The Impact of Audit Committee Characteristics on Financial Distress

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ABSTRACT

This research to analyze impact of audit committee characteristics on financial distress, which could be seen from size, independent, meetings frequency, educational background and gender diversity of the audit committee. The study applies Springate Model and categorize financial of the company in two conditions, company which occurs financial distress and company has good financial (healthy company). Using manufacturing company listed on IDX period 2017-2023 as a population of the research. Final samples in this study are 920 samples, consist of 461 samples occurs financial distress and 459 samples in healthy financial condition. Analysis data used logistic regression. Results of this research showed that size, independent and educational background of audit committee has negative impact on financial distress. Whereas meetings frequency audit committee has positive impact on financial distress and audit committee gender diversity has no impact on financial distress.

Keywords: Financial Distress; Audit Committees; Springate Model

Pengaruh Karakteristik Komite Audit terhadap Financial Distress

ABSTRAK

komite audit terhadap financial distress yang dilihat dari ukuran, independensi, frekuensi pertemuan, latar belakang pendidikan dan keragaman gender komite audit. Penelitian ini menggunakan Model Springate dan mengkategorikan kondisi keuangan perusahaan pada dua kondisi, yaitu perusahaan yang mengalami financial distress dan perusahaan yang mempunyai kondisi keuangan baik (perusahaan sehat). Menggunakan perusahaan manufaktur yang terdaftar di BEI periode 2017-2023 sebagai populasi penelitian. Sampel akhir dalam penelitian ini berjumlah 920 sampel, terdiri dari 461 sampel yang mengalami kesulitan keuangan dan 459 sampel yang berada dalam kondisi keuangan yang sehat. Analisis data menggunakan regresi logistik. Hasil penelitian menunjukkan bahwa ukuran, independensi dan latar belakang pendidikan komite audit berpengaruh negatif terhadap financial distress. Sedangkan frekuensi pertemuan komite audit berpengaruh positif terhadap financial distress dan keberagaman gender komite audit tidak berpengaruh terhadap financial distress.

Kata Kunci: Financial Distress; Komite Audit; Model Springate

Artikel dapat diakses : https://ojs.unud.ac.id/index.php/Akuntansi/index

INTRODUCTION

Financial distress are a significant topic in the several business sector, almost every company, whether small, medium, or large. Financial distress occurs caused by several factors as follows: poor governance, inaccuracy in decision making and policies, such as inaccuracy in predicting and calculating cash flow, that will impact on company's experiencing low sales, high expenses, unrealistic budgeting and pricing and lacks sufficient cash flow to operate the business efficiently (Younas et al., 2021). Financial distress can lead businesses into bankruptcy and eventually be liquidated (Samanta & Johnston, 2019). Therefore, corporate governance mechanisms are necessary because it can be a benchmark for company performance and the main instrument for company's growth (Hormati et al., 2022; Li et al., 2021). Good governance can stimulate companies to achieve their goals, where supervision must run effectively to allocate resources efficiently (Abbas & Frihatni, 2023). Companies who have a good governance are expected in a good condition or we can say it's healthy companies. A company with healthy conditions results from the interaction between management funds and the environment around the company (Rosidah & Sukarmanto, 2021). On the other hand, companies that fail to run their business it could be seen from the financial distress (Harahap et al., 2020).

Establishment audit committee's is one of the principles for achieving business progress and corporate accountability (KNKG, 2021). The audit committee has a essential role to overseeing strategy and operational activities of the company such as internal control, which aims to protect shareholders's interest. Thus, an audit committee are required to resolved agency conflicts and to maintain company's performance (Bravo-Urquiza & Moreno-Ureba, 2021). The committees in the company can act as an additional mechanism to controlled opportunistic behavior of managers and minimize the influences of majority shareholders, so as the audit committees expected to reduce agency conflicts and can be improved company's financial (Bravo-Urquiza & Moreno-Ureba, 2021; Hamid et al., 2016).

Public companies are required to have an audit committee, according to UU No. 40 Year 2007 regarding Limited Liability Companies operate in Indonesia and POJK No. 55/POJK.4/2015 regarding Guidelines of Audit Committee Implementation. Effectiveness audit committees can be measured from audit committee characteristics, such as size, independent, meetings frequency and competencies of the audit committee members (Permatasari et al., 2023; Putra & Serly, 2020; Masak & Noviyati, 2019).

Several studies have examined impact of financial distress on size, independent, meetings frequency and educational background of the audit committee. Size of audit committee shown that size of audit committee has negative impact on financial distress (Khoirony & Nazar, 2023; Putra & Serly, 2020; Sukawati & Wahidahwati, 2020; Masak & Noviyati, 2019). However, other studies shown that size of audit committee has insignificant negative on financial distress (Rizqiani & Umaimah, 2022). Result studies relate to independent audit committee has negative impact on financial distress. Conversely, this study contradicts the research undertaken by Putra & Serly (2020) and Masak & Noviyati (2019) which showed that independent audit committee has positive but insignificant on

financial distress. Frequency meeting that regular meetings are key to effectiveness of the audit committee in carrying out its role in overseeing financial reporting process and internal control, which is expected to reduce the occurrence of economic distress (Masak & Noviyati, 2019). However, the results differ from research by Putra & Serly (2020) and Sukawati & Wahidahwati (2020) which shown that any meetings frequency held by audit committee does not impact financial distress. Research by Michelin & Mindosa (2021) shown that audit committee competence has a significantly negative on financial distress. Not in line with research from Michelin & Mindosa (2021), research by Putra & Serly (2020) showed that educational background of audit committee has an insignificant negative on financial distress and by Masak & Noviyati (2019) showed that audit committee educational background has an insignificant positive on financial distress. To address this gap, this study investigates impact size, independent, meetings frequency and educational background audit committee on financial distress.

This study not only observe on size, independent, meetings frequency and educational background of the audit committee, but we also determine gender diversity on audit committee members as a variable that would be impact on financial distress. Research by Fitroni & Feliana (2022) observe the influence of gender diversity board of commissioners (BOC), board of directors (BOD) and audit committee on earnings management. These research showed that the proportion of women on BOC and audit committee has no effect on earnings management among several variables studied. This study uses company size and reputation PAF (Public Accounting Firm) as a control variable. These control variables as to ensure correlation between independent and dependent variables are not affected by external factors that have not been in this studied (Sugiyono, 2013).

Jensen & Meckling (1976) defined an organization as a contractual relationship between an agent and a principal. It is a network of contractual relationships because there is a clear separation between ownership and control. The controller the company has more information, resources, and many more, so it would be bounded by certain contracts to avoid deviations that can harm the owner. There are several assumptions in agency theory, one of it is the agent assumption. Agents are assumed to be rational about profit and loss, self-interested, and are considered trying to maximize their interests, which can harm other parties. This asymmetry information gives rise to a conflict of interest, where it is contractually stated that the agent will behave in the principal's interests. However, in practice, the agent will act according to his own interests, thus creating an agency problem. To resolve this conflict, it is necessary to implement a corporate governance mechanism to protect principal and reduce agent opportunism so that business continuity are maintained and financial distress are minimized (Bravo-Urquiza & Moreno-Ureba, 2021).

One of corporate governance mechanisms that can be implemented to minimize financial distress is through the existence of an audit committee. Audit committee responsible to overseeing company's policies and quality of the financial reports. They ensure that the financial reports are presented by applicable

standards and ensure effectiveness of internal control system (Coleman & Wu, 2021).

Based on agency theory, quality supervision can minimize opportunistic behavior carried out by agents. Based on POJK No. 55/POJK.4/2015, companies are required to have at least three audit committee members, consists of an independent commissioner as chairman and two independent members who are not affiliated with the company and has background in accounting and finance. The company which has audit committee more than one person who expertise and knowledge in corporate governance and financial are intended to allow share perspectives with other members.

The larger audit committee size indicates the effectiveness are increase, caused audit committee can deal with various company's problems with sufficient resources (Khoirony & Nazar, 2023). The increasing number of audit committee members brings more diverse views, experiences, and abilities to ensure more effective oversight activities (Rifai & Siregar, 2021). The larger number of audit committees can also be a preventive to avoid financial distress due to more supervision by the audit committee board (Alexandra et al., 2022). Thus, audit committee expected to be able to change different policies to achieve profits in the future so that the company's financial problems can be avoided. Therefore, first hypothesis is:

H_1: Audit committee size has a negative impact on financial distress.

According with Hormati et al. (2022) independences are an essential factor that an audit committee must have. Independent audit committee's role is expected reduce agent's opportunistic behavior. This behavior can cause agency problems due to differences in interests between agents and principals, so an independent audit committee are expected to reduce asymmetry in agency problems.

Requirements for independent audit committee members based on POJK No. 55/POJK.4/2015 are as follows: not affiliate with Public Accounting or other party that provides insurance/non-insurance/appraisal services or other consulting services within last six months; not held any role or authority to plan, lead, control, or oversee activities of Issuer or Public Company in last six months, except Independent Commissioners; does not have direct/indirect shares in the Issuer or Public Company; does not have an affiliated relationship with BOD members, BOD members, or major shareholders of Issuer or Public Company; and does not have a direct/indirect business relationship with Issuer or Public Company.

Based on POJK No. 55/POJK.4/2015, stated that audit committee must consist of a group of independent individuals, free from managing the company by management, and have experience in carrying out practical supervisory responsibilities. Integrity, objectivity in assessing reports, and submitting recommendations are some of the main reasons the audit committee must come from an independent party. This is because independent parties tend to be more objective and disciplined in evaluating effectiveness of internal control, risk management and corporate governance (KNKG, 2021). Thus, an independent party in the audit committee expected to increase investor confidence in presenting financial reports while minimizing the company from experiencing financial

problems. Increasing of investor trust will impact on higher capital investing of the investors, it can avoid company occurs financial issues (Rahmawati & Herlambang, 2018). Therefore, second hypothesis is:

H_2: Independent audit committee has a negative impact on financial distress.

By agency theory, supervision as a component of GCG, if appropriately implemented, can minimize opportunistic behavior carried out by agents. Regular meetings are essential for audit committee to effectively perform its supervisory role in overseeing financial reporting process and internal control (Masak & Noviyati, 2019).

Based on POJK No. 55/POJK.4/2015, requirement audit committee meetings at least one time in three months. The large number of audit committee meetings can increase effectiveness of audit committee, and there is a possibility of reducing financial distress because the existence of periodic and structured audit committee meetings can take supervisory actions on financial report reporting (Sukawati & Wahidahwati, 2020). It's indicated that a higher frequency of audit committee meetings is positively correlated with the effectiveness of audit committees and helping the company prevent financial distress.

Audit committee meetings can be as facilities to discuss important issues with management and monitor the accuracy of financial reporting (Prihartantiningtyas & Juliarto, 2018). According to Amaliyah & Putri (2024) research, the high frequency of audit committee meetings allows for more effective monitoring of management activities, examining financial statements, and detecting potential fraud. Thus, existence of an active audit committee in its meetings can play a role in minimizing the risk of financial statement fraud, which is in line with the principles of agency theory that emphasize transparency, accountability, and protection of shareholder interests. Therefore, third hypothesis is:

H_3: Meetings frequency audit committee has a negative impact on financial distress.

According with agency theory, to prevent and minimize information inequality and for as a connector between the interests of owners and management, the audit committee must have sufficient capacity to increase its effectiveness (Masak & Noviyati, 2019). Thus, the audit committee's competence can assist management in enhancing company performance and minimizing the likelihood of financial distress (Rizqiani & Umaimah, 2022).

According to POJK No. 55/POJK.4/2015, stated that audit committee at least must have one person who has an educational background and expertise in accounting and finance. Purba & Laksito (2016) argue that the presence of an accountant, according to the provisions in the audit committee, will be able to assist in terms of controlling and monitoring the role of management to report information by the actual conditions so that there is no information asymmetry between the agent and the principal. Thus, the presence of audit committee members with an educational background in accounting and finance is expected to minimize occurrence of financial distress. Therefore, fourth hypothesis is:

H_4: Audit committee educational background has a negative influence on financial distress.

Susanti (2020) stated that gender diversity is difference proportion between men and women whose positions influence corporate governance in a company. There are several studies on components of gender diversity based on the presence of female members (Ahmed et al., 2024; Susanti, 2020; Jia, 2019).

Several studies have stated that developed countries tend to discuss more about the role of women who occupy various positions in a company. However, this is different from what happens in developing countries, which tend to show less of the role of women because men are considered more appropriate to occupy positions in a company. In the context of the role of women, the research's results conducted by Jia (2019) proved that proportion of women with financial experience on risk management committees in Australia was more effective reduce financial distress than men.

Susanti (2020) explains that gender diversity is one of the issues related to corporate governance. Gender diversity can minimize conflict, make companies survive, and be more risk-averse in decision-making. Chen et al. (2014) argue that men are more aggressive and dare to take risks than women. On the other hand, women have a high sense of caution, are relatively risk averse, and make more conservative decisions than men, leading to a lower risk of bankruptcy (Ahmed et al., 2024). From an agency theory perspective, women tend to be more risk averse and careful about risk by increasing risk monitoring. Risk monitoring are helpful to ensure that managers do not engage in opportunistic behavior that can result in the company experiencing financial distress (Jia, 2019). Susanti (2020) research shows that gender diversity can minimize probability financial distress. Therefore, fifth hypothesis is:

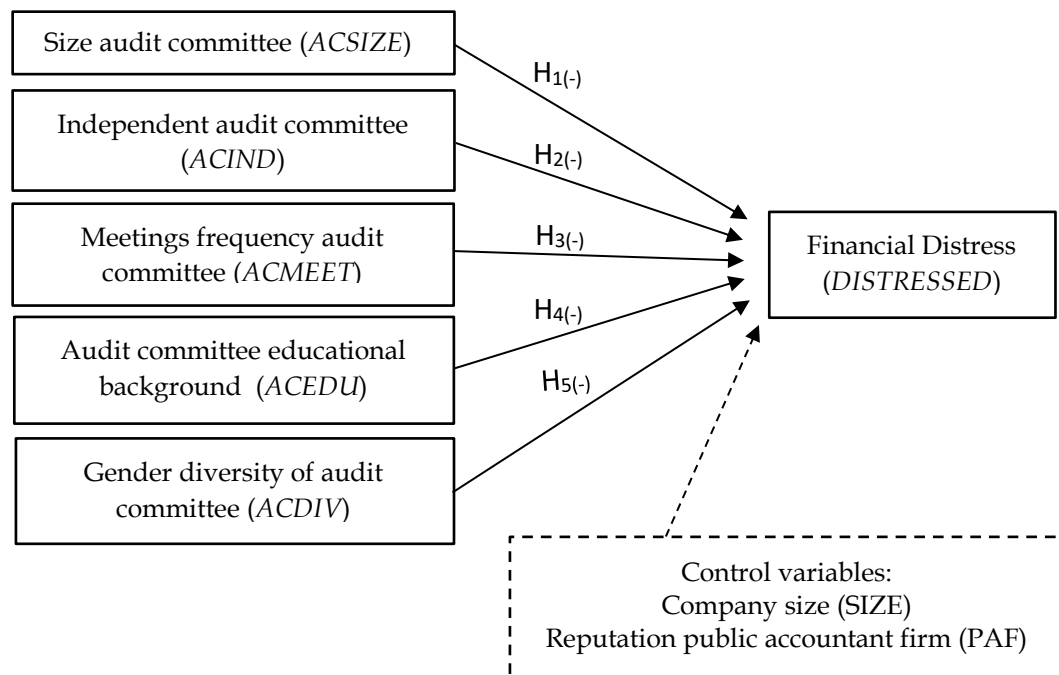H_5: Audit committee gender diversity has a negative impact on financial distress.

Figure.1 Conceptual Framework

Source: Resource Data, 2024

RESEARCH METHOD

Population research are listed manufacturing companies on IDX period 2017-2023. Manufacturing companies consists of the consumer goods industry sector, various industries, primary industries, and chemicals. The selection of manufacturing companies is intended to prove this research in one category of companies and cause manufacturing companies are most listing on IDX. Selected samples used criteria as follows: (1) listed manufacturing company on IDX period 2017-2023; (2) companies did not negative net profit at least 1 year; (3) companies which has complete audit committee report information in the annual report; (4) companies that provide financial data.

The dependent variable in this research is financial distress. Financial distress is condition when company failed to carry out company's operations to achieve goals, unable to generate profit enough, lost their income and unable to covered costs that must be incurred (Hutauruk et al., 2021; Harahap et al., 2020). The measurement using Model Springate (Supriati et al., 2019; Edi & Tania, 2018) with formula

$$S=1{,}03A+3{,}07B+0{,}66C+0{,}4D \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (1)$$

where:
A=Working capital÷Total assets;
B=EBIT÷Total assets;
C=EBT÷Current liabilities; and
D=Sales÷Total assets.
If S index<0.862, categorized that company facing financial distress and is given a value of 1 and if S index>0.862, categorized as healthy company and given a value of 0.

The independent variables are size, independent, meeting frequency, educational background, and gender of the audit committees. Size audit committee determined by the total number of audit committees (Putra & Serly, 2020). The measurement using total number of audit committee members (Khoirony & Nazar, 2023; Rizqiani & Umaimah, 2022; Putra & Serly, 2020; Masak & Noviyati, 2019).

Independent audit committees are all members audit committee who work independently, not take a side with anyone, not influenced easily by others and fair handling company problems (Putra & Serly, 2020). The number independent committee members by total audit committee members (Hormati et al., 2022; Michelin & Mindosa, 2021).

The frequency of audit committee are how many audit committee meetings during a financial year (Putra & Serly, 2020), with using measurement from total number of audit committee meetings in a year (Amaliyah & Putri, 2024; Rizqiani & Umaimah, 2022; Putra & Serly, 2020; Herranz et al., 2020; Masak & Noviyati, 2019).

The audit committee educational background is how many audit committee members have an competence in accounting and finance (Rifai & Siregar, 2021), is measured from number audit committee members who has competence in accounting and finance by total audit committee members (Rifai & Siregar, 2021).

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Gender diversity is the difference of man and woman proportion that can affect the implementation of GCG in a company (Susanti, 2020), measured by number of female audit committee members by total audit committee members (Ahmed et al., 2024; Susanti, 2020; Jia, 2019).

This research using company size and reputation of public accountant firm as a control variables. Company size can be seen from total assets of the company (Putra & Serly, 2020), using natural logarithm of total assets (Hormati et al., 2022). The reputation PAF is how big the audit firm is, where PAF's affiliated with the Big4 are considered to have a good audit quality compared to PAF which are not affiliated with the big four (Rizqiani & Umaimah, 2022), measured using dummy variable, which equals to value of 1 if companies using BIG4 and 0 if companies using non-BIG4 (Rizqiani & Umaimah, 2022).

This research used secondary data from annual reports of companies listing on IDX website or related company websites. While financial data is obtained from the Bloomberg database.

To analyze this reaseach we used SPSS version 26, with the following logistic regression model:

$$DISTRESSED_i = \beta_0 + \beta_1 \ ACSIZE_i + \beta_2\% \ ACIND_i + \beta_3 \ ACMEET_i + \beta_4 \ ACEDU_i + \beta_5 \ ACDIV_i + \beta_6 \ SIZE + \beta_7 \ PAF + \varepsilon_i \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

Where:

DISTRESSEDi = score 1 for company which occurs financial distress (FD), score 0 for company has good financial (NONFD))

β_0	= Constant
β_{1-7}	= Regression coefficients
ACSIZE	= Size audit committee
ACIND	= Independent audit committee
ACMEET	= Meetings frequency audit committee
ACEDU	= Audit committee educational background
ACDIV	= Gender diversity of audit committee
SIZE	= Company Size
PAF	= Reputation of Public Accountant Firm
ε_i	= Standard error

Result and Discussion

According to sample criterias, we obtained 920 samples during 7 years observation period, as follows:

Table 1. Sample

Sample Criterias	Companies
Listed manufacturing companies on IDX period 2017-2023	2,053
Companies did not negative net profit at least 1 year;	(880)
Companies do not complete disclose information related to audit committee on annual report	(81)
Companies do not publish annual reports	(74)
Companies' financial data are not available	(84)
Outlier data	(14)
Total research sample	920

Source: Resource Data, 2024

Table 2. Descriptive Statistics

		N	Min	Max	Mean	Std. Deviation
ACSIZE	FD	461	1	5	3.01	0.34
	NONFD	459	2	5	3.03	0.22
	TOTAL	920	1	5	3.02	0.29
ACIND	FD	461	0.33	1	0.87	0.26
	NONFD	459	0.33	1	0.90	0.22
	TOTAL	920	0.33	1	0.89	0.24
ACMEET	FD	461	0	80	7.45	8.23
	NONFD	459	0	45	5.69	3.58
	TOTAL	920	0	80	6.57	6.41
ACEDU	FD	461	0.33	1	0.78	0.22
	NONFD	459	0.33	1	0.82	0.21
	TOTAL	920	0.33	1	0.80	0.22
ACDIV	FD	461	0	1	0.20	0.25
	NONFD	459	0	1	0.21	0.26
	TOTAL	920	0	1	0.21	0.25
SIZE	FD	461	24.65	33.54	28.77	1.66
	NONFD	459	25.22	33.73	28.49	1.51
	TOTAL	920	24.65	33.73	28.63	1.60

Source: Resource Data, 2024

Table 3. Crosstab PAF

	PAF		Total
	0	1	
FD	305	156	461
NONFD	276	183	459
Total	581	339	920

Source: Resource Data, 2024

The descriptive analysis's result in Table 2, ACSIZE show that the overall sample of companies has an average is 3.02, lowest is 1, highest is 5 and a standard deviation is 0.29. On average, the sample companies have complied with POJK No. 55/POJK.4/2015, which has a minimum number of audit committees consist of three members. ACSIZE of financial distress companies has lowest is 1, highest is 5, an average is 3.01, and a standard deviation is 0.34. ACSIZE of non-financial distress companies has lowest value is 2, highest value is 5, an average is 3.03, and a standard deviation is 0.22. Data above reveals that, on average value, companies facing financial distress have fewer audit committee members than those do not occur financial distress.

ACIND shows that overall sample of companies has an average is 0.89, lowest is 0.33, highest is 1 and a standard deviation is 0.24. The result in line with POJK No. 55/POJK.4/2015, which in forming an audit committee states that audit committee at least has three members, consists of independent commissioners and individuals from outside company. ACIND in financial distress companies has lowest is 0.33, highest is 1, an average is 0.87, and a standard deviation is 0.26. ACIND of non-financial distress companies has lowest is 0.33, highest is 1, an average is 0.90, and a standard deviation is 0.22. Based on the data above, on

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average, companies experiencing financial distress have fewer independent audit committee compared with non-financial distress companies.

ACMEET has an average is 6.57, lowest is 0, highest is 80, and a standard deviation of 6.41. This shows that the average sample company has complied with POJK No. 55/POJK.4/2015 stating that the audit committee holds regular meetings at least one time in three months or it's mean four meetings in one year. ACMEET of financial distress companies has lowest is 0, highest is 80, average is 7.45, and a standard deviation is 8.23. ACMEET of non-financial distress companies has lowest is 0, highest is 45, average is 5.69, and a standard deviation is 3.58. Data above reveals that, it can be seen that the average company experiencing financial distress has a more significant number of audit committee meetings compared to non-financial distress companies.

ACEDU has an average is 0.80, lowest is 0.33, highest is 1 and a standard deviation is 0.22. This shows that the average sample company has complied with the provisions of POJK No. 55/POJK.4/2015, at least audit committee must have one member which has educational background and expertise in accounting and finance. ACEDU of financial distress companies has lowest is 0.33, highest is 1, average is 0.78, and a standard deviation is 0.22. ACEDU of non-financial distress companies has lowest is 0.33, highest is 1, average is 0.82, and a standard deviation is 0.21. Data above reveals that, on average, companies facing financial distress have fewer audit committee members with backgrounds and expertise in accounting and finance than companies that are not experiencing financial distress.

ACDIV shows that overall sample of companies has an average is 0.21, lowest is 0, highest is one and a standard deviation is 0.25. The ACDIV of financial distress companies has lowest of 0, highest is 1, average is 0.20, and a standard deviation is 0.25. ACDIV of non-financial distress companies has lowest is 0, highest is 1, average is 0.21, and a standard deviation is 0.26. Based on the data above on average, companies experiencing financial distress have fewer female audit committee members compared to non-financial distress companies.

SIZE shows that sample of companies has an average is 28.63, lowest is 24.65, highest is 33.73 and a standard deviation is 1.60. The total amount of assets in financial distress companies has lowest is 24.65, highest is 33.54, average is 28.77, and a standard deviation is 1.66. And total assets in non-financial distress companies have lowest is 25.22, highest is 33.73, average is 28.49, and a standard deviation is 1.51. Data above reveals that, companies experiencing financial distress have higher total assets compared to non-financial distress companies.

Table 3 is a crosstab table related to the control variable of PAF reputation (PAF). In healthy or non-financial distress companies, there are 276 companies audited by PAF non-BIG4 and 183 companies audited by PAF BIG4. Meanwhile, companies that occurred financial distress, there are 305 companies audited by PAF non-BIG4 and 156 companies audited by PAF BIG4. According to Table 4, it shows that companies experiencing financial distress are more likely audited by non-BIG4 PAF's than non-financial distress companies.

This research uses a logistic regression model by conducting several tests, including a multicollinearity test, goodness of fit test, overall fit model test and hypothesis test. The results of multicollinearity test shows that no symptoms of

multicollinearity in the regression because the tolerance value for each variable is more significant than 0.10 (>0.10). In addition, the VIF value for each independent variable also shows results of less than 10 (<10). So, the regression model used is good because there is no relationship or correlation between the independent variables (Ghozali, 2021).

The goodness of fit test and significance value of Hosmer and Lemeshow statistics shows a figure of 0.804. Significance value ≥ 0.05, there is no difference between the estimated data of the logistic regression model and the observation data, it's means the model is suitable (Ghozali, 2021).

There are three test to assess overall fit model test: a) Chi-square test results show that the initial -2 Log Likelihood value (block 0 results) is 1,275.386, and the -2 Log Likelihood value (block one results) is 1,215.762. When the two values are compared, there is a decrease of 59.624 (1,275.386-1,215.762). Thus, it can be concluded that the model is a good regression model because there is a decrease of 59.624; b) based on Cox and Snell's R Square and Nagelkerke's R Square tests, known that the Nagelkerke's R Square value is greater than the Cox and Snell's R Square, which is 0.084> 0.063, meaning that the ability of the independent variable to explain the variance of financial distress as a dependent variable is 8.4% and 91.6% of other factors explain the variance of financial distress; c) 2x2 classification table shows the number of samples of companies facing financial distress and those not facing financial distress. Of 920 company samples, 461 companies or 50.11% facing financial distress and 459 companies or 49.89% do not experiencing financial distress. The 2x2 classification table also shows that the prediction of financial distress companies is 920, while the actual observation results of financial distress companies are 553. Therefore, the percentage of accuracy in predicting the model in this study is 553/920 or 60.1%. Based on the test results explained previously, it can be concluded that the requirements for testing the logistic regression model in this study have been met.

The results of hypothesis test using the logistic regression model as follows:

Table 4. Hypothesis Testing

	B	Sig.	Results
ACSIZE	-0.687	0.016	H_1 accepted
ACIND	-0.966	0.001	H_2 accepted
ACMEET	0.069	0.000	H_3 rejected
ACEDU	-0.978	0.003	H_4 accepted
ACDIV	0.283	0.305	H_5 rejected
SIZE	0.169	0.001	
PAF	-0.486	0.002	
Constant	-1.447	0.359	

Source: Resource Data, 2024

Logistic regression test has produced the following model:

DISTRESSED = - 1.447 - 0.687 ACSIZE - 0.966 ACIND + 0.069 ACMEET - 0.978 ACEDU + 0.283 ACDIV + 0.169 SIZE - 0.486 PAF……………………………………..(3)

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Audit committee size (ACSIZE) show a regression coefficient value is -0.687 and a significant value is 0.016. The regression coefficient value is negative and significant value is 0.016<0.05, means that audit committee size has negatively significant impact on financial distress. Therefore, H1 accepted. These indicate that audit committee size can support performance of audit committee to reduce the occurrence of financial distress

These results are based on agency theory, which states that quality supervision can minimize agents' opportunistic behavior. An extensive audit committee size tends to improve internal control quality, thereby minimizing occurrence of financial distress. Thus, increasing audit committee members can handle company problems effectively and efficiently (Putra & Serly, 2020). These result consistent with previous studies by Khoirony & Nazar (2023), Putra & Serly (2020), Sukawati & Wahidahwati (2020), and Masak & Noviyati (2019) which prove that audit committee size has significant negative on financial distress. However, contradicts with research by Rizqiani & Umaimah (2022) showed that audit committee size had an insignificant negative on financial distress.

The independent audit committee variable (ACIND) shows a regression coefficient value is -0.966 and a significant value is 0.001. The regression coefficient value is negative and significant value is 0.001<0.05, means that independent audit committee has negatively significant on financial distress. Therefore, H2 accepted. These results prove that higher number of independent audit committees will reduce occurrence of financial distress.

Based on explanation of the agency theory, stated that independent audit committee are expected to reduce agency problems caused by differences in interests between agents and principals, so an independent audit committee are expected to reduce asymmetry in agency problems. This study supports the argument put forward by Rahmawati & Herlambang (2018) which states that an independent audit committee can provide trust to investors, even providing investors with interest in investing in the company. With higher investor trust, more investment is made so that companies can avoid financial problems. This research consistent with previous research by Michelin & Mindosa (2021) which showed that the independent audit committee has negative impact on financial distress. Conversely, this study contradicts the research undertaken by Putra & Serly (2020) and Masak & Noviyati (2019) which showed that independent audit committee has positive but insignificant on financial distress.

Frequency meeting of the audit committee (ACMEET) show a regression coefficient value is 0.069 and a significant value is 0.000. The regression coefficient value is positive, and significant value is 0.000<0.05, means that the frequency of audit committee meetings statistically significantly positively affects financial distress. Therefore, H3 rejected. This shows that the large number of audit committee meetings cannot minimize the occurrence of financial distress.

The research's results did not in line with the agency theory and statement from Masak & Noviyati (2019) that regular meetings are key to effectiveness of the audit committee in carrying out its role in overseeing financial reporting process and internal control, which is expected to reduce the occurrence of economic distress. The research's results same with Rizqiani & Umaimah (2022) which states that meetings frequency of audit committee has significant positive on financial

distress. However, the results differ from the research conducted by Putra & Serly (2020) and Sukawati & Wahidahwati (2020) which prove that any meetings frequency held by audit committee does not impact financial distress.

The audit committee's educational background (ACEDU) showed a regression coefficient value is -0.978 and a significant value is 0.003. The regression coefficient value is negative, and significant value is 0.003<0.05, means that audit committee educational background has negatively impact on financial distress. Therefore, H4 accepted. This shows that audit committee educational background of members can prevent occurring financial distress in the company.

This research's results align with agency theory, which states that to prevent and minimize information inequality. As a connector between the interests of the principal and agent, the audit committee must have sufficient ability to improve the effectiveness of its performance. These results supported previous research by Michelin & Mindosa (2021) which proves that audit committee competence has a significantly negative on financial distress. This resutin line with the argument by Michelin & Mindosa (2021), which states that the greater the number of audit committee members with expertise in accounting and finance, possible to reduce financial distress in the company. This is because members are better equipped to understand the company's financial issues, allowing them to address performance-related problems promptly and help prevent financial distress. On the other hand, this research contradicts with research by Putra & Serly (2020), which found that the educational background of audit committee has an insignificant negative on financial distress and by Masak & Noviyati (2019), which showed that audit committee educational background has an insignificant positive on financial distress.

Audit committee gender diversity variable (ACDIV) show a regression coefficient value of 0.283 and a significance value of 0.305. The regression coefficient value is positive, and the significance value is 0.305>0.05, meaning that statistically, the audit committee gender diversity has a insignificant positive on financial distress. Therefore, H5 rejected. The result shows that gender diversity of audit committee members does not impact on financial distress.

The research's result did not in line with agency theory and Jia (2019) argue that women tend to be more risk-averse and careful and are more likely to increase monitoring of risks that are expected to be helpful to ensure that managers do not engage in opportunistic behavior that can result in the possibility of the company experiencing financial difficulties. This research's result consistent with research by Abbas & Frihatni (2023) which states that gender diversity does not have any effect on financial distress. However, differ from result of Susanti (2020) proves that gender diversity has a significant negative impact on financial distress. It's means that a greater role of women in the audit committee cannot help the company to avoid financial distress.

CONCLUSION

Based on the research's results, several characteristics of audit committee that affect financial distress are shown. Of the five characteristics studied, such as audit committee size, independent audit committee, meetings frequency audit committee, audit committee educational background and audit committee gender

diversity, it is proven that audit committee size, independent audit committee and audit committee educational background has a significantly negative impact on financial distress. These means that the number of audit committee members, independent audit committees and audit committee members with educational backgrounds and expertise in accounting and finance can prevent the possibility experiencing financial distress in the company. Meanwhile, other characteristics such as meetings frequency audit committee and audit committee gender diversity have been shown has no negative impact on financial distress. This means that number of audit committee members meetings and number of female members on audit committee cannot guarantee that the company will avoid financial distress.

Implications of this research to proves agency theory that quality of controlling and monitoring in the company can minimize self-interest or opportunistic behavior by the agents. Besides that, variables research which has impact on financial distress can be used as a reference for management of the company to taking preventative measures to prevent financial problems.

Limitation of this research are several disclosure audit committees do not complete on annual report, thus reducing number of samples of this research. The gender diversity variable not adequately or less representative when applied to manufacturing companies because the manufacturing industry tends masculinity, so the role of women is rarely found. Further research is expected to find other variables that probably influencing financial distress, such as company share ownership and characteristics of the independent BOC. In addition, further research can examine the variable of gender diversity of the audit committee in the industrial sector with a relatively representative role of women, such as in the banking and financial industry sectors.

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