

Do Audit Committees Improve Financial Performance? Evidence from Basic Materials Companies in Indonesia

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ABSTRACT

This study examines the effect of audit committee characteristics on the financial performance of basic materials companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Using a quantitative approach with panel data regression on 210 firm-year observations, this study analyzes the role of audit committee independence, financial expertise, meeting frequency, and size in influencing firm performance, measured by return on assets (ROA). The results reveal that audit committee independence, financial expertise, and meeting frequency have a positive and significant effect on financial performance, indicating that effective monitoring and oversight contribute to improved profitability. In contrast, audit committee size does not show a significant impact, suggesting that governance effectiveness is not determined by the number of members but by their competence and independence. These findings highlight the importance of strengthening qualitative aspects of audit committees to enhance transparency, reduce agency conflicts, and support sustainable financial performance, particularly in emerging market contexts.

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INTRODUCTION

Financial performance represents a crucial indicator of a company's ability to manage its financial resources and achieve its operational objectives over a specific period. It reflects how effectively a firm generates profit while maintaining financial stability. A consistent improvement in financial performance generally enhances stakeholder confidence, particularly among investors and creditors, whereas declining performance may signal inefficiencies and increased financial risk. In practice, financial performance is commonly evaluated through indicators such as profitability, liquidity, and solvency, which together provide a comprehensive assessment of a firm's financial condition (Kiki & Hendra, 2022).

In recent decades, corporate governance has gained significant attention due to numerous financial scandals and failures in managerial oversight. Among various governance mechanisms, the audit committee plays a central role in ensuring the credibility of financial reporting, strengthening internal control systems, and protecting shareholder interests (Bazhair, 2022). According to agency theory, the presence of an effective audit committee is expected to reduce agency conflicts and information asymmetry between management and shareholders, ultimately improving firm performance (Jensen & Meckling, 1976; Fama & Jensen, 1983). In addition, resource dependence theory highlights that audit committees provide strategic value through expertise and external linkages that



can enhance organizational effectiveness ([Hillman & Dalziel, 2003](#)).

However, empirical evidence regarding the impact of audit committee characteristics on financial performance remains inconclusive. Prior studies have reported inconsistent findings across different countries and institutional settings. For instance, research conducted in Bahrain indicates that audit committee independence and size may negatively affect firm performance, while meeting frequency does not show a significant impact ([Al-Jalahma, 2022](#)). In contrast, studies in Saudi Arabia find that independence and financial expertise positively influence firm performance, whereas committee size and meeting frequency may reduce profitability ([Bazhair, 2022](#)). These contrasting findings suggest that the effectiveness of audit committees is highly dependent on contextual and regulatory environments, particularly in emerging markets.

Indonesia, as an emerging economy, provides a relevant setting to further investigate this relationship, especially within the basic materials sector. This sector is characterized by high capital intensity and significant exposure to global commodity price volatility, making firms more vulnerable to external economic shocks. Consequently, strong governance mechanisms, particularly through the audit committee, are essential to ensure financial resilience and sustainability.

The importance of financial performance is not only theoretical but also observable in real-world conditions. For example, PT Bukit Asam Tbk experienced a decline in financial performance in the first quarter of 2024, where revenue decreased from approximately IDR 9.95 trillion in Q1 2023 to IDR 9.4 trillion, followed by a substantial decline in net profit. Similarly, PT Adaro Energy Indonesia Tbk recorded a decrease in revenue despite relatively stable production levels, primarily due to the weakening of global coal prices. These conditions illustrate how external market dynamics can significantly influence corporate financial outcomes ([CNBC Indonesia, 2024](#)).

Within such a volatile environment, the role of the audit committee becomes increasingly critical. A well-structured audit committee with high independence and strong financial expertise is expected to enhance monitoring effectiveness, improve transparency, and ensure that managerial decisions align with shareholder interests ([Al-Jalahma, 2022](#); [Bazhair, 2022](#)). Moreover, the frequency of audit committee meetings may influence the timeliness of decision-making and risk mitigation, although excessively frequent meetings may lead to inefficiencies ([Fariha et al., 2022](#)). These arguments highlight that audit committee characteristics are not merely structural attributes but key determinants of governance effectiveness.

In emerging markets, the role of audit committees is even more crucial due to relatively weaker enforcement of governance regulations and higher levels of agency problems. Previous studies have shown that audit committees with a higher proportion of independent members and stronger financial expertise tend to improve firm performance in such environments ([Musallam, 2020](#); [Al-Twaijry et al., 2002](#)). Therefore, examining the relationship between audit committee characteristics and financial performance can provide valuable insights into how governance mechanisms contribute to firm value creation in developing economies.

Based on this background, this study aims to analyze the effect of audit committee characteristics namely independence, financial expertise, meeting frequency, and size on the financial performance of basic materials companies listed on the Indonesia Stock Exchange during the 2022–2024 period. This research is expected to enrich the existing literature by providing empirical evidence from an emerging market context while also addressing inconsistencies found in prior studies.

LITERATURE REVIEW

1. Audit Committee Independence and Financial Performance

Audit committee independence refers to the extent to which members of the audit

committee are free from managerial influence and potential conflicts of interest, enabling them to perform their monitoring function objectively. Independent members are expected to provide unbiased judgments in overseeing financial reporting processes and evaluating the effectiveness of internal control systems. Recent studies emphasize that independence enhances the credibility of financial disclosures and strengthens the overall governance structure of firms ([Bazhair, 2022](#); [Fariha et al., 2022](#)). In this regard, independence is not merely a structural requirement but a functional attribute that determines the effectiveness of oversight mechanisms.

From the perspective of agency theory, the separation of ownership and control creates inherent conflicts of interest between managers and shareholders. Managers may engage in opportunistic behavior, such as earnings management or suboptimal decision-making, to maximize their own utility. Independent audit committee members act as a governance mechanism that constrains such behavior by improving monitoring intensity and reducing information asymmetry. When independence is high, the audit committee is more capable of challenging managerial decisions and ensuring that financial reports reflect the firm's actual condition. Consequently, stronger monitoring reduces agency costs and enhances the efficiency of resource allocation, which ultimately leads to improved financial performance.

Empirical evidence largely supports this theoretical argument. [Bazhair \(2022\)](#), finds that audit committee independence has a significant positive impact on firm performance, particularly in emerging market contexts where governance structures are still developing. Similarly, [Fariha et al. \(2022\)](#) report that independence contributes to improved monitoring effectiveness and financial outcomes. In the Indonesian context, [Sidiq and Krismaiji \(2019\)](#) also show that independent audit committees are associated with better financial performance due to enhanced transparency and accountability. These findings indicate that independence is a critical determinant of governance quality and firm performance. Based on the conceptual reasoning and empirical evidence, audit committee independence is expected to positively influence financial performance.

H1: Audit committee independence has a positive effect on financial performance.

2. Audit Committee Financial Expertise and Financial Performance

Audit committee financial expertise reflects the extent to which members possess knowledge and experience in accounting and finance, enabling them to evaluate financial information more effectively. Members with financial expertise are better equipped to interpret complex financial statements, assess accounting policies, and ensure the reliability of financial reporting. Prior research indicates that financial expertise enhances the quality of financial disclosures and strengthens the audit committee's oversight role ([Chaudhry et al., 2020](#); [Dakhlallah, 2020](#)).

According to agency theory, financial expertise reduces information asymmetry between managers and shareholders by improving the audit committee's ability to detect earnings management and other opportunistic practices. This leads to more effective monitoring, lower agency costs, and improved decision-making quality. Empirical findings consistently show that audit committee financial expertise positively influences firm performance by enhancing governance effectiveness ([Chaudhry et al., 2020](#); [Bazhair, 2022](#); [Fariha et al., 2022](#)).

H2: Audit committee financial expertise has a positive effect on financial performance.

3. Audit Committee Financial Expertise and Financial Performance

Audit committee meetings refer to the frequency of meetings held to review financial

reporting, evaluate internal controls, and discuss audit findings. The frequency of meetings reflects the level of diligence and engagement of the audit committee in carrying out its monitoring responsibilities. Recent studies suggest that more frequent meetings indicate a more active governance mechanism and contribute to improved oversight effectiveness (Fariha et al., 2022; Al-Matari, 2019).

From an agency theory perspective, frequent meetings increase monitoring intensity, allowing the audit committee to identify potential issues more quickly and ensure timely corrective actions. This reduces managerial discretion and limits opportunistic behavior, ultimately lowering agency costs and improving firm performance. Empirical evidence supports this view, showing that meeting frequency is positively associated with firm performance, although excessively frequent meetings may lead to inefficiencies (Bazhair, 2022; Fariha et al., 2022).

H3: Audit committee meetings have a positive effect on financial performance.

4. Audit Committee Size and Financial Performance

Audit committee size refers to the number of members within the audit committee, which can influence the effectiveness of monitoring activities. A larger committee may provide a wider range of expertise and perspectives, potentially enhancing the committee's ability to oversee financial reporting and internal controls. However, an increase in size may also lead to coordination challenges and reduced efficiency in decision-making processes (Fariha et al., 2022; Bazhair, 2022).

Within the framework of agency theory, a larger audit committee can strengthen monitoring capacity and reduce agency problems by increasing the availability of resources and expertise. Nevertheless, if the committee becomes too large, communication inefficiencies may arise, weakening its effectiveness. Empirical findings on this relationship are mixed, with some studies showing no significant effect of size on firm performance, indicating that effectiveness depends on achieving an optimal balance (Bazhair, 2022; Fariha et al., 2022).

H4: Audit committee size affects financial performance.

Based on agency theory, audit committee characteristics are expected to influence financial performance through monitoring effectiveness. This study examines independence, financial expertise, meeting frequency, and size on ROA, as shown in Figure 1.

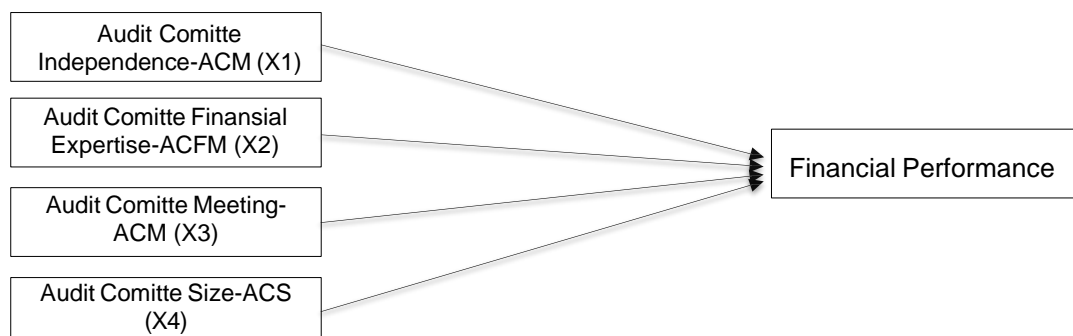


Figure 1. Framework Audit Committee Attribute.

Source: Data processed by researchers (2026)

METHODS

This study employs a quantitative research approach, which aims to examine the

causal relationship between audit committee characteristics and financial performance using numerical data and statistical analysis. Quantitative methods are considered appropriate for this study because they allow for objective measurement of variables and hypothesis testing through empirical data (Creswell, 2014; Sekaran & Bougie, 2016). The population of this research consists of companies in the basic materials sector listed on the Indonesia Stock Exchange (IDX) during the 2022–2024 period. Based on IDX data, there were 112 companies classified within this sector. However, after applying purposive sampling criteria such as data availability, completeness of financial reports, and consistency in reporting the final sample comprises 70 companies. By considering the three-year observation period, the study obtains a total of 210 firm year observations. This sample size is considered adequate for panel data analysis, as it provides sufficient variability across both cross-sectional and time dimensions (Baltagi, 2021). The data used in this study are secondary data derived from annual financial statements and corporate governance disclosures published by the sampled companies. Secondary data are widely used in financial and corporate governance research due to their reliability, accessibility, and ability to provide consistent information across firms and periods (Saunders et al., 2019). The dependent variable in this study is financial performance, measured using Return on Assets (ROA), while the independent variables include audit committee independence, financial expertise, meeting frequency, and size, as defined in the operational variable table.

Given the panel structure of the data (firm year observations), this study employs panel data regression analysis to test the proposed hypotheses. Panel data analysis offers several advantages, including the ability to control for unobserved heterogeneity across firms and improve estimation efficiency compared to cross-sectional or time-series data alone (Wooldridge, 2016). The estimation is conducted using a random effects model, which is appropriate when individual-specific effects are assumed to be uncorrelated with the independent variables. The selection of this model is based on its ability to capture both cross-sectional and temporal variations in the data. Statistical analysis is performed using Stata software, which is widely used in empirical accounting and finance research due to its capability in handling panel data estimation and diagnostic testing. To ensure the robustness of the model, classical assumption tests are conducted, including multicollinearity and heteroscedasticity tests. These tests are essential to confirm that the regression results are unbiased and reliable (Gujarati & Porter, 2009).

To ensure clarity in variable measurement and maintain consistency in empirical analysis, each variable used in this study is defined operationally based on prior literature. The operational definitions include the measurement indicators and calculation methods for both dependent and independent variables. The detailed explanation of each variable is presented in Table 1.

Table 1. Operational Definition of Variables

Variabels	Conceptual definition	Indicators	Scale
Audit Committee Size (ACS)	Measured as the total number of members in the audit committee. Prior studies suggest that a larger committee may enhance monitoring capacity, although excessively large committees may reduce effectiveness (Anderson et al., 2004; Aldamen et al., 2012).	Total number of audit committee members (measured in units)	Ratio
Audit Committee meetings (ACM)	Refers to the frequency of audit committee meetings held annually. More frequent meetings are expected to improve oversight of financial reporting and risk management (Al-Matari, 2019; Xie et al., 2003).	Number of audit committee meetings per year.	Ratio
Audit Committee	represents the proportion of independent members within the audit committee. Independent members are	Percentage of independent	Ratio

Variabels	Conceptual definition	Indicators	Scale
Independence (ACI)	assumed to strengthen objectivity and reduce the likelihood of fraudulent reporting (Beasley, 1996 ; Bronson et al., 2009).	members in the audit committee (independent members ÷ total members).	
Audit Committee Financial Expertise (ACFE)	Indicates the proportion of members with financial or accounting expertise. Financially literate members improve the quality of monitoring and enhance the reliability of financial reporting (Krishnan & Visvanathan, 2008 ; Dakhlallah, 2020).	Percentage of audit committee members with financial/accounting background.	Ratio
Financial Performance	Used as the proxy for firm financial performance, calculated as net income divided by total assets. ROA reflects the efficiency of a firm in utilizing its assets to generate profits (Bontis et al., 2005 ; Zabri et al., 2016).	(Net income ÷ total assets) x 100%.	Ratio

This study uses a panel data regression model to examine the effect of audit committee characteristics on financial performance. Based on the variables defined in Table 1, the regression model is formulated as follows:

$$ROA_{it} = \beta_0 + \beta_1 ACI_{it} + \beta_2 ACFE_{it} + \beta_3 ACM_{it} + \beta_4 ACS_{it} + \varepsilon_{it}$$

Where:

ROA_{it} = Financial Performance

ACI = Audit Committee Independence

$ACFE$ = Audit Committee Financial Expertise

ACM = Audit Committee Meeting Frequency

ACS = Audit Committee Size

RESULTS AND DISCUSSION

This section presents the empirical findings of the study. The analysis begins with descriptive statistics to provide an overview of the data distribution for each variable, including financial performance and audit committee characteristics. Descriptive statistics help illustrate the general pattern, variation, and range of the data used in the regression analysis. The results are presented in Table 2.

Variable	Obs	Mean	Std. dev.	Min	Max
ROA	210	17.06763	25.69909	-15.43079	95.51648
ACI	210	98.70635	7.153739	50	100
ACFE	210	88.4127	17.80391	33.33333	100
ACM	210	7.795238	11.10976	1	80
ACS	210	3.038095	.274038	2	5

Source: Data processed by researchers (2026)

The descriptive statistics show that firm performance, measured by ROA, has an average of 17.07 with a wide dispersion (SD = 25.69), ranging from -15.43 to 95.52, indicating that some companies experienced losses while others achieved very high

profitability. Audit committee independence (ACI) is relatively high, with a mean of 98.71%, suggesting strong compliance with governance requirements, while audit committee financial expertise (ACFE) averages 88.41%, reflecting that most members possess relevant financial knowledge. The number of audit committee meetings (ACM) varies considerably, with a mean of 7.79 and a range of 1 to 80 meetings, indicating differences in monitoring intensity across firms. Meanwhile, audit committee size (ACS) is fairly consistent, with an average of 3.03 members and ranging between 2 and 5, aligning with regulatory standards in Indonesia.

Before estimating the regression model, diagnostic tests are conducted to ensure that the data meet the required assumptions. One of these tests is the multicollinearity test, which examines whether independent variables are highly correlated with each other. High multicollinearity may distort the estimation results and reduce model reliability. The results of this test are shown in Table 3.

Table 3. Multicollinearity Test		
Variable	VIF	1/VIF
ACS	1.92	0.520198
ACM	1.91	0.522612
ACFE	1.01	0.991726
Mean VIF	1.61	

Source: Data processed by researchers (2026)

The results of the VIF test show that all independent variables have values well below the critical threshold, with ACS at 1.92, ACM at 1.91, and ACFE at 1.01, producing an average VIF of 1.61. These results indicate that the regression model does not experience multicollinearity, meaning the independent variables are not highly correlated with each other, and the model can be used reliably for further analysis.

In addition to multicollinearity, the study also tests for heteroskedasticity to assess whether the variance of the error terms is constant across observations. A violation of this assumption may lead to inefficient and biased estimates. Therefore, a heteroskedasticity test is performed, and the results are presented in Table 4.

Table 4. Heteroscedacity Test	
Breusch-Pagan/Cook-Weisbreg test for heteroskedasticity Assumption: Normal error terms	
Variable: Fitted value of ROA	
Chi2(1)	= 2.68
Prob > chi2	= 0.1018

Source: Data processed by researchers (2026)

The results of the Breusch-Pagan/Cook-Weisberg test show a chi-square value of 2.68 with a probability of 0.1018, which is greater than the 5% significance level. This indicates that the null hypothesis of constant variance cannot be rejected, meaning the regression model does not suffer from heteroskedasticity. Therefore, the model can be considered to have homoscedastic residuals, making the regression estimates more reliable.

After ensuring that the data satisfy the classical assumptions, the regression analysis is conducted to examine the relationship between audit committee characteristics and financial performance. The estimation results provide insights into the direction and significance of each independent variable in explaining firm performance. The regression

results are presented in Table 5.

Table 5: Regression Analysis

Random-effects GLS regression		Number of obs	=	210		
Group variabel: ID		Number of groups	=	70		
R-squared:		Obs per group:				
within	=	0.1496	min	=	3	
Between	=	0.3872	avg	=	3.0	
Overall	=	0.3259	max	=	3	
			Wald chi2(4)	=	65.56	
Log likelihood	=	4.122.904	Prob > chi2	=	0.0000	

ROA	Coefficient	Std.err	z	P>z	[95% conf.]	interval
ACI	1.065775	.3372154	3.16	0.002	.4048454	1.726705
ACFE	.4082694	.0996742	4.10	0.000	.2129115	.6036273
ACM	1.167526	.2163334	5.40	0.000	.7435206	1.591532
ACS	14.79219	7.985	1.85	0.064	-.8581263	30.4425
_cons	-178.2686	50.74716	-3.51	0.000	-277.7312	-78.80598
sigma_u	15.819749					
sigma_e	14.778859					
rho	.53397822	(fraction of variance due to u_i)				

Source: Data processed by researchers (2026)

The random-effects GLS regression indicates that the model is statistically significant (Wald $\chi^2 = 65.56$; $p < 0.001$), confirming that audit committee characteristics jointly explain variations in firm performance measured by ROA. The explanatory power is moderate, with an overall R^2 of 0.3259 and between R^2 of 0.3872, suggesting that cross-firm differences contribute meaningfully to profitability variation. Individually, audit committee independence (ACI) ($\beta = 1.06$; $p = 0.002$), financial expertise (ACFE) ($\beta = 0.41$; $p < 0.001$), and meeting frequency (ACM) ($\beta = 1.17$; $p < 0.001$) exhibit positive and statistically significant effects on ROA. In contrast, audit committee size (ACS) shows a positive but statistically insignificant coefficient ($\beta = 14.79$; $p = 0.064$). These results indicate that qualitative attributes of the audit committee are more influential than structural size in explaining firm performance.

The positive and significant effect of audit committee independence (ACI) on financial performance supports H1, indicating that firms with a higher proportion of independent members tend to achieve better profitability. From an agency theory perspective, independence strengthens monitoring effectiveness by reducing managerial opportunism and information asymmetry between managers and shareholders (Jensen & Meckling, 1976; Fama & Jensen, 1983). Independent members are more likely to provide objective oversight and ensure that financial disclosures reflect the firm's true condition. This finding is consistent with Bazhair (2022) and Fariha et al. (2022), who document that independence enhances governance quality and improves firm outcomes, particularly in emerging market contexts where governance mechanisms are still evolving.

The results also show that audit committee financial expertise (ACFE) has a positive and highly significant effect on ROA, thereby supporting H2. This finding highlights the importance of having members with accounting and financial knowledge within the audit committee. In line with agency theory, financial expertise reduces information asymmetry

by enabling more effective evaluation of financial statements and detection of irregularities. As a result, monitoring becomes more rigorous, and agency costs decline. This evidence is aligned with [Chaudhry et al. \(2020\)](#) and [Bazhair \(2022\)](#), who find that financially literate audit committees significantly enhance firm performance. Furthermore, [Fariha et al. \(2022\)](#) emphasize that expertise improves the quality of financial reporting and strengthens internal control systems, which ultimately contributes to better profitability.

Similarly, audit committee meeting frequency (ACM) is found to have a positive and significant impact on financial performance, supporting H3. Frequent meetings reflect a higher level of monitoring intensity and engagement in governance processes. From an agency theory standpoint, increased monitoring reduces the likelihood of managerial opportunism and allows for timely identification of risks and corrective actions. This finding is consistent with [Fariha et al. \(2022\)](#) and [Bazhair \(2022\)](#), who argue that active audit committees contribute to improved oversight effectiveness and firm performance. However, prior literature also notes that excessive meetings may lead to diminishing returns due to coordination inefficiencies ([Fariha et al., 2022](#)). In this study, the positive effect suggests that the level of meeting frequency remains within an optimal range that enhances governance quality.

In contrast, audit committee size (ACS) does not show a statistically significant effect on financial performance, leading to the rejection of H4. Although the coefficient is positive, the lack of significance indicates that simply increasing the number of audit committee members does not necessarily improve firm performance. From an agency theory perspective, while a larger committee may provide more resources and diverse expertise, it may also introduce coordination problems and reduce decision-making efficiency. This finding is consistent with [Al-Jalahma \(2022\)](#) and [Fariha et al. \(2022\)](#), who report mixed results regarding the impact of committee size, suggesting that effectiveness depends on achieving an optimal balance rather than maximizing the number of members.

Overall, the findings emphasize that the effectiveness of audit committees is driven more by qualitative attributes, such as independence, expertise, and activity level, rather than purely structural characteristics like size. This supports the broader argument of agency theory that effective monitoring mechanisms are essential for reducing agency costs and improving firm performance. The results also reinforce the importance of strengthening governance quality in emerging markets, where institutional frameworks may not fully enforce best practices.

In addition, these findings provide practical implications for firms and regulators. Companies are encouraged to prioritize the appointment of independent and financially competent audit committee members while maintaining an appropriate level of meeting frequency to enhance monitoring effectiveness. Regulators may also consider emphasizing the quality of audit committee composition rather than focusing solely on structural requirements. By doing so, firms can improve transparency, reduce agency conflicts, and achieve more sustainable financial performance.

CONCLUSION

This study demonstrates that audit committee characteristics play a crucial role in enhancing the financial performance of basic materials companies listed on the Indonesia Stock Exchange during the 2022–2024 period. Empirically, audit committee independence, financial expertise, and meeting frequency are found to have a positive and significant impact on ROA, indicating that the effectiveness of monitoring is largely driven by the quality and activity of the audit committee. In contrast, audit committee size does not exhibit a significant effect, suggesting that increasing the number of members alone does not necessarily improve governance outcomes.

These findings highlight that, in the context of emerging markets, effective corporate governance depends more on the quality and competence of audit committee members

rather than merely on structural aspects. Therefore, firms are encouraged to prioritize the appointment of independent members with strong financial expertise and to maintain an appropriate level of meeting frequency to enhance oversight effectiveness. From a regulatory perspective, greater emphasis should be placed on improving the professional capacity and independence of audit committees rather than solely enforcing structural requirements. Overall, strengthening audit committee attributes can contribute to improved transparency, reduced agency conflicts, and more sustainable financial performance.

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