THE INFLUENCE OF AUDIT COMMITTEE CHARACTERISTICS AND AUDIT FIRM SIZE ON THE RESTATEMENT OF THE FINANCIAL STATEMENTS

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Abstract

This study's objective is to look at the impact of audit committee characteristics and the size of the audit firm on the restatement of financial statements of financial sector companies listed on the Indonesia Stock Exchange for the period of 2016 to 2020. Measurement of audit committee characteristics is proxied by indicators of audit committee independence, audit committee size, number of audit committee meetings, audit committee expertise, and size of audit firm. This study uses firm size and firm performance as control variables. Meanwhile, the restatement of financial statements is measured using a dummy variable, where "1" if the company makes a restatement and "0" if not. The sample consists of 77 restatement firms and 77 control firms. There are 8 outliers among the 77 restatement firms, therefore once the outliers are removed, the total final sample studied is 138 observations (69 restatement firms and 69 non-restatement firms). Data were analyzed by logistic regression using SPSS software. According to the findings of this study, the size of the audit committee had a negative effect on the restatement of financial statements, while the independence of the audit committee, the number of audit committee meetings, the expertise of the audit committee, and the size of the audit firm did not have a negative effect on the restatement of the financial statements.

Keywords: *Audit Committee, Audit Firm Size, Restatement*

1. Introduction

The rising restatement of financial accounts has attracted the public's interest in recent decades, owing to the significant losses it creates. Tesco PLC, for example, restated its financial accounts in 2014 as a result of financial statement manipulation. Tesco PLC restated its revenue after overstating it to £250 billion in six months. The restatement of the financial statements by Tesco PLC caused the stock price to drop drastically and caused huge losses to shareholders. The Enron incident is one of the most prominent examples of accounting scandals involving the impact of financial statement restatement after the business manipulated financial statements. On October 16, 2001, Enron announced a loss of US$618 million in its Q3 financial statements. Thereafter Enron declared a restatement of earnings for the previous several years. This resulted in a loss of investor trust, which resulted in a drop in shares in the US equities market for months following the Enron disclosure (Sridharan et al., 2002).

The restatement of financial statements also occurs in public companies in Indonesia, one of which is PT. Garuda Indonesia, Tbk. In a restatement of the 2018 financial statements, Garuda recorded a loss of US $216.5 million after previously recording a profit of $890,850. This restatement of the financial statements has resulted in Garuda Indonesia being sanctioned and fined by the Ministry of Finance, the Financial Services Authority (OJK) and the Indonesia Stock Exchange (IDX) for violations of financial statements that do not comply with applicable accounting standards.

From an investor's perspective, restatements are not only an indication of problems with the financial statements of the earlier period, but also signal future issues for the business and management (Akhigbe et al., 2005). Restatement is a confession that the company's financial statements include omissions or material misstatements (Palmrose and Scholz, 2004). Several studies have shown that good corporate governance can decrease the probability of restatement and improve the quality of financial reports (Abbott et al., 2004; Abdullah et al., 2010; Agrawal and Chadha, 2005; Beasley, 1996).

Several earlier studies have been undertaken to analyze the influence of audit committee characteristics such as Audit Committee Size, Audit Committee Independence, Audit Committee

Meeting, and Audit Committee Expertise on the restatement of financial statements that exhibit conflicting findings. Research conducted by Abbott et al. (2004) used a sample of enterprises that publish annual financial statements in the Dow Jones Interactive Database, and articles from *Wall Street Journal, Barron's, The Dow Jones Corporate Filings Alert, Dow Jones Business News, Dow Jones News Service,* and *PR Newswire* from 1991 until 1999. This study obtained results where the audit committee's characteristics that are in accordance with the recommendations of the Blue Ribbon Committee (BRC), which consisted of the independence of the audit committee, the expertise of the audit committee, the number of audit committee meetings, had an influence on the occurrence of restatement of financial statements, while the audit committee size had no impact on restatement of financial statements. However, this result is in contrast to the research performed by Lin et al. (2006). The study employed a sample of 267 public companies in the States that perform restatements of financial statements for the fiscal year 2000 and get inconsistent results where the independence of the audit committee, the expertise of the audit committee, and the number of meetings have no effect on the restatement. Meanwhile, the audit committee size affects the restatement of the financial statements.

Restating describes not just the quality of financial statements, but also the auditor's perceived service (Palmrose and Scholz, 2004). Audit quality is determined by the size of the auditor's firm (Choi et al., 2010; Francis and Yu, 2009). The restatement of the financial statements casts doubt on the integrity of the public accounting firm in providing an audit opinion. The various cases of financial statement restatement have demonstrated that public accounting firm auditors play a crucial role in assisting management in manipulating financial statements. Therefore, auditor integrity is needed by auditors in public accounting firms to provide good service quality. Choi et al. (2010) believed that auditors of the big four public accounting firms with prominent names have a motivating factor for keeping a consistent level of service quality all over diverse office sizes in each country. Several studies have found that companies that use big 4 public accounting firms have a negative relationship with the restatement of financial statements (Bloomfield and Shackman, 2008; Francis et al., 2013; Jiang et al., 2015). In comparison, the findings of a study by Hasnan et al. (2020) stated that the size of the public accounting firm with a proxy for big four and non-big four auditors, had no effect on financial restatement.

Inconsistent findings in preceding studies that have examined various sectors, countries, and regulations, as well as audit committee characteristics that differed across countries, inspired this research to explore how audit committee characteristics and the size of public accounting firms affect the restatement of financial statements in Indonesia Stock Exchange-listed enterprises. Companies in the financial sector were selected since it was discovered that the financial sector produced the most restatements of financial statements based on the Indonesia Stock Exchange (IDX) for each sector in 2015.

2. Theoritical Framework and Hypothesis Development

Agency theory discusses the connection between the principal and the agent. Jensen and Meckling (1976) defined agency relationship as a binding agreement between one or more company owners and management who manages the company on behalf of the owners by providing delegation in decision making to management. Basically, the owner of the company has different interests with the management owing to the split of ownership and management (Bonazzi and Islam, 2007) which in turn can lead to agency conflicts.

To minimize the occurrence of agency conflicts, it is necessary to have a third party that carries out the process of monitoring and examining the activities carried out by the management. The audit committee is one strategy for good corporate governance which has a function that can minimize agency conflicts between company owners and management (Abbott and Parker, 2000). The audit committee's monitoring activities will decrease the potential of management manipulating financial statements and enhance the quality of financial reports (Bajra and Čadež, 2017) so that the company does not need to restate the financial statements.

The occurrence of a restatement is an indication that the financial statements issued in the previous period were of poor quality (General Accounting Office (GAO), 2002). A restatement can be defined as an acknowledgment that a company has made omissions or material misstatements in their financial statements (Palmrose and Scholz, 2004). Eilifsen and Messier (2000) identified 4 conditions for restatement of audited financial statements, namely: (1) a variety of inherent risks that lead to a significant misstatement (such as aggressive management accounting practices, incorrect application of

GAAP, personal issues, etc.), (2) misstatements cannot be avoided or identified by the company's internal control, (3) external auditors fail to reveal misstatements in the issuance of financial statements, (4) misstatements are detected after some time, if significant the company will be asked to revise, restate, and republish financial statements.

The Sarbanes-Oxley Act (2002) defined audit committee as *"a committee (or equivalent body established by and amongst the board of directors of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer and audits of the financial statements of the issuer".* According to POJK No 55 /POJK.04/2015 Regarding the Establishment and Guidelines for the Work Implementation of the Audit Committee, the audit committee is a committee established by the board of commissioners to assist the board in carrying out its tasks and responsibilities. The audit committee is responsible for supervising the financial reporting process and ensuring that financial reports are accurate (Beasley et al., 2009). Some literature identify that the audit committee has several characteristics in carrying out its functions, namely: Audit Committee Independence, Audit Committee Size, Audit Committee Meeting, and Audit Committee Expertise.

2.1 Audit Committee Independence

In agency theory, the difference of interest between company owner and management raises agency conflict. Conflicts of interest arise when one party acts in ways that enhance their own interests over the interests of the other. Therefore, an independent party is needed that has a supervisory function so that it can mediate between company owners and management. As one of the corporate governance mechanism, the audit committee, performs a role in enhancing the performance of the business (Anderson and Yohn, 2002; Davidson et al., 2004) and guaranteeing financial reports (Klein, 2002) through management oversight. With the audit committee's independence, the audit committee's supervision will be more effective. Supervision carried out by an independent audit committee can minimize agency conflicts in agency theory.

Previous study discovered the significance of audit committee independence in preserving the integrity and quality of financial statement reporting (Carcello and Neal, 2000; Dechow et al., 1996; DeFond and Jiambalvo, 1991). The audit committee, comprised of independent directors, is capable of establishing a robust independent auditor and reducing the incidence of fraud in financial statement

preparation (Abbott et al., 2004; Beattie et al., 1999). This is supported by earlier research which found that the independence of the audit committee has a negative relationship with the restatement of financial statements (Abbott et al., 2004; Abdullah et al., 2010; Lary and Taylor, 2012) which means the higher the audit committee independence in a company, the lower the probability of a restatement of financial statements. Paper by Be´dard et al. (2004), and Jamil and Nelson (2011) stated that the audit committee independence is negatively related to the amount of earnings management, which means that the independence of the audit committee can reduce tactics of earning management so as to minimize the company's restatement of financial statements.

Several previous studies had different results with the conclusions of previous studies. Based on the findings in studies by Lin et al. (2006), the independence of the audit committee does not have a significant negative relationship with the occurrence of earnings restatements. Amin (2016) found that the independence of the audit committee has a negative effect on earnings quality, which means the higher the independent audit committee, the lower the earnings quality so that it will increase the possibility of restatement of financial statements. As a result of the findings above, the following is the first hypothesis for this research:

H1. *The independence of the audit committee has a negative effect on the occurrence of restatement*

2.2 Audit Committee Size

It is more probable that a large audit committee will identify and address issues that arise in the financial reporting process since multiple perspectives and expertise might be gained from it to ensure effective oversight (Be´dard et al., 2004). As the number of members of the audit committee grows, so does the diversity of the resources available to meet the resulting skill and knowledge gaps. A large audit committee size is in a position to accomplish an effective supervision which is the main function of the audit committee in minimizing agency conflicts in agency theory. The supervision carried out by the audit committee will assure the integrity and quality of the financial reports prepared by the management so as to prevent restatements in the future.

Several prior studies have conducted investigation on the effect of audit committee size on the quality of financial statements that lead to the restatement of financial statements. In a paper by Lin et al. (2006), the results stated that the size of the audit committee has a significant negative effect on the

occurrence of earnings restatements. Similar findings are also found in Mutmainnah and Wardhani (2013) where the size of the audit committee has a positive effect on the quality of financial statements, which means it has the potential to lessen the likelihood of restatement of financial statements. Research performed by Yang and Krishnan (2005) got results where the size of the audit committee negatively impacts the earnings management using abnormal accrual proxies, which means that the size of the audit committee is still relevant to the quality of financial statements.

However, other studies have shown the opposite result. Abbott et al. (2004) found that the size of the audit committee had no relation with the restatement of financial statements. Research performed by Xie et al. (2003) reveals there is no significant relationship between the amount of audit committee members and management of earnings, indicating that the amount of audit committee members has no effect on the quality of financial statements, which might lead to a restatement of financial statements. Based on the findings of earlier paper, the following is the second hypothesis::

H2. *Audit committee size has a negative effect on the occurrence of restatements*

2.3 Audit Committee Meeting

In agency theory, supervision is one of the most important things to lessen agency conflicts. The high intensity of the audit committee meeting represents the level of supervision carried out by (Mutmainnah and Wardhani, 2013). The number of audit committee meetings is thought to boost the efficacy of supervision (Collier and Gregory, 1999; Conger et al., 1998). Zhang et al. (2007) stated that audit committees Increase the frequency of meetings when severe issues in oversight or control are present. Increased supervision effectiveness may raise the effectiveness of financial statement preparation, preventing companies from submitting false financial statements. Carcello et al. (2002) found that audit committees with at least four (4) meetings a year have higher audit costs, which reflects agency costs.

Study performed by Beasley et al. (2000), and McMullen and Raghunandan (1996) discovered that the audit committee of companies that experienced fraud problems in their financial statements had fewer meetings than enterprises whose financial statements were not marred by faults. Abbott et al. (2004) also discovered similar findings where audit committees at companies that restated financial statements did not meet at least four times a year. Research conducted by Mutmainnah and Wardhani

(2013) found that the number of audit committee meetings has a positive effect on the quality of financial reports. These findings are in agreement with previous research because the high quality of financial statements will prevent the possibility of companies to restate the financial statements.

However, several other studies have found inconsistent results. Lary and Taylor (2012) in his research, he measured the influence of the audit committee's degree of diligence by the frequency of meetings on the incidence of restatements, and the findings showed that the audit committee's level of diligence had no effect on the incidence of restatements. Similar results were obtained in a study conducted by Lin et al. (2006) which inspected the effect of audit committee meetings on the occasion of earnings restatements. Past study examined the effect of the number of audit committee meetings on management of earnings also obtained results that there is no relation between the number of meetings with earnings management (Be´dard et al., 2004; Yang and Krishnan, 2005). On the basis of the previous research, the following third hypotheses are put forward by this study:

H3. *Audit committee meetings have a negative effect on restatement*

2.4 Audit Committee Expertise

The audit committee plays a role to ensure the quality of financial reports and audit supervision (Beasley et al., 2009). For this role to be successfully completed, someone with extensive financial expertise and experience is required (Be´dard et al., 2004). DeFond and Francis (2005) stated that the company could increase its oversight by appointing an audit committee chair with accounting expertise. This can reduce agency problems in agency theory where supervision by an audit committee with competence and insight can increase its oversight thereby limiting management's power over the preparation of financial statements (Kalbers and Fogarty, 1993). Knechel et al. (2012) stated that the characteristics of a weak audit committee consisting of expertise and independence weaken the audit committee's oversight and effect on the quality of financial reports. This can lead to a restatement of financial statements if the quality of the financial statements is low.

Several earlier research investigated the effect of financial expertise on financial report quality (DeFond and Francis, 2005; Dhaliwal et al., 2010; Krishnan and Visvanathan, 2007). The results of several studies show that audit committees with financial knowledge have a positive influence on the quality of financial reports (Abbott et al., 2004; Saleh et al., 2007; Xie et al., 2003). Based on the

positive results of previous research, various literatures especially explore the influence of the audit committee's accounting on the quality of financial statements, which may result in restating of financial statements (Defond et al., 2005; Dhaliwal et al., 2010; Goh, 2009; Krishnan and Visvanathan, 2007; Schmidt and Wilkins, 2011). Research done by Baatwah et al. (2018) and Kibiya et al. (2016) who examined both skills, namely accounting and finance expertise also showed similar results with previous studies.

However, the study undertaken by Hasnan et al. (2020), and Lin et al. (2006) showed the opposite result. In his research, it was found that audit committee members with financial knowledge did not have a significant influence on financial restatement. Several previous studies have examined the effect of audit committee members' financial expertise on earnings management. The study obtained results where there is no correlation between financial expertise and management of earnings (Jamil and Nelson, 2011; Yang and Krishnan, 2005). Based on the results of the research mentioned, the fourth hypothesis can be summed up as follows:

H4. *Audit committee expertise has a negative effect on the occurrence of restatement*

2.5 Audit Firm Size

Additionally to the characteristics of the audit committee, auditors also play an important role in lowering agency conflicts. Alzoubi (2017) found that external auditors are capable of enhancing the integrity of financial statements. Choi et al. (2010) argues that auditors in Big 4 Public Accounting Firms with big names are eager to maintain a consistent level of service quality throughout all of the company's offices, regardless of their size. aor supervision of high quality and service offered by a larger public accounting firm would certainly charge larger fees than a smaller office. In accordance with agency theory, to overcome agency conflicts, auditor fees are needed as agency costs.

Reynolds and Francis (2000) stated that firms audited by the big 4 are treated more conservatively. Therefore, corporations audited by the big four will have higher quality financial reports. In addition, big 4 public accounting firms provide higher audit quality compared to smaller firms due to higher experience (Francis and Yu, 2009). Previous research has tested that big 4 public accounting firms provide higher audit quality than non-big 4 public accounting firms. In several studies, consistent results have been obtained where the size of a public accounting firm proxied as a big 4 or

non-big 4 public accounting firm does not correlate positively with the incidence of restatement (Bloomfield and Shackman, 2008; Chen et al., 2016; Francis et al., 2013). Chen et al. (2016) discovered that companies that were not audited by one of the Big Four public accounting firms had a greater likelihood of restating financial statements owing to accounting type mistakes.

However, there is research conducted by Hasnan et al. (2020) which got the opposite result. In this study, it was found that a public accounting firm's size with a proxy for big 4 and non-big 4 auditors had no effect on financial restatement. This suggests that companies audited by both big four and non-big four public accounting firms may restate their financial statements. These findings are in agreement with those of a past analysis by Alexander and Hengky (2017) where audit quality has no effect on earnings management. Following that, the following hypothesis is proposed:

H5. *Audit firm size has a negative effect on the occurrence of restatements*

This study applies two control variables consisting of company size and company performance. Company size is a measurement of how big a company is by looking at the accumulated assets. Large company sizes are generally more attractive to investors due to investors' expectations about the company's prospects for the years to come. Large companies are more closely observed by financial analysts, putting additional pressure on management to strive to match the expectations of external parties by manipulating their revenues (Bhushan, 1989) leading to a restatement of the financial statements. While on the flip side, Romanus et al. (2008) stated that the restatement of financial statements is less likely because large companies have better internal control. Company performance is the potential of a corporation to create revenue and profits by using the resources it has (Riaz and Mehar, 2013). The company's performance will represent management's degree of effectiveness in managing corporate resources, so that this becomes one of the elements that influence investors' investment choices. Investors will generally choose companies with positive company performance. To find out the performance of financial statements, investors generally analyze financial statements, one of which is by measuring using Return on Assets (ROA). ROA refers to a company's ability to make profits by using its assets (Kothari et al., 2005). Management will generally try to meet investors' expectations, one of which is to increase company profits (Das et al., 2018). Companies that experience an increase of low income will have a significant motivation for management to misrepresent their financial

statements (Pathak et al., 2021). Hasnan and Mohamed Hussain (2015) stated that companies with poor performance will put pressure on management to misstate the financial statements. On the opposite hand, Matsumoto (2002) indicates that corporations that have good corporate performance tend to do earnings management.

3. Research Method

3.1 Selection of Samples

The population in this research used corporations in the financial sector listed on the IDX with a total population of 94 companies. The criteria for selecting the sample are financial sector companies listed on the IDX which publish annual reports for the 2016-2020 period on the company's official website or the IDX website. (www.idx.co.id). For comparison purposes, this study uses matched-pair sampling in accordance with that carried out by Beasley (1996), and Dechow et al. (1996). Companies that perform restatements of financial statements are paired with companies that do not restate their financial statements as a control sample based on company size and the same year. The total assets possessed by a corporation were used in this research to determine the company's size. The company restated the financial statements in accordance with the criteria from the GAO's definition of restatement (2006).

3.2 Data Collection

Data on companies that carry out restatements in financial sector companies for the 2016-2020 period are obtained through annual reports. The search for companies that perform restatements was accomplished via the use of a keyword search “restatement”, “restate”, “reclassification”, “restatement” in the notes section of the financial statements. After the data on the companies that have made the restatement have been collected, they are then selected according to the sample selection criteria. The sample selection in this research yielded 77 samples of corporations that restate their previous financial statements, which were then matched with 77 control samples of companies that did not restate their financial statements. The overall sample size for this research was 154. This study discovered samples with outlier data using standardized residual analysis in a total of 8 samples from 77 companies, which

might have an impact on the study's findings. Outlier data is then chosen from the sample, reducing the overall sample size to 138 samples (69 restatement firms & 69 control samples).

3.3 Variable Measurement

Table 1.

Measurement of the variable

Variable	Operational Definition
REST	Dummy variable, where the value is "1" for companies that do restatement of financial statements, and value "0" for companies that do not restate financial statements (Abdullah et al., 2010; Hasnan and Mohamed Hussain, 2015; Mohammad et al., 2018)
ACIND	The proportion of independent audit committee members to the total number of audit committees (Carcello and Neal, 2000). The criteria for the independence of the audit committee was according to Be´dard et al. (2004).
ACSIZE	The audit committee's size is determined by the number of members on the committee (Soliman and Ragab, 2013).
ACMEET	Meetings held by the audit committee each year (Metawee, 2013).
ACEXP	Number of audit committee members with accounting and finance expertise (Baatwah et al., 2018). The audit committee expertise criteria used Badolato et al. (2014).
AFSIZE	The dummy variable, coded "1" for big 4 auditors, and coded "0" for non-big 4 auditors (Chen et al., 2016).
SIZE	The company's natural logarithm of its total assets (Zgarni et al., 2016).
PERFORM	*Return on Asset (ROA)* ratio (Das et al., 2018).

3.4 Models and Analysis

This research utilized a logistic regression model to explain the correlation between the dependent variable in year t, namely restatement, and the independent variable in year t-1 (audit committee independence, audit committee size, number of audit committee meetings, audit committee expertise, and size of public accounting firm), as well as control variables (firm size and leverage). The analysis model provides the following overview of the relationship between variables:

$$REST_{i,t} = \alpha + \beta_1 ACIND_{i,(t-1)} + \beta_2 ACSIZE_{i,(t-1)} + \beta_3 ACMEET_{i,(t-1)} + \beta_4 ACEXP_{i,(t-1)} + \beta_5 AFSIZE_{i,(t-1)} + \beta_6 SIZE_{i,(t-1)} + \beta_7 PERFORM_{i,(t-1)} + e \quad (1)$$

4. Results

4.1 Descriptive Statistics

The descriptive analysis findings for restatement companies and control companies are shown in table 2. The audit committee independence (ACIND) of companies that do restatements has an average of 0.71 (71%) while companies that do not restate have a lower average of 0.68 (68%). The audit committee size (ACSIZE) has an average value of 3.68 for companies that do restatements and 3.51 on companies that do not restate. The variable number of audit committee meetings (ACMEET) has an average value of 9.13 for companies that do restatements and an average of 9.80 for companies that do not restate. The audit committee expertise (ACEXP) has an average score of 2.58 for companies that perform restatements, while the average value is 2.09. This means that both companies that do restatements and do not restate have an average of 2 members of the audit committee with accounting and finance knowledge. Company size (SIZE) which is the company's natural logarithm of its total assets has an average value for companies that do restatements of 30.30. Meanwhile, for companies that do not do restatement, the average value is 30.04. The company's performance (PERFORM) which is proxied using ROA for companies that do restatements has an average of 0.01 and companies that do not restate has an average of 0.02. It shows that companies that do restatement get an average return of 1% of total assets owned, lower than the average of companies that do not restate, which is 2% return of total assets.

Table 2.

Descriptive Statistics.

Variable	Restatement (n:69)				Non-restatement (n:69)				Diff. In Means
	Mean	Min	Max	Std. Deviation	Mean	Min	Max	Std. Deviation	
ACIND	0,71	0,50	0,83	0,07	0,68	0,00	0,86	0,11	0,03
ACSIZE	3,68	2	6	0,993	3,51	2	7	1,009	0,17

ACMEET	9,13	3	32	6,102	9,80	2	32	6,324	-0,67
ACEXP	2,58	1	5	1,035	2,09	1	5	0,781	0,49
SIZE	30,30	26,43	34,80	2,11	30,04	26,61	34,72	2,07	0,26
PERFORM	0,01	-0,27	0,11	0,05	0,02	-0,17	0,11	0,04	-0,01

Table 3.

Descriptive Statistics for Dummy Variables.

Variable	*Big 4*	*Non-big 4*	Total
Restatement	39	30	69
Non-restatement	38	31	69
Total	77	61	

In table 3, it can be clearly observed that from 138 samples, there are 77 companies that use auditors from Big 4 public accounting firms, while 61 other companies use Non-Big 4 auditors. Of the 69 companies that did restatements, 39 companies were found that used Big 4 auditors, while 30 other companies used Non-Big 4 auditors. For the 69 companies that did not restatement, 38 companies used Big 4 auditors while the other 31 companies used Non-Big 4 auditors.

4.2 Logistics Regression Results

Table 4.

Logistics Regression Results

Variable	B	S.E.	Wald	df	Sig.	Exp(B)
ACIND	4,268	4,673	0,834	1	0,361	71,354
ACSIZE	-1,124	0,5	5,048	1	0,025	0,325
ACMEET	-0,062	0,039	2,556	1	0,110	0,939
ACEXP	1,534	0,447	11,771	1	0,001	4,635
AFSIZE	0,093	0,426	0,047	1	0,828	1,097
SIZE	0,066	0,125	0,283	1	0,595	1,069
PERFORM	-5,614	4,226	1,765	1	0,184	0,004

Constant	-3,92	4,052	0,936	1	0,333	0,02
Nagelkerke R Squared	20,7%					
Hosmer and Lemeshow test	0,063					

The outcomes of the logistic regression analysis could be found in table 4. In the Hosmer and Lemeshow's Goodness of Fit test results, a significance value greater than 0.05 was obtained, which is 0.063. These results indicate that the model can forecast the value of the data or the model can be accepted because it is in accordance with the observation data. The results of Nagelkereke's R Square show a value of 20.7%. These results indicate that the dependent variable can be explained by the independent variable by 20.7%, while the remaining 79.3% is explained by additional factors not accounted for in the model.

Based on table 4, the results obtained demonstrate that the independence of the audit committee has a positive and insignificant effect so that H1 is rejected. In the agency theory, conflicts of interest between management and company owners can be minimized by establishing an independent party that has a supervisory role so that it can mediate between company owners and management. Nevertheless, the study's findings found that the independent audit committee as the party overseeing management activities did not have a negative and significant effect on restatement. The findings of this research are in agreement with those of earlier studies done in Malaysia (Abdullah et al., 2010; Kibiya et al., 2016; Lin et al., 2006) and in Nigeria (Kibiya et al., 2016) where the independence of the audit committee does not have a significant negative effect on financial restatement. The explanation that might cause this insignificant effect is because almost all companies in Indonesia have implemented POJK No 55 /POJK.04/2015 where members of the audit committee are required to come from outside the company (independent). Therefore, the outcomes of the study for the independence of the audit committee showed insignificant results because all samples of companies had an independent audit committee. These results can be seen in the descriptive statistical analysis where both companies that do restatements and do not restate have an average audit committee independence above 68% which means that the audit committee in the company consists of 68% of independent audit committee members.

The audit committee size has a sig value of 0.025 which indicates there is a significant effect and the coefficient is negative. Based on these results, it is found that the size of the audit committee has a significant negative effect on restatement so that H2 is accepted. The greater the audit committee size, the smaller the possibility of the company doing a restatement. In line with agency theory where a large audit committee size is supposed to be able to supervise effectively which is the main function of the audit committee in minimizing agency conflicts. The bigger the audit committee, the more probable it is to discover and rectify issues that arise in the financial reporting process because it is likely to provide multiple views and expertise to ensure effective oversight (Be´dard et al., 2004). The findings of this paper also support the results of past literature where the size of the audit committee has a negative effect on restatement (Lin et al., 2006; Mutmainnah and Wardhani, 2013).

In table 4, the frequency of meetings held by the audit committee has a coefficient value of -0.062 with a sig value of 0.110. Thus, the frequency of meetings held by the audit committee does not have a negative effect on restatement so H3 is rejected. One of the most significant aspects of minimizing agency conflicts, according to agency theory, is supervision. The degree of oversight carried out is shown by the high intensity of audit committee meetings (Mutmainnah and Wardhani, 2013). However, the outcomes of this study obtained the opposite result where the more number of meetings held by the audit committee did not have a negative effect on restatement. The results of this study are consistent with previous studies conducted in Malaysia (Lin et al., 2006) and in Australia (Lary and Taylor, 2012) that obtained the finding that the number of audit committee meetings does not have a negative effect on restatement. This insignificant result supports Zhang et al. (2007) who stated that the audit committee increases the number of meetings when there are significant issues in the supervision or internal control of the company. Consequently, the frequency of audit committee meetings suggests that there are issues with supervising management activities, which may result in restatements.

Looking at table 4, the audit committee expertise has a coefficient value of 1.534 while the value of 0.001. Based on these findings, it is possible to infer that the committee's competence has no detrimental impact on restatement, and hence H4 is rejected. In agency theory, supervision by an audit committee with expertise and knowledge may strengthen oversight, restricting management's authority over financial statement production (Kalbers and Fogarty, 1993) so as to reduce agency problems.

However, the results of this study do not support this theory. The study's findings are in accordance with previous studies conducted in Malaysia (Hasnan et al., 2020; Lin et al., 2006) which found that audit committee expertise did not have a negative effect on restatement. Hasnan et al. (2020) explains the insignificant result due to MLMR regulation paragraph 15.09(1) which requires the audit committee to consist of at least one (1) member who has expertise in accounting and finance. As a consequence, the research produces insignificant findings since almost all sample organizations had 1 to 2 audit committee members with accounting and financial experience. In agreement with research conducted by Hasnan et al. (2020), this study shows that the audit committee expertise (ACEXP) has an average of 2.58 for companies that do restatements, and 2.09 for companies that do not restate. This means that all companies in the research sample have implemented POJK No 55 /POJK.04/2015 concerning the Establishment and Guidelines for the Work Implementation of the Audit Committee where members of the audit committee are required to have at least one (1) member with educational background and expertise in accounting and finance. Hence, the analysis for audit committee independence produced insignificant findings since essentially all of the sample companies had an independent audit committee. This is shown through descriptive statistical analysis findings where both companies that do restatements and do not restate have an average audit committee expertise above 2 which means the number of audit committee members who have accounting and financial expertise is at least 2 people.

The variable audit firm size has a coefficient value of 0.093 with a sig value of 0.828. Given these findings, H5 is rejected as having a positive but insignificant effect on audit firm size. Auditors from public accounting firms have a significant role in reducing agency conflicts. Alzoubi (2017) found that external auditors are able to enhance the integrity of financial statements. However, the results of this study obtained the opposite result where the audit firm size as proxy using Big 4 and Non-Big 4 auditors did not have a negative effect on restatement. According to these findings, both companies audited by Big 4 and Non-Big 4 public accounting firms have the possibility to restate. The findings of this analysis are consistent with paper written by Hasnan et al. (2020) which found that the public accounting firm size did not have a negative effect on restatement of firms in Malaysia. Some of this may be attributable to a corporate choice to improve its financial performance in the eyes of investors (Hasnan et al., 2020).

5. Conclusion, Implication and Limitation

This paper desired to determine the effect of the characteristics of the audit committee consisting of the independence of the audit committee, the audit committee size, the number of audit committee meetings, and the audit committee expertise, as well as the size of the audit firm on restatement with firm size and performance as control variables. The sample analyzed in this research is limited to the financial sector listed on the IDX from 2016 to 2020. With a total population of 94 corporations listed on the IDX at the end of 2020, there are 77 companies that have restated according to the criteria GAO's definition of restatement (2006). As an addition to the standards for the audit committee's expertise, this study uses the following criteria: Badolato et al. (2014) which only consists of audit committee work experience in accounting and finance.

The study's findings revealed that the audit committee's independence and expertise had no negative impact on restatement. The main reason is due to the application of POJK No 55 /POJK.04/2015 Regarding the Establishment and Guidelines for the Work Implementation of the Audit Committee where members of the audit committee are required to come from outside the company and have at least one (1) member with a background and knowledge in accounting and finance. The audit committee size has a negative effect on restatement, meaning that the larger the size of the audit committee, the lesser the possibility of the company doing restatement. The frequency of audit committee meetings does not have a negative relationship with restatement. The reason for the non-significance is due to increasing the frequency of meetings when there are significant issues in the supervision or internal control of the company. Therefore, the frequency of audit committee meetings indicates that there are problems in supervising management activities that can lead to restatements. Meanwhile, the size of the public accounting firm does not have a negative effect on restatement, which indicates that both companies audited by Big 4 and Non-Big 4 public accounting firms have the possibility to restate.

For future study, it is suggested that investigators investigate how audit committee characteristics and the size of audit firms affect other industries. Researchers may additionally include audit committee characteristics such as audit tenure, as well as other control factors such as firm age,

growth, leverage, and others. Moreover, researchers can conduct studies using samples from various countries with diverse corporate governance regulations, particularly the audit committee.

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