

Does Female Audit Committees Improve Audit Quality?

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Abstract. The study's purpose is to analyze audit committee characteristics, education level, accounting expertise, and gender on audit quality. The study also analyzes the role of gender as a moderator to improve audit quality. A study was conducted on manufacturing companies listed on the BEI and used purposive sampling as a sampling method. The data analysis technique uses moderated regression analysis. The results show that the educational level cannot improve audit quality. Meanwhile, accounting expertise significantly reduces the value of discretionary accruals, which means improving audit quality. The presence of female members also improves audit quality. The results of the interaction test revealed that gender variable does not strengthen the education level and audit quality relationship. Contrarily, other interaction tests show that a female member significantly strengthens accounting expertise and audit quality relationships.

Keywords: Accounting expertise, Audit committee, Audit quality, Gender.

1 Introduction

There are many cases of fraud in Indonesia. This fact suggests that the big name of an accounting firm cannot guarantee the audit quality implementation. The rise in fraud cases also raises significant questions about the role of corporate governance in financial reporting. In this case, a governance organ is needed to effectively conduct the supervisory function in the financial reporting [1]. The audit committee, as a governance organ seen as capable of maintaining an adequate company internal control system. Also, audit committee will supervise the auditor's performance to achieve good corporate governance [2]. Thus, the audit committee is essential in increasing audit quality, particularly preventing fraud in financial reports.

This study had two motivations. First, the audit committee's role as supervisory on financial reporting must be distinct from the education level and expertise of members. Audit committees with a higher education level are seen as having higher intelligence and knowledge abilities to have better solutions in resolving problems [2]. Additionally, audit committee should have expertise in accounting or finance, which can improve audit quality. However, several studies regarding the relationship between educational background and audit committee expertise provide inconsistent empirical evidence. The previous results concluded that a committee or board that has financial expertise will increase audit quality [3] and financial reports [2], [4], [5].

However, other studies reveal that audit committees with no accounting expertise conduct monitoring functions effectively [6].

Second, the inconsistency of previous research results encourages researchers to identify gender roles in audit committee membership. The existence of female commissioners in a governance organ indicates that the company provides equal opportunities for everyone to participate in the implementation of organizational governance. Compared with men, women tend to be more cautious, evade the risks, and are more thorough [3]. Additionally, women tend to be more careful in processing information using more complete information. Gender diversity also increases the effectiveness of an organization's governance mechanisms compared to committees consisting only of men [7]. Having women representatives on the committee will encourage the creation of constructive and challenging communication to make the monitoring process of all committee members more effective [2]. Thus, the presence of female members increases the committee's role in monitoring the function of financial reporting to improve audit quality.

The purpose of the study is to analyze the audit committee characteristics in terms of education level, area of expertise, and audit committee gender on audit quality. The research also identifies gender variables in moderating the relationship between educational level and field of expertise on audit quality. This study has two contributions. Theoretically, the findings support agency theory, which states the important role of audit committees in improving audit quality. This result provides knowledge and insight to interested parties such as the government, capital market, and auditor associations in formulating policies, regulations, and standards to improve the guidelines for implementing audit committee work. This study also recommends that company management consider educational background and expertise to improve audit quality.

2 Literature Review

2.1 Agency Theory

Agency theory is the leading theory that describes agency relationship between principal and agent [8]. This theory suggests that cooperation and delegation of tasks often give rise to information asymmetry and conflicts of interest, which give rise to agency problems. Information asymmetry arises when company management has more complete information than shareholders. This condition provides an opportunity for management to commit fraud in financial reports. Meanwhile, conflicts of interest occur when there is no alignment between the interests of management and shareholders. Management tends to take actions that do not follow the shareholder's interests, giving rise to agency problems. Therefore, implementing good governance is a solution to ensure the implementation of the company's principles of transparency. An audit committee is one of the governance organs acting as a financial reporting supervisory board. The audit committee has a function to monitor the internal control system [9].

2.2 Educational Level and Audit Quality

Education is a means to direct and develop one's potential to achieve specific goals. The implementation of education has several stages or levels that are adjusted to students' development level. Therefore, a person's level of formal education will shape the cognitive characteristics that determine a person's ability and way of thinking in decision-making [10]. The

education level influences audit committee members' knowledge and intelligence abilities. Competency is seen in formal academic education [11]. Thus, audit committee members with a higher education level are seen as more competent in conducting their duties [12]. The higher the education of committee members, the more comprehensive their knowledge so they can have better solutions in resolving problems. One of them is preventing the possibility of fraud in financial statements. Previous research has shown that education positively affects audit quality [11], [13]. Thus, this study formulates the first hypothesis as follows:

H₁: Educational background increases audit quality.

2.3 Accounting Expertise and Audit Quality

Based on financial services authority regulations, the members of the audit committee should have at least one person with accounting or finance expertise. Accounting or financial skills demonstrated from an educational background. The audit committee is considered to have expertise in accounting if they have held essential positions or positions in accounting or finance [12]. Also, audit committee members must understand financial reports and company business. Judging from corporate governance practices, committee members with accounting expertise independently assess the information they receive, recognize problems, and find appropriate solutions [15]. If audit committee members do not have accounting expertise, management has a significant opportunity to incur fraud [16], reducing audit quality. Thus, this study formulates the second hypothesis as follows:

H₂: Accounting expertise increases audit quality.

2.4 Gender Audit Committee as Moderator

Gender is one of the characteristics that is widely analyzed in studies of governance practices in Indonesia. The gender variable shows the presence of female audit committee members. In general, women are considered to have the characteristics of avoiding risks, having a high level of caution, and being more thorough [3]. Women generally have detailed thinking, so they need more complete information when making decisions [2]. The more female audit committee members, the more effective they are in conducting the monitoring function, resulting in better audit quality [17]. Previous research found that gender positively affects audit quality [3], [18]. Thus, the third hypothesis is as follows:

H₃: Female audit committee increases audit quality.

In financial reporting, female committee members with a formal education level have broader knowledge and intellectual abilities to provide advice or input in the financial reporting process. Additionally, female committees with expertise in accounting and finance will be able to supervise the presentation of financial reports more effectively to prevent fraud [19]. Female committees tend to be more thorough in reviewing financial reports to improve the financial reports quality [20], [21]. Thus, this study formulates the fourth and fifth hypotheses as follows:

H₄: Female committee strengthens education level and audit quality relationship.

H₅: Female committee strengthens accounting expertise and audit quality relationship.

3 Methodology

The population has been manufacturing public companies for three years. The sampling technique used was purposive. Based on the criteria, 91 companies meet these criteria. The characteristics of the audit committee as independent variables, namely education level and accounting expertise. The education level variable shows the level of formal education held by committee members, which is proxied using the percentage of committee members with postgraduate degrees [2]. The variable accounting or finance expertise shows the educational background as measured using the percentage of members with accounting and finance backgrounds [12]. The gender variable as a moderator that proxied using a dummy variable [2]. This research uses audit quality as a dependent variable. Audit quality is a form of company accountability. The audit quality variable is measured using discretionary accruals. A high absolute discretionary accrual value indicates lower audit quality [22].

The analysis technique used is moderated regression analysis, namely applying multiple linear regression to test the interaction between the independent variables and moderation. This study has two regression models, namely, (1) a model of a direct relationship between education level and accounting expertise and audit quality and (2) a model of the relationship between education level and accounting expertise and audit quality, moderated by audit committee gender. The two models are shown in the following regression equation:

$$AQ = \alpha + \beta_1EL + \beta_2AE + e \dots\dots\dots(1)$$

$$AQ = \alpha + \beta_1EL + \beta_2AE + \beta_3FAC + \beta_4EL*FAC + \beta_5AE*FAC + e\dots\dots\dots(2)$$

Information:

AQ = Audit quality

α = Constant

β_1 - β_5 = Regression coefficient

EL = Educational level

AE = Accounting expertise

FAC = Female audit committee

EL*FAC = Interaction between educational level and female member

AE*FAC = Interaction between accounting expertise and female member

e = Error

4 Result and Discussion

Descriptive statistics in Table 1 explain the value of mean, maximum, minimum, and standard deviation.

Table 1. Descriptive Statistics					
Variable	N	Minimum	Maximum	Mean	Std. Dev
Educational level	273	33.33	100.00	51.833	24.651
Accounting expertise	273	33.33	100.00	55.051	20.925
Female audit committee	273	0.00	1.00	0.385	0.487
Audit quality	273	-2.81	4.57	0.436	0.806

Source: processed data.

The descriptive statistical tests in Table 1 confirm that some of the audit committees have a master's or doctoral degree (51.83%) and have accounting (55.05%). Meanwhile, the committee has a female member of 38.50%. The average value of company discretionary accruals is 43.60%, which indicates that less than 50% of the sample companies have low audit quality. A low discretionary accrual value indicates high audit quality.

After testing the classical assumption, the next step is to test models 1 and 2. Model 1 examines the relationship between the variable level of education and accounting expertise and audit quality, shown in Table 2.

Table 2. Model 1 Test Results

Variable	B	t	Sig	Hypothesis	Decision
Educational level (EL)	-.002	-1.035	0.301	H ₁	Rejected
Accounting expertise (AE)	-.013	-7.045	0.000	H ₂	Accepted
<i>R Square</i>	0.169				
<i>Adjusted R²</i>	0.162				

Source: processed data

Table 2 shows the findings of hypotheses 1 and 2 testing. The model test results yield an Adjusted R-Square value of 0.162, indicating that educational level and accounting expertise variables can affect audit quality by 16.2 percent. The educational level variable did not improve audit quality ($\alpha = 0.301$). Meanwhile, audit committees with accounting expertise are proven to reduce the value of discretionary accruals, which indicates an increase in audit quality ($\alpha = 0.000$). Thus, the first model test results accept the second hypothesis but reject the first hypothesis.

Testing model 2 examines gender as a moderating variable in the relationship between educational level and accounting expertise on audit quality, as shown in Table 3.

Table 3. Model 2 Test Results

Variable	B	t	Sig	Hypothesis	Decision
Educational level (EL)	0.001	0.647	0.518		
Accounting expertise (AE)	-0.007	-3.892	0.000		
Female audit committee (FAC)	-0.639	-6.069	0.000	H ₃	Accepted
EL*FAC	0.005	1.164	0.245	H ₄	Rejected
AE*FAC	-0.012	-2.421	0.016	H ₅	Accepted
<i>R Square</i>	0.334				
<i>Adjusted R²</i>	0.322				

Source: processed data

Table 3 presents the value of Adjusted R-Square 0.322, indicating that the moderating and independent variables contribute to audit quality by 32.2 percent. The test results on the gender on audit quality show that the presence of female members effectively reduces the value of discretionary accruals, which means increasing audit quality ($\alpha = 0.001$).

The interaction between educational level and accounting expertise shows that the audit committee gender variable is not proven to strengthen the relationship between educational level and audit quality ($\alpha = 0.245$), thus rejecting the fourth hypothesis. Nevertheless, the statistical

test results in Table 3 reveal that the interaction between accounting expertise and audit committee gender significantly reduces the value of discretionary accruals, which means increasing the relationship between accounting expertise and audit quality ($\alpha = 0.016$).

4.1 Discussion

The first model test shows that the educational level variable is not proven to influence audit quality significantly. Theoretically, the higher the level of education, the higher the intelligence and knowledge to conduct the role of monitoring financial reporting [10]. However, the results do not support this. This condition is because education is one of many factors influencing audit committee performance. As we know, every individual can access every level of education freely. Individual achievement at each level of education only opens career doors but does not guarantee individual success in pursuing that career. This is because the success of an individual's performance is influenced by other factors such as experience or length of service. Even though the audit committee has a higher education level, it will be easier to conduct its financial reporting oversight function if an educational background or work supports it. The results do not support previous research studies, which revealed that educational level positively affects audit quality [11], [13].

Contrarily, other results show that accounting expertise improves audit quality. Based on the guidelines for the work of the audit committee, they should have at least one member with accounting expertise. This study shows that 55.05% of audit committee members have accounting expertise, which aligns with the Bapepam regulations. The results imply that committee members with accounting expertise will increase their knowledge regarding financial reports [23]. Therefore, they effectively supervise the process of presenting financial reports, including preventing possible acts of fraud. These results support theoretical studies, namely agency theory, which states that an audit committee reduces agency problems between principals and agents. These results also prove that the audit committee has effectively conducted its supervisory function to reduce discretionary accruals or improve audit quality [15].

The second model result test shows that the gender variable positively affects audit quality. These results suggest that female committee effectively reduces the value of discretionary accruals or improves audit quality. Women generally have a risk-averse character, are cautious, and are more careful in reviewing financial reports than men [3], [21]. These characteristics are essential to improve the quality of information presented in financial reports [19]. In addition, female committee will encourage the creation of constructive and challenging communication to make the monitoring process of all committee members more effective [17]. Thus, female members improve company performance [3], [18].

The test results for the moderating variable show that the results of the interaction between the educational level variables and audit committee gender do not affect audit quality. The results indicate that female audit committee members with postgraduate education do not affect audit quality. The competency of audit committee members is not only determined by their level of education but also by experience or expertise relevant to their current position, especially in the presentation of financial reports. As a practitioner, education can be equated with someone's experience in that field. Therefore, female audit committee members with a postgraduate

education level may only be able to monitor financial reporting effectively if they have the skills or work experience related to their position as audit committee members.

Nevertheless, the results of the interaction test for the accounting expertise and audit committee gender variables show a decrease in the value of discretionary accruals, which suggests an increase in audit quality. A female committee with accounting is believed to conduct the monitoring function over the presentation of financial reports effectively [3], [17]. The characteristics of women who tend to be careful will reduce the possibility of aggressive financial reporting [2]. This test's results support previous research, which found that female accounting experts improve audit [3] and reporting quality [4].

5. Conclusion

The study's purpose is to explore the audit committee, namely education level, accounting expertise, and female members on audit quality. Also, the study analyzes the role of gender in interacting with variables of education level and accounting expertise in improving audit quality. However, not all statistical test results support the formulated hypothesis. The educational level variable cannot improve audit quality. Meanwhile, the variable accounting expertise is proven to significantly reduce the value of discretionary accruals, which means improving audit quality. The female members also improve audit quality. The results of interaction tests on audit committee characteristic variables also show inconsistent results. The results of the interaction test revealed that gender can not strengthen education level and audit quality relationship. Contrarily, other interaction tests show that a female member strengthens accounting expertise and audit quality relationships.

This study's limitation is that the R-squared value for both models is below 50%, which indicates that other characteristic variables may influence audit quality. Therefore, further researchers can explore other variables, such as age, committee size, or meeting number.

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