit committee size negatively impacts a company's financial viability. This contrasts with the research findings of Al-Zaimoor et al. (2024), Debbarma & Roy (2023), Al-Okaily & Naueihed (2020), Almoneef & Samontaray (2019), and Salehi et al. (2018) which found that audit committee size had no influence on a company's financial viability. Based on the discussion regarding the influence between these variables, the first hypothesis is established as follows:

H1: Audit committee size positively influences the company financial viability

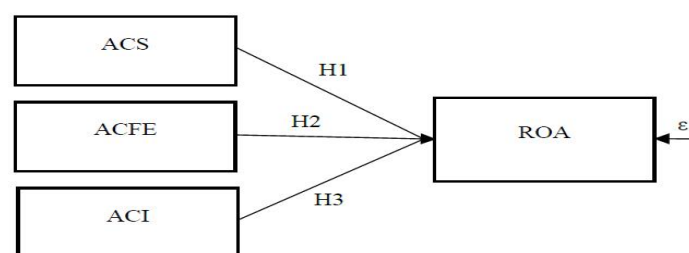
Audit committee members with financial background can ensure that company complies with ethical standards in its disclosure of social responsibility (Mohammadi et al., 2021). Meanwhile, audit committees with financial background also promote transparency to reduce risks that could damage the company's reputation, enabling them to oversee more comprehensive disclosure of social responsibility (Rustiarini et al., 2024).

Audit committees take an important part in keep track of financial reporting, and therefore should include at least one member with a financial background. This requirement is useful in designing a more effective internal control system, managing risks, and evaluating audit results (Rustiarini et al., 2024). The financial expertise possessed by audit committees is also useful for increasing the transparency of financial reports and minimizing agency conflicts (Qaderi et al., 2020). Research conducted by Hassan Bazhair (2022), Al-Zaimoor et al. (2024), Musallam (2020), Omotoye et al. (2021), Salehi et al. (2018), and Alodat et al. (2023) show that the financial background of the audit committee has a positive impact on a company's financial viability. Conversely, research by Pathiraja et al. (2023) and Al-Okaily & Naueihed (2020) states that the financial expertise of the audit committee does not have a significant impact on a company's financial viability. Based on the discussion among these variables, the second hypothesis is established as follows:

H2: The financial expertise of the audit committee positively influences the company's financial viability

Audit committee independence means audit committee members have no economic interests, positions, or personal relationships with management. Threats to independence can be eliminated when audit committee members not a shareholder in the company (Ha, 2022). Efforts to ensure the integrity and transparency of a company's financial reporting process lie in the presence of an independent audit committee (Shrivastav, 2022). A greater proportion of independent board members can raise company viability because they can have diverse backgrounds, characteristics, and expertise that can assist in the company's decision-making process (Musallam, 2020). Research conducted by Hassan Bazhair (2022) and Al-Zaimoor et al. (2024) discovered that audit committee independence has a positive affect on a company's financial viability. Research by Al-Jalahma (2022), Fariha et al. (2022), and Abdullah & Tursoy (2023) found that audit committee independence negatively influences company's financial viability. Conversely, research by Pathiraja et al. (2023), Almoneef & Samontaray (2019), dan Ali Al-Matari et al. (2012) discovered that audit committee independence has no significant effect on a company's financial viability. Based on the discussion among these variables, the third hypothesis is established as follows:

H3: Audit committee independence positively influences the company's financial viability



Source: Research result
Figure 1. Conceptual Framework

METHOD

The variables in this study are measured based on hypothesis testing of the following variables, namely Audit Committee Size, Audit Committee Financial Expertise, Audit Committee Independence, and Financial Viability of the real estate sector. The Audit Committee Size variable is assessed based on the quantity of audit committees, Audit Committee Financial Expertise is assessed through the portion of audit committees that have financial expertise while Audit Committee Independence is assessed through the portion of the independent audit committee. The dependent variable in this research is Financial Viability which can be assessed based on the return on assets (ROA) ratio.

This research uses secondary data accessible from official website of the Indonesia Stock Exchange and company websites. Data analysis includes annual financial reports and annual reports from real estate companies. The research population is real estate companies that have been consistently listed on the Indonesia Stock Exchange by the 2022-2024. The sample was chosen using a purposive sampling technique.

Tabel 1. Criteria for research samples

No.	Criteria	Total
1	Real estate sector companies listed on the Indonesia Stock Exchange consistently from 2022-2024.	77
2	Real estate sector companies that publish financial reports in rupiah currency.	(0)
3	Real estate sector companies that posted positive net profits from 2022-2024.	(38)
Number of research samples		39
Number of research samples during 2022-2024		117

This research conducted two types of data testing: descriptive statistics and the Lagrange Multiplier test. According to (Ghozali & Ratmono, 2017), descriptive statistics allow a general overview of data through measures including mean, standard deviation, variance, maximum and minimum values. Meanwhile, the LM test aims to test for cross-sectional effects in panel data. The collected data will be analyzed and processed to obtain relevant information for this research. This research used Eviews software version 13 as a tool for processing and testing the obtained data.

$$ROA_{it} = \beta_1 ACS_{it} + \beta_2 ACFE_{it} + \beta_3 ACI_{it} + \varepsilon_{it}$$

Where:

ROA = Financial Viability
 $\beta_1 \dots \beta_3$ = Regression Coefficient
 ACS = Audit Committee Size
 ACFE = Audit Committee Financial Expertise
 ACI = Audit Committee Independence
 ε = error term

RESULT AND DISCUSSION

The key objective of this study is to explore the influence of audit committee attributes on corporate financial viability. This objective is achieved using descriptive statistics. The results of the descriptive statistics for audit committee attributes are illustrated in Table 2.

Tabel 2. Summary of descriptive statistics

STATS	ROA	ACS	ACFE	ACI
Mean	0.043644	2.965812	0.693020	0.658832
Median	0.033810	3.000000	0.666667	0.666667
Maximum	0.188966	4.000000	1.000000	0.750000
Minimum	0.000474	2.000000	0.333333	0.500000
Std. Dev	0.040043	0.291596	0.212642	0.042355
n	117	117	117	117

Source: Research data

Tabel 3. Summary of random effects regression result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.173542	0.118888	1.459716	0.147143
ACS	0.116345	0.070588	1.648222	0.102085
ACFE	-0.018711	0.023630	-0.791827	0.430120
ACI	-0.701225	0.473123	-1.482122	0.141091

Source: Research data

Based on the Eviews output, the regression model is as follows:

$$ROA_{it} = 0.173542 + 0.116345ACS_{it} - 0.018711ACFE_{it} - 0.701225ACI_{it} + \varepsilon_{it}$$

The audit committee size (ACS) coefficient of 0.116345 with a probability value of 0.1021 (>0.05) indicates that audit committee size has a positive but insignificant effect on ROA. Therefore, no relationship is found between the audit committee and financial viability. Hypothesis 1 cannot be accepted because the value was insignificant. This is in line with research by Debbarma & Roy (2023), Al-Okaily & Naueihed (2020), Al-Zaimoor et al. (2024), Salehi et al. (2018), and Almoneef & Samontaray (2019).

The audit committee financial expertise (ACFE) coefficient of -0.018711 with a probability value of 0.4301 (>0.05) indicates a negative and insignificant effect on ROA. Therefore, no relationship is found among audit committee financial expertise and financial viability. Hypothesis 2 cannot be accepted because the value was insignificant. This is in line with research by Pathiraja et al. (2023) and Al-Okaily & Naueihed (2020).

The audit committee independence coefficient (ACI) of -0.701225 with a probability value of 0.1411 (>0.05) indicates a negative and insignificant affect on ROA. Therefore, no relationship is found among audit committee independence and financial viability. Hypothesis 3 cannot be accepted because the value was insignificant. This is consistent with research by Pathiraja et al. (2023), Ali Al-Matari et al. (2012), and Almoneef & Samontaray (2019).

The Durbin–Watson value of 1.882964 is close to 2, indicating no autocorrelation found between the residuals in the model. Thus, the regression results are considered valid and do not contain autocorrelation bias.

The Probability(F-statistic) value of 0.317334 (>0.05) indicates that the variables of audit committee size, financial expertise possessed by audit committee, and audit committee independence simultaneously have no significant effect on financial viability (ROA).

The Adjusted R² value of 0.004858 also indicates that only about 0.48% of the variation in ROA can be explained by these three variables, while the remaining 99.52% is influenced by other factors outside the model such as operational efficiency, leverage, company size, or external macroeconomic factors (inflation, unemployment rate, interest rates, or government policies).

CONCLUSION

The audit committee size (ACS) has a positive but insignificant affect on a company's financial viability, as formulated by ROA. This indicates that increasing of audit committee members has not significantly improved company's profitability. Audit committee usefulness is determined not only by the number of members, but also by their ability, coordination, and commitment in carrying out their oversight function. The audit committee financial expertise

(ACFE) variable has a negative but insignificant affect on financial viability. These results show that the existence of audit committee members with a financial background has not significantly impacted the company's financial viability. Financial expertise alone is insufficient without a thorough understanding of operational activities and corporate governance. The final variable, audit committee independence (ACI) also has a negative and insignificant effect on financial viability. This means a greater proportion of independent audit committee members does not necessarily improve company performance. This condition may be caused by the lack of involvement of independent members in the company's operational activities, resulting in a suboptimal contribution to performance improvement. Simultaneously, the three audit committee attribute variables (ACS, ACFE, and ACI) have not been the main factors determining the company's financial viability during the study period. The limitations of this study are only used three attributes of audit committee as variables and the research period of observation was only three years. Therefore, suggestions for further research are expand this study by adding other variables that could potentially influence financial viability, such as audit committee meeting frequency, audit committee tenure, company size, leverage, ownership structure, or managerial ownership. Also use a longer observation period and increase sample size to ensure more representative and generalizable results.

REFERENCES

- Abdullah, H., & Tursoy, T. (2023). The Effect of Corporate Governance on Financial Performance: Evidence From a Shareholder-Oriented System. *Iranian Journal of Management Studies (IJMS)*, 16(1), 79–95.
- Ali Al-Matari, Y., Kaid Al-Swidi, A., Hanim Bt Fadzil, F., & Mohammed Al-Matari, E. (2012). Board of Directors, Audit Committee Characteristics and Performance of Saudi Arabia Listed Companies. *International Review of Management and Marketing*, 2(4), 241–251. www.econjournals.com
- Al-Jalahma, A. (2022). Impact of audit committee characteristics on firm performance: Evidence from Bahrain. *Problems and Perspectives in Management*, 20(1), 247–261. [https://doi.org/10.21511/ppm.20\(1\).2022.21](https://doi.org/10.21511/ppm.20(1).2022.21)
- Almoneef, A., & Samontaray, D. P. (2019). Corporate governance and firm performance in the Saudi banking industry. *Banks and Bank Systems*, 14(1), 147–158. [https://doi.org/10.21511/bbs.14\(1\).2019.13](https://doi.org/10.21511/bbs.14(1).2019.13)
- Alodat, A. Y., Al Amosh, H., Khatib, S. F. A., & Mansour, M. (2023). Audit committee chair effectiveness and firm performance: The mediating role of sustainability disclosure. *Cogent Business and Management*, 10(1). <https://doi.org/10.1080/23311975.2023.2181156>
- Al-Okaily, J., & Naueihed, S. (2020). Audit committee effectiveness and family firms: impact on performance. *Management Decision*, 58(6), 1021–1034. <https://doi.org/10.1108/MD-04-2018-0422>
- Al-Zaimoor, N., Desoky, A., & Al-Fadhel, H. (2024). THE IMPACT OF AUDIT COMMITTEE FEATURES ON FIRM PERFORMANCE – EMPIRICAL EVIDENCE FROM GCC COUNTRIES. *Polish Journal of Management Studies*, 29(2), 66–86. <https://doi.org/10.17512/pjms.2024.29.2.04>
- Badan Pusat Statistik. (2024). *INDEKS HARGA PROPERTI PERUMAHAN 2024*.
- Debbarma, J., & Roy, C. (2023). Audit Characteristics and Firm Performance: Evidence from NSE-Listed Public Companies in India. *SOUTH ASIAN JOURNAL OF MANAGEMENT*, 30(4), 30–55. <https://doi.org/https://doi.org/10.62206/sajm.30.4.2023.30-55>
- Fariha, R., Hossain, M. M., & Ghosh, R. (2022). Board characteristics, audit committee attributes and firm performance: empirical evidence from emerging economy. *Asian*

- Journal of Accounting Research*, 7(1), 84–96. <https://doi.org/10.1108/AJAR-11-2020-0115>
- Ghozali, I., & Ratmono, D. (2017). *Analisis Multivariat dan Ekonometrika Teori, Konsep, dan Aplikasi dengan EViews 10* (2nd ed.). Badan Penerbit Universitas Diponegoro.
- Ha, H. H. (2022). Audit committee characteristics and corporate governance disclosure: evidence from Vietnam listed companies. *Cogent Business and Management*, 9(1). <https://doi.org/10.1080/23311975.2022.2119827>
- Hassan Bazhair, A. (2022). Audit committee attributes and financial performance of Saudi non-financial listed firms. *Cogent Economics and Finance*, 10(1). <https://doi.org/10.1080/23322039.2022.2127238>
- Huynh, Q. L., Hoque, M. E., Susanto, P., Watto, W. A., & Ashraf, M. (2022). Does Financial Leverage Mediates Corporate Governance and Firm Performance? *Sustainability (Switzerland)*, 14(20). <https://doi.org/10.3390/su142013545>
- Kurnia, L., Saifi, M., & Damayanti, C. R. (2024). Corporate governance dynamics: How audit committees and board characteristics influence firm value through audit report lag? *JEMA: Jurnal Ilmiah Bidang Akuntansi Dan Manajemen*, 21(1), 61–86. <https://doi.org/10.31106/jema.v21i1.21790>
- Mohammadi, S., Saeidi, H., & Naghshbandi, N. (2021). The impact of board and audit committee characteristics on corporate social responsibility: evidence from the Iranian stock exchange. *International Journal of Productivity and Performance Management*, 70(8), 2207–2236. <https://doi.org/10.1108/IJPPM-10-2019-0506>
- Musallam, S. R. M. (2020). Effects of board characteristics, audit committee and risk management on corporate performance: evidence from Palestinian listed companies. *International Journal of Islamic and Middle Eastern Finance and Management*, 13(4), 691–706. <https://doi.org/10.1108/IMEFM-12-2017-0347>
- Noviarty, H., Puspitasari, A., & Heniwati, E. (2021). Do Internal Auditor and Audit Committee Have Impact on Audit Report Lag for Mining Industry? *Jurnal Akuntansi Dan Keuangan*, 23(1), 15–23. <https://doi.org/10.9744/jak.23.1.15-23>
- Nur Novianto, A., & Putri, E. (2019). The Effect of CSR Disclosure, Corporate Governance Mechanism, Auditor Independence, Auditor Quality, and Firm Size on Earning Management. *JURNAL Riset Akuntansi Dan Keuangan Indonesia*, 4(3). <http://journals.ums.ac.id/index.php/reaksi/index>
- Omotoye, O., Adeyemo, K., Omotoye, T., Okeme, F., & Leigh, A. (2021). Audit committee attributes, board attributes and market performance of listed deposit money banks in Nigeria. In *Banks and Bank Systems* (Vol. 16, Issue 1, pp. 168–181). LLC CPC Business Perspectives. [https://doi.org/10.21511/bbs.16\(1\).2021.15](https://doi.org/10.21511/bbs.16(1).2021.15)
- Pasko, O., Zhang, L., Proskurina, N., Ryzhikova, N., & Mykhailova, Y. (2024). Does internal audit matter? Audit committee, its attributes, and corporate social responsibility reporting quality. *Investment Management and Financial Innovations*, 21(2), 70–88. [https://doi.org/10.21511/imfi.21\(2\).2024.06](https://doi.org/10.21511/imfi.21(2).2024.06)
- Pathiraja, A., Dissanayake, H., Mendis, O., & Iddagoda, A. (2023). Audit Committee Attributes and Firm Performance. *Economic Insights – Trends and Challenges*, 2022(4), 59–75. <https://doi.org/10.51865/EITC.2022.04.04>
- Pratama Marpaung, A., Agus Harjito, D., Hamdani, R., & Ghazali, A. W. (2022). Boards of directors' feminism, audit committee, and corporate social responsibility. *Jurnal Ekonomi Dan Bisnis*, 25(1), 16–30.
- Qaderi, S. A., Abdulraheem Ghaleb, B. A., & Alhmoud, T. R. (2020). Audit Committee Features and CSR Disclosure: Additional Evidence From an Emerging Market. *International Journal of Financial Research*, 11(5), 226–237. <https://doi.org/10.5430/ijfr.v11n5p226>

- Rustiarini, N. W., Salasa Gama, A. W., & Syed Yusuf, S. N. (2024). Do Audit Committees and External Auditors Enhance CSR Disclosure_. *GLOBAL BUSINESS & FINANCE REVIEW*, 29(10), 28–39. <https://doi.org/https://doi.org/10.17549/gbfr.2024.29.10.28>
- Salehi, M., Tahervafaei, M., & Tarighi, H. (2018). The effect of characteristics of audit committee and board on corporate profitability in Iran. *Journal of Economic and Administrative Sciences*, 34(1), 71–88. <https://doi.org/10.1108/JEAS-04-2017-0017>
- Shrivastav, S. M. (2022). Corporate Governance, Audit Committee Characteristics and Firm Performance: Evidence from India. In *The IUP Journal of Corporate Governance* (Vol. 21, Issue 1).