

The Role Of The Audit Committee On Financial Reporting Quality In Manufacturing Companies

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ABSTRACT

This study examines how the expertise, size, and meeting frequency of audit committees shape financial reporting quality among Indonesian manufacturers, measured through a predictive-value lens. This paper investigates 40 manufacturing firms listed on the Indonesia Stock Exchange across 2017–2021, drawing on 200 firm-year observations obtained through purposive sampling. Panel regression was applied, with model choice guided by the Chow, Hausman, and Lagrange Multiplier procedures, ultimately favoring a Random Effect specification. Evidence points to audit committee meeting frequency as the sole characteristic carrying a significant, positive association with reporting quality; neither expertise nor committee size registers a discernible effect. This pattern persists once the early COVID-19 years are removed from the sample, underscoring its robustness. Taken together, the findings suggest that in the Indonesian setting, oversight effectiveness hinges less on formal composition—headcount or the share of members with economics training—and more on how actively the committee convenes. By applying the predictive-value lens to audit committee research and separating the influence of each characteristic, the study adds empirical nuance to governance debates in Indonesia and points to a practical takeaway: strengthening the frequency and depth of audit committee meetings may do more for reporting quality than adjusting committee composition alone. Nevertheless, the model's overall explanatory power remains limited, as reflected in a relatively low R^2 and a non-significant F -test, suggesting that unobserved factors outside the model account for most of the variation in reporting quality.

Keywords: audit committee; financial reporting quality; predictive value; corporate governance.

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INTRODUCTION

The stakes of financial reporting quality are not merely theoretical in the Indonesian capital market. In 2019, an independent investigation by Ernst & Young into PT Tiga Pilar Sejahtera Food Tbk—a listed manufacturing company—uncovered indications of overstatement amounting to approximately Rp4 trillion in receivables, inventory, and fixed assets, alongside Rp662 billion in sales and Rp329 billion in EBITDA for fiscal year 2017 (Kontan, 2019). Cases such as this illustrate how weaknesses in financial reporting oversight, including at the audit committee level, can materially mislead investors and regulators specifically within the manufacturing sector. Capital market scholars have long treated the reliability of financial statements as a first-order concern, since investors, lenders, regulators, and other stakeholders lean on such disclosures when making decisions. When reporting is trustworthy, the gap in information between insiders and outside parties narrows, and capital tends to flow to where it is used efficiently (Healy & Palepu, 2001); when it is not, monitoring becomes costlier, and resources are more prone to being misdirected (Biddle, Hilary, & Verdi, 2009). Agency theory offers one explanation for why this matters: once ownership is separated from day-to-day control, managers may be tempted toward self-interested behavior unless governance structures exist to keep their incentives aligned with those of shareholders (Jensen & Meckling, 1976). Regulators worldwide have responded by mandating a range of governance mechanisms, and the audit committee sits near the center of this apparatus, carrying direct responsibility for the financial reporting process, internal controls, and the selection of external auditors (DeZoort et al., 2002).

The empirical literature linking audit committee attributes to reporting outcomes has kept expanding over the last half-decade, spanning both cross-country and Indonesia-specific settings. In the United States, Chronopoulos et al. (2024) traced how a mandatory tightening of audit committee oversight lifted the reliability of loan loss provisions at bank holding companies, whereas Ashraf et al. (2024), working with a similar setting, cautioned that pushing committees to also oversee financial risk management can dilute rather than sharpen their reporting-quality effectiveness. Evidence from the Gulf points in a different direction: Alhumoudi (2024) linked several committee attributes—*independence, expertise, meeting frequency, and size*—to reporting quality among Saudi firms, while Attia et al. (2025), studying Egyptian companies, uncovered a nonlinear pattern in which particular committee sizes and meeting counts function as optimal thresholds rather than simply "more is better." A Jordanian study by Alqatamin and Alqatamin (2024), applying a random-effect panel specification to non-financial firms, likewise reported that larger, more independent, more gender-diverse, and more frequently meeting committees correspond with stronger reporting quality. Zooming out, the meta-analytic synthesis by Bilal et al. (2018) found that financial expertise on the committee tends, on average, to track positively with earnings quality—a construct related to, yet conceptually separate from, reporting quality—though this relationship's strength shifts with a country's governance regime and with the particular proxy used to capture reporting quality.

Domestic evidence tells a more mixed story. Working with firms in the food and beverage, hotel, restaurant, and tourism industries, Lestari and Prayogi (2024) tested three committee characteristics side by side and found that meeting frequency alone carried a significant positive relationship with reporting quality, leaving size and expertise without a discernible effect. A parallel result emerged from Syahputra et al. (2025) in the infrastructure sector, where meeting frequency again showed a significant positive relationship, but expertise this time turned out significant in the opposite direction. Staying within infrastructure, Febrine and Itan (2023) broadened the lens to include the board of directors and external auditor alongside the audit committee for IDX-listed firms, yet found no significant committee effect at all. Outside Indonesia, Liyayi, Fwamba, and Ondiek (2023) studied Kenyan microfinance institutions and reported a significant positive committee effect. Taken together, this scatter of findings—inconsistent in both sign and significance—suggests the Indonesian audit-committee-to-reporting-quality link is anything but settled, with outcomes seemingly hostage to sector, time frame, and the reporting-quality proxy each study adopts.

Building on the discussion above, prior research reveals a clear inconsistency. Several studies find that audit committee expertise carries a significant effect (Alhumoudi, 2024; Amanamah, 2024; Alqatamin & Alqatamin, 2024). Evidence from Indonesia, however, tends to show that only meeting frequency matters, while size and expertise have not been shown to have an effect (Lestari & Prayogi, 2024). Prior studies have also tended to operationalize financial reporting quality through accrual-based proxies and disclosure indices (Liyayi et al., 2023; Febrine & Itan, 2023), leaving the predictive-value approach—anchored in the qualitative characteristics framework of financial information and captured through earnings' capacity to forecast future operating cash flow (Dechow, 1994; Velury & Jenkins, 2006)—comparatively underexplored, especially within manufacturing, a sector whose operational complexity and cost structure diverge markedly from services or finance.

This paper takes aim at that gaps, testing how audit committee expertise, size, and meeting frequency relate to reporting quality captured through predictive value, using a sample of IDX-listed manufacturers. Adopting predictive value is not simply a matter of swapping one proxy for another; it rests on a conceptual distinction. Accrual-based measures essentially flag whether earnings manipulation is present, while predictive value captures something else entirely—how useful current earnings are to statement readers trying to anticipate future cash performance (Dechow, 1994). Nothing guarantees these two dimensions move together: earnings untouched by accrual manipulation might still be a poor guide to future cash flows, and the reverse holds equally well. Since Indonesian audit committee studies have overwhelmingly stayed on the accrual side, whether committee characteristics that matter for accrual-based earnings quality also matter for this predictive dimension is still an open empirical question. Pairing panel data with a disciplined model-selection procedure, this study aims to sharpen the empirical picture of which committee characteristics genuinely matter for manufacturing-sector reporting quality in Indonesia, while extending the predictive-value lens into a research stream that has rarely used it. What sets this study apart from earlier work is precisely this pairing—predictive-value measurement joined with rigorous panel model selection—a combination seldom seen in

Indonesian audit committee research on manufacturing firms. Accordingly, the study sets out to test how audit committee expertise, size, and meeting frequency each relate to financial reporting quality among manufacturing companies listed on the Indonesia Stock Exchange.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Agency theory (Jensen & Meckling, 1976) supplies the theoretical scaffolding for this study: once ownership and control diverge, information asymmetry and conflicting interests between managers and shareholders become likely outcomes. Within the set of internal mechanisms built to contain this problem, the audit committee's role is to safeguard the integrity of financial reporting on shareholders' behalf. Here, financial reporting quality is operationalized through predictive value—specifically, how well current-period earnings anticipate the following period's operating cash flow (Dechow, 1994; Velury & Jenkins, 2006).

Effect of Audit Committee Expertise on Financial Reporting Quality

The cross-country picture here is mixed. Reform of committee oversight in the United States, per Chronopoulos et al. (2024), lifted the reliability of bank reporting, and expertise itself also showed a positive link to reporting quality in both Alhumoudi's (2024) Saudi sample and Amanamah's (2024) Ghanaian one. These results thus support the view that members trained in economics or accounting are simply better positioned to catch errors or manipulation.

Indonesia, however, breaks from this pattern, where Lestari and Prayogi (2024) found accounting-finance expertise on the committee carried no significant weight for reporting quality, attributing this to a gap between holding formal credentials and actually exercising effective oversight. That contrast is telling: it signals that expertise's payoff for reporting quality remains contested empirically, with Indonesian governance as a case in point. Agency theory's premise that expertise sharpens oversight capacity nonetheless motivates the following hypothesis:

H1: Audit committee expertise has a positive effect on financial reporting quality.

Effect of Audit Committee Size on Financial Reporting Quality

Audit committee size indicates the number of members available to share oversight tasks over the financial reporting process. A larger number of members theoretically provides broader resources and perspectives that can be used to oversee management (Jensen & Meckling, 1976). This is supported by Alqatamin and Alqatamin's (2024) study in Jordan, which found that audit committee size has a positive and significant effect on financial reporting quality.

In contrast, Ashraf et al. (2024) found that expanding the scope of audit committee oversight responsibilities without a corresponding increase in capacity can weaken, rather than strengthen, its oversight effectiveness on financial reporting quality. Consistent with this, Attia et al. (2025) found a non-linear relationship between audit committee size and financial reporting quality among Egyptian companies, with three to four members as the optimal threshold, while adding members beyond this threshold can actually reduce coordination effectiveness. These results indicate that the direction of the audit committee size effect can vary depending on the regulatory and governance context of each country.

In the Indonesian context, Lestari and Prayogi (2024) likewise found no significant effect of audit committee size on financial reporting quality, given that most Indonesian companies only meet the minimum number of audit committee members required by regulation. Guided by the theoretical argument that adding members expands oversight capacity, the hypothesis proposed is:

H2: Audit committee size has a positive effect on financial reporting quality.

Effect of Audit Committee Meetings on Financial Reporting Quality

Audit committee meeting frequency reflects the intensity of oversight activity conducted by the committee toward management, external auditors, and the financial reporting process. The more often the audit committee meets, the greater the opportunity to review financial statements in depth and follow up on audit findings (Jensen & Meckling, 1976). Okon (2024), examining non-financial companies listed in Africa, found that audit committee effectiveness has a positive effect on financial reporting quality. Algrady et al. (2025) further found that audit committee meeting frequency is associated with better financial reporting quality among companies in Saudi Arabia and the United Arab Emirates. This evidence reinforces the argument that meeting frequency, as an indicator of active audit committee

engagement, tends to more consistently affect financial reporting quality compared to other structural characteristics.

Lestari and Prayogi (2024) and Syahputra et al. (2025) also found that audit committee meeting frequency has a positive and significant effect on financial reporting quality among Indonesian companies. The relevance of active oversight in the infrastructure sector is further supported by McDonough and Yan (2024), who found that financial reporting quality among infrastructure companies has real consequences for asset-maintenance decisions, making intensive audit committee oversight highly relevant in asset-heavy sectors such as infrastructure and manufacturing. Guided by the argument that meeting frequency reflects genuine oversight activity, the hypothesis proposed is:

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

Figure 1 translates the theoretical discussion and the three hypotheses above into a single diagram of the variable relationships under study.

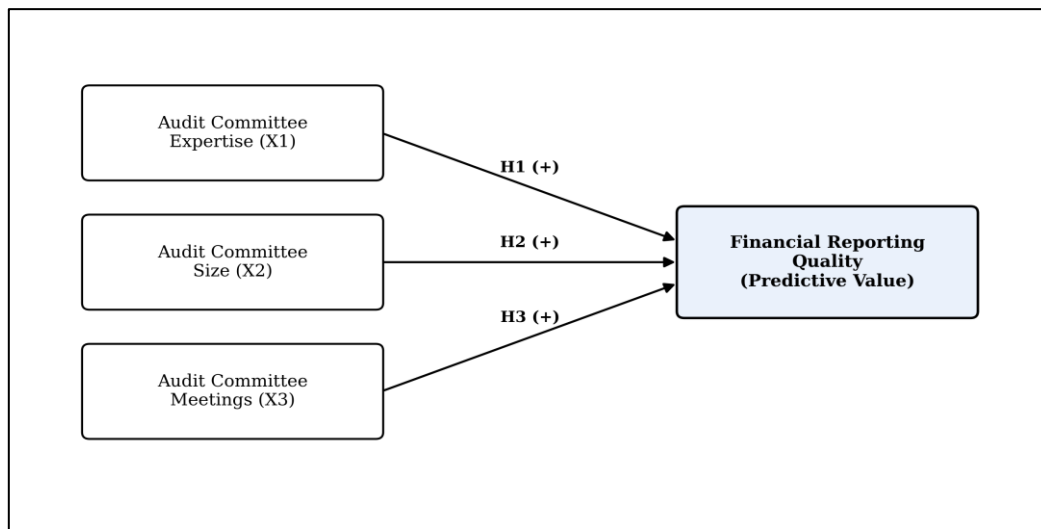


Figure 1. Conceptual Framework of the Study
 Source: processed by the researcher, 2026.

RESEARCH METHOD

This study employs a quantitative approach using secondary data in the form of audited financial statements and annual reports of manufacturing companies listed on the Indonesia Stock Exchange (IDX) that have been officially published to the public.

Table 1. Operationalization of Research Variables

Variable	Operational Definition	Indicator/M Measurement	Scale	Source
Financial Reporting Quality (Y)	Predictive value; the ability of current-period earnings to predict future-period operating cash flow.	The relationship between operating cash flow in period t+1 and operating earnings in period t, scaled by total company assets.	Ratio	Dechow (1994); Velury & Jenkins (2006)
Audit Committee Expertise (X1)	The capacity of audit committee members to understand and evaluate the company's accounting policies.	The proportion of audit committee members with an accounting and finance educational background relative to total audit committee members.	Ratio	Indella & Husaini (2016)
Audit Committee Size (X2)	The number of members available to share oversight	The number of audit committee members of the company.	Ratio	Lestari & Prayogi (2024)

	duties over the financial reporting process.			
Audit Committee Meetings (X3)	The intensity of oversight activity conducted by the audit committee toward management, external auditors, and the financial reporting process.	The average number of audit committee meetings divided by the number of its members in one year.	Ratio	Lestari & Prayogi (2024)

Source: processed by the researcher, 2026.

The relationships among the variables are tested through the following panel data regression model:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon.$$

The sample was selected using a purposive sampling technique from an initial population of 159 manufacturing companies listed on the IDX, with the following criteria: 1) consecutively listed on the IDX during the observation period; 2) presenting financial statements in Indonesian rupiah during that period; 3) reporting positive earnings during that period; 4) having positive operating cash flow during that period; and 5) having complete data required to calculate all research variables. The positive operating cash flow criterion is specifically required because it is inherent to the construction of the Y variable, namely the predictive value approach, which requires a ratio between current-period earnings and future-period operating cash flow, such that observations with negative operating cash flow would produce a ratio that cannot be meaningfully interpreted within the predictive value framework.

The sample selection process is presented in Table 2.

Table 2. Sample Selection Criteria

No	Criteria	Number of Companies
1	Initial population of manufacturing companies listed on the IDX during the observation period	159
2	Companies not consecutively listed on the IDX	(11)
3	Companies not presenting financial statements in Indonesian rupiah	(24)
4	Companies not reporting positive earnings during the observation period	(24)
5	Companies without positive operating cash flow	(55)
6	Companies with incomplete data	(5)
	Number of companies meeting the sample criteria	40
	Observation period (years)	5
	Number of firm-year observations	200

Source: processed data, 2026.

Analysis proceeded in stages. Descriptive statistics first mapped out the minimum, maximum, mean, and standard deviation for each variable. Model choice among Common, Fixed, and Random Effect specifications then followed the Chow, Hausman, and Lagrange Multiplier sequence. Once a model was settled on, its residuals were screened against the classical assumptions—normality via Kolmogorov–Smirnov, multicollinearity via Variance Inflation Factors, and heteroscedasticity via the Glejser test—before the regression itself was estimated and hypotheses evaluated through t-tests, an F-test, and R², all judged against a 5 percent significance threshold

RESULTS AND DISCUSSION

Table 3 summarizes the descriptive profile of the 200 firm-year observations.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Financial Reporting Quality (Y)	200	0.0385	0.2272	0.1130	0.0504
Audit Committee Expertise (X1)	200	0.2500	1	0.8346	0.2203
Audit Committee Size (X2)	200	2	6	3.0600	0.3113
Audit Committee Meetings (X3)	200	0.6667	12.6667	2.3442	1.6514

Source: processed data, 2026.

The Y variable represents the result of winsorizing at the 5th and 95th percentiles to address the influence of extreme values. This treatment was applied only to Y, because testing on the pre-winsorized data showed that the raw Y variable failed to meet the residual normality assumption (Kolmogorov–Smirnov statistic = 0.1437, $p = 0.0005$), which was subsequently corrected after winsorizing (Table 5). The X1–X3 variables were not winsorized because their value ranges did not exhibit symptoms of extreme values, though this is revisited through a dedicated sensitivity analysis (Table 8). The mean Y of 0.1130 with a standard deviation of 0.0504 indicates that, on average, the earnings reported by the sample companies have positive predictive value for future operating cash flow. The mean audit committee expertise of 0.8346 indicates that the majority of audit committee members have an economics-related educational background, while audit committee size is relatively uniform (mean of 3.06 members), consistent with the minimum three-member requirement in Indonesia. Audit committee meetings show greater variation (standard deviation of 1.6514), indicating differences in the intensity of audit committee oversight meetings across sample companies.

Table 4 walks through the three-test sequence used to settle on a panel specification. The Chow test rules out Common Effect in favor of Fixed Effect ($p = 0.0000$), confirming that firm-specific effects are present and cannot be ignored. The Hausman test then swings the decision toward Random Effect over Fixed Effect ($p = 0.1890$), and the Lagrange Multiplier test independently rejects Common Effect ($p = 0.0000$) as well. With all three tests pointing the same direction, Random Effect became the model carried forward into hypothesis testing.

Table 4. Model Selection Test Results

Test	Test Statistic	p-value	Decision
Chow Test (Common Effect vs Fixed Effect)	$F = 22.207$	$p = 0.0000$	Fixed Effect is preferred
Hausman Test (Fixed Effect vs Random Effect)	$\chi^2 = 4.776$	$p = 0.1890$	Random Effect is preferred
Lagrange Multiplier Test (Common Effect vs Random Effect)	$LM = 249.133$	$p = 0.0000$	Random Effect is preferred

Source: processed data, 2026.

With winsorizing applied to Y, the selected Random Effect model clears every classical assumption check reported in Table 5. Residuals pass the normality test comfortably ($p = 0.1453$), VIF figures for all three predictors sit well under the conventional cutoff of 10, and the Glejser test turns up no trace of heteroscedasticity anywhere in the model ($p > 0.05$ across the board). The final specification, in short, holds up against the full battery of classical diagnostics.

Table 5. Summary of Classical Assumption Tests (Random Effect Model)

Test Type	Test Statistic	p-value/Description	Conclusion
Normality (Kolmogorov–Smirnov)	0.0801	$p = 0.1453$	Residuals are normally distributed
Multicollinearity (VIF) – X1	1.040	$VIF < 10$	No multicollinearity
Multicollinearity (VIF) – X2	1.031	$VIF < 10$	No multicollinearity

Multicollinearity (VIF) – X3	1.041	VIF < 10	No multicollinearity
Heteroscedasticity (Glejser) – X1	t = -0.888	p = 0.376	No heteroscedasticity
Heteroscedasticity (Glejser) – X2	t = -1.280	p = 0.202	No heteroscedasticity
Heteroscedasticity (Glejser) – X3	t = 1.064	p = 0.289	No heteroscedasticity

Source: processed data, 2026.

Table 6 reports the Random Effect coefficients. Expertise (X1) comes in negative and statistically null ($\beta = -0.0014$, $p = 0.922$), leaving H1 unsupported. Size (X2) fares no better in significance terms, despite a positive sign ($\beta = 0.0069$, $p = 0.297$), so H2 is likewise rejected. Meeting frequency (X3) is the exception: its coefficient is positive and clears the 5 percent bar ($\beta = 0.0050$, $p = 0.015$), matching the hypothesized direction and lending support to H3. Jointly, though, the three predictors do not clear the bar for overall model significance ($F = 2.008$, $p = 0.114$), and R^2 of 0.0298 signals that the model accounts for under 3 percent of the variance in reporting quality. H3's support should therefore be read as a real, but modest, partial effect rather than evidence of strong overall explanatory power.

Table 6. Panel Data Regression Results — Random Effect Model

Variable	Coefficient (β)	t	Sig.
Constant	0.0813	2.930	0.004
Audit Committee Expertise (X1)	-0.0014	-0.099	0.922
Audit Committee Size (X2)	0.0069	1.047	0.297
Audit Committee Meetings (X3)	0.0050	2.448	0.015

Source: processed data, 2026. N = 200 (40 companies x 5 years); Y was winsorized at the 5th and 95th percentiles; $R^2 = 0.0298$; $F = 2.008$; Sig. $F = 0.114$.

Sensitivity Analysis: Excluding the COVID-19 Pandemic Period

Given that the observation period of this study includes the early years of the COVID-19 pandemic (2020–2021), which may have introduced anomalies in operating cash flow and corporate earnings, a sensitivity analysis was conducted by re-estimating the panel data regression model (with Y continuing to use the winsorized results) after excluding the 2020 and 2021 observations. This procedure leaves 120 firm-year observations (40 companies x 3 years). The Chow test on this subsample shows that the Fixed Effect model is more appropriate than the Common Effect model ($F = 44.091$; $p = 0.0000$). Unlike the main model, the Hausman test on this subsample shows that the Fixed Effect model is more appropriate than the Random Effect model ($\chi^2 = 9.001$; $p = 0.0293 < 0.05$), so the Fixed Effect model is used as a comparison in this sensitivity analysis.

Table 7. Comparison of Regression Results: Main Model (Random Effect) vs. Excluding the Pandemic Period (Fixed Effect)

Variable	β (RE, N=200)	Sig.	β (FE, N=120)	Sig.
Audit Committee Expertise (X1)	-0.0014	0.922	0.0243	0.093
Audit Committee Size (X2)	0.0069	0.297	0.0096	0.072
Audit Committee Meetings (X3)	0.0050	0.015*	0.0046	0.037*
R^2 / F (simultaneous)	0.0298 / 2.008	0.114	0.0826 / 2.310	0.083

Source: processed data, 2026. *significant at $\alpha = 5\%$. The right-hand column uses the Fixed Effect model based on the Hausman test result for the subsample.

The sensitivity analysis results show that the audit committee meeting coefficient (X3) remains positive and statistically significant in the subsample excluding the pandemic period ($p = 0.037$), despite the different model selected (Fixed Effect rather than Random Effect). The consistency in the direction and significance of the audit committee meeting effect across both model specifications strengthens confidence that the H3 finding is robust and not merely driven by data anomalies during the pandemic

period. Interestingly, in this subsample, audit committee expertise ($p = 0.093$) and audit committee size ($p = 0.072$) also show a tendency toward significance at the 10 percent level, although they do not reach the 5 percent significance level used as the main reference in this study. The difference in the selected model between the full sample (Random Effect) and the subsample excluding the pandemic period (Fixed Effect) indicates that the correlation structure between firm-specific effects and independent variables may change depending on the observation period, so the results in this subsample should be interpreted as supporting evidence for the robustness of H3, rather than as the main model of this study. This shift in the Hausman test outcome may reflect reduced within-firm variation once the 2020–2021 observations are excluded, since firm-specific effects estimated from a shorter panel are more likely to correlate with the regressors, making the Random Effect assumption less tenable in this smaller subsample. Moreover, the movement of audit committee expertise ($p = 0.093$) and audit committee size ($p = 0.072$) toward, though not reaching, the 10 percent significance threshold in this subsample suggests that the non-significant results for H1 and H2 in the main model may have been partly influenced by anomalies specific to the pandemic period, rather than reflecting a uniformly negligible relationship across the full sample period.

Sensitivity Analysis: Excluding Extreme Audit Committee Meeting Observations

To further examine whether the significant effect of audit committee meeting frequency (H3) is sensitive to extreme values in this variable, an additional sensitivity analysis was conducted by excluding observations identified as outliers using Tukey's $1.5 \times$ interquartile-range criterion ($X3 > 4.67$ meetings per member-year). This procedure removed 12 of 200 firm-year observations, leaving 188 observations across 39 companies. The Chow test on this trimmed sample again favors Fixed Effect over Common Effect ($F = 21.824$, $p = 0.0000$), while the Hausman test favors Random Effect over Fixed Effect ($\chi^2 = 2.565$, $p = 0.464$), consistent with the model selection in the main analysis.

Table 8. Comparison of Regression Results: Main Model (N=200) vs. Excluding Extreme Audit Committee Meeting Observations (N=188)

Variable	β (N=200)	Sig.	β (N=188)	Sig.
Audit Committee Expertise (X1)	-0.0014	0.922	-0.0015	0.921
Audit Committee Size (X2)	0.0069	0.297	0.0003	0.975
Audit Committee Meetings (X3)	0.0050	0.015*	0.0099	0.006*
R ² / F (simultaneous)	0.0298 / 2.008	0.114	0.0395 / 2.519	0.060

Source: processed data, 2026. *significant at $\alpha = 5\%$. Both columns use the Random Effect model (consistent with the Chow and Hausman test results for each sample).

Under this specification, audit committee meeting frequency remains positive and statistically significant ($\beta = 0.0099$, $p = 0.006$)—indeed slightly stronger than in the main model ($\beta = 0.0050$, $p = 0.015$)—while expertise ($\beta = -0.0015$, $p = 0.921$) and size ($\beta = 0.0003$, $p = 0.975$) remain non-significant. R² also improves modestly, from 0.0298 to 0.0395, though the simultaneous F-test remains short of the 5 percent threshold ($F = 2.519$, $p = 0.060$). These results indicate that H3's support is not driven by a small number of extreme meeting-frequency observations, reinforcing the robustness already demonstrated by the pandemic-exclusion sensitivity analysis.

The results of this study show differing patterns of influence among audit committee characteristics on financial reporting quality. Of the three characteristics tested, only audit committee meeting frequency was found to have a positive and significant effect, while expertise and size showed no significant effect. This pattern is conceptually consistent with agency theory (Jensen & Meckling, 1976), but more specifically shows that the oversight activity dimension (meeting frequency) plays a greater role in reducing information asymmetry and improving reporting quality than structural dimensions alone. In other words, the formal presence of an audit committee that meets minimum structural requirements is not necessarily effective in overseeing the financial reporting process without adequate meeting intensity. This significant finding regarding the effect of audit committee meetings is consistent with Lestari and Prayogi (2024) and Syahputra et al. (2025), who likewise found that audit committee meeting frequency has a positive and significant effect on financial reporting quality among Indonesian companies.

Conversely, the non-significant finding for audit committee expertise in this study is consistent with Lestari and Prayogi (2024), who also found no significant effect among Indonesian companies, but differs from Alhumoudi (2024) and Amanamah (2024), who found that audit committee expertise has a positive effect on financial reporting quality among companies in Saudi Arabia and Ghana. This discrepancy is consistent with the meta-analytic conclusion of Bilal et al. (2018) that the relationship between audit committee expertise and earnings quality, a related but conceptually distinct construct from financial reporting quality, is heterogeneous and moderated by each country's corporate governance regime as well as by the financial reporting quality proxy used, such that a consistent positive finding in one jurisdiction cannot be automatically generalized to another jurisdiction such as Indonesia.

The non-significant effect of audit committee size (X2) further suggests that adding audit committee members in Indonesia, where most companies fall within the minimum range (mean of 3.06 members), does not necessarily improve oversight effectiveness, consistent with Attia et al. (2025), who found an optimal audit committee size threshold of three to four members, beyond which adding members risks reducing coordination effectiveness. This finding differs from Alqatamin and Alqatamin (2024) in Jordan, who found a positive and significant effect of audit committee size on financial reporting quality using a random effect model over a relatively long time span (2016–2023).

This discrepancy provides a novel contribution by confirming that audit committee effectiveness on financial reporting quality, when measured through the predictive value approach in Indonesia's manufacturing sector, is determined more by the activity dimension than by the structural dimension—a nuance that has thus far received less attention in the literature, which generally operationalizes financial reporting quality through accrual-based proxies (Liyayi et al., 2023; Febrine & Itan, 2023).

It should be noted that the simultaneous test did not reach the 5 percent significance level and the overall R^2 value is relatively low, indicating that most of the variation in financial reporting quality may be explained by other factors outside the model, such as firm size, leverage, external audit quality, or operational complexity, which were not included in this study's model and should be considered as control variables in future research.

The pattern of findings in this study is also consistent with more recent cross-country evidence. Ashraf et al. (2024) in the United States found that expanding the scope of audit committee oversight responsibilities without strengthening capacity can weaken oversight effectiveness on financial reporting quality, a pattern similar to the significant effect of audit committee meetings but the non-significant effect of audit committee size found in this study. The consistent non-significance of expertise and size is also evident in domestic studies such as Febrine and Itan (2023) on IDX-listed companies, which likewise consistently found no significant effect of structural audit committee characteristics on financial reporting quality. This consistency in pattern across sectors and measurement methods strengthens confidence that the findings of this study are not merely an artifact of a particular sample or proxy, but rather reflect a general characteristic of audit committee governance in Indonesia that remains oriented toward formal structural compliance.

CONCLUSION, IMPLICATION AND LIMITATION

Set against the goal of testing how audit committee expertise, size, and meeting frequency relate to predictive-value-based reporting quality among 40 IDX-listed manufacturers, this study lands on a clear conclusion: meeting frequency carries a positive, significant effect (H3 supported), while expertise and size do not (H1 and H2 rejected), based on a Random Effect model chosen through the Chow-Hausman-Lagrange Multiplier sequence. This conclusion held up under a robustness check that dropped the early pandemic years—meeting frequency stayed significant even though the preferred model shifted to Fixed Effect for that subsample—which supports treating the core finding as more than a pandemic-driven artifact.

Theoretically, this study contributes to the development of understanding of agency theory in the context of audit committee governance, by showing that the oversight activity dimension (meeting frequency) is a more relevant indicator than the structural dimension (expertise and size) alone in explaining financial reporting quality measured through the predictive value approach. Practically, these findings indicate the importance for regulators, such as the Financial Services Authority (OJK) and the Indonesia Stock Exchange, of considering strengthening provisions regarding the intensity and substance of audit committee meetings, rather than solely minimum structural requirements such as

member count or expertise proportion. For companies and boards of commissioners, these findings indicate that encouraging the audit committee to hold more intensive and substantive meetings can be a more effective step in improving financial reporting quality than merely satisfying audit committee composition requirements.

This study has several limitations that should be considered in interpreting the findings and designing future research. First, the resulting coefficient of determination is relatively low, indicating that this study's model explains only a small portion of the variation in financial reporting quality, while most of the variation is likely explained by other factors outside the model, such as firm size, leverage, or external audit quality, which were not included as control variables in this study in order to avoid the risk of biased regression results due to limitations in available supporting data. Second, the sample selection criterion requiring positive operating cash flow, although methodologically necessary for the predictive value proxy to be meaningfully interpreted, eliminated nearly one-third of the initial population (55 of 159 companies) and systematically excluded companies experiencing cash flow pressure, meaning the findings of this study cannot be generalized to manufacturing companies experiencing operating cash flow difficulties. Third, this study uses only a sample of manufacturing companies, so generalizing the findings to other sectors, such as banking, financial services, or infrastructure, should be done cautiously given differences in operational characteristics and regulation across sectors. Fourth, the observation period of this study includes the early years of the COVID-19 pandemic, which, although tested through sensitivity analysis and shown not to alter the main conclusions, still limits the generalization of findings to a fully normal economic period. Fifth, this study uses only one financial reporting quality proxy (predictive value), so it cannot yet confirm whether the same pattern of findings would be obtained using a different financial reporting quality proxy, such as an accrual-based proxy or a disclosure index.

Based on these limitations, future research is recommended to extend the model by adding relevant control variables, such as firm size, leverage, and external audit quality, to improve the model's explanatory power where adequate statement-of-financial-position data are available; to test the sensitivity of findings to the operating cash flow selection criterion, for instance by relaxing this criterion and using an alternative financial reporting quality proxy for the subsample of companies with negative operating cash flow; to extend the sample to other sectors or use a cross-sector sample to test the generalizability of findings; to extend the observation period to include more recent years beyond the pandemic period; and to consider using more than one financial reporting quality proxy simultaneously to test the robustness of findings. Future research is also recommended to consider the quality dimension of audit committee meetings, such as member attendance rates and the substance of discussion agendas, in addition to frequency alone, to gain a deeper understanding of the mechanism through which audit committee activity affects financial reporting quality.

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