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## Article

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## ACCOUNTING, CORPORATE GOVERNANCE & BUSINESS ETHICS | RESEARCH ARTICLE

# The influence of audit committee characteristics on the ethical disclosure of sharia compliant companies

Peni Nugraheni<sup>1,2\*</sup>, Syed Musa Alhabshi<sup>2</sup> and Romzie Rosman<sup>2</sup>

**Abstract:** The audit committee (AC) is an important mechanism within the corporate governance structure. Corporate misconduct and business failure have prompted greater scrutiny of the AC role. This study examines the effect of AC characteristics on disclosure, namely Islamic business conduct (IBC) disclosure, in sharia compliant companies (SCC) in Indonesia. SCC are expected to behave ethically and the AC can influence them by reviewing their internal control and stakeholder reporting systems. The study includes four AC characteristics as the independent variables, namely AC size, AC meeting frequency, AC gender diversity and AC expertise. The data were analysed using panel data regression. The samples comprised non-financial companies included in the Sharia Securities List on the Indonesia Stock Exchange for the years 2017–2020. The results show that the AC meeting variable had a positive effect on IBC disclosure. Meeting frequency can be used as a measurement of AC diligence, with the result showing that AC diligence in SCC can influence the disclosure of company ethical behaviour. The results of this study are expected to prompt Boards of Commissioners to encourage ACs to become more active in terms of undertaking more intense supervision and coordination so that the AC members can play a greater role in disclosing company information.

**Subjects:** Accounting; Corporate Governance; Corporate Social Responsibility & Business Ethics

**Keywords:** audit committee; ethics; Islamic business conduct; sharia compliant companies

### 1. Introduction

Companies are expected to undertake their activities in accordance with the applicable standards and government policies to protect the interests of both shareholders and other stakeholders. Corporate governance (CG) is the foundation of the implementation of good governance to encourage operational and financial performance (FSA, 2014). In Indonesia, the mechanisms of CG comprise the general meeting of shareholders (GMS), the Board of Commissioners (BOC) and the Board of Directors (BOD). The Financial Services Authority (FSA) of Indonesia requires public companies to form an audit committee (AC) under the BOC. The existence of an AC is mandatory for companies listed on the Indonesia Stock Exchange.

In Indonesian companies, the AC is formed by and responsible to the BOC due to the country's adoption of a two-tier board system. Various criteria are applied when selecting AC members to maximise the duties of the AC in assisting the BOC. These duties include ensuring the effectiveness

of the internal control system, reviewing the company's compliance with regulations and ensuring there are adequate review procedures in place for information issued by the company.

In the context of high levels of company fraud, the AC is an important organ within the wider CG structure. Corporate misconduct and business failure have prompted greater scrutiny of the role of the AC (Rezaee et al., 2003). According to Dellaportas et al. (2012), the AC's role is currently expanding to include not only assessing the adequacy of audits carried out by external auditors but also in terms of supporting companies to improve in the areas of compliance and the quality of their financial reports and risk management. The existence of an AC is expected to strengthen the company's ethical behaviour through the internal controls that are implemented. Othman et al. (2014) stated that the AC will increase the oversight of management and encourage ethical disclosure. Erin et al. (2022), meanwhile, explained that the AC's responsibilities include maintaining CG ethics and the financial reporting process. However, Johari et al. (2020) identified the level of implementation as one of the issues related to ethics in organisations. Through its function to improve the quality of financial reports, one component of which is information disclosure, the AC is expected to contribute to a rise in the level of disclosure. The AC thus plays an important role in ensuring the transparency and disclosure of the company (Ridwan & Mayapada, 2022).

The effectiveness of an AC can be seen from characteristics such as its size, meeting frequency, expertise, independence and experience. Previous studies have identified a relationship between AC characteristics and disclosure level. Bin-Ghanem and Ariff (2016), for example, found a positive relationship between AC effectiveness and internet financial reporting (IFR) disclosure in Gulf Cooperation Council-listed financial companies. Talpur et al. (2018) identified an effect of AC characteristics (AC size, independence and meeting frequency) on the voluntary disclosure of CG in Malaysian companies. Ashfaq and Rui (2019) used AC characteristics to examine the relationship between AC effectiveness and internal control disclosures. Rifai and Siregar (2021), in their research, examined the characteristics of the AC for forward-looking disclosures in Indonesian companies while Ridwan and Mayapada (2022) examined the relationship between AC characteristics and corporate social disclosure (CSR) disclosure.

This study aims to examine the effect of AC characteristics on disclosure in sharia compliant companies (SCC) in Indonesia. A condition for inclusion in the list of SCC was that the companies' main business activities must not conflict with sharia. SCC are experiencing rapid growth and attracting significant attention in many countries (Fauzi et al., 2017). Therefore, society expects SCC to exhibit more ethical behaviours in comparison to their conventional counterparts. The AC, as one of the mechanisms of CG, can influence this by reviewing the internal control and system of reporting to stakeholders (Supriadi et al., 2022). The AC characteristics comprise AC size, AC meeting, AC gender diversity and AC expertise.

This study is expected to contribute in several ways. First, it will discuss ACs in Indonesia. Indonesia employs a two-tier board structure, with the AC as one of the committees that assists the function of the BOC as an organ of CG. According to Fauzi et al. (2017), the CG mechanism that is often discussed relates to the BOD. However, the AC is also part of CG and is mandatory for companies; as such, it plays an important role in aspects of company disclosure and transparency. Second, a sharia compliant company should ideally display ethical behaviour as a form of compliance with sharia principles and accountability to investors and stakeholders. Given the important role of the AC in influencing the ethical behaviour of companies (Thiruvadi, 2012), the development of SCC in Indonesia must be accompanied by good and strong CG. The AC is also a mechanism of CG responsible for ensuring clear and transparent disclosure by all relevant parties (Sellami & Fendri, 2017). In this study, the AC is expected to assist SCC in undertaking activities that do not conflict with Sharia principles.

Third, previous studies have looked at different types of disclosure, including internal control disclosure (Ashfaq and Rui (2019), IFR disclosure (Bin-Ghanem and Ariff (2016) and CSR disclosure

(Ridwan & Mayapada, 2022). This study will therefore enrich the literature by employing a different type of disclosure, namely Islamic business conduct (IBC) disclosure. The items of IBC are derived from guidelines for the good governance of Sharia business in Indonesia and thus accord with the characteristics of SCC as business entities that do not conflict with Sharia principles.

The results of the study reveal that only the meeting variable had a positive effect on IBC disclosure. Meeting frequency can be used as a measurement of AC diligence, and the result shows that audit committee diligence in SCC can influence the company's ethical behaviour disclosure. The results are expected to identify the AC characteristics capable of encouraging the AC function in disclosing information on the company's ethical actions, especially in SCC.

## 2. Literature review

### 2.1. Corporate governance

Problems can arise in a company due to mismanagement and can be reflected in areas such as a lack of transparency, financial reporting fraud and financial scandals, which can affect investors' trust (Fauzi et al., 2017). CG can act as a means of controlling and monitoring the process to avoid corporate fraud (Rahman et al., 2022).

According to the World Bank, CG is "a blend of legal, laws and regulations and practices carried out by the private sector on a voluntary basis which enables companies to attract financial capital and labour, performs efficiently, and with all of these can continuously generate long-term economic value for the shareholders, and at the same time pay attention to the interests of the stakeholders and the public as a whole" (Maassen, 2000, as cited in FSA, 2014).

CG should be comprehensively implemented covering aspects such as the roles and responsibilities of the BOC and BOD, transparency of information and the protection of shareholders (FSA, 2014). CG should promote transparency by providing material and relevant information through means that are easily accessible and understood by stakeholders. Ridwan and Mayapada (2022) stated that good CG can influence the information disclosed by companies.

The effective implementation of CG is also influenced by the CG mechanism. Indonesian CG comprises three mechanisms, namely the GMS, the BOD and the BOC. The BOD is in charge of managing the company while the BOC supervises and advises the BOD and ensures that the company implements good CG. In carrying out its duties, the BOC can form committees, including the AC, which is mandatory in the case of public companies. The AC has a role in evaluating and developing internal control so that it can eliminate corporate fraud (Fauzi et al., 2017).

### 2.2. The audit committee in Indonesia

Public companies in Indonesia first began to establish ACs in 2000. Circular Letter of Bapepam (Capital Market Supervisory Agency) number SE-03/PM/2000 appealed for companies to have an AC. Ika et al. (2012) explained that while the existence of an AC was regulated after the 1997 Asian financial crisis, it was also a voluntary measure. The obligation for listed companies to have an AC was imposed only after the issuance of BAPEPAM regulation year 2001. According to Drogalas et al. (2020), regulators have an important influence on strengthening the AC structure through the policies decided.

Currently, the AC in Indonesia is regulated by Financial Services Authority (FSA) Regulations Number 55/POJK.04/2015 concerning Establishment and Guidelines for Implementation of the Work of the AC. According to this regulation, the AC is a committee established by and responsible to the BOC for assisting in carrying out the duties and functions of the BOC. Indonesia adopts a two-tier board structure, which means there is a separation of functions between the BOD, which is in charge of managing the company, and the BOC, which is responsible for overseeing the performance of the BOD.

The AC is chaired by an independent commissioner and must contain at least three members from independent commissioners and parties outside the company. This is designed to maintain the independence of the AC members in performing their duties and responsibilities. Therefore, AC members must meet various criteria (article 7): (1) not a person in a Public Accounting Firm, Legal Consulting Firm, or other party providing services to the company concerned within the last six months; (2) not a person who works or has the authority and responsibility to plan, lead, control, or supervise the activities of the Company within the last six months, except for the Independent Commissioner; (3) does not own shares directly or indirectly in the Company; (4) has no affiliation with members of the Board of Commissioners, Board of Directors, or Major Shareholders of companies; (5) does not have a business relationship, either directly or indirectly, related to the business activities of the Company.

In carrying out its functions, the AC has the following duties and responsibilities (article 8):

- (1) conduct a review of the financial information that will be issued by the Company to the public and regulators
- (2) conduct a review of compliance with laws and regulations related to the Company's activities
- (3) review and provide advice to the Board of Commissioners regarding potential conflicts of interest of the Company
- (4) review the implementation of the audit by the internal auditor and supervise the implementation of follow-up by the Board of Directors on the findings of the internal auditor
- (5) maintain the confidentiality of Company documents, data and information.

This regulation also stipulates the minimum number of AC meetings that must be held per year and the type of expertise that members should possess. The AC must also refer to the AC charter approved by the BOC. The AC charter must contain (article 12): duties and responsibilities and authorities; composition, structure, and membership requirements; work procedures, policy for holding meetings; activity reporting system; provisions of the handling of complaints or reporting regarding alleged violations related finance report; and work duration of the audit committee. The company should disclose the AC charter on its website. It is an important document for use by AC members to guide them in conducting their responsibilities and also by shareholders in monitoring the function of the AC (Joshi & Wakil, 2004).

### **2.3. Audit committee characteristics and disclosure**

The important role of the AC is expected to support other company activities, namely information disclosure. Previous studies have examined the effect of AC characteristics on various kinds of disclosures. Othman et al. (2014) took AC characteristics such as independence, expertise, meeting frequency, size, tenure and multiple directorships and examined their influence on voluntary ethics disclosure in Malaysian listed companies. The voluntary ethics disclosure items were taken from Hashim & Saleh (2007) and the results of the study showed that the AC characteristics of tenure and multiple directorships influenced voluntary ethics disclosure.

Talpur et al. (2018) examined the influence of the AC variables of size, independence and meeting on CG disclosure in Malaysian property companies. All of the variables were found to have a significant effect, thereby indicating that based on these three aspects, the existence of an AC improves disclosure quality. Rifai and Siregar (2021) examined the impact of AC size, expertise and meeting on forward-looking disclosure in Indonesian companies. The findings revealed a positive influence of those variables on the level of forward-looking disclosure. Johari et al. (2020) examined the influence of AC characteristics on voluntary ethics disclosure in Malaysian public listed companies and found that competency had a positive relationship while the experience of the AC had a negative relationship.

Previous studies have considered various attributes when measuring AC characteristics. Among these, the formation and composition of the AC members can influence the effectiveness of AC performance. Competence, independence, authority and resources are inputs to the AC and can therefore influence AC performance (Wu et al., 2012). According to Wu et al. (2012), AC effectiveness can be examined from three aspects, namely financial reporting (such as voluntary disclosure, earnings management), external auditing (audit scope, auditor selection, audit opinion, and process and communication) and internal control (such as internal audit, disclosure on weakness and members' judgment on internal control issues). The quality of the AC's performance will impact investors' expectations regarding the company's performance and may influence shareholders' investment decisions (Chariri et al., 2019). Al-Hadrami et al. (2020) found that the independence and competence of AC members influenced investment decision-making in Indonesia and Bahrain. Investors therefore assume that such variables improve the quality of financial reporting.

Previous studies have used different AC characteristics. However, some of the most frequently used characteristics to assess AC performance are size, expertise and frequency of meetings. Indonesian regulation on the AC specifically mentions its characteristics. In addition to assessing the minimum number of members, composition and expertise, the regulation stipulates a minimum number of meetings and the information that must be disclosed on the company's website, known as the AC charter. However, the regulation does not address the gender composition of the AC. Thiruvadi (2012) stated that no provision exists concerning gender issues in the AC. According to Ud Din et al. (2021), the gender diversity of boards is rarely studied and may produce different research results. The presence of women on the board cannot be ignored because they are seen as key to driving potential performance in terms of creativity and improving decision quality (Alkebsee, et al., 2021). However, the extant literature has tended to focus only on the role of gender diversity on the board and thus provides only a partial picture of the company's performance (Maji & Saha, 2021). Therefore, in addition to the size, meeting frequency and expertise of the AC, this study uses gender diversity as a variable of AC characteristics. AC independence is not used as a variable in this study because Indonesian regulation has determined that all AC members must be independent.

## **2.4. Hypotheses development**

### **2.4.1 Audit committee size and disclosure**

Indonesian regulation requires an AC comprising at least three members, with an independent commissioner as the head. Larger ACs will be more effective in monitoring companies (Othman et al., 2014). Persons (2009) stated that a larger committee can better supervise the company's compliance with the rules and regulations on the implementation of the code of ethics and will also be better equipped to review compliance with regulations related to company activities, including information that must be disclosed. Ashfaq and Rui (2019) found that AC size had a positive effect on internal control disclosure in companies in South East Asia, while Ridwan and Mayapada (2022) found that AC size positively influenced CSR disclosure in Indonesian Islamic banks. Therefore, this study proposes the following hypothesis:

H1: AC size has a positive influence on IBC disclosure.

### **2.6. Audit committee meeting frequency and disclosure**

AC meetings are a useful forum in which to discuss the knowledge about current accounting and auditing issues related to the AC's duties (Raghunandan et al. 2001, as cited in Othman et al., 2014). More frequent meetings will thus lead to more effective monitoring of the company and lead to ethics disclosure (Othman et al., 2014; Persons, 2009). In Indonesia, the AC is required to meet at least every three months. Alongside its regular meetings, the AC holds meetings with



auditors, management and the BOC. This helps to strengthen their relationship and assists in their ability to properly discuss and resolve issues. Thiruvadi (2012) stated that the number of meetings indicates the AC's level of diligence. More meetings will thus facilitate effective monitoring, enhance the effectiveness of committee performance and boost its insight into financial performance (Rahman et al., 2022). Therefore, a high meeting frequency is expected to have an impact on the quality of AC performance and affect the company's ethical actions. Persons (2009) found that AC meeting frequency influences voluntary ethics disclosure. The study therefore proposes the following hypothesis:

H2: AC meeting frequency has a positive influence on IBC disclosure.

### **2.7. Audit committee gender diversity and disclosure**

The inclusion of women in a committee may enhance the performance of that committee (Rao & Tilt, 2016). Liu (2018) stated that gender diversity will have a positive impact on companies; for example, better financial performance, governance quality and management of stakeholder relationships. This is because women tend to be more oriented toward and concerned with the community and society. The presence of female members will help to create positive outcomes and help to strengthen CG practices (Talpur et al., 2018). However, gender diversity in the AC has rarely been considered (Ud Din et al., 2021).

Thiruvadi (2012) found that the inclusion of female members will have an impact on the diligence of the AC, which in turn will have a positive impact on company compliance and reputation. Therefore, this study assumes that the appointment of women as members of the AC will contribute to the performance of the company, especially regarding the quality of its reporting on the ethical disclosure of the firm. Ud Din et al. (2021) found that the presence of women on the AC improves the CG mechanisms. The following hypothesis is thus established:

H3: AC gender diversity has a positive influence on IBC disclosure.

### **2.8. Audit committee expertise and disclosure**

The expertise of the AC members is expected to align with the scope of the AC's responsibilities. Since the AC's responsibilities relate to the company's financial reporting, it follows that the members of the AC should have expertise in accounting and finance (KNKG, 2006). Previous studies have highlighted member expertise as a factor that can influence AC effectiveness (Joshi & Wakil, 2004). Members are thus expected to be able to perform their job properly and effectively, which depends on their level of professional skill. Ali and Handayani (2018) argued that the inclusion of AC members with an accounting background will remove the possibility of management seeking to undertake earnings management. Rifai and Siregar (2021) stated that AC expertise can be examined in terms of three aspects: accounting, supervision and financial expertise. Oussii and Boullila (2021) noted that financial expertise can derive from education and experience. Indonesian regulation requires the AC to contain at least 1 (one) member with an educational background and expertise in accounting and finance.

The greater the number of AC members with expertise in accounting and finance, the more effective the AC can be in detecting financial misstatements or improper business transactions (Persons, 2009). The effectiveness of the AC in discharging its duties will impact the efficacy of its monitoring and lead to ethics disclosure (Othman et al., 2014). Rifai and Siregar (2021) found that AC expertise positively impacts forward-looking disclosure, while Abdelfattah et al. (2021) found that female audit partners will undertake more key audit matters disclosure and provide more detail than their male counterparts. Based on the above explanation, this study proposes the following hypothesis:



H4: AC expertise has a positive influence on the IBC by SCC.

### 3. Research methodology

The population of this study comprised non-financial SCC included in the Sharia Securities List (SSL) for the period 2017–2020. The samples were selected using purposive sampling, with the following criteria: (1) non-financial SCC that featured in the SSL for the duration of the period 2017–2020, and (2) SCCs in possession of all the data required for this study. This study used secondary data. The independent variables comprise four characteristics of the audit committee: AC size (number of AC members), AC meeting frequency (number of AC meetings per year), AC gender diversity (percentage of female members in AC) and AC expertise (percentage of AC members with accounting or finance expertise). According to Ridwan and Mayapada (2022), the AC is an important part of the CG mechanism, along with the BOD. In Indonesia, the AC must be owned by the company and is tasked with assisting the BOC in reviewing and supervising the company's activities and performance. This study also uses firm size and profitability as control variables, as employed by Ridwan and Mayapada (2022), Tumwebaze et al. (2022), and Ridwan and Mayapada (2022) asserted that control variables are useful for minimising the confounding influence on the development of the empirical model.

IBC disclosure, as the dependent variable, was derived from Good Governance of Islamic Business published by the National Committee on Governance of Indonesia. The 21 IBC items were divided into six themes, namely compliance with Islamic regulation (IBC1), compliance with regulations and agreements (IBC2), fulfilment and conflict of interest arrangements (IBC3), giving and receiving gifts and donations (IBC4), the confidentiality of information, reporting and violations (IBC5) and protection for whistle-blowers (IBC6). IBC disclosure was measured using the content analysis method. This study assigned 1 if the item was disclosed and 0 otherwise.

The data were analysed using panel data regression due to the combination of cross-sectional and time series data. Panel data yields a greater volume of data and will thus produce a greater degree of freedom. There are three methods of parameter estimation in panel data regression, namely the common effect model (CEM), fixed effect model (FEM) and random effect model (REM). Testing was conducted to determine the best model. The Chow test was used to select the best model between the CEM and FEM, with the Hausman test employed to determine the best model between FEM and REM. Meanwhile, the Breusch–Pagan Lagrange multiplier test was used to select between the REM and CEM.

This study developed the following regression equation:

$$IBC = \alpha + \beta_1 ACSize + \beta_2 ACMeet + \beta_3 ACGen + \beta_4 ACExpert + \beta_5 CSize + \beta_6 ROA + e$$

Where IBC is Islamic business disclosure, ACSize is the number of AC members, ACMeet is the number of AC meetings frequency held per year, ACGen is the percentage of female members on the AC, ACExpert is the percentage of AC members with accounting or finance expertise, Csize is the size of the company and ROA (return on assets) as a proxy for profitability.

### 4. Result and discussion

The samples in this study comprised SCC featured in the SSL in Indonesia during the period 2017–2020. Based on the data availability, there were 87 companies with a total of 348 data points. The results of the descriptive statistics are given in Table 1.

Table 1 shows the descriptive statistics of the variables. IBC has a mean value of 69.94%. At more than 50%, this indicates a relatively high level of IBC disclosure. Regarding AC characteristics, AC size has a mean value of 3.1322, a minimum value of 2 and a maximum value of 6. AC meeting frequency has a mean value of 8.4741, a minimum value of 3 and a maximum value of 47. The minimum values for AC size and AC meeting frequency comply with the regulations that the AC

**Table 1. Descriptive statistics**

<b>Descriptive Statistics Result</b>				
	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min</b>	<b>Max</b>
IBC	69.9439	14.2301	14.2900	95.2400
ACSize	3.1322	0.4359	2.0000	6.0000
ACMeet	8.4741	7.6951	3.0000	47.0000
ACGend	18.5369	23.6329	0.0000	100.0000
ACExpert	72.4218	28.8915	25.0000	100.0000
Size	29.6231	1.5708	25.8000	34.6961
ROA	5.2429	9.3767	-60.0300	49.3000

must comprise at least three members and that it should meet at least every three months (i.e. four times per year). AC gender diversity has a mean value of 18.5369, a minimum value of 0 and a maximum value of 100. The ACs of some companies contained no female members. AC expertise has a mean value of 72.4218, a minimum value of 25 and a maximum value of 100.

The dependent variable in this study is IBC, which was divided into six themes, namely compliance with Islamic regulation (IBC1), compliance with regulations and agreements (IBC2), fulfilment and conflict of interest arrangements (IBC3), giving and receiving gifts and donations (IBC4), the confidentiality of information, reporting and violations (IBC5) and protection for whistle-blowers (IBC6). The descriptive statistics for the six themes are shown in Table 2:

The above results show that the first theme (compliance with Islamic regulation/IBC1) has a score of 0. This theme comprises the items complies with Islamic provisions and the existence of a sharia supervisory board (SSB). Although the sample population in this study consists of SCC, no companies clearly declared their compliance with Islamic principles. This may reflect how the items in question are not a requirement for inclusion in the SSL. The SSL stipulates that the nature of the main business should not conflict with Islamic principles and the firm should not have financial ratios related to interest-based debt and non-halal income. Companies that meet these two conditions are immediately included in the SSL even if they have not formally applied to become SCC. The second item, namely the existence of an SSB, was also not found in the sample companies. An SSB is often found in Islamic banks, but rarely in non-financial companies. This is typically because they have not declared themselves as SCC.

The other themes (fulfilment and conflict of interest arrangements (IBC3), giving and receiving gifts and donations (IBC4), the confidentiality of information, reporting and violations (IBC5) and protection for whistle-blowers (IBC6)) had identical descriptive statistics results in terms of the minimum and maximum values. A minimum value of 0 indicates that some companies do not disclose at all, while the maximum value of 100 indicates that all items have been disclosed. These five themes illustrate common ethical values in business activities; thus, many companies have

**Table 2. Descriptive statistics for the themes of IBC**

<b>Themes of IBC</b>	<b>Mean</b>	<b>Std Dev.</b>	<b>Min.</b>	<b>Max.</b>
IBC1	0.00	0.00	0.00	0.00
IBC2	93.03	16.56	0.00	100.00
IBC3	79.21	27.14	0.00	100.00
IBC4	58.91	24.58	0.00	100.00
IBC5	71.90	27.23	0.00	100.00
IBC6	90.13	19.81	0.00	100.00

**Table 3. The frequency of each theme**

Themes of IBC	Score 0		Score 100	
	Freq.	Per cent	Freq.	Per cent
IBC1	348	100.00	0	0.00
IBC2	2	0.57	285	81.90
IBC3	7	2.01	185	53.16
IBC4	11	3.16	60	17.24
IBC5	3	0.86	144	41.38
IBC6	6	1.72	264	75.86

already disclosed them. Table 3 shows the frequency of companies that have a minimum score of 0 and a maximum score of 100 for each theme.

For IBC1, none of the sampled companies had or disclosed the items of Islamic provision. For the other themes, relatively few companies did not disclose the relevant items (less than 5%), with the majority disclosing all items, as indicated by the higher percentages for a score of 100. This is also evident from the mean values of over 50% for themes 2 to 6 (see, Table 2).

Table 4 presents the results of the correlation matrix. The table shows the low coefficient values for all variables, indicating that there is no correlation problem between variables.

The panel data regression indicated the most appropriate method between the CEM, FEM and REM. The results of the Chow test show a probability value of  $0.000 < 0.05$ , thus indicating that the FEM is more suitable, while the Hausman test shows a probability value of  $0.9859 < 0.000$ , meaning the REM is suitable for use in this study. Therefore, this study uses the REM. The results of the analysis from the REM are shown in Table 5:

AC size has a coefficient value of 0.-1.4151 and a probability value of 0.4760. This shows that AC size does not influence IBC disclosure. Thus, H1 is rejected. AC meeting frequency has a coefficient value of 0.4423 and a probability value of 0.0010. AC meeting frequency positively influences IBC disclosure; H2 is therefore accepted. Gender diversity shows a coefficient value of 0.0377 and a probability value of 0.8036, which means this variable does not influence IBC disclosure. Therefore, H3 is rejected. AC expertise has a coefficient value of 0.0183 and a significance value of 0.4960, thus demonstrating that AC expertise does not influence IBC disclosure. H4 is therefore rejected. The statistical results for the control variables show that firm size and profitability do not influence IBC disclosure as their respective significance values of 0.5940 and 0.4390 are higher than the alpha value (0.05).

**Table 4. The correlation matrix**

	IBC	ACSize	ACMeet	ACGend	ACExpert	Size	ROA
IBC	1.0000						
ACSize	0.0494	1.0000					
ACMeet	0.2255	0.4671	1.0000				
ACGend	0.0429	-0.1117	-0.0740	1.0000			
ACExpert	-0.0677	-0.1244	-0.2124	0.0706	1.0000		
Size	0.0855	0.2317	0.2572	-0.0338	-0.2172	1.0000	
ROA	0.0307	0.0520	-0.0304	0.0528	0.0475	0.0401	1.0000

**Table 5. Panel data regression**

	Coef.	Std. Err.	z	P> z
ACSize	-1.4151	1.9869	-0.7100	0.4760
ACMeet	0.4423	0.1345	3.2900	0.0010
ACGend	0.0377	0.0358	1.0500	0.2920
ACExpert	0.0183	0.0268	0.6800	0.4960
Size	0.3688	0.6922	0.5300	0.5940
ROA	0.0638	0.0824	0.7700	0.4390
_cons	57.4768	20.8921	2.7500	0.0060
R-Sq	0.0596			
Prob>chi2	0.0342			

## 5. Discussion

AC size as measured by the number of AC members does not influence IBC disclosure. The result rejects the hypothesis that AC size has a positive influence on IBC disclosure. This result supports both Johari et al. (2020), who found that AC size does not influence voluntary ethics disclosure in Malaysian public listed companies, and Ridwan and Mayapada (2022), who concluded that AC size had no relationship with CSR disclosure in Indonesian Islamic banks. The regulation states that an AC must comprise at least three members who come from independent commissioners and parties external to the public company. The results of the descriptive statistics revealed two to be the minimum number of AC members, which does not satisfy the regulation, although the mean value of 3.13 does satisfy the minimum level of three members. However, in this study, AC size was not found to affect IBC disclosure. The AC is responsible for, among other things, monitoring the effectiveness of internal control. However, when all activities comply with the rules and regulations, the aspect and scope of disclosure depend on the company's policy. According to Buallay and Al-Ajmi (2020), one reason why the number of AC members does not influence the disclosure is that the final decision on the level of disclosure rests with the BOD. Tumwebaze et al. (2022) stated that the AC can make recommendations to the BOD to improve the reporting practices as a strategy in risk management.

The number of AC meetings positively influences IBC disclosure. The result supports the hypothesis. Persons (2009) stated that holding at least four meetings AC a year will have an impact on the level of voluntary disclosure. This is in accordance with the Indonesian regulation that the AC should meet at least once every three months. The mean value of AC meeting is 8.47413. This shows that the number of AC meetings is already higher than the required level, despite the fact that some companies hold less than the required number of AC meetings (the minimum number of AC meetings is four per year). A higher number of meetings will translate into a greater intensity of AC monitoring duties and responsibilities, which in turn will encourage the effectiveness of internal control implementation and wider disclosure. This result supports Erin et al. (2022), who found that AC meeting frequency has a significant relationship with the quality of sustainability reporting.

The gender diversity of the AC does not influence IBC disclosure. The result rejects the hypothesis that AC gender has a positive influence on IBC disclosure. This means that the presence of women on the AC does not affect its performance in encouraging corporate disclosure. Indonesia has no regulation on the gender composition of ACs. Despite this, several previous studies have shown that the inclusion of women improves AC performance. Alkebeese, et al. (2021) found that the effectiveness of the AC was enhanced through the inclusion of female AC members. However, the results of the descriptive statistics show a mean value for AC gender diversity of only 18.54%. This sits alongside a minimum value for gender diversity of 0 and a maximum value of 100%, thereby indicating that some companies have no female members while others have an AC consisting exclusively of women. However, the percentage of female AC members remains very

low and thus may not affect disclosure, especially IBC. This result is in line with the study by Maji and Saha (2021), which found no relationship between AC gender diversity and firm performance in Indian corporate firms.

AC expertise does not influence IBC disclosure. The result rejects the hypothesis that AC expertise has a positive influence on IBC disclosure. This result supports Othman et al. (2014), who found no relationship between AC expertise and voluntary ethics disclosure in Bursa Malaysia. Wu et al. (2012) highlighted that in previous research, 22 out of 39 studies found no effect between AC expertise and AC effectiveness. The regulation requires the AC to understand financial reports, the nature of business related to the company activities, audit process, risk management and laws and regulations. The AC in Indonesia was formed by the BOC to assist the BOD in performing a supervisory role regarding the management of the company in accordance with good CG principles and corporate ethics. The BOC will select competent and skilled members of the AC as per the requirements for membership as set out by the regulations. The AC's responsibilities include reviewing the code of ethics and monitoring the effectiveness of internal control (Elgattani & Hussainey, 2020). Wu et al. (2012) stated that AC members must understand the board's expectations of the AC as a body tasked with assisting its functions. Therefore, the expertise of AC members is directed to sufficiently interpret their duties and professional judgment (Wu et al., 2012) and to encourage good AC performance, especially in detecting fraud (Johari et al., 2020). However, the result of this study indicates that information disclosure is not a priority provided it is carried out in accordance with company policy.

The control variables in this study do not affect IBC disclosure. This is in line with Tumwebaze et al. (2022), where firm size was not found to affect sustainability reporting, and Ridwan and Mayapada (2022), who found that ROA does not influence CSR disclosure. Tumwebaze et al. (2022) stated that when there is no relationship between the control variables and the dependent variable, it shows that the model "is not sensitive to the confounding variables".

## 6. Conclusions

This study examined the effect of various AC characteristics, namely size, meeting frequency, gender diversity and expertise, on IBC disclosure. The regulator has established mandatory requirements for the characteristics of ACs in listed companies, including the number of members, the composition of the members, the minimum number of meetings, the criteria for members, and the duties and responsibilities of the AC. Companies that do not comply with this provision will face sanctions from the regulator in the form of written warnings, fines and restrictions, and the freezing and revocation of business licences.

The majority of the companies in this sample were found to comply with the regulations related to the number, expertise and meetings of the AC, thus indicating that compliance with AC regulations is high. However, the results also show that not all of the established criteria used as independent variables affect IBC disclosure. Only meeting frequency affected IBC disclosure. This study has shown that synergy and coordination between AC members will improve AC performance in monitoring company activities. In terms of organisational structure, the AC is formed by the BOC, which means the BOC has a strong interest in the AC's performance. Since meeting frequency provides a measurement of AC diligence, the results prove the existence of AC diligence in SCC. The results of this study are expected to encourage the BOC to further develop the role of the AC in terms of more intense supervision and coordination so that AC members' expertise plays a greater role in disclosing company information.

In terms of administration, the number of members, competence and number of meetings satisfy the administrative requirements; however, further improvement is needed concerning the role of the AC in encouraging company transparency. In terms of effectiveness, this result indicates greater scope to maximise the role of the AC to encourage management performance. The role of the BOC in forming the AC can be further enhanced by arranging the composition of the AC in

accordance with the complexity of the company and not based purely on meeting the regulatory requirements. The BOC should retain its independence as the chair of the AC committee, to select members with accounting and financial expertise. From the regulator's point of view, the company's compliance with the AC criteria should be further strengthened. For example, the results of the descriptive statistics show that some companies continue to have only two AC members when the regulations stipulate a minimum of three members.

This study has several limitations. First, certain AC characteristics that were considered in previous studies were omitted from this study, such as experience and education level. Expertise considered only accounting or financial expertise and did not include elements of supervision as used by Rifai and Siregar (2021). However, this research is expected to provide an overview of the effect of the AC on disclosure as measured by its variables.

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The authors report there are no competing interests to declare.

#### Correction

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